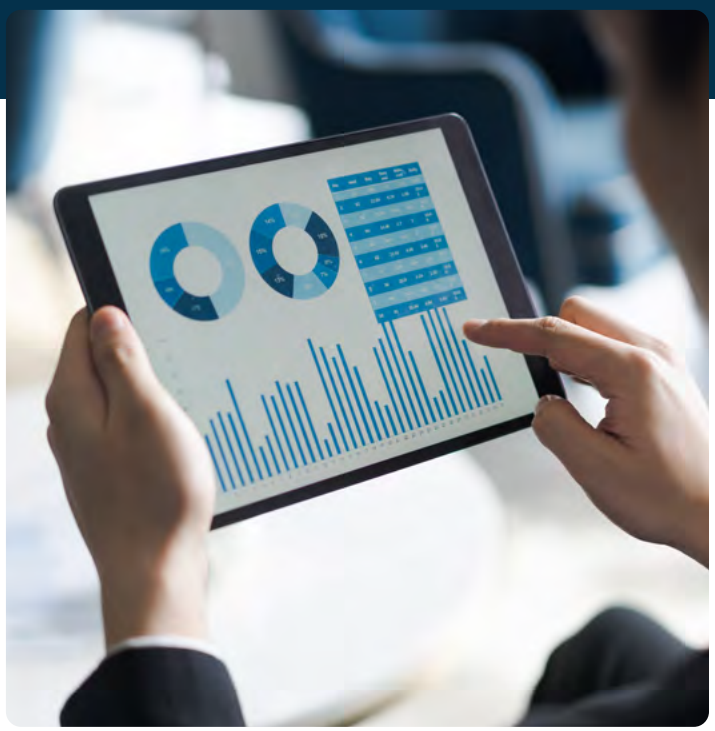
PROS

Stop Giving Away Margin: How AI Unlocks Hidden Margin in Complex Deal Structures

Executive Summary: Unlocking Margin Intelligence Through Strategic Rebates and AI



In today's volatile B2B landscape, margin erosion often hides in plain sight—obscured by complex deal structures, fragmented rebate programs, and outdated pricing tools. This white paper exposes the "Margin Blindspot" that many organizations face and offers a strategic roadmap to reclaim profitability through intelligent deal-making.

Rebates as Strategic Levers
Rebates are no longer just tactical incentives—they are powerful tools for shaping customer behaviour, protecting margins, and driving loyalty. When designed with precision, they become dynamic levers for commercial strategy.

Deal Complexity and Margin Risk
Multi-layered deal structures, often negotiated across silos, introduce hidden risks. Without centralized visibility and control, margin leakage becomes inevitable.

Limitations of Traditional Tools
Legacy pricing and rebate systems lack the agility to model real-time scenarios and capture the total deal value, forecast margin impact, or adapt to shifting market dynamics. This creates blind spots that erode profitability.

AI-Powered Margin Optimization
Artificial intelligence offers a transformative solution—enabling predictive analytics, dynamic rebate modelling, and real-time margin recommendations. AI empowers commercial teams to make smarter, faster, and more profitable decisions, generating huge efficiencies along the way.

Conclusion
The future of margin optimization lies in intelligent deal-making—where rebates are strategic, AI is embedded, and every commercial decision is aware of the margin impact across all customer incentives. Organizations that embrace this shift will not only protect profitability but gain a durable competitive edge.

Introduction: The Margin Blindspot

Helped by books like ''The Price Advantage'' by Walter L. Baker, Michael V. Marn, and Craig C. Zawada back in 2004, B2B companies started to take pricing much more seriously. Companies moved away from basic cost-plus pricing, to setting prices based on the value delivered to customers and aiming for different prices based on willingness to pay.

In the years since, many companies have hired and empowered pricing teams and SaaS pricing platforms have been acquired to deliver much more sophisticated pricing strategies. AI has also been leveraged to increase margins further, by predicting willingness to pay in a much more granular and targeted manner.

As a result, great progress has been made in optimizing upfront (or on-invoice) discounts. Rebates are often also negotiated with customers, providing money back after the sale has taken place, based on achieving specific objectives. As rebates are generally expected to be performance-driven, combined with the fact they are often managed in spreadsheets, they have not had the same level of scrutiny in the drive to optimize margins.

However, based on research done by Simon-Kucher[1], less than 30% of companies primarily tie rebates to performance-driven targets. Therefore, rebates often operate as an additional discount, rather than an incentive to generate more revenue and therefore more margin. Even rebates intended to drive more revenue, may not in reality result in an overall margin improvement, if they are not designed appropriately. They can concede more margin through rebate incentives, than is gained from the incremental sales.

Research done by Bain & Company[2] shows that rebates result in margin leakage of 1.3% of revenue in industrial companies.

This white paper looks at the importance of optimizing the entire deal and not just the on-invoice discounts.

The Strategic Role of Rebates: From Tactical Incentives to Margin Levers

Let's first take a moment to remind ourselves of where rebates fit in a well-executed sales strategy.

Rebates are intended to incentivize customers to change their purchasing behaviours and generate long-term value for the manufacturer or distributor granting them. There are many different types of rebates, four of the most common are listed below:

Volume Rebate: Increase total sales volume within a certain period. Typically used to reward a total purchase volume from a customer, regardless of past performance. Used in industries where large, repeat purchases are the norm and buyers have multiple supplier options, e.g. a building materials supplier of plasterboard.

Growth Rebate: Drive year-on-year or quarter-on-quarter growth. Used to reward expansion for customers with clear growth potential, often as an incentive to switch spend from competitors and get a bigger share of the basket, e.g. a packaging supplier or a wholesale distributor.

Loyalty Rebate: Paid for maintaining a relationship for a period. Incentive to keep customers committed over a period. In competitive markers with high churn risk or for strategic partners, helping to protect the cost to serve investment to support them, e.g. an FMCG supplier providing a supermarket chain with an incentive to maintain a relationship across all its stores.

Product Mix Rebate: Encourage buying from a broader range of products or specific categories. Also, an incentive for customers to adopt new products or higher margin products, e.g. an automotive parts supplier that stock both mechanical parts and body parts.

A well-executed sales strategy will typically combine multiple different rebate types to achieve corporate objectives, whilst protecting margins. The aim is to drive the desired behaviours and only concede additional margin if these behaviours have in fact materialised. However, as mentioned above, most companies are not achieving this important link to performance and are effectively just conceding more margin.

Rebates can typically reduce margins by 2% - 10% and therefore need to be considered in conjunction with discounts during sales negotiations, to make sure the total deal margin is effectively optimized.

Due to the inherent nature of rebates, and the way in which they are managed in many companies, this presents a significant challenge.

The Complexity of Deal Structures

Negotiating deals in a B2B context is, often, a complex endeavour. The salesperson needs to juggle corporate objectives on sales targets and product strategy, with the customer's desire to get value for money, whilst trying to optimize the value of the deal. To achieve this, the right balance between upfront discounts and design of the rebates needs to be achieved.

Getting this balance right helps:

- Prevent customers over-promising on purchase volumes to get better discounts
- Avoid unintended margin erosion due to the aggregated impact of rebates and discounts
- Align deals to corporate strategic objectives

Rebate programs are typically made up of several different rebate elements. At a high level, each rebate element consists of:

- A rebate type (volume, mix, etc.)
- Some attainment criteria (the products it applies to and any attainment tiers and thresholds)
- Incentive structure (the rebate percentage or value that will be offered is attainment criteria is met)

The Simon Kucher study referred to above, found that most companies use at least four or five rebate elements per customer. Each additional rebate element adds complexity and makes It progressively more difficult for both buyers and sellers to understand the true combined effect of all incentives.

Simple Example with Just One Rebate Element

Customer Price	Cost of Goods Sold	Current Volume
= €100	**= €55**	**= 999 Units**

The salesperson wants to encourage 10% more volume and offers an additional 5% rebate if the customer buys more than 1,000 units in a year.

In this scenario, the breakeven point is in fact 1,142 units sold. The salesperson either needed to offer a lower incentive or amend the attainment criteria to be > 1,142 units.

This illustrates the importance of understanding the total forecasted deal margin when determining the optimal margin to make on a deal. It is the combined impact of upfront discounts and forecasted rebates that need to be considered, when predicting the willingness to pay of customers.

Depending on prevailing corporate strategy, customer specific requirements and account specific sales strategies, the sales team then needs to construct optimal rebate programs and upfront discounts. This presents a number of challenges and the underlying maths to arrive at the optimal outcome can get complicated:

- **Nonlinear Profit Impact:** As illustrated above, rebates and tiered pricing mean adding an x% incentive can drop profit by much more than 1%
- **Delayed Impact:** Rebates are often conditional on achieving specific attainment criteria and so the likely outcome needs to be forecasted
- **Many Different Rebate Elements:** Growth, volume, tiers, bundles, etc. can all interact in complicated ways

Advancements over the last 12-18 months now mean, a variety of AI capabilities can be leveraged to help address these challenges, optimize margins and drive more efficiency within commercial teams.

The Hidden Margin Killers: Why Traditional Tools Fall Short

1 No Integrated Deal Profitability

The IT architecture of many companies struggle to prevent margin leakage in complex deals, that combine upfront discounts and rebates, because they usually treat each pricing element in isolation, rather than one integrated profitability assessment. Many legacy ERP, CRM or quoting tools calculate the impact of upfront discounts, but rebates are often managed in Excel and even negotiated at different points in time.

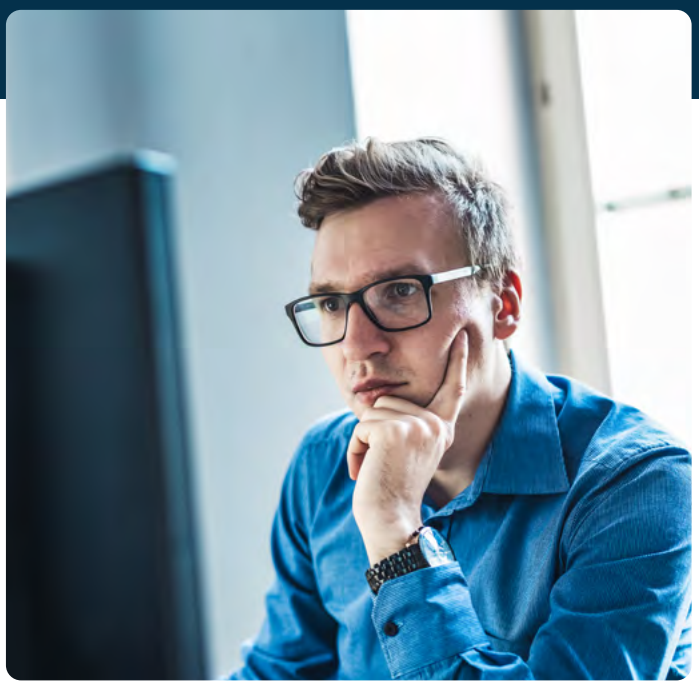
2 Impossible to Model Impact

Even if the impact of rebates are taken into consideration, without a dedicated rebate management system, it can quickly get complicated to predict the combined impact of multiple rebate elements and how they interact with each other.

Where data is siloed between different applications in this way, the ability to run different scenarios, with different permutations of upfront discounts and different rebate programs, becomes very difficult.

3 Approval Workflows Lack Transparency

Sales teams get approvals for discounts without visibility of the cumulative impact of rebate programs. As a result, incentives can accumulate in unpredicted ways outside of governor limits.



AI as a Margin Optimization Engine

The use of AI to assist commercial teams in winning as much business as possible, as profitably as possible, has proliferated in the last 2 years or so. Through almost every stage of the sales cycle, many companies are now successfully using AI to predict customer churn, score sales opportunities, and recommend cross-sell and up-sell opportunities, to name a few. The following describes four key areas where AI can be leveraged to help navigate the complex deal structures discussed above.

1 Predict Willingness to Pay

AI has become highly effective at predicting customers' willingness to pay by uncovering hidden, nonlinear relationships between factors such as the customer, product, transaction, and market conditions. It uses these as inputs to estimate the price point at which a customer is likely to accept or reject an offer. A useful proxy for willingness to pay is often the margin percentage, which accounts for margin lost through both upfront discounts and post-sale rebates.

2 Predict Win Rate Probability

The willingness-to-pay recommendations described above are inferred from past behaviour, typically using historical transaction data. These price points are strongly shaped by the company's cumulative pricing strategies and past behaviours—but do they necessarily represent the optimal price?

AI can also be used to predict win probabilities at different price points by analysing prices achieved in similar selling scenarios. By mapping win rate against price, it becomes possible to identify the price point that strikes the best balance between risk and reward.

3 Recommend Optimal Rebates

The example above shows that even seemingly simple rebates require some calculation to determine their true value to an organization. Here, AI can step in once again. AI agents can now be deployed and prompted to recommend optimal rebates for specific customers, product categories, or individual products.

4 Forecast Rebate Performance

As the Simon-Kucher study highlighted, most real-world deal structures are complex, often containing multiple rebate components for a single customer. Once a rebate is in place, it's essential to forecast its impact on profitability—both at the outset and throughout its term—since accruals must be recorded to reflect the expected reduction in profits.

AI can forecast cumulative rebate performance, predicting the final net margin impact down to the customer and product level. As time passes, sales transactions are fed into the model to update rebate accruals, which are then adjusted throughout the rebate term based on actual sales trends.

Game Changing Neural Network Technology

Using neural networks in AI significantly increases the value of its recommendations. Key advantages include:

- Detecting complex, nonlinear relationships across a large number of features (the attributes used to train the model)
- Automatically capturing interactions between features across different selling scenarios
- Handling large, diverse datasets—numerical, categorical, and more—reducing the need for manual feature engineering
- Identifying shifting market trends
- Personalizing recommendations at the individual customer and product level

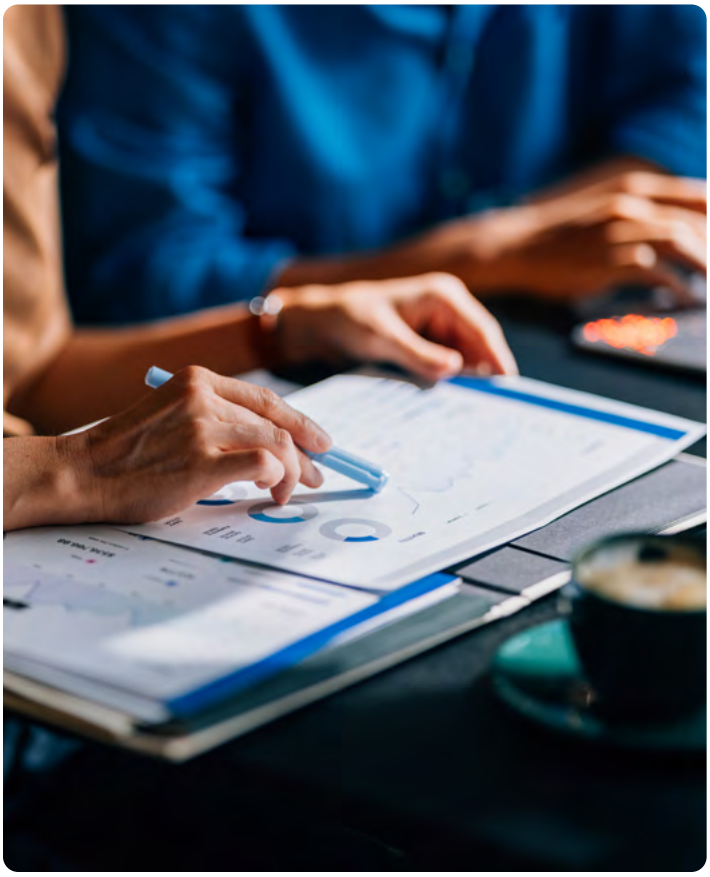
The result is more accurate predictions, leading to more optimal deals.

Implementation Considerations

Process

The following are the main steps required to optimize margins in more complex deal structures:

- Predict willingness to pay for each product, given the selling context
- Determine the total impact of incentives required, to be allocated between upfront discounts and rebates
- Design a rebate program that aligns with sales strategy and meets customer requirements
- Determine upfront discounts
- Determine total deal margin - including forecasted impact of rebates



IT Architecture Requirements for Integrated Rebates, Pricing and Quoting

To enable a unified approach across Rebate Management, Price Management, and Quoting, the IT architecture must support the following core capabilities and integration points:

Rebate Management

A modern rebate system must be:

- **Flexible and goal-aligned:** Capable of aligning rebate design with both corporate objectives and customer-specific goals.
- **Margin-aware:** Able to calculate and track the predicted margin impact of combined rebate incentives at the customer/product level—both at agreement creation and throughout its lifecycle.
- **AI-enabled:** Should incorporate AI agents that recommend optimal rebate structures based on user prompts, automatically handling complex calculations to define attainment thresholds and incentive configurations.

Price Management

The pricing system must:

- **Predict Willingness to Pay:** Use AI to generate real-time willingness-to-pay estimates at the customer/product level, factoring in product attributes, customer profiles, and deal context.
- **Enable Margin Targeting:** Seamlessly pass these predictions to quoting tools as target margin inputs.

Quoting

The quoting solution must:

- **Integrate Pricing and Rebate Insights:** Consume willingness-to-pay predictions from Price Management and margin impact data from Rebate Management.
- **Model Total Incentives:** Allow sales teams to configure and compare combinations of discounts and rebates.
- **Visualize Margin Impact:** Provide clear visibility into margin outcomes at both line-item and overall deal levels.

Salesforce Enablement

Enabling the salesforce effectively is an important element in maximising the value from any commercial process change. In the context of complex deal structures, with many different incentives potentially available, a number of aspects need to be considered, including:

- How the different incentives tie into the corporate strategy and when to deploy each
- A playbook for the steps required to arrive at an optimal deal
- Training in how best to prompt AI agents to get optimal responses
- Training in capturing all the relevant features of a deal, required to predict willingness to pay

Conclusion: The Future of Intelligent Deal Making

AI is now widely accepted, and many companies are getting value from deploying it for specific use cases. To fully exploit the potential of AI though, it needs to be applied in the appropriate context. This optimizes the value It delivers and significantly enhances user adoption.

Companies that can leverage AI to optimize the total deal value, through leveraging agents to recommend optimal rebate programs and incorporating the results into overall optimized deal margins, are gaining a competitive advantage on companies that are still approaching it in a piecemeal fashion.

Sources

[1] Global Negotiation and Rebate Study 2024

[2] The hidden profit killers in off-invoice discounts https://www.bain.com/insights/off-invoice-discounts

About PROS

PROS Holdings, Inc. (NYSE: PRO) helps the world's leading companies outperform across the top and bottom line. Leveraging leadership in revenue and pricing science, the PROS Platform combines predictive AI, real-time analytics, and powerful automation to dynamically match offer to buyer and price to product, accelerating revenue growth and maximizing profit. With solutions spanning pricing, revenue management, offer marketing, and CPQ, PROS helps businesses optimize transactions across every channel. Learn more at pros.com.