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News Release

New AGMA and Deloitte Study Points to Channel Incentive Program Abuse as Contributing to Gray Market

Study Finds Incentive Programs Have the Potential to Lead to Billions in Lost Profits

NEW YORK and LOS GATOS, Calif., April 27, 2011 – Abuse of channel incentive programs could cost high tech companies up to $1.4 billion in profit losses each year[1], according to a new report by the Alliance for Gray Market and Counterfeit Abatement (AGMA) and Deloitte. Traditionally created with the intention of boosting sales, increasing loyalty and motivating channel partners to sell more products, these programs may have a negative impact, as detailed in "When Channel Incentives Backfire: Strategies to Help Reduce Gray Market Risks and Improve Profitability."

The report by Deloitte and AGMA, a non-profit organization that addresses the gray marketing, counterfeiting, software piracy and warranty and service abuse of branded goods around the globe, features results gathered through a quantitative survey and a series of executive interviews with leading technology companies. In addition, it provides strategic insight into how to mitigate the risk of channel incentive abuse and revenue loss.

According to the study, channel incentive abuse impacts high tech companies in many different ways. Among them are payment of unearned incentives, profit margin erosion, service and warranty abuse, disruption of distribution channel environments to an unlevel playing field across channel partners, negative impact to a brand, increased presence of counterfeit products in the market and reduced customer satisfaction. It also appears to help fuel the gray market, and the study results indicate a link between the two.

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[1] The industry-wide profit loss figure was based on an estimate for a population of 38 companies including (i) the 12 survey respondents, and (ii) 26 additional IT hardware or consumer electronics vendors / brand owners with 2010 revenues greater than $10bn (according to http://www.hardwaretop100.org/index.php). Source: Deloitte, 2011.

"Channel incentive abuse is a growing problem that potentially affects more than 25 percent of sales in this category, yet it often goes largely undetected due to a lack of internal controls," noted Brent Nickerson, partner, with Deloitte & Touche LLP's Contract Risk and Compliance practice. "Though this misuse can be very detrimental to a company's bottom line, its affect can be reduced. The key to successful channel incentive programs lies in creating consistent processes to administer, monitor and support compliance, while enforcing protocols when dealing with non-compliance."

The study provides insight into areas where high tech companies can reduce exposure to channel incentive abuse, and highlights five steps to help mitigate abuse and increase the potential for companies to receive returns on their incentive programs:

- Understanding the incentive program 'universe'
- Establishing globally consistent policies
- Working with the business to make improvements
- Increasing interaction with partners
- Enabling ongoing compliance monitoring

AGMA and Deloitte encourage companies to implement channel incentive management programs to help companies reduce their exposure to the gray market and potentially capture profit that would otherwise have been lost. Effective channel management enables companies to gain greater visibility into cross-functional incentive programs, and establish globally consistent policies through increased interaction with business and channel partners. Not only can these efforts help reduce the number of gray market products in the market, but they can facilitate a better functioning distribution channel environment, reduce costs and help create stronger, more profitable brands.

According to AGMA president Ram Manchi, "Channel incentive programs help contribute to the success of many businesses that sell products via indirect channel models. However, if they are not effectively managed, these same incentive programs can create opportunities for gray market activity and other behavior that erodes profitability. Therefore, effective planning, execution and management of channel incentive programs are needed to support the success of brand owners and channel partners alike."

"When Channel Incentives Backfire: Strategies to Help Reduce Gray Market Risks and Improve Profitability" is the fourth in a series of whitepapers sponsored by AGMA aimed at educating the high tech industry on gray market fraud, parallel imports, counterfeiting, software piracy, and service abuse of technology products around the globe. A copy of this white paper, as well as past white papers, can be obtained at www.agmaglobal.org and www.deloitte.com/us/pr/graymarketrisks.

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About AGMA
AGMA is a non-profit organization comprised of influential companies in the technology sector. Incorporated in 2001, AGMA's mission is to address gray market fraud, parallel imports, counterfeiting, software piracy, and service abuse of technology products around the globe. The organization's goals are to protect intellectual property and authorized distribution channels, improve customer satisfaction and preserve brand integrity.

AGMA welcomes any technology manufacturer, as well as persons or entities that own or hold intellectual property rights to finished goods outside the technology industry; product and service providers, government and law enforcement who provide goods and/or services to combat gray market fraud, counterfeiting and warranty and service abuse threats. AGMA uses a variety of avenues to cultivate change in the marketplace, including event speaking, educational initiatives, benchmark studies, industry guidelines, and, where appropriate, public policy advocacy. To learn more about AGMA's initiatives or to become a member, please visit www.agmaglobal.org.