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Improved Point-of-Sale Reporting Benefits Manufacturers, Channels, and End Users

A Study of the High Tech Industry

KPMG LLP

Introduction

Products rarely "flow" directly from manufacturers to end user customers. Instead, a group of intermediaries (e.g., distributors, resellers, system integrators, retailers), a "channel," typically works with both manufacturers and customers to make the process of purchase and delivery more efficient. While a typical distribution channel can be quite efficient at moving products from manufacturer to end user, it may not be a good conduit of useful information up and down the chain. In a perfect world, the manufacturer would have timely, accurate information of the location of its products in the channel, as well as pricing and discounting at each tier in the channel. Also, it would cover every step of the process through each intermediary channel partner to the name, address, and product serial number for every end user. In the real world, though, manufacturers often suffer information gaps, and those gaps have consequences for manufacturers, distribution partners and customers.

As with any attempt to improve a process, one needs to establish a baseline. The International Disk Drive Equipment and Materials Association (IDEMA) and the Alliance for Gray Market and Counterfeit Abatement (AGMA) joined with KPMG LLP to begin tackling this problem. This document is based on research and an analysis of a survey of leading information technology (IT) manufacturers with extensive distribution worldwide whose combined annual revenue is $142 billion, as well as interviews and roundtable discussions. The objective was to identify current industry practices and procedures and provide recommendations aimed at improved reporting and information flow. These recommendations are aimed to benefit original equipment manufacturers (OEMs), channel partners, and end customers by increasing the quality of data sets received and identification of potential areas for further analysis (including products moving in and out of authorized channels or incorrect and inaccurate incentive claims). All parties in the channel will gain from an accurate reporting process as it helps reduce the risk of brand erosion for the OEM, helps minimize circumstances in which distributors are subject to multiple reporting procedures and means end customers can be confident in the originality and warranty support of the products they buy.

This white paper reveals that point-of-sale (POS) reporting of sales-out and inventory by channel partners is a prime area for improvement. It examines current practices and discusses approaches for making POS reporting more accurate. In addition, we explore the relationships between improved POS reporting and better management of sales incentive programs. The paper also deals with channel auditing and shows how it can be transformed from a one-sided situation to a cooperative win-win relationship between channel partners. AGMA, IDEMA and KPMG view this paper as an important step toward improved channel effectiveness.
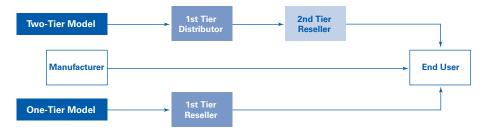
The Channel

By definition a distribution channel is a team working together to deliver products to end users. Typically, manufacturers distribute product via one-tier channel models or a combination of first-tier distributors/resellers and second-tier resellers.

Depending on the complexity of the product, resellers may be considered either retailers or value-added resellers (e.g., system integrators who provide installation, maintenance and other services to end users).

Ordinarily, the channel system works effectively to deliver authentic, warranty-protected products to end users. Inherent interdependencies exist among channel members as they rely on one another for timely and accurate channel information (e.g., inventory and POS data). However, when gaps in the channel tracking and reporting processes occur, end users are at risk of receiving unauthorized, unprotected and possibly counterfeit products. These gaps also place original equipment manufacturers (OEMs) at risk of negative effects on their brand and reputation. Lastly, these gaps can have a negative financial impact on channel partners and OEMs due to inaccurate incentive claim payments based on unreliable data.

Channel information flow reflects the complexity of the channel. Where a manufacturer has a direct-sales relationship with large customers, information flow is straightforward and gaps, if any, are few. As the channel model grows from one-to multiple-tier so potentially do the gaps. Compare, for example, a simple two-tiered model where the manufacturer sells to a first-tier distributor, who sells to a second-tier reseller, who then sells to end users.

Under normal circumstances, there should be no product flowing back up the channel other than return merchandise authorizations (RMAs), or non-RMA returns (engaged inventory rotation). Any product moving from a second-tier reseller to a first-tier distributor should be cause for concern as it may signal inappropriate transactions.

As with all agreements, channel contracts can include exceptions. For example, OEMs may have a formal request-and-approval program to authorize product movement between distributors. In addition, some products may be considered open-sourced and are therefore not subject to specific distribution rules. This is often the case for low-technology commodity products. Other factors that may affect channel rules are end-of-life products, obsolete products or the need to reduce excess inventory.

Though not all objections or issues can be anticipated, contracts should include a provision for resolution. The most effective contracts precisely describe the resolution process as well as each party's rights and responsibilities. For example, a product defined as "obsolete" will likely be subject to different distribution rules than a product in the current product portfolio. As this example suggests, controls over product classifications, as well as similar details, are worthy of attention when contracts with channel partners are being constructed. This type of detail helps to reduce ambiguity before high-volume transactions begin.

The nature of business being what it is, cost/benefit issues always underlie decisions involving obligations. There are costs associated with capturing, processing and disseminating information. If there **appear** to be no other benefits besides meeting contractual obligations, this will affect how companies perform such tasks.

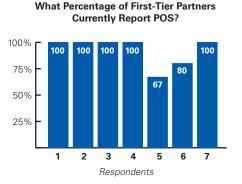However, there *are* benefits to be had. These include:

- Simplifying the reporting processes involved in administering and complying with manufacturer POS reporting requirements
- Increasing efficiencies for both suppliers and distributors in implementing, monitoring and enforcing their distribution agreements
- Minimizing the circumstances in which distributors are subject to multiple and inconsistent reporting and control procedures
- Increasing consumer confidence by helping to ensure that consumers receive reliable and supported product
- Improving and expediting incentive program payments.

Ultimately, the party benefiting most from high-quality channel information flow is the end user who is protected from receiving products of questionable quality. Every channel partner from OEM to n-tier reseller should be concerned with customer satisfaction. Other members of the channel benefit as well—the OEM is at lower risk of brand and reputation erosion, and products that enjoy high brand recognition should sell in greater quantities, providing more revenue and profit for channel partners.

Point-of-Sale Reporting

It became abundantly clear during the survey analysis phase when looking for a standard for POS reporting that there wasn't one. Of course, there were some common-denominator data requirements, but not many. In addition, there was little commonality in how the data was reported or its frequency.
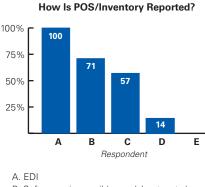
What Percentage of First-Tier Partners Currently Report POS?

The survey results for the Americas indicate that most first-tier partners report POS information.

Survey results indicate that nearly all first-tier partners report POS and inventory data using the electronic data interchange (EDI) standard as opposed to other formats (e.g., spreadsheets). In addition, experience from reviews indicate that more than 20 percent of all POS reports received may contain inaccuracies as well as missing or incorrectly completed information fields.

Beyond the first-tier relationship, POS and inventory reporting becomes very patchy. There are fewer required fields—which may not be a bad thing—but the required fields were not always the most useful. In fact, many second-tier partners had *no* reporting obligations to the participants in the survey.
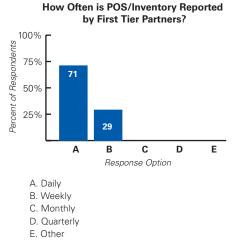
First-tier partner inventory reports generally contained date, product and quantity while POS reports contained the date of transaction, the sold-to customer, the customer address and the quantity sold. In some cases, serial numbers and selling prices were included. There were only limited examples of validation benefits accruing from first- and second-tier reporting (e.g., serial number tracking due to the scarcity of reporting and minimal data-field requirements).

How Is POS/Inventory Reported?

A. EDI
B. Soft copy via e-mail (spreadsheets, etc.)
C. Soft copy via process other than email
D. Hard copy via fax or courier
E. Other

According to respondents in the Americas, first-tier partners primarily report POS via EDI.

How Often is POS/Inventory Reported by First Tier Partners?

A. Daily
B. Weekly
C. Monthly
D. Quarterly
E. Other

According to survey results, most first-tier partners in the Americas are reporting daily. Note: Some participants who receive daily data reporting also receive weekly data reporting.

As previously stated, virtually all first-tier reporting, where required, is done via EDI. In fact, companies in North America and Europe do so almost exclusively. There are some channel partners in Asia-Pacific that do not use EDI. However, because of the preponderance of EDI reporting at the first-tier level, it seems like an appropriate standard for POS reporting in general. In fact, a first-tier distributor/reseller who is EDI capable may also consider reporting via EDI to manufacturers with whom they have other relationships.

Making POS Reporting More Effective

The following recommendations, based on better practices identified in our survey, aim at increasing the accuracy of POS reporting. Survey participants noted that the OEMs that achieve better results are those that ensured they and their channel partners were communicating effectively about their mutual business interests.

OEMs that made the subject of POS reporting a dialogue rather than a monologue have channel partner relationships that are mutually beneficial rather than one-sided. One key attribute to a successful channel partner relationship is a comprehensive educational program that emphasizes the value-added benefits of a successful POS reporting process. OEMs that have mastered such programs tend to market them to their partners using a classic "features and benefits" model. Many actually invite their partners to "own" the POS reporting process, instilling some control over the outcome and ultimately recognition for the success of the initiative.

Another winning strategy for enhanced cooperation is cost sharing, or establishing other tangible incentives. It is important for the partners to feel that everyone from OEM to n-tier reseller shares in the cost and benefits of a more effective channel-reporting scheme. Without a good answer to the "what's in it for me?" question, channel partners tend to see POS reporting as a cost of doing business.

Primary Features

After the team analyzed the survey data and applied some synthesis, it came up with a set of primary features that can help improve the accuracy of the reporting process. These are organized into Data Content and Maintenance, Systematic Validations, and Analysis.

Data Content and Maintenance

- Daily Reporting: POS data that is reported daily gives everyone more visibility into the channel compared with batched reports on a weekly basis. Such reporting is best aligned to business requirements (i.e., what is the data used for and does it make sense to receive daily).
- ANSI Standards: Accuracy increases when POS and inventory data are reported in accordance with ANSI standards and include serial-number detail for each product.
- Duration of Access: To best allow for issue resolution, if required, both POS and inventory data should be maintained by the OEM in an accessible database, unedited, and available for at least 18 months.
- Auditable Trail: POS and inventory feeds can be "scrubbed" by the OEM to resolve multiple listings product stock-keeping unit (SKU) errors and names, address changes, country-code changes; and to eliminate duplications. However, an auditable trail should be retained.

Accuracy is increased where POS data is validated systematically for such items as:
• Valid product SKU and serial number
• Valid reseller name and number (if reported by distributor)
• Valid end user (if reported by reseller)
• Valid "special deal" ID
• Serial number correlated with permissible geography
• Serial number consistent with product shipped to that partner
• Serial number not previously reported under prior POS or incentive claim
• No duplicate transactions.

In addition to the systematic (automated) validations as part of the EDI receipt process, there can be incremental validations performed by a partner reporting department as well as through partner audits (ranging from inventory counts to full-scope audits).

Analysis

In the end, the preferred system ensures that POS data is transformed into information through analysis. First, the data feeds are checked frequently to ensure they are submitted daily. The data is analyzed to compare the Calculated Ending Inventory (i.e., Opening Inventory plus Purchases minus Reported POS) with Reported Ending Inventory. This analysis is performed at a partner, product family and part-number level. The data results can then be used to verify credits or other rebate claims and to identify potential mistakes in reported data and potential inclusions of gray-maket-sourced products (where sales-out exceeds sales-in adjusted for opening inventory).

POS data can also be analyzed to monitor spikes in sales activities, sales trends, and new customer additions. After reconciliations and discussions with partners, any differences can be resolved and amended reports submitted by the partner as required.

Dealing with Incentive Programs

Every manufacturer makes use of incentive programs to modify sales behavior for one reason or another. If adequately tracked and validated, an incentive program can be very effective. However, without sufficient controls, incentive programs—like any other program—can be prone to error or even abuse. Diligent tracking and analysis can prevent claims for ineligible product, duplicate claims or claims for sales outside an authorized region.

An effective POS reporting system can help to keep incentive programs on track. The recommendations in the last section, for example, include data used for tracking product flow, including incentive-designated products. Serial numbers are key to any effective tracking program. If incentive programs are tied to specific serial numbers but the POS reports from second-tier partners either are not provided or lack serial numbers, there is no sure way to ensure that incentive claims are valid. This can result in duplicate claims or inclusion of questionably sourced products.

Where products move through tiers in a channel, the OEM must decide who gets the incentive, and the tracking has to be aligned with adhering to that decision. Without serial number data for flow through all tiers of the channel, it is very difficult to sort out multiple incentive claims for the same product (and ensure they are all valid).

For incentive programs based on volume, the system has to be able to distinguish product volume that should not be included. For example, distributor-to-distributor and out-of-territory transactions may not be currently reported as such nor are they monitored well by the OEM. Thus, there is the possibility for volume incentives to be applied to transactions between distributors where they would not qualify.

Accurate POS reporting also includes any customer returns, so that this data can be considered by the OEM when processing incentive payment calculations. When product returns involve non-serialized product, a leading practice would be to identify how much product was purchased from the OEM or authorized sources and match against partner sales-out to its customers.

Where incentives are based on special pricing, automated data analysis needs to be able to verify serial number, authorized geography, serial number correlation with ship-to partner, and whether the serial number was previously claimed. To do this accurately, ideally the claim would be part of POS reporting. One checkpoint is to determine that the quantity of product claimed is equal to or less than the approved quantity.

Special-price incentives can also be verified by upfront deal validation. In other words, a sales representative and supervisor perform "due diligence" procedures on the deal (e.g., validate that the end user is legitimate), complete a form and sign it to signify that the deal is genuine. On the OEM end, a best practice includes maintaining a dedicated approval team that manages and validates the approval process and activities. On a sample basis, partners may be asked to provide documentation that shows products were actually shipped to the end user for whom the special price was extended (i.e., end-user validation).

For price protection, the most accurate process seeks to maximize transparency. Partners are informed in advance about pricing changes using Web-published price listings or e-mailed listings. Inventory data is very important to price protection accuracy. In the best maintained programs, reported inventory is compared to the inventory claimed to be on hand at the time of the pricing action, with price protection paid on the lower of (1) purchases within the qualifying period or (2) reported inventory as adjusted for sales-out figures to ensure the exclusion of gray-market products, rather than based solely upon partner claims.

Channel Auditing

Channel auditing can be viewed as an enforcement practice or as a check-and-balance aimed at keeping system integrity intact. Many channel partners understand the benefit of channel audit programs aimed at the latter. All survey respondents indicated they had a channel audit program in place.

In the Americas, survey respondents described the scope of a channel audit program as:
- Full-scope (contract and program compliance, including inventory count and POS validation): 71%
- Limited-scope (inventory count and/or POS validation): 29%

An effective and accurate auditing program is a formalized one with all partners participating. Audit objectives include:
- Validating contract compliance, including reporting requirements
- Validating terms and conditions of all programs, including incentive programs
- Enhanced OEM and partner reporting processes and systems
- Financial reconciliation of incorrect incentive payments (for both the OEM and the partner).

American respondents described the objectives of their current channel audit programs as:
- Program compliance: 86%
- Inventory counts: 71%
- Contract compliance: 14%
- Reporting: 86%
- End user verification: 29%
- Partner feedback: 14%

The scope of a channel audit is not a "one-size-fits-all" proposition. For example, review periods can vary from one quarter to multiple years, depending upon data availability. Audits are often a standard business process (i.e., a program covering all partners over a given period). Audit teams comprise third-party professionals, OEM staff (such as internal audit professionals), or they can be a mix of the two. An audit program is actively supported by all stakeholder functions including sales, legal, program administration, brand protection and internal audit groups. A full-scope audit is meant to validate data reporting, claims and payments, and reviews processes.

The general findings in a full-scope audit often include:
- Products purchased from or sold to unauthorized sources or customers
- Products sold to or purchased from subsidiaries of partners outside the region
- Duplicate claims for the same product and gray-market-sourced products claimed under a program

- EDI manipulation such as consolidation of smaller sales to achieve volume discount pricing
- Identification of incongruent programs (i.e., claiming the same sale under multiple programs).

The audit process provides an opportunity for dialogue regarding the findings and future expectations with the channel partners. It identifies opportunities to improve internal systems and processes at both the OEM and channel partner. Improved controls that reduce the risk of incorrect payments in the future are more valuable than seeking recoveries after payment since the latter is time consuming and the recovery is generally reduced following negotiation.

A limited-scope audit is a sampling effort. An audit clause may permit the audit team access to a distributor's facilities to conduct counts with no advance warning. While, in theory, this would increase the likelihood of capturing the most correct data, it is often difficult to achieve because of schedule conflicts. Performing such an audit can lead to an opportunity for dialogue where OEM and channel partners discuss findings and future expectations for compliance in subsequent audits. Like the full-scope audit, these audits will identify opportunities for improvements in internal systems and processes.

While specific companies may differ, in general, channel audit programs are "owned" by the OEM's internal audit or finance group. As with other aspects of the channel partnership and POS reporting process, the most effective audit "owners" engage the channel partners in constructive dialogue about the audit process. The objective, again, is for them to view it as a benefit for all rather than an enforcement effort.

There may be some partner concerns with regard to revealing information associated with relationships with other OEMs. These are valid concerns and can best be aleviated by having a trusted third-party view and separate out the data that is appropriate for audit purposes, using non-disclosure agreements if required.

A "Win-Win" Effort

In most cases, distribution channels are an effective way for manufacturers to move products to end users. When it works as intended, channel conflict between authorized distributors and resellers is kept to a minimum. Under normal circumstances, a well-functioning channel provides an efficient way of moving products off the assembly lines and into customers' hands. It meets the OEM's desire not to hold inventory, deal with significant numbers of customers, or deal with customers' requirements for purchasing multiple-vendor products with additional services. Authorized channel partners make an investment in product-knowledge training, inventory space, and sales reporting.

A channel with well-defined limits and consistently applied processes can benefit OEMs, channel partners, and their customers. By effectively managing channel agreements through a meaningful, complete and accurate reporting program, including verification of the data reported, OEMs reduce the risk of customers receiving products unprotected by warranty. Such programs also reduce the amount of unauthorized buying and reselling, thus minimizing the risk of gray market product entering the authorized distribution channel. The effect is to significantly reduce the risk to OEM and channel partner brand and reputation. In addition, the consumer receives the genuine product that they intended to buy with proper warranty support. Effective systems and control processes simplify the reporting processes involved and minimize the circumstances in which distributors are subject to multiple and inconsistent reporting and control procedures. Everything else being equal, the products continue to enjoy healthy demand, which spawns continued purchases that trigger steady product channel flow and maintain partner revenue and profits.

Appendix

Does the OEM have contractual relationship with Distributors? Systems integrators? Resellers? (Regional Info)

	AMERICAS	APAC	EMEA
Distributors	100%	100%	80%
System Integrators	67%	0%	60%
Resellers	67%	33%	60%
None	0%	0%	20%

Question 2

Do these contracts/program terms and conditions include:

	AMERICAS	APAC	EMEA
A right to conduct an onsite audit	100%	100%	80%
Specify requirements for the validation of end users	50%	33%	20%

Question 3

Can serial numbers be traced back to country of origin?

	AMERICAS	APAC	EMEA
Yes	100%	100%	100%
No	0%	0%	0%

Question 4

Can partners be reauthorized after deauthorization?			
	AMERICAS	APAC	EMEA
Yes	100%	100%	100%
No	0%	0%	0%

Question 5

Are there any exceptions to the authorized channel?			
	AMERICAS	APAC	EMEA
Yes	50%	0%	40%
No	50%	100%	60%

Comments:
"Occasionally a partner may sell outside of the approved channel model when the channel is less defined."

"Certain products are allowed for open distribution."

"We have one exception called virtual stock balancing."

Question 6

Are partners currently reporting POS?			
	AMERICAS	APAC	EMEA
Yes	100%	100%	100%
No	0%	0%	0%

Question 7

Are partners currently reporting inventory?			
	AMERICAS	APAC	EMEA
Yes	100%	67%	100%
No	0%	33%	0%

Question 8

What % of 1st Tier partners currently report POS?			
	AMERICAS	APAC	EMEA
Respondent #1	100%	–	–
Respondent #2	100%	100%	95%
Respondent #3	100%	–	–
Respondent #4	100%	–	100%
Respondent #5	67%	90%	12%
Respondent #6	80%	95%	100%
Respondent #7	100%	–	–

Question 9

What % of 1st Tier partners currently report inventory?			
	AMERICAS	APAC	EMEA
Respondent #1	100%	–	–
Respondent #2	24%	–	95%
Respondent #3	100%	–	–
Respondent #4	100%	100%	100%
Respondent #5	7%	0%	4%
Respondent #6	100%	95%	100%
Respondent #7	100%	–	–

Question 10

What % of 2nd Tier partners currently report inventory?			
	AMERICAS	APAC	EMEA
Respondent #1	1%	–	–
Respondent #2	0%	–	0%
Respondent #3	0%	–	–
Respondent #4	0%	0%	0%
Respondent #5	0%	0%	0%
Respondent #6	–	90%	0%

Question 11

How often is POS/inventory reported by 1st Tier partners?			
	AMERICAS	APAC	EMEA
Daily	71%	0%	50%
Weekly	29%	67%	50%
Monthly	0%	33%	0%
Quarterly	0%	0%	0%
Other	0%	0%	0%

Question 12

In what formats do you receive POS/inventory reports?			
	AMERICAS	APAC	EMEA
EDI	100%	33%	75%
Soft copy via e-mail, spreadsheets, etc.	71%	67%	25%
Soft copy via process other than e-mail	57%	0%	0%
Hard copy via fax or other courier	14%	0%	0%
Other	0%	0%	0%

Question 13

Is a channel audit program in place?			
	AMERICAS	APAC	EMEA
Yes	100%	100%	75%
No	0%	0%	25%

Question 14

<div style="background:#7a9a2f;color:white;padding:8px">
Describe the scope of a channel audit. (E.g., inventory count, POS validation, full scope audit of compliance with contract and incentive program terms and conditions)
</div>

AMERICAS

Respondent #1	"Full scope, with emphasis on POS validation and inventory count."
Respondent #2	"Full scope per above compliance with contract and incentive program terms and conditions."
Respondent #3	"Perform physical inventory counts for select products. Reconcile sales to date to last reporting period. Validate sampling of special-pricing program claims. Perform serial number checks. Observe warehouse conditions and security. Observe product handling."
Respondent #4	"Can include all of the above."
Respondent #5	"POS validation completed for selected partners."
Respondent #6	"Can include all of the above."
Respondent #7	"Inventory and serial number validation."

APAC

Respondent #1	"Full scope per above (compliance with contract and incentive program terms and conditions."
Respondent #2	"Full scope audit including inventory count, POS validation and supporting documents."
Respondent #3	"Full scope audit of compliance with contract and incentive program terms and conditions."
Respondent #4	"Inventory count and POS validation."

EMEA

Respondent #1	"Full scope per above (compliance with contract and incentive program terms and conditions. Limited scope focused on any program or reporting as applicable."
Respondent #2	"Can include all of the above, plus customs documentation and serial number tracking."
Respondent #3	"Inventory count."

Question 15

Is the review period consistent across tiers?			
	AMERICAS	APAC	EMEA
Yes	29%	75%	25%
No	71%	25%	75%

Question 16

Is the audit scope limited (by date, products, other)?			
	AMERICAS	APAC	EMEA
Yes	86%	50%	67%
No	14%	50%	33%

Inconsistencies:

AMERICAS

Respondent #1	"Typically focused on no more than a one-year period, but may expand if issues are identified."
Respondent #2	"Depends on the nature of the issue in hand."
Respondent #3	"The audit scope varies according to reporting trends."
Respondent #4	"Accreditations are limited by date."
Respondent #5	"Date"
Respondent #6	"Products"

APAC

Respondent #1	"Depends on the nature of the issue in hand."

EMEA

Respondent #1	"Depends on the nature of the issue in hand."
Respondent #2	"Date"

Question 17

Is the audit clause contained in the partner contract, program terms and conditions, both, other?			
	AMERICAS	APAC	EMEA
Partner contract	57%	50%	33%
Program terms and conditions	0%	0%	0%
Both	43%	50%	33%
Other	0%	0%	0%
None	0%	0%	33%

Question 18

Does the audit clause contain a minimum notice period to gain access to the partner site? If so, how long is the period?			
	AMERICAS	APAC	EMEA
Yes	43%	50%	50%
No	57%	50%	50%

How long (days):	AMERICAS	APAC	EMEA
Respondent #1	5	–	–
Respondent #2	Reasonable notice	Reasonable notice	Reasonable notice
Respondent #3	2-3	1-2	2-3
Respondent #4	N/A	N/A	N/A
Respondent #5	2	–	–
Respondent #6	–	2	On demand

Question 19

Does the audit clause clearly specify the type of access to data that will be granted?			
	AMERICAS	APAC	EMEA
Yes	100%	50%	75%
No	0%	50%	25%

Question 20

Does the audit clause allow for a pass through of audit costs when a level of discrepancy is identified?			
	AMERICAS	APAC	EMEA
Yes	43%	25%	50%
No	57%	75%	50%

Question 21

If the audit clause is carried in multiple documents, is the verbiage consistent in all documents? (Describe Inconsistencies)			
	AMERICAS	APAC	EMEA
Yes	71%	75%	25%
No	29%	25%	75%

Inconsistencies:

AMERICAS

Respondent #1	"Terms and conditions for programs may be different but would replicate the contract language."
Respondent #2	"Scope and notification period."

APAC

Respondent #1	"Audit clauses are different in each contract."

EMEA

Respondent #1	"Terms and conditions for program may be different but would replicate the contract language."
Respondent #2	"Scope and notification period."
Respondent #3	"No separate clauses."

Question 22

Are claims for promotional incentives audited?			
	AMERICAS	APAC	EMEA
Yes	100%	75%	100%
No	0%	25%	0%

Question 23

Are serial numbers required for processing promotional incentives?			
	AMERICAS	APAC	EMEA
Yes	43%	25%	20%
No	57%	75%	80%

Question 24

Are serial numbers submitted for processing promotional incentives validated by the processing system?			
	AMERICAS	APAC	EMEA
Yes	43%	25%	20%
No	57%	75%	80%

Question 25

Are serial number validations for promotional incentives limited by date parameters (i.e. are serial numbers purged from the system)?			
	AMERICAS	APAC	EMEA
Yes	57%	50%	40%
No	43%	50%	60%

Question 26

Are serial numbers processed for promotional incentive payments passed to other incentive program processing systems (to avoid duplicate program claims)?			
	AMERICAS	APAC	EMEA
Yes	57%	50%	40%
No	43%	50%	60%

Question 27

Describe any exceptions granted for promotional incentives and the process for approving exceptions.	
AMERICAS	
Respondent #1	"Criteria 1: Authorization limit Criteria 2: Minimum grade and organizational role Exceptions would concern issues regarding having product on order but not being shipped on time."
Respondent #2	"Most exceptions are granted for partner satisfaction issues (i.e., if product ships during the promotion but arrives damaged, the partner may claim rebate on the replacement product)."
Respondent #3	"Exceptions are approved by Marketing Directors, Product Line Managers and Finance. Larger dollar exceptions are escalated to the Vice President level."
APAC	
Respondent #1	"Criteria 1: Authorization limit Criteria 2: Minimum grade and organizational role Exceptions would concern issues regarding having product on order but not being shipped on time."
EMEA	
Respondent #1	"Criteria 1: Authorization limit Criteria 2: Minimum grade and organizational role Exceptions would concern issues regarding having product on order but not being shipped on time."
Respondent #2	"Unknown, perhaps account-specific and tied to performance targets."

Question 28

Are special-pricing programs (to provide a price advantage to a disirable end user and/or market segment) available to partners?			
	AMERICAS	APAC	EMEA
Yes	100%	100%	100%
No	0%	0%	0%

Question 29

Is special pricing passed through from 1st Tier to 2nd Tier, etc.?			
	AMERICAS	APAC	EMEA
Yes	43%	50%	60%
No	57%	50%	40%

Question 30

Are pass-through special pricing claims audited?			
	AMERICAS	APAC	EMEA
Yes	71%	100%	80%
No	29%	0%	20%

Question 31

	AMERICAS	APAC	EMEA
Who is responsible for collecting/maintaining end-user verification documentation?			
Respondent #1	Claims Department	Claims Department	Channel Claims
Respondent #2	Marketing	N/A	Sales at front-end/Tier 1 partner (back-end)
Respondent #3	No end user verification is required	N/A	N/A
Respondent #4	"We don't verify"	Sales	Finance
Respondent #5	Reseller (Tier1)	N/A	Reseller (Tier1)
Respondent #6	Marketing/claims	Marketing	N/A
Respondent #7	Sales	N/A	N/A

Question 32

Do partners submit special pricing claims after the sale has occured (back-end)?			
	AMERICAS	APAC	EMEA
Yes	86%	100%	80%
No	14%	0%	20%

Question 33

What tiers are eligible for back-end claims?			
	AMERICAS	APAC	EMEA
1st Tier	14%	75%	40%
2nd Tier	29%	0%	20%
Both	57%	25%	20%
Neither	0%	0%	20%

Question 34

What documenation is required to submit a claim for back-end special pricing?

AMERICAS

Respondent #1	"End user PO, Reseller PO."
Respondent #2	"Invoice to end user and additional information as needed."
Respondent #3	"POS data."
Respondent #4	"POS data."
Respondent #5	"POS data, transaction date, Part #, quantity, reseller name, end user name, Invoice #."
Respondent #6	"Invoice to reseller, POS data, program authorization document."
Respondent #7	"Justification submitted by Sales rep. Request rarely happens."

APAC

Respondent #1	"End user PO, Reseller PO."
Respondent #2	"POS data."
Respondent #3	"POS data."
Respondent #4	"End user PO, potentially shipping documents."

EMEA

Respondent #1	"End user PO, Reseller PO."
Respondent #2	"None – submits a claim form referencing deal, unless audited and then requested to provide end customer POS via Tier 2."
Respondent #3	"POS data."
Respondent #4	"POS data, transaction date, Part #, quantity, reseller name, end user name, Invoice #."

Question 35

To what level are serial numbers validated for product returns?			
	AMERICAS	APAC	EMEA
Originally shipped by OEM	0%	0%	25%
Original and duplicate	17%	0%	0%
Format, original and duplicate	67%	75%	50%
None	17%	25%	25%

About KPMG

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About AGMA

The goals of the Alliance for Gray Market and Counterfeit Abatement are to protect the authorized distribution channels and intellectual property of authorized goods to improve customer satisfaction and preserve brand integrity.

The Alliance is a nonprofit organization composed of companies in the technology sector. AGMA's mission is to mitigate the gray marketing fraud and counterfeiting of technology products around the globe. AGMA is one of the IT industry's leading trade groups addressing counterfeit issues. The organization's charter includes development of best practices for mitigating the counterfeiting of branded technology products and the potential harm it causes to end customers, authorized or approved channel distribution partners, and the high tech industry as a whole.

Reducing counterfeiting and gray marketing activity is important for maintaining high standards of product quality and reliability-and for ensuring that customers' service and support requirements are met. By working in cooperation, member companies implement practical and effective deterrents to both the gray-marketing and counterfeiting of high tech products to protect intellectual property, trademarks, and copyrights as well as to preserve brand equity.

The financial impact and customer satisfaction issues are significant. The inherent value of a brand is strengthened when products are delivered through approved distribution partners, ensuring the highest quality product and the best possible service and support for customers. Also, by addressing unauthorized gray market activity, a level playing field is created for authorized distribution partners. AGMA also established the Gray Market/Counterfeit Tip Line in efforts to help serve customers and preserve their user experience. If you believe that you are aware of counterfeiting activities or illegal gray market diversion, you can contact this confidential e-mail address: tipline@agmaglobal.org.

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About IDEMA

Now celebrating its 20-year anniversary, the International Disk Drive Equipment and Materials Association (IDEMA) is the trade association for the $30 Billion disk drive industry, representing 340 member companies in the personal computing, enterprise, and consumer electronic storage with offices in Sunnyvale, CA, Singapore, and Tokyo, Japan.

IDEMA's mission is to add value to all levels of the hard drive supply chain:

• **Communicating**, both within the industry and externally, key elements of the hard drive market. IDEMA is steadily working to build public awareness of the role of hard drives in both traditional IT devices as well as in consumer electronics devices. Not only are we increasing our communications within the industry, but also to key constituencies like the financial community.

• Setting industry technology **standards** and benchmarks. Our global standards groups are working to provide collaborative guidance on key technology points in HDDs bound for CE products, heads, media, substrates, ESD and other areas. IDEMA spearheaded a joint effort to address questionable business practices in the distribution channel, which rob our industry of millions of dollars of profit yearly. This project has resulted in a Better Practices Guideline which could help save millions annually.

• Hosting "best-in-class" **trade shows, symposia, and conferences**. IDEMA hosts the DISKCON USA trade show and conference, Information Storage Week Japan, and DISKCON Asia-Pacific show and conference. We also host Quarterly Seminars (Japan), Breakfast Talks and Traveling Symposia (Asia-Pacific), a Financial Conference (USA), and various symposia (USA). These targeted events give participants unique opportunities for leading-edge information.

• Offering unique **networking** opportunities for all industry participants. Worldwide, IDEMA hosts more than 20 annual events that provide the chance for industry players to network with suppliers, customers and competitors. From Member Nights in Asia to the USA's Distinguished Speaker Series, there is simply no better way to stay abreast of industry progress.

IDEMA is the global trade association for the most important elements of the consumer and computing infrastructure: hard drives.

Visit www.idema.org for more information or contact:

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