

The State of POS in 2014

Prepared for

NEMRA

National Electrical Manufacturers Representatives
Association

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Introduction

During 2005 / 2006, NAED hosted a cross-industry taskforce comprising sixteen companies to address a myriad of issues relating to point of sale (POS¹). The group delivered an industry white paper as well as recommended formats for collecting point of sale and point of transfer information (POT). While a good start, unfortunately there was not a champion to maintain the effort.

Fast forward a decade; POS remains a major issue for manufacturers. POS facilitates tracking product movement to geographic areas, compensating a manufacturer's sales organization, executing support for specific distributors and effectively evaluating their sales organization as well as determining market share in geographic areas. From a distributor perspective, effective POS administration can influence rep support of a distributor's location(s) purposes.

Industry dynamics and "commodity" products further affect the need for more effective POS processes and execution. Issues include:

- Industry consolidation by distributors, thereby creating larger distributors that cross manufacturer sales territories.
- The emergence of more distributor central distribution and regional distribution systems.
- Commoditization² of products that, to distributors, is undifferentiated from an inventory management perspective.

These issues have combined to make it more difficult to determine what products are sold from, and within, a specific sales territory, thereby impacting sales organization compensation. Given that over 80% of industry suppliers go to market through independent sales representatives and these manufacturers represent in excess of an estimated 60% of industry sales, this is a major issue for NEMRA's members and associated suppliers.

This State of POS report was commissioned by NEMRA to gain greater industry insight into the importance of POS throughout the channel; to understand, and uncover, POS issues; and to suggest a path forward. When the project started, NEMRA requested additional research relating to "commodity" products, especially in product categories such as wire, pipe, conduit as this appeared to be a major concern for the membership.

The report details the research findings and shares suggestions to maintain visibility on this issue and improvement for all parties.

Report Highlights

Key report findings include:

- While the industry agrees on the definition of POS from a technical interpretation of the term, most industry stakeholders view the "customer", for POS purposes, to be the distributor location, not the end-user / contractor.
- POS issues touch all, or vast majorities, of NEMRA members as practically all sell to a national chain that ships product into a branch, or to a customer, from a CDC or an RDC.

¹ For this report, POS is used to reference the entire process of gathering POS / POT information, except for when POT (point of transfer) data is separately discussed.

² Commodity products are defined as those products that distributors do not segregate in their inventory management and ERP processes. These products are placed in a common inventory space / bin and are collectively referred to as a product type, not by a supplier product number. From a distributor perspective, they cannot differentiate which supplier's products are sold at a given point in time or to which customer.

- Due to concerns about the accuracy of POS reporting, a significant percentage of reps will redirect business, when feasible, to a distributor from whom they know they will be compensated from the manufacturer.
- POS issues relate to information accuracy, the level of geographic and product detail that is providing, reporting to the manufacturer as well as to the rep, the lack of transparency (for the most part) in the information shared with the rep from the manufacturer; differing formats for sending information to manufacturers; timely receipt of information and commission payment.
- Managing POS for “commodity” products is viewed by all as a challenge due to distributor warehousing processes (common bins). There are no perfect solutions that are currently on the horizon. The industry best practice is an allocation model with frequent updates (monthly) with information transparency amongst all stakeholders.
- Trust is a major concern throughout the channel. This relates to distributors selecting which manufacturers, if any, to share information with to reps’ concerns that their manufacturer is not compensating them accurately (and sometimes not being too concerned about the rep being compensated fairly).

Sales reported through POS systems will continue to increase due to consolidation, distributor focus on operational enhancement and inventory management and improved reporting systems. Challenges will always exist in capturing information in environments where the distributor does not have a strong relationship with the manufacturer. In some industries POS reporting is a condition of distributor authorization; however, given the maturity of the electrical distribution industry and long-term authorization relationships, it is doubtful that this will change.

Leadership, and sustained focus, on the POS issue should be considered by NEMRA as the NEMRA membership is financially impacted by this issue.

Research Methodology

To gain broad insight, Channel Marketing Group (CMG) contacted distributors, manufacturers, NEMRA member representatives and POS 3rd party processors for their input on a range of POS issues.

Interviews and a survey were conducted with each audience.

From a statistical viewpoint,

- 54 distributors shared information via an e-survey that was sent to select IMARK members, AD and national chains. CMG identified the distributor lists and reached out to these distributors. Reference to conducting research on behalf of NEMRA was mentioned.
 - Approximately 200 emails were sent to distributors, culminating in a 27% response rate. In some instances there were multiple per company.
- 51 manufacturers participated in an e-survey that was sent via NEMRA's manufacturer email list
 - 630 emails were sent (multiple per company) with 202 emails opened (32.1%) and 51 surveys completed (25.2% of open and 8.1% of sent)
- 125 NEMRA representative contacts participated in an e-survey sent from NEMRA
 - 1,171 emails were sent (multiple per company) with 437 emails opened (37.3%) and 125 surveys completed (28.6% of open and 10.7% of sent)

- 30 interviews were conducted amongst NEMRA members, manufacturers, distributors and three service providers
- CMG presented initial findings to NEMRA's NMG on June 11 and received additional input from manufacturer reps and manufacturers.

From the amount of feedback received, and no incentive was offered to participants, it is evident that POS is an important topic to the industry.

While more can always been done, it is our opinion that these research findings broadly identify the POS issues challenging the industry.

In this report we detail the survey findings and have aggregated common questions to identify trends, or differences, by audience. Interview feedback is also provided throughout.

Survey Demographics

The e-surveys were sent to NEMRA members, manufacturers and to distributors. A review of respondent demographics highlights that the appropriate array of companies responded. We purposely did not ask for role / function as the list was targeted to presidents / owners, sales management and purchasing management.

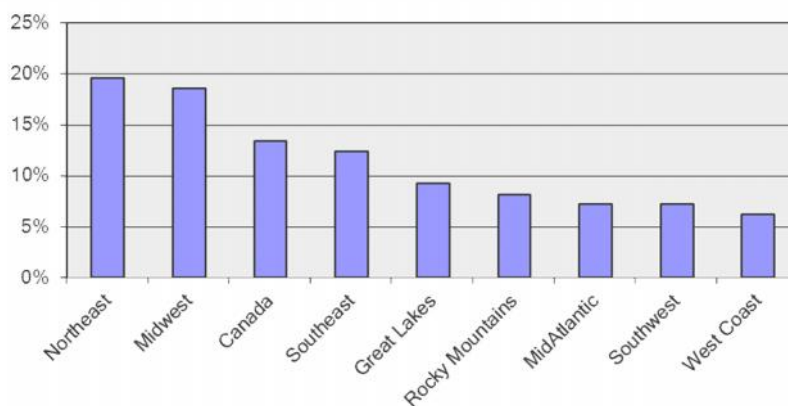
NEMRA Respondent Profile

Geographic Coverage

Geographically, feedback was received from throughout the U.S. and Canada

Certain parts of the country have larger agencies which may account for the reduced number of responses in areas like the Mid-Atlantic, Southwest and West Coast.

Canada represented about 13% of responses.

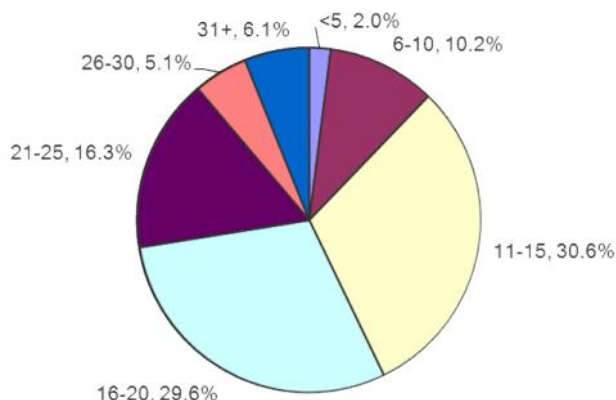


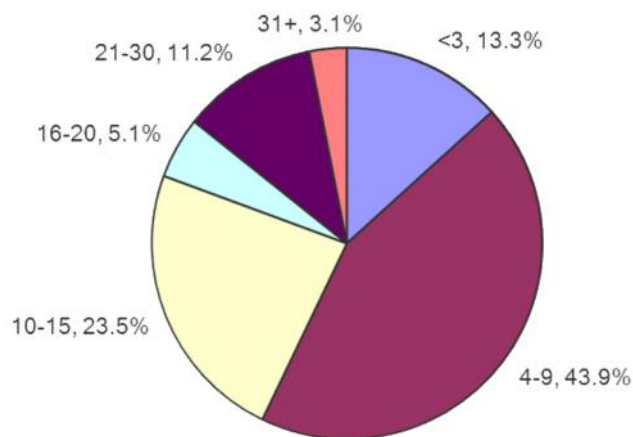
of Lines

60.2% of respondents have 11-20 lines. Another 16.3% have 21-25 lines.

The importance of this, from a POS viewpoint, is that most, if not all, reps have at least 1 line that should be capturing POS information from distributors as well as the fact that these reps are carrying lines of importance to all distributors.

Reps that are representing a broad base of suppliers will be impacted, to varying degrees, by the POS issue.





of Salespeople

43.9% of respondents have 4-9 salespeople working for them with another 23.5% having 10-15 salespeople resulting in 68.4% having 5-15 salespeople.

The importance of accurate POS reporting for compensation reasons impacts many individuals who typically are on commission-based compensation plans.

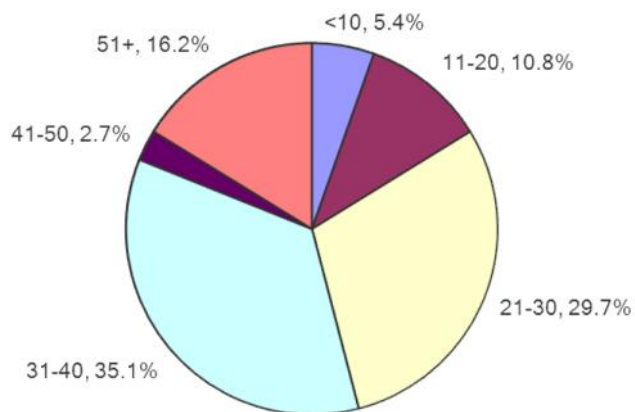
Additionally, these "mid-sized" firms have limited administrative resources.

Manufacturer Respondent Profile

of Manufacturer Reps Firms

64.8% of responding manufacturers have relationships with between 21-40 manufacturer rep firms.

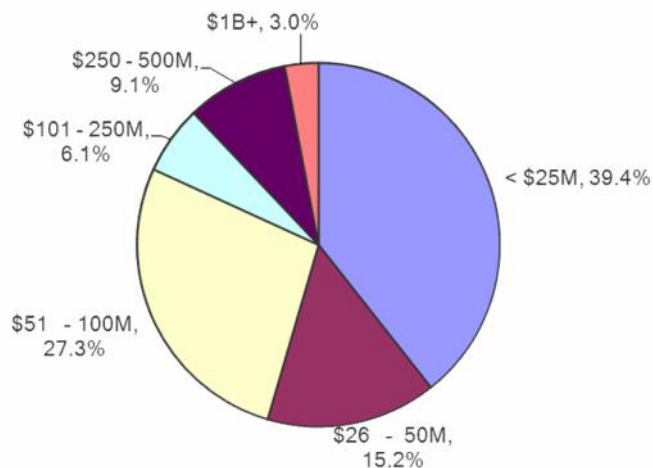
This is an indication of how widespread the issue could be for them as most have nationwide coverage, also indicating relationships with distributors that sell across multiple rep territories and hence suggesting that POS should either be an issue or will be an issue for them if their product is sold through distribution centers.



Revenues

While 54.6% of respondents stated that their companies have less than \$50M dollars in sales and hence may not have a presence in a multi-territory distributor's warehouse, they may have some POS issues or will encounter the issue as they grow.

Conversely, 18% of manufacturers have sales greater than \$100M and should have POS experience. A number of companies in the \$50-100M range also have POS experience due to their involvement with companies like Graybar and WESCO.



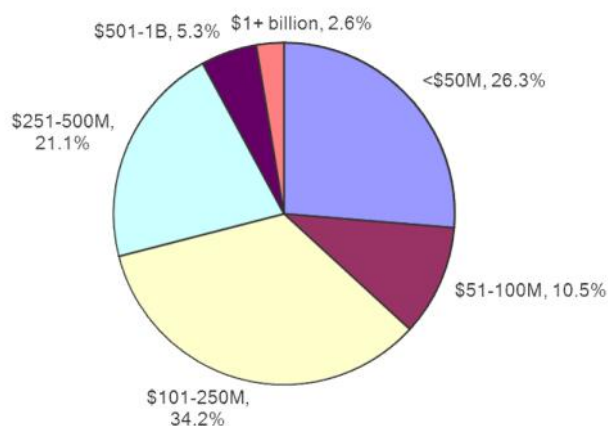
Product Categories

Input from an array of industry product categories was obtained. While some of the percentages are low, the number of industry suppliers in some of the product categories is small (i.e. fuses has 3 suppliers).

Typically suppliers who are members of NEMRA are not lighting suppliers or, if they are, are typically smaller companies.

Product Category	Response Percent
Electrician Supplies & Tools	25.9%
Switchgear & Controls	13.0%
Wire & Cable (Copper & Aluminum)	9.3%
Wire Management	9.3%
Boxes & Fittings	7.4%
Lighting Fixtures	7.4%
Wiring Devices	5.6%
Electric Heat / Vent	5.6%
Enclosures	5.6%
Fuses	3.7%
Conduit (Metallic & Non-Metallic)	3.7%
Lamps	1.9%
Pipe	1.9%

Distributor Respondent Profile

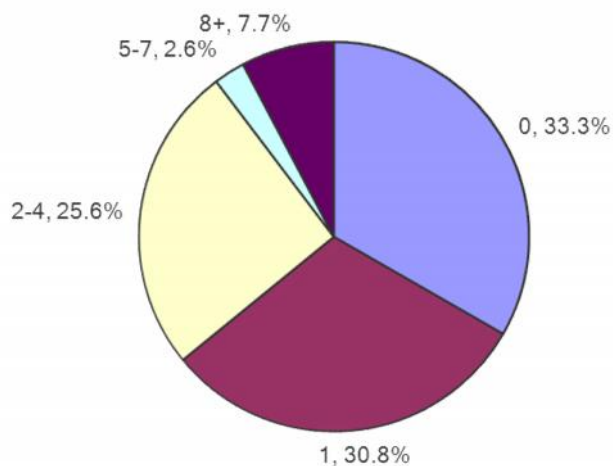


63.2% of respondents advised that their sales are more than \$100M dollars. This is typically the target market for companies that may have the profile for providing POS information and interacting with multiple NEMRA members.

Additionally, this audience is more prone to having CDCs/RDCs or is considering them.

While smaller distributors may have reason to submit POS information, this would typically be due to specific business niches / lines rather than as a "full-line" distributor.

RDCs / CDCs



33.3% of respondents currently do not have a CDC or any RDCs

30.8% do have 1 facility with another 25.6% having 2-4 facilities.

When compared vs 2005-2006, the number of RDCs has increased as the industry consolidated, companies increased sales and their sales footprint and operational efficiencies have been sought.

The aggregation of inventory into centralized locations from local branches further highlights the need for increased visibility of the POS issue.

POS Insights

In conducting the research we identified issues relating to:

- data collection, formatting and reporting issues
- timeliness of receipt of information from distributors to manufacturers and between manufacturers and their sales organizations
- the need for shared, detailed, information
- differences in the definition of POS
- concerns about accuracy, completeness and the transparency (some refer to this as the auditability) of the information, and one of the most important issues is that
- POS is a monetary issue for all parties.

What is POS?

Based upon initial conversations with NEMRA reps, manufacturers and distributors and receiving input on issues in “managing” POS, there was a feeling that the definition of POS varied by audience. For some, POT did not appear to be an issue.

Addressing the POS issue requires that all parties define the issue similarly. While POS in its most basic definition relates to understanding what, and where, a “customer” purchased, for many in the channel the definition of “customer” is a challenge ... is it the end-user or the distributor?

We asked NEMRA reps, manufacturers and distributors “Please select which of these statements most closely defines POS for you.” With possible answers of:

- POS means “point of sale” which is where the material is being shipped to (customer location or project - could be expressed as a zip code or county). “Point” is defined as the customer. This information could include customer name and/or SIC, however, that is at the discretion of the manufacturer and distributor.
- POS means “place of purchase” and is where the material is purchased from (distributor branch location). Some people call this “point of purchase”.
- POS means “place of shipment” and is where the material is being shipped from (or to if coming from a CDC / RDC). This is typically a branch location. This broadens the definition to include RDCs/CDCs.



The findings indicate that all three audiences understand the intent of the terminology, however, in looking at “place of purchase”, distributors and reps nominally feel that the issue is more “place of purchase” rather than end-user specific.

Open-ended feedback from each audience further confirmed that the industry defines “customer”, for POS purposes, as distributor location rather than end-user customer or where the material is used.

- Open-ended feedback from reps included:
 - “Place of shipment
 - Where the product is shipped and purchased from (i.e: main distribution center ships to a branch location where a customer purchases said product).
 - Location where material end up, regardless of what area it was sold in.
 - It’s a combination of where material was ordered and was shipped.
 - We do not get paid until a distributor reports it sold.
 - It’s a combination. Manufacturers are reporting when material is shipped into the geographic area covered by an agency while the purchase order was placed elsewhere.
 - Where the material is used or installed
 - Sales credit to the branch within a rep’s territory, so rep can be paid
 - Means branch or CDC from which product is sold
 - Where the end-customer purchases the product. Has nothing to do with if distributors bought in a distribution center and transferred it.
 - Point of application - where the user applies the product
 - A combination of point of sale and place of purchase.
 - Point of sale and place of purchase both apply to us
 - As a rep we see each manufacturer handle POS differently so all 3 of the above definitions can and do apply
 - The location of the branch who ordered the product. The product was shipped to the branch or end user from a location outside of the agent’s territory.”
- Feedback from manufacturers
 - “Where the end user is
 - POS means Point of Sale = When a DC (CDC or RDC) ships to a branch. If our system doesn’t pay the DC sales rep, I want to know which branch sold it to accurately pay the sales rep.
 - Transfer of goods from the RDC/CDC to a branch
 - Needs to be clarified, so everyone is talking about the same thing.
 - POS can be any or all of the above, and we have instances of all three.
 - The issue is ‘distributors’ and most others use POS as POT
 - The location from where the product is SOLD to the end user. Used for purposes of determining which rep should get commission.
 - POS means a shipment coming from a Distribution Center into a distributor or end user location.

Discussions with manufacturers indicate few, if any, are using POS information for market intelligence and marketing purposes. Some did point out that SPA information does contain some POS information; however, none stated that they are harvesting this information for marketing purposes.

As can be seen, most feel that for compensation purposes, POS is currently defined as “distributor selling point / branch location”.

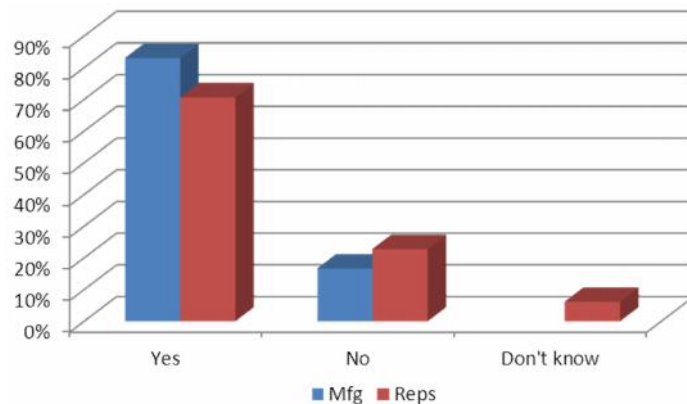
There are two consequences of this:

1. Given that the research identified issues of channel "trust" (to be discussed), if the POS discussion is limited to locale versus customer specific, this could assist in removing some distributor concern.
2. As e-commerce continues to impact the industry and distributors service multiple geographic areas through centralized, or regional, warehouses for direct shipment to end-customers, how will this affect the POS discussion? Will it become orders into a geographic area? Will contractual agreements be refined? Will the issue change based upon the need for local rep support (so perhaps by product offering)? Will reps who have CDCs/RDCs in their area that fulfill e-commerce orders benefit through increased access to buying influencers at these locations? Could ...?? This will be an evolving issue for the channel.

POT (Point of Transfer)

The channel was also asked about the importance of POT information. Both manufacturers and reps feel that POT information is important as it enables the capturing of data from CDCs/RDCs as well as inter-branch / out-of-territory inventory transfers (but the primary intent relates to CDCs/RDCs.)

POT gets to the issue of appropriately compensating the local rep. Some companies intermingle the definitions of POS and POT.



As more independent distributors consider CDCs/RDCs to support their growth plans as well as open locations across rep territories and national chains gain greater support from their branches to obtain material from their RDCs, the issue of POT will proliferate. Currently the primary focus of POT initiatives is with national chains and selected independent distributors as these distributors represent the greatest percentage of POT issues.

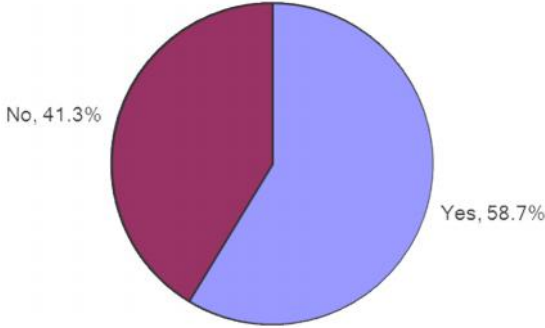
Financial Impact of POS

While the financial impact of POS is most easily identifiable at the independent manufacturer sales representative level due to compensation / commission issues, it also impacts distributors as sales representatives shared that they, at times, redirect business to distributors from whom they know purchase information is easily reported and hence they will receive appropriate compensation.

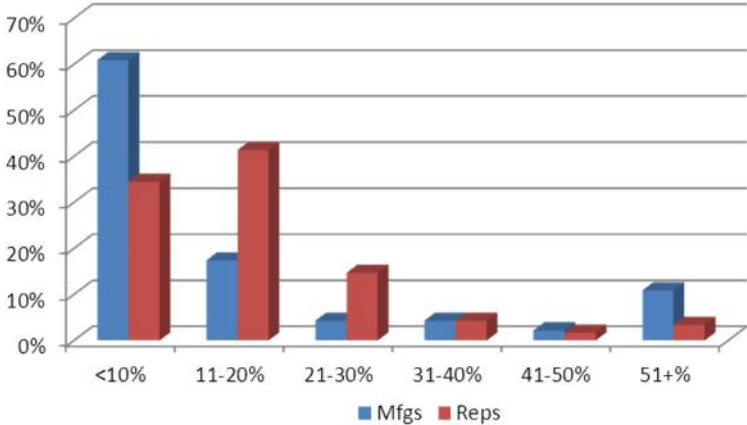
POS also financially impacts manufacturers as manufacturer sales reps may contravene manufacturer strategic initiatives to support selected distributors / national chains, potentially missing goals, and could impact compensation issues within the manufacturer (regional / national account management).

Essentially, a percentage of manufacturer representatives, through their actions are saying "if we cannot trust in manufacturer / national chain POS data, we will sell around the national chains."

In the representative survey, 58.7% of respondents reported directing some business to a distributor for whom they know they will be compensated. Feedback from reps was that they felt they could redirect commodity and engineered / branded products in a number of cases.



Additionally, when asked “what percentage of your sales are impacted by POS?” manufacturers and reps replied:



This highlights that:

- For 88% of manufacturers, POS represents less than 20% of their business.
- For almost 76% of reps, POS represents < 20% of business.

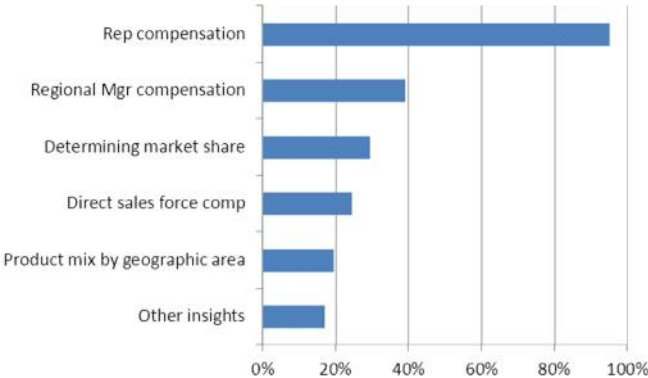
But while the percentages are “low”, they have inevitably risen with the increase in the number of CDCs/RDCs in the industry.

However, a question becomes, “what percent of national chain business (and large regional chains’ business) goes through their RDCs versus direct to / from a branch?”

But as can be seen, for some manufacturers and reps, the percentages can become significant as evidenced that almost 11% of manufacturers reported that more than 50% of their sales is captured through their POS reporting.

As this was a survey and respondents in all likelihood did not review sales reports and calculate percentages, this is a “guesstimate” and our suspicion is that the percentages are under-reported for both audiences.

And while rep compensation and distributor sales can be affected by receipt of POS information, manufacturers use POS data in a multitude of ways (chart on right).



While 95%+ use the information for rep compensation purposes, manufacturers are also using the information to compensate factory direct salespeople and sales management. Some companies are taking advantage of the market intelligence that they are receiving to enhance their business decision making. Many manufacturers recognize this potential but do not have the resources or enough data to aggregate and act upon the information.

POS Affects Many Manufacturers & Distributors

Many reps have a significant number of their manufacturers providing POS information to them.

- Only 32.8% have less than 3 lines (and less than 3% have none!)
- Almost 40% have 4-6 lines
- And 24.1% have between 7-15 lines.

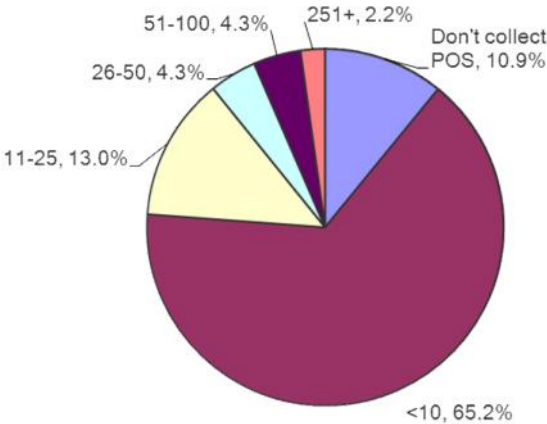
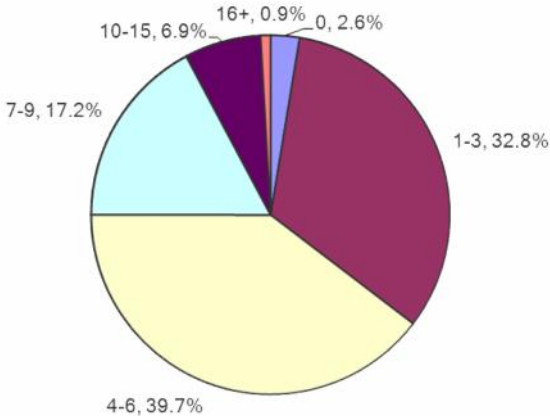
So the issue has grown in the number of manufacturers that this impacts ... and hence the impact on the industry.

This results in increased administrative burden for all channel participants.

Manufacturers were asked "How many distributors currently send you POS information?"

As can be seen,

- 65% of manufacturer respondents are receiving POS data from less than 10 distributors (presumably all national chains / super regionals).
 - This was expected given the number of small manufacturers in the industry, many of which are not stocked at CDCs/RDCs, as well as the number of manufacturers who distributors purchase from for projects or "special orders."
- 13% receive POS data from 11-25 distributors
- 8.6% receive POS data from 26-100 distributor

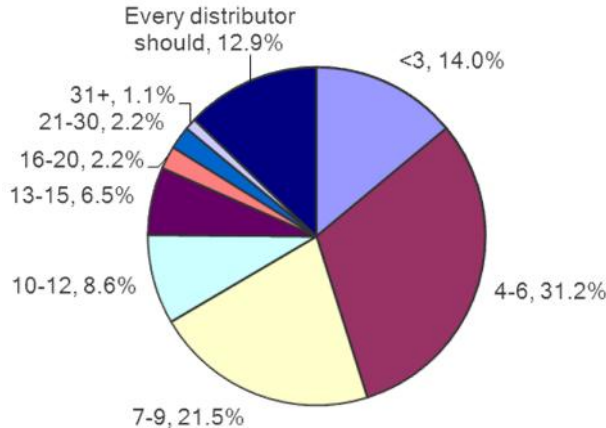


This shows that a number of distributors do provide POS information to manufacturers although, based upon feedback from distributors, just because they do POS for a manufacturer does not mean that they are willing to send information to all of their manufacturers. Issues relating to relationship with the manufacturer and their rep network, importance, trust and reporting complexity drive these decisions. These decisions are

typically made by senior management, purchasing management and sales management.

The current administrative effort could be further compounded by the number of distributors that both manufacturers and reps think should be reporting POS but may currently not be reporting.

Reps feel that more distributors in their territory could / should, provide POS information with 66.7% feeling that up to 9 distributors in their territory should be

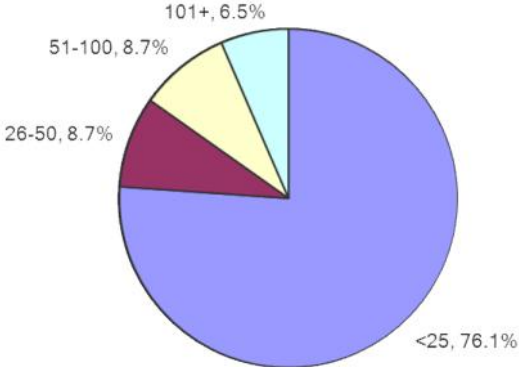


provide POS data. This is a combination of distributors and RDCs in their market.

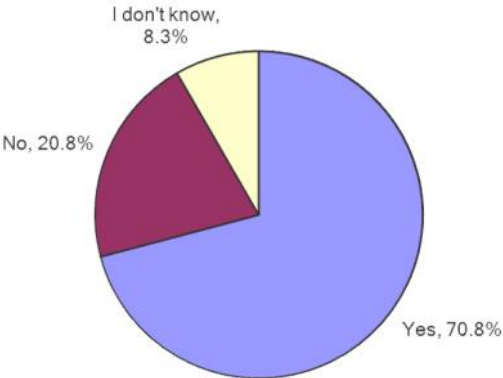
Part of the reason is a desire for quality data to ensure compensation transparency and that POS information provides enhanced sales and marketing data to support business development efforts. Rather than rely on supplier reports, reps could have actionable data on what was sold by the distributor and what was sold in their market.

Manufacturers also think that there are more distributors that could / should provide them with POS information. In some instances this may be for informational purposes, in other instances it could be to improve the accuracy of their rep compensation.

As can be seen, 25% of the manufacturers think that there are 25-100+ more distributors that could contribute POS information.



Whether the rep projection of the incremental number of distributors who should provide POS information is accurate, or the manufacturer estimation is accurate, either way, more POS submissions would increase manufacturer and rep administrative burdens.



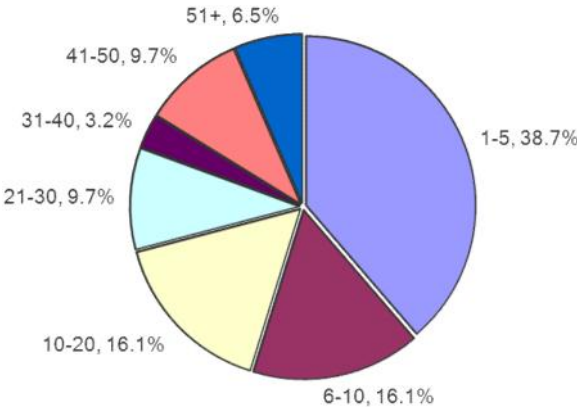
From a distributor perspective, many are sharing POS information, as 70% of distributor respondents noted that their company is providing POS information with their manufacturers.

The ease of utilization, quality and accuracy of data and what level of detailed, actionable, information is sent to the rep can vary.

In a few instances, reps are receiving information directly from the distributor at the same time it is sent to the manufacturer. A number of reps identified one national chain that provides this information. According to these reps, since there is data transparency they are more apt to support this national chain, similar to how they support local independent distributors.

For those distributors that do share POS information,

- 32% provide it to between 6 – 20 manufacturers
- approximately 30% provide it to more than 20 manufacturers (and hence are very experienced) and
- approximately 39% provide to 1-5 suppliers.

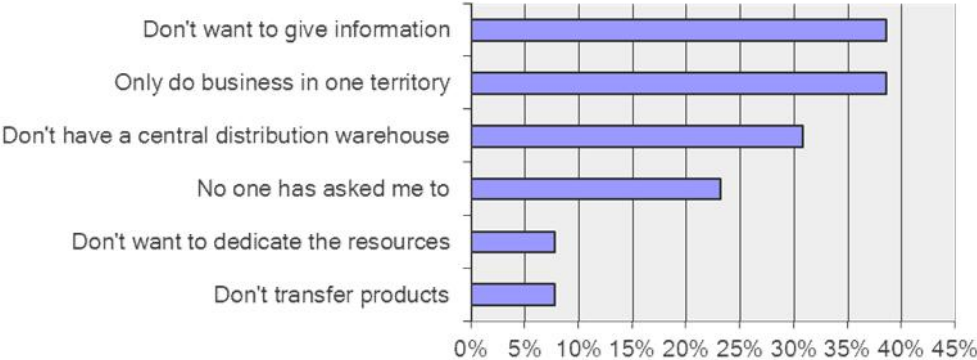


Many have the capability and have shown the inclination, for valued suppliers, to provide POS information.

The question then becomes, why do more distributors not share POS information?

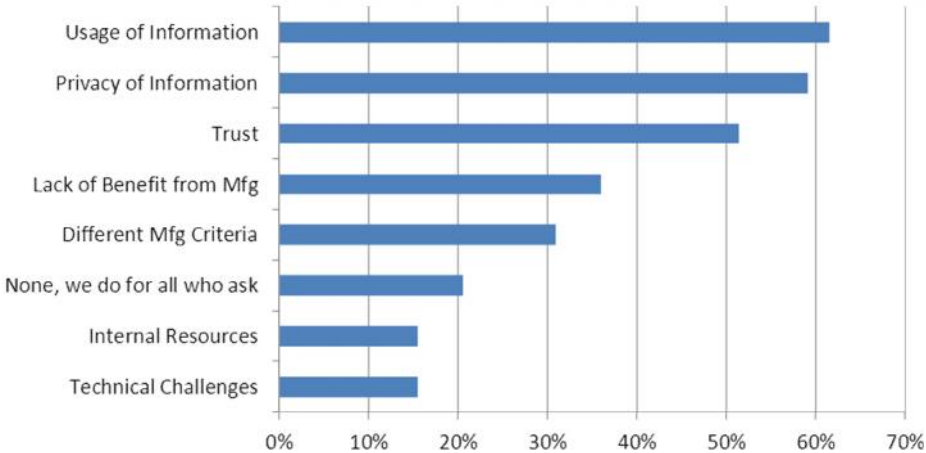
Feedback on this question varies based upon one's role in the channel. Manufacturer reps have their perspective, manufacturers have a different perspective and responding distributors have their view. All are correct based upon their role in the channel. The challenge, from an industry viewpoint, is addressing the latent issues of trust, information standardization and understanding distributor ERP capabilities and process management.

Distributors say they:



For some this is a philosophical issue, for others they don't believe it applies to them, some are waiting to be asked by someone from the manufacturer's sales management team and a minority sees this as a resource issue.

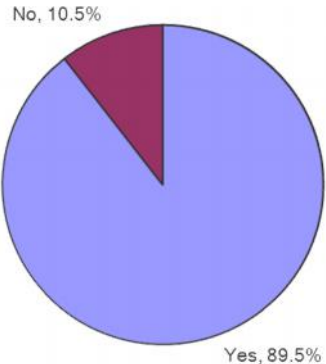
Additionally, distributors are concerned about:



The first three issues are essentially "trust" issues and should be governed by defined supplier policies and perhaps legal agreements.

Distributors Support Reps

When asked "Is it important to you that the local representative be compensated for sales in his territory?" 89.5% of distributors responded affirmatively.



When asked why, feedback included:

- "So he/they will support the distributor's sales efforts
- So he/they does his job better/incentive
- Without compensation, they will not support distributors
- They are an important partner in developing our markets
- Only way we get the return support
- He has earned it and will not support us if he is not being

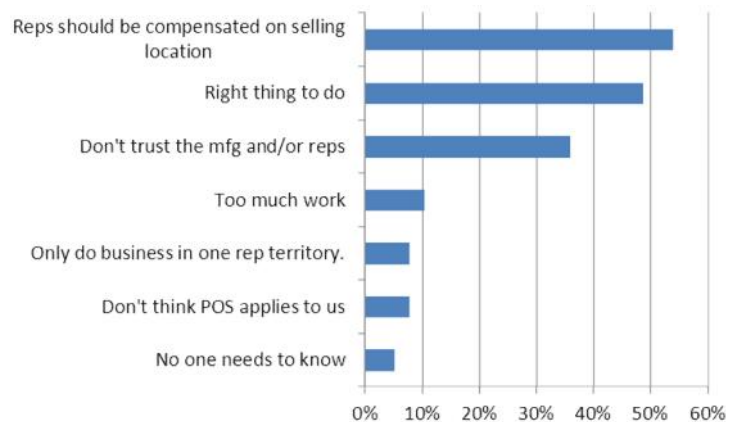
- paid
- If they are providing value added benefits such as technical application assistance, and service after the sale they deserve credit. Every situation is different though.
- It's fair
- To keep them working the territory hard. If they feel they are not being paid for what they do, why do it?
- He supports the hand that feeds him
- Generally the rep helps create the market and is entitled to be compensated.
- Motivation
- Need the support
- Should be paid for the effort
- Working relationship/partnering
- One should be paid for work done.
- If they're not, then there's no reason for them to do the work
- They will support you better.
- So they are motivated to work with us. Won't if they don't get paid
- To foster working relationship. Why would they work with us if not getting paid?
- Way to gain further support from local reps
- Compensated for results.
- Some reps are valuable during the sales process or SPA process"

Is POS Important to Distributors and Manufacturers?

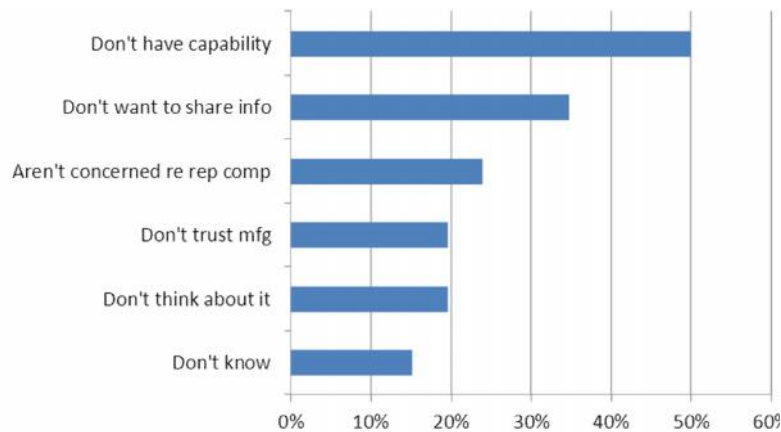
Further, distributors were asked "Which describes your feelings regarding providing POS/POT information to your manufacturers?"

Distributor feedback shows they feel:

- Reps should be compensated based upon selling location
- Providing POS information is the "right thing to do"
- And that "trust" is a major issue and it affects POS information sharing.



Given this input, it is evident that a high percentage of distributors recognize the importance of appropriately compensating manufacturer sales representatives. The challenges become addressing the trust issue, the benefit for the distributor and standardizing and simplifying the data gathering process. From a benefit aspect, an element to consider is "what is in it for me (WIIFM)?" This could relate to support as well as product and/or aggregated market intelligence.



From a manufacturer viewpoint,

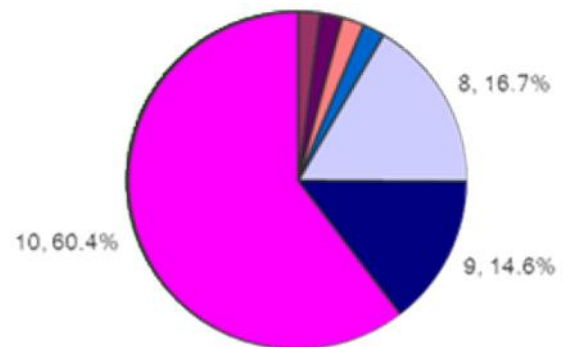
- 50% of manufacturers believe distributors don't have the capabilities to gather the information
- 35% feel distributors don't want to share information
- 23% believe distributors are not concerned about rep compensation.
- And only 20% believe it is a "trust" issue.

This feedback differs significantly from the distributor input as distributors' major issue is trust and resources are of nominal concern. The difference essentially becomes a philosophical one.

While 23% of manufacturers feel that rep compensation is not important to distributors, when asked how important rep compensation is to manufacturers, almost 94% said it is important to them and, on a rating scale, scored it 9.1 out of 10.

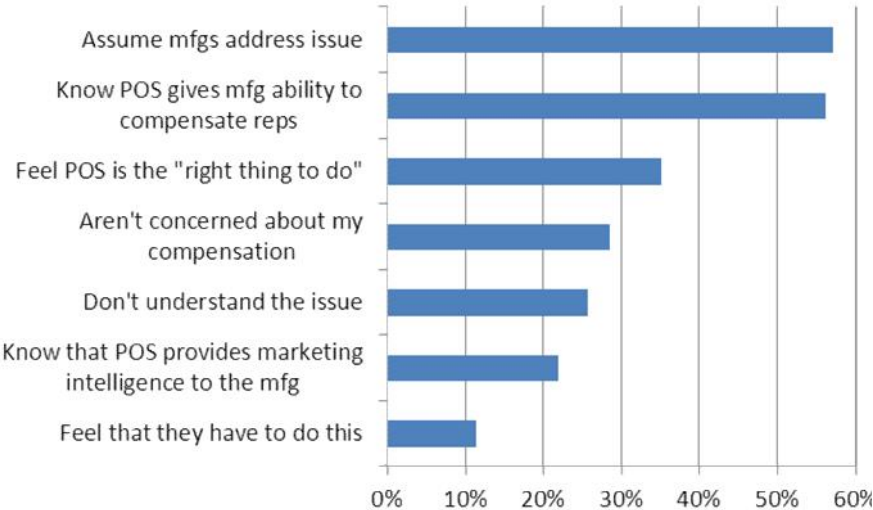
When asked why, manufacturers responded:

- "Everyone should be accurately and fairly compensated for their work
- It is the true measurement of growth into a market, judged on sales to customer versus distributor location of RDC / CDC.
- Sales should always be compensated
- Accurate payments help drive sales. Who wants to be a salesperson for someone else's paycheck?
- It's their income
- We need the salesman to call on these branch locations and help them sell product.
- It's vitally important that the agency gets credit so they know that they're being compensated for their sales efforts and will continue to work our line with that distributor. We don't want the reps directing business to one distributor or the other because they're worried about not getting commissions if it ships into a location outside of their territory. The same would apply to the individual sales rep - especially if they're commissioned or bonuses based on their sales.
- If it is not important to us, we are not important to our reps
- Motivation!
- We want their support at the local level
- Line support
- It is important but frankly some POS/POT is just way too small in dollars versus the effort to correctly compensate.
- No one should be expected to work without proper compensation
- The agency/salesperson should be paid for their work.
- Compensation is for earned effort and that effort is what we depend on. Accurate and timely reporting is key to the relationship.
- Because if they are getting credit they are getting paid. Also very important for the manufacturer regional manager!



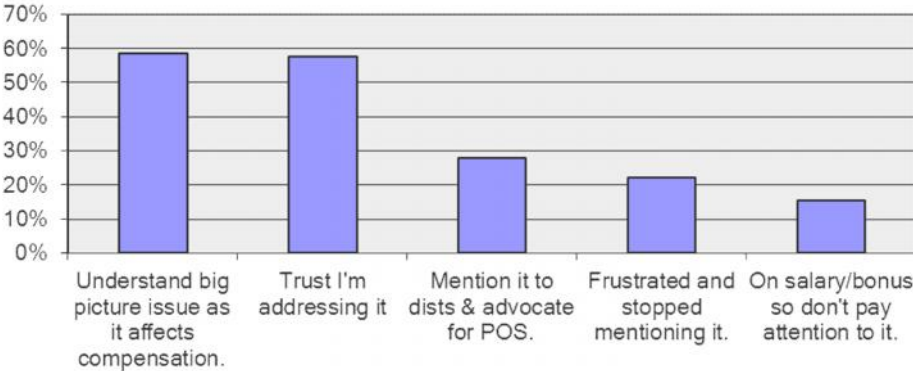
- This is not a ten (on the rating scale) as often times, the rep that manages the warehouse, earned the initial commission. When we give POT commission, we don't typically see the rep working at the branch or at headquarters to impact additional new items or other ways to increase sales.
- Reps should be properly compensated for the sales in the territory
- Commission accuracy and fairness is an important component in developing and strengthening the agent-manufacturer relationship.
- They aren't getting paid for the work they do.
- Ultimately the interest and effectiveness of a rep is heavily dependent on their payback for commissioned sales people.
- We all work for business we get paid for, no pay - no work."

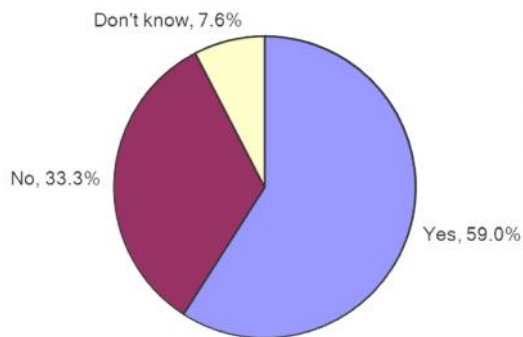
Reps' perception of distributors is that distributors:



The challenge for the rep agency is that the rep principal may be able to present the POS issue to senior management at an independent distributor; however, the issue needs to be presented by the manufacturer at larger companies.

Reps were asked "How well informed do you feel that your sales organization is regarding the importance of POS/POT information?"





Representative respondents were also asked “does your sales organization effectively communicate the importance of POS data to distributor management?”

Manufacturer rep sales personnel, while aware of the issue, and sometimes an advocate, are more focused on branch support and “day to day” selling. Rep principals prefer that their personnel focus on supporting / generating demand and leave POS discussions to the manufacturer.

A discussion of POS periodically does occur between the rep salesperson and distributor branch managers in instances where the rep asks for business to be shipped into the branch versus procured through an RDC for compensation reasons. Frequently, according to interviews, this request is accommodated as the branch manager either has a relationship with the rep or is trying to gain more field support from the rep.

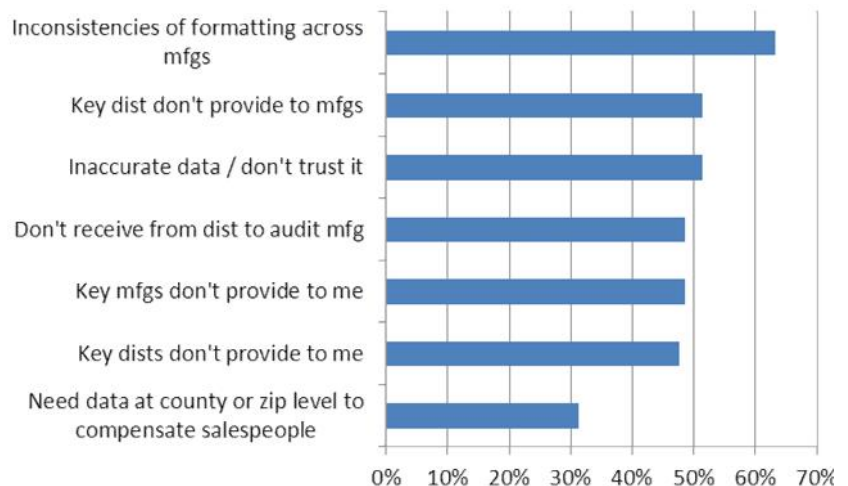
POS Reporting Challenges

In speaking with members of the supply chain as well as through the various e-surveys, a number of trust, data, accuracy, transparency, completeness, formatting and standards issues were shared. While most companies are consistent within themselves a frustration for

- reps is the inconsistency amongst manufacturers in gathering the information, the level of detail as well as the willingness to share the data, timeliness in reporting and commission payments
- manufacturers it is inconsistency amongst distributors, differing formats as well as a lack of understanding of why distributors will not share with all manufacturers and
- distributors it is inconsistency for data requests from manufacturers and not understanding what, if any, information is shared with the rep and what their role should be in sharing information with reps.

For reps, key issues relate to:

- Inconsistency of formatting which makes reviewing, interpreting and utilizing the information
- Completeness through the inability to get all relevant distributors to share the information
- The expectation of “trust me” regarding the data as there are concerns about accuracy, receiving product, geographic and sometimes distributor specific information.



In fact, we heard from reps of instances where POS was reported as a line item with a commission adjustment (positive or claw back) and reps are told “don't worry” or “trust us”. While they may bring the issue to the attention of the manufacturer, they have limited recourse.

Additional input from reps included:

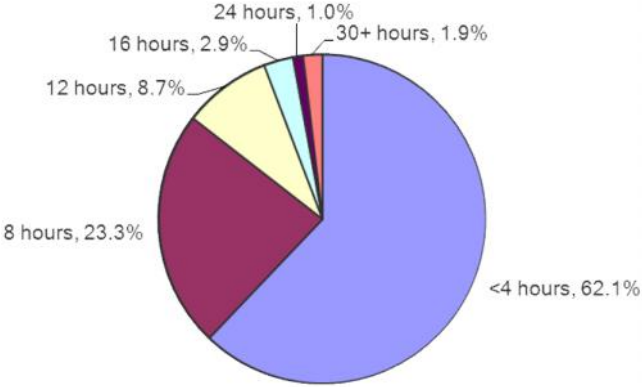
Difficulty in tracking commission payment.	Commission Tracking
Some distributors will ONLY provide direct to the manufacturer	Detail not available
Commissions show up on commission statement as a line item with no detail.	Detail not available
We have no way of monitoring EDI orders.	Detail not available
We have no way of verifying if it is accurate. We depend 100% on the distributor to get the manufacturer the correct and timely information. I suppose some of the information is generated by the manufacturer. I have always understood it to be that the POS/POT information we get was provided by the distributor	Detail not available
I don't trust that manufacturers pay on materials out of RDC/CDC because, for some manufacturers, those centers aren't assigned to a rep.	Detail not available
(Manufacturer) doesn't pick up all products that are transferred	Detail not available
The information has to be by distributor branch location NOT zip code	Level of Detail
Some factories choose to not "waste their time" due to lack of resources to process distributor POS adjustments	Mfg Commitment
Very little sense of importance to the mfg., they have the business and are being paid, POS is an afterthought of low importance.	Mfg Commitment
More and more distributors are crossing borders and the manufacturer is not doing enough to make sure that all parties are properly compensated. They simply are not putting enough resources into it because it isn't affecting their bottom line.	Mfg Commitment
The most prevalent issue, by far, is the time lag. We wait up to 90 days.	Payment Timing

Rep Administrative Burden & Compensation Impact

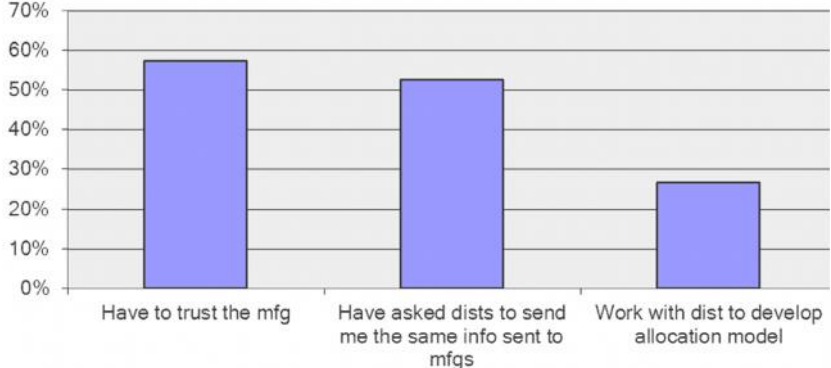
The administrative issues created for reps by the POS process is time consuming and costly.

14.5% of them stated that they have staff spending 8+ hours administering the reports.

In conversations, we heard of more time that had been devoted to managing and interpreting POS information, however, in a number of instances, rep principals feel that the reports / information they receive are "as good as they are going to get" and are "close enough" that they are trying to manage how much time is devoted to this effort.



Essentially they are willing to forego some income to move the process along. Given that most reps are entrepreneurial and former salespeople, this is understandable, especially given their limited ability to influence change on this issue other than through dialogue with their manufacturer(s).



The quality, accuracy, timeliness and level of detail can influence the compensation strategy that a rep uses with their staff.

Most rep salespeople are on a commission basis based upon assigned accounts / territory.

Many reps shared that they have gotten to the point

where they have to just "trust" the manufacturer and hope POS-affected sales do not represent a significant percent of their sales.

Others have:

- Put salespeople on a salary and use POS commissions as a "bonus" or "lump payment" at the end of the year (or a quarter)
- Some average it out and "true-up" at the end of a quarter, semi-annually or annually
- Some have spoken with their distributors to gain a "sense" (percentage) of sales that are impacted by POS and use that in their compensation formula and then provide a bonus at a defined time period (none mentioned about clawing back compensation from their staff).
- And POS reporting delays commissions. This email message from a manufacturer was shared by a rep:

- "Please be advised that the first (Distributor) (Manufacturer) POS report that will be processed is the DATE POS report since we turned off (reporting system) effective DATE and are allowing 2 months for inventory to turn. Please also note that DATE POS commission will be paid in DATE (3 months later).

What this means is that agents will not see commission on (Distributor) sales for 3 months; the 2 months are explained by inventory turnover as to avoid the agent getting paid on the same sale twice, once through (reporting system) and second time through POS; and the 1 additional month is explained by the fact that we are always one month in arrears on POS commission payment."

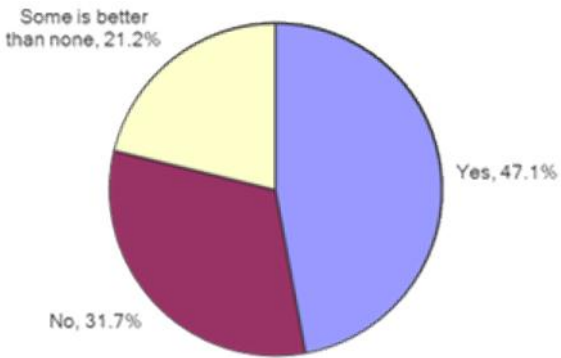
- Some specific comments, and strategies, included:

I pay my men on a percentage based upon number of branches in a territory	Change comp model
Change compensation models for our own sales people to pooled accounts or territories.	Change comp model
We believe it's the manufacturers who need to overcome their problems. Some distributors claim they report numbers but manufacturers do not process it.	Mfg commitment

The biggest issue is the manufacturer does not care enough to resolve about POS and compensating the rep appropriately.	Mfg commitment
Move business	Move business
I stay after my manufacturers and audit what they pay us and then prove to them what is missing.	Talk w/ mfg
Talk with the manufacturers	Talk w/ mfg
Asking the manufacturers regularly what they are doing to improve their POS system.	Talk w/ mfg

Regardless of the methodology, all felt that they, and their salespeople, were not being fully compensated but that the ability to get to 100% was impossible due to quality of data, the inability to audit the information and the lack of concern by other channel stakeholders. The only recourse for a rep is persuasion.

Reps were asked if they would be willing to drop a line due to POS conflict and inability to get compensated from a manufacturer. While 47.1% said yes, feedback from reps was this would only occur if there were other issues that were creating a deteriorating relationship.

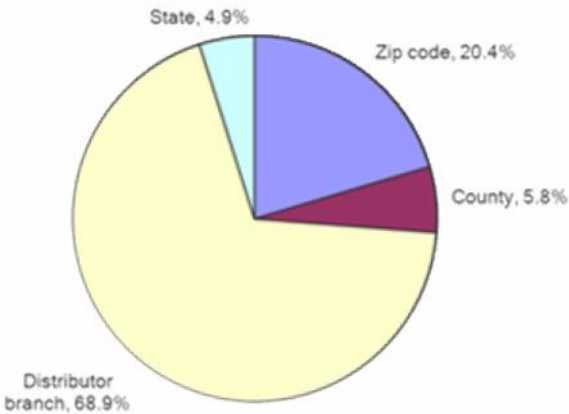


All essentially said

- “some is better than none”
- that “good lines are tough to get”
- it depends upon the volume, and commission dollars, with the manufacturer
- and a few felt that POS did not represent significant lost dollars at this time.

Geographic Detail and Market / Business Intelligence

Some reps mentioned that they scan the reports they receive for market / sales intelligence to identify what else could be sold to a distributor (ideally for stocking purposes) but that the formatting and quality of data makes this difficult to do consistently.



To better understand the level of detail that reps desire, reps were asked “At what level of detail would you like to receive POS / POT (point of sale) information?”

Two-thirds of reps want information to be categorized at the distributor branch level (defined as “the rep customer”) as this assists them in calculating information to support their compensation programs for individual salespeople who are typically assigned to geographic territories and/or distributors.

26.2% of the reps would like more detailed information which could be used to gain better

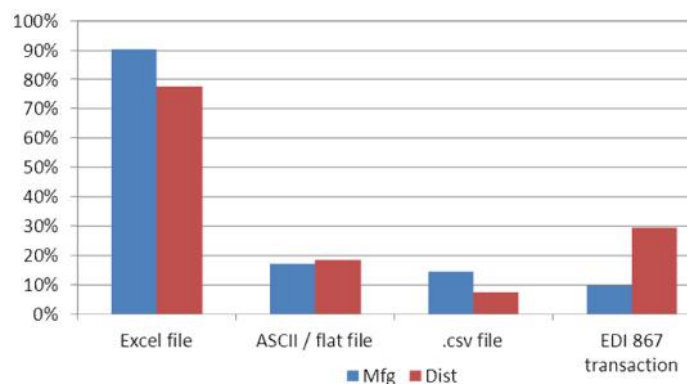
marketplace insights. The information could be used to identify potential when cross-referenced to NEMA data, if supplied by the manufacturer, or to zip or county level data

which is available from DISC, www.disccorp.com. Zip data can be aggregated to county and state level through automated processes; however, the data would also need to be referenceable by distributor branch location given that the rep, and manufacturer, for the most part, is selling to multiple distributors in a geographic area.

Manufacturer Administrative and Informational Challenges

For manufacturers, issues related to:

- The inconsistency of when they receive information from distributors. Rather than being received on a specific day / date of the month, the information can be received randomly. This requires manufacturer personnel to regularly follow-up with many distributors and impacts when reporting is provided to reps as well as when they are compensated. To further compound this issue, manufacturers report that frequently distributors do not respond to calls / emails for POS/POT information and distributors do not have designated personnel to support POS (hence manufacturers talk to IT staff, email IT@distributor.com or similar operational roles.)
- The consistency of information which can relate to the level of detail, receiving information regarding new / closed branches, product categories / product numbers, columns in the same format, etc
- Definition issues that relate to branch coding, pricing columns, customer types, product category codes, etc
- Accuracy of information as there are times that information is incomplete, doesn't total what has been sold to the distributor, there are product data synchronization issues, the level of detail for the information (geographically as well as at the applicable product detail level) as a number of manufacturers compensate their reps based upon specific product categories, sometimes SKUs or could adjust compensation to support new product launches and other promotional initiatives and pricing issues.
- Format of the information, inclusive of receiving it via .xls, .csv, .txt, .pdf, EDI 867 and sometimes it can change based upon who from the distributor is sending the information. The challenge, from a manufacturer perspective, is that distribution is not consistent although Excel appears to be the industry format of choice for distributor submittals with more distributors "thinking" that they are submitting via EDI.

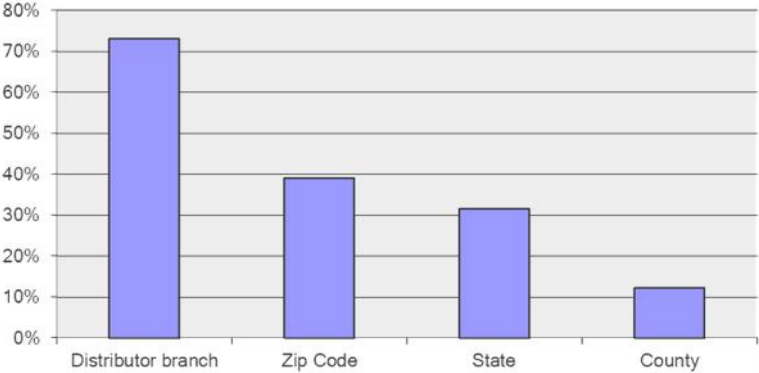


According to IDEA, there are not many manufacturers or distributors submitting the EDI 867 transaction set through the IDX. In speaking with some manufacturers, they were not aware of this transaction set. If the transaction set is to become an industry standard, or an alternative, greater awareness is needed.

A manufacturer also mentioned that a national chain sent them information in a .txt file that was created in Microsoft Notepad!

- POS administration is a labor intensive process. Some manufacturers have multiple people assigned to this task. 97% of the manufacturers surveyed noted that they handle POS administration in-house. We did speak with three service providers who

are out-sourced providers to manufacturers, two of which work with electrical manufacturers.



Manufacturers, like reps, would like to see information at the distributor branch and the zip code level.

It is surprising that 30% mentioned at the "state" level given the ability to aggregate zip codes. For some, this may infer limited interested in using this information from a data analytics viewpoint.

Other challenges that manufacturers experience relating to POS include:

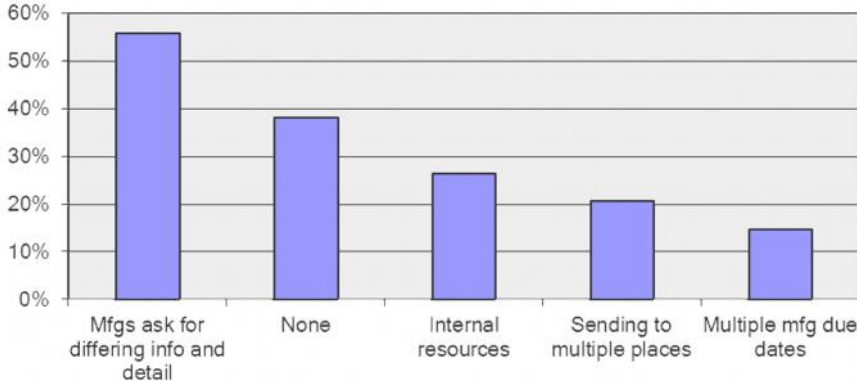
Generics seem to be the only challenge for our company and it does not represent a significant part of our business.	Commodity Items
Percentages assigned to commodity based products when our SKU's are not assigned.	Commodity Items
Consistency of reporting data from distributor	Consistency
Send accurate acquisition price and part numbers	Data Information
Consistency. Distributors need to work with manufacturers to validate product costs and establish a data format that works for the individual manufacturer. Right now one size does not fit all.	Data Information
Stock/Direct fields should be mandatory	Data Information
A cross ref distributor list helpful	Data Information
Helpful if the NEMRA number was on the POS report so the supplier knows what's being captured	Data Information
Unresolved zip codes, part numbers and distributor branches.	Data Information, New Branches
Clearly defined reports	Definitions
Instruction should accompany the report i.e...I've seen up to 3 shipping columns in 1 report and had to question which one I needed.	Definitions
Distributors should not send POS reports through any Rep Agency, it should always be transmitted directly to the supplier	Direct to Mfg
Helpful to have a POS representative...some IT departments send an automated "do not reply" email	Distributor Contact

On Excel for example - need a consistent format to use across all distributors	Excel
Standard format with all required data would make POS processing much more manageable.	Excel
Excel should be the industry standard	Excel
They do not provide accurate POS for the Mfg. They just dump it on the manufacturer and expect us to sort it out	Format
Yes but they are usually internal to my company. Getting the data isn't too much of an issue, adjusting our system is the challenge.	Internal Issues
Correct linkage of SPAs and Ship/Debits to allow for correct SKU market price versus "average" SKU price	Pricing Definition
Need reports to be timely and consistent.	Timeliness
There is a standard that was developed by NAED a long time ago - some follow some don't. do not need another one	Use NAED Standard

Distributor Challenges

Distributor issues relate to:

- Differences amongst manufacturers, which creates additional work for distributor personnel
- Trust



Comments included:

- "Trust and Security of Information"
- Biggest issue is many manufacturers don't support the EDI 867 transaction that we prefer
- Trustworthiness and the reason for providing the info"

According to manufacturers and distributors getting feedback, and information, from a distributor is based upon "strength of alignment" with the distributor.

Resources, and the ability to generate the information, do not appear to be major impediments for distributors, contrary to many people's belief. In fact, 44% of reporting distributors operate the Eclipse software system, 25% utilize Infor and 14% are Prophet 21. Almost 36% stated that their company utilizes their software provider's POS capabilities, 44% did not use these systems but used a report writer process and 20.5% did not know how their company generated the information. With 83% of respondents utilizing one of three systems and at least 36% utilizing software packages, the opportunity may exist to leverage existing systems.

Commodity Products

Given the aforementioned challenges with gathering POS information and sharing it with manufacturer reps to facilitate compensation, it is not a surprise that commodity-oriented products represent the biggest product-oriented challenge in the electrical industry.

Commodity products were defined as “products that distributors / end-user customers considered ‘interchangeable’ with manufacturer competition and were frequently placed in bins (or locations), by distributors, with competitive products.” Some of the products that frequently are considered in this category are wire, pipe, conduit, some ECN (elbow, couple, and nipple) products, some fittings and other similar items that are typically bulk shipped to a distributor.

These products can represent a significant percentage of sales for some reps as well as for construction-oriented distributors.

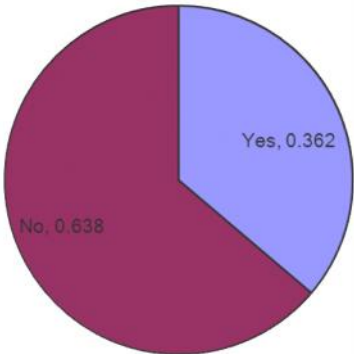
In speaking with reps, distributors and manufacturers, the allocation methodology which is currently used by many, appears to be the only efficient methodology. While not 100% accurate, many feel it comes “close”, especially if there is frequent enough communication amongst parties to recalibrate the percentages on a regular basis. We spoke to some that receive information from some of their distributors monthly, some quarterly and some annually. Some of the conversations occur between the manufacturer and distributor headquarters and some between reps and RDCs and/or headquarters (in the case of independent distributors). This lack of consistency and triangulation of information hinders the development of trust.

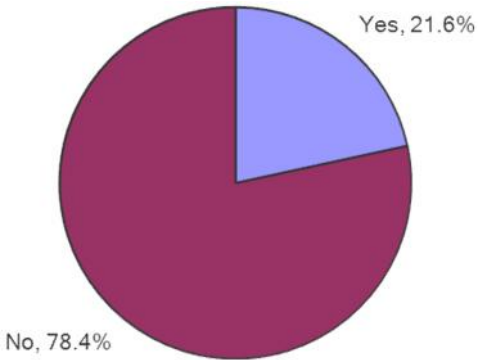
From a rep perspective, information from the distributor needs to be at the territory level. All reps interviewed that participate in the allocation method receive their insights from a local branches and/or an RDC. None mentioned that they receive this input from their manufacturers. Manufacturers did not mention if they receive allocation by RDC and by territory to correlate the information back to their rep network.

Unfortunately there is no consistency and the issue relates to trust, willingness to share and time to communicate.

This is an opportunity for development of a best practice approach for all parties to consider.

36% of rep respondents mentioned that they have a commodity-oriented line that pays them based upon POS / POT information.

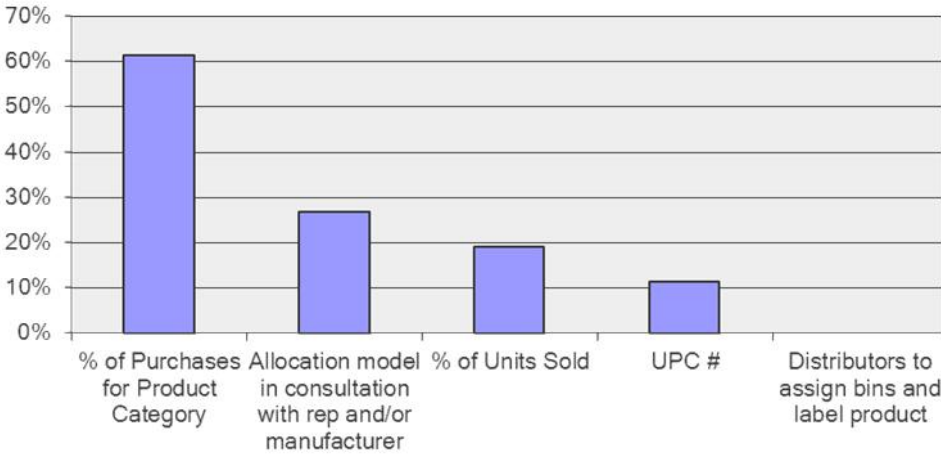




21.6% of distributors stated that they do provide POS / POT information on "commodity" lines to manufacturers.

Reporting distributors were asked "what criteria would you recommend for tracking the sale or product and/or allocating commission for products that you define as 'commodities'? (Check all that apply)"

Distributor feedback can be seen on the right. The first two approaches focus on percentages. This is either of the product category(ies) or allocation models ... both are essentially the same.



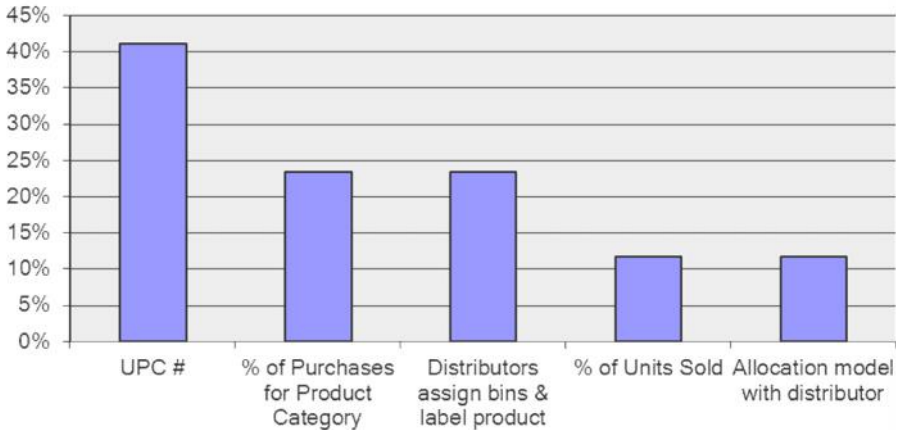
Much of the reason for this is distributors' inability to segment the information based upon sales as they do not know which products (suppliers) are pulled from bins / pallets / wire racks at what time.

Additionally, some distributors are concerned about sharing commodity supplier information as they feel it may provide some market share information and possibly affect pricing support.

Manufacturers, when posed with the same question responded (data in chart to the right).

While manufacturers desire a UPC# or assignment of bins, neither is realistic as:

- Distributors will not allocate additional warehouse space for commodity products, essentially segregating products by manufacturer that currently reside in the same bin unless manufacturers are willing to pay slotting fees, and,



- Not all products have UPC#'s on each item nor do enough distributors have the ability to use picking "guns" in the warehouse to read bar coded UPC information on each product (nor will they take the time to do this process.)

While not desirable, most commodity manufacturers are using some semblance of an allocation model. One commodity manufacturer mentioned verifying allocations quarterly with 4 distributors (inclusive of 2 national chains) and feels that the data is "as accurate as it is going to be." A manufacturer was also interviewed who receives allocation information from a distributor monthly. A rep mentioned that the RDC of a national chain shares it with him annually.

POT is not an issue for generics / commodities as these products are rarely stocked at the RDC / CDC level due to freight costs.

Currently this leaves the industry with a less than perfect system that could be improved through standardization of frequency of communication for allocation processes and more effective sharing of information amongst distributors, manufacturers and reps so that there is more transparency, and hence trust, throughout the process.

Conclusion

POS has been a challenge to the electrical industry for a number of years. While efforts were made in 2005 / 2006 to suggest processes, terminology and standards to address the issue, marketplace events and the lack of a champion inhibited any traction from being gained on the initiative.

Since then market dynamics have evolved. More distributors utilize CDCs/RDCs to improve their operational efficiency, the desire for data for analytical purposes has accelerated, the industry has experienced distributor, manufacturer and rep consolidation and system capabilities have improved.

Over the years, chains have come to represent a greater percentage of industry sales and manufacturers desire their sales reps to spend more time at end-users / contractors to influence brand preference and sales. These issues amplify the need for POS to support commissions as, according to one rep, "Chains are becoming more critical to the success of the rep due to consolidation therefore POS is becoming more critical, otherwise we don't get compensated as we should." Another commented, "Manufacturers want us to call on end-users in our market but we can't keep calling on them if the material is bought outside our market and we're not compensated."

One area that continues to lack in the industry is "trust" so that information can be freely shared among relevant parties. Much of this relates to market dynamics and go-to-market strategies...but it has improved for some companies.

While POS is a challenging topic due to a number of issues mentioned in this report, progress can be made through improved communications amongst trading partners, increased transparency between distributors, manufacturers and reps and improved formatting / standardization of information.

A greater understanding of how POS financially affects each party could also shed a brighter light on the issue.

When asked, "If there was a NEMRA standard/recommended best practice for the format for sending POS/POT data, would you be willing to adopt it (presuming it was compatible with data you are receiving and your IT data output capabilities)?" over 90% of manufacturers who participated in the survey answered affirmatively. Additionally, manufacturers shared some thoughts:

We assign territory by county/state. If the reports included this information, it would help. We also need the reports by part number sold because we compensate depending on the product. In an ideal world, Distributor's branch computer would provide a report to the supplier of what they sold for the month (which we shipped to the DC). The rep agency in charge of that branch would get commission on that branches monthly report. This report would not include any transfers to other branches - it would be a list of sales activity. The DC account is a house account so no one gets "subtracted from" in order to pay another agency.	Additional Data
All distributors should provide POS	All Provide
Automation.	Automate
Somehow it is automatic, our systems talk to each other, similar to EDI and the transfers automatically take place.	Automate
Allocation by sales or units done by bar-code of individual supplier.	Bar Code
Single industry format	Consistent Standard
Utilization of EDI transactions with consistent definition of requirements & all fields	Consistent Standard
Industry is inconsistent, need a standard	Consistent Standard
Industry standard would help, specifically to cost reporting and customer identification.	Consistent Standard
Standardization	Consistent Standard
A standard format would really help. We do not need product level detail. We need sales dollars only for compensation. Product level would be great to have if it was easy to work with and in consistent format.	Consistent Standard
I have limited knowledge but my 2 cents: For the DC's to send POS reports with general instructions. I now know how to process POS but it took a long time of figuring out how to read the reports.	Include Instructions
Third party clearing house for POS.	Industry Clearinghouse
If there was a way to show savings to distributors and manufacturers, it would be a lot easier to sell.	Show Benefits
Training	Training
Increased trust between channel and manufacturers is needed - so there is no doubt that POS data will be shared to inappropriate parties.	Trust
Products would be entered in the Distributor systems under each specific manufacturer.	

POS is provided by item and quantity and PO it came in on to DC	
If the process for gather and sending the information was easier, it would get done.	
More trust with distribution channel.	
Distributors need to understand that they don't have to list the name of their customer and that the rep will work harder if they know they are getting the credit.	
Distributors need to make this a priority every time they open another branch.	

While the task can appear to be daunting, NEMRA is committed to working with the electrical industry to make improvements in the POS/POT reporting process. We hope that manufacturers and distributors alike will join NEMRA in this effort, for the benefit of the entire channel.