

The State of POS in 2014

Prepared for

NEMRA

National Electrical Manufacturers Representatives
Association

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Executive Summary Report

Point of Sale ... Profits Lost?

Recent research conducted for NEMRA by Channel Marketing Group shows that inadequate POS policies and administration cost electrical manufacturer reps commissions and productivity; is an administrative burden for manufacturers who may also be incorrectly compensating their sales organizations; and may result in lost sales for some distributors, especially national chains, who lose field support from reps who redirect business to distributors for whom they know they will be compensated.

And while POS reporting is better than it was 10 years ago, there is an opportunity for companies to do much better.

The impact of POS reporting is expanding due to industry consolidation, an increase in the number of distributor central / regional distribution centers and distributor geographic expansion. Effective policies and standardized formats can ensure that all parties are equitably compensated, that administrative systems are improved, organizational initiatives supported and sales information can be mined to support future business development.

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 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. Specific research relating to POS reporting for "commodity"¹ products, especially in product categories such as wire, pipe and conduit was also conducted as this is a significant concern to a number of independent sales agencies.

Through e-surveys, interviews and a meeting with NEMRA's Manufacturer Group, over 260 individuals provided input into the report.

The report details the research findings. Suggestions to maintain visibility on this issue and improvement for all parties were provided to NEMRA.

Background

As background, during 2005 / 2006, NAED hosted a cross-industry taskforce comprising sixteen companies to address a myriad of issues relating to point of sale (POS²). 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 and POS remains an issue for manufacturers, a compensation and information issue for reps and an administrative issue for distributors.

Report Highlights

Key report findings include:

- 90% of distributors and 94% of manufacturers feel that reps should be appropriately compensated with the overriding sentiment being "it's the right thing to do". This was expressed multiple times and comments were received that the rep that does the

¹ 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.

² 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.

work should be compensated, especially since otherwise local field sales support would be lacking.

- 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. This is why almost 70% of reps and 80% of manufacturers feel that POT (point of transfer) is important.
- While POS is primarily considered a rep compensation issue, almost 40% of manufacturers stated that regional manager compensation is impacted by POS information, presumably as it relates to national chain performance and support.
- Due to concerns about the accuracy of POS reporting, 59% of responding reps redirect business, when feasible, to a distributor from whom they know they will be compensated from the manufacturer. This can significantly impact manufacturer initiatives as well as affect national chain sales efforts.
- POS issues relate to:
 - information accuracy
 - the level of geographic and product detail that is provided
 - distributor reporting to the manufacturer as well as to the rep
 - the lack of transparency in the information shared with the rep from the manufacturer
 - differing formats for sending information to manufacturers, and
 - timely receipt of information (to manufacturers from distributors and to reps from manufacturers) and commission payment.
- Excel is the industry’s report generator of choice. Few are using the industry’s recommended EDI 867 transaction set.
- 38% of reps reported that their organization spends 8+ hours administratively managing / reviewing POS reports to support their compensation programs. Some have changed their compensation model due to the impact of POS reporting and time delays.
- Distributors are inconsistent in determining the suppliers for whom they will provide POS information to, hence ensuring that some reps are not properly compensated for sales from those lines and, in some instances, manufacturer administrators mentioned that some distributors do not consistently provide information on a monthly basis.
- While manufacturers feel that distributors do not have the capability to gather and format the information, however, distributors state that their issue is that they do not have a high enough level of comfort with the manufacturer (37%). This can relate to privacy issues, usage of the information or they do not trust the manufacturer. Only 8% responded that they do not want to dedicate the resources (IT and ERP capabilities) to generating the information.
- Managing POS for “commodity” products is viewed by all as a challenge due to distributor warehousing processes (common bins). There are no perfect solutions and distributors will not allocate the space for supplier-specific bins for “commodity”

products. 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 the manufacturer not being too concerned about the rep being compensated fairly).

While many of the of the issues appear administrative in nature and include

- 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, and
- differences in the definition of POS,

the two key findings are

- 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

which relate to trust within the industry...trust that the information is accurate and trust that the appropriate parties are being supported / compensated.

Sales being reported, as a percentage of industry sales, through POS systems will continue to increase due to consolidation, distributor focus on operational and inventory optimization, 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.

Appropriately addressing POS is the "right" thing to do for manufacturers and distributors and will result in independent sales organizations being appropriately compensated for their efforts. Improved information delivery systems, better reporting systems and increased communication will enable POS information to be utilized for marketing purposes, sales management and product movement analysis in addition to supporting channel compensation. Recommending, advocating and monitoring usage of standardized approaches can result in system wide improvement.