



Allen Ray Associates



The State of SPAs in the Electrical Distribution Industry

Executive Summary

This paper is a report on the current state of usage of Special Pricing Agreements (SPAs) among manufacturers and distributors in the electrical industry. Developed independently by Allen Ray Associates (ARA) and sponsored by Datalliance, the report is based on a study performed by ARA in early 2009 that included a survey sent to about 1000 electrical distributors as well as follow-up interviews with over 50 executives. It's important to note that the candid comments and information from the interviews tell a deeper story than the numbers alone. As you read the report, be sure to read the actual statements from electrical distributor executives.

Primary findings of the study include:

- The use of SPAs is a prevalent and growing business practice in the electrical industry as it is in other industries
 - Both distributors and manufacturers see SPAs as a competitive advantage and an important element of profitability
 - Virtually all distributors have SPAs with at least some manufacturers
 - Most of the industry's leading manufacturers have SPAs with key distributors
 - The great majority of distributors said 10-50% of their sales were driven by SPAs
 - The great majority of distributors rated SPAs as a very important issue for the future (i.e. 7 or greater on a scale of 1-10)
- Though distributors consider SPAs essential to their business, they have a number of frustrations with today's environment:
 - Every manufacturer has a different process for handling SPAs making it extremely complex and time-consuming to submit and track claims
 - Very few distributors have business systems that completely automate the SPA process, so they must deal with an inordinate amount of paperwork
 - Most distributors feel that their profitability is negatively impacted because they are missing at least some of the SPA claims they are entitled to due to the complexity of agreements, internal data management processes, and varying manufacturing claim processes
 - Most distributors feel that the claim process is very slow, often requiring multiple re-submissions, thus negatively impacting cash flow

In general, distributors feel that SPAs, if managed more effectively, could further enhance their profitability through reduced administrative costs, better pricing methods, improved cash flow and increased sales.



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Introduction

For over 45 years, the usage of SPAs, special pricing allowances, has grown. The premise of an SPA is for a manufacturer and distributor to collaborate on a special pricing opportunity to earn business at a specific customer. This has helped both parties increase sales and market share in specific markets/opportunities. With the growth in SPAs, administrative processes are evolving to ensure that the distributor is fully compensated by the manufacturer.

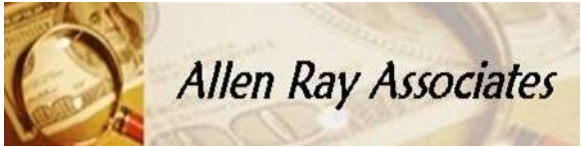
In the early years, and for some distributors today, distributors substantiated their sales to the specific customer by copying invoices to prove what was sold, sent the information to the manufacturer and waited for a check. In many instances copies were not made, not all eligible customers were identified or all product information captured. Today, many distributors generate reports from their business/ERP system in an attempt to automate the process. The challenge remains in identifying all eligible products and all eligible customers. Reports are generated and submitted to the manufacturer for eventual reimbursement.

The administrative nature of SPAs can also create a sense of mistrust between manufacturers and distributors as distributors feel that manufacturers attempt to complicate the process to reduce eligible payouts. The audit process questions distributors, manufacturers decline submissions, and reimbursement can take months.

Recognizing the administrative challenges that SPAs represented, in 2005 NAED launched an initiative to increase awareness of the issue. The endeavor produced suggested guidelines for distributors and manufacturers. Since then, only 105 distributors and 20 manufacturers have signed on to support the guidelines. Essentially, the recommendation was to use various EDI transaction sets to streamline processes. The core issue, however, is that each party is trying to replicate the information its trading partner naturally knows best (products, customers, etc). Manufacturers naturally know their products best and distributors naturally know their customers best. Moving the information faster through EDI addresses some of the challenges, but does not solve the entire problem.

According to Dick Waterman, senior advisor to IESC and chairman of NAED, in the March 2009 issue of TED, "It is critical to a company's profitability that it continually look for resources to make processes more efficient. The implementation of the right technology ranks among the most important keys to achieving this result." The time invested in administering SPAs coupled with distributor lost profitability generated by unclaimed SPAs and the associated loss of cash flow; qualify as an area where technology could be profitably deployed.

SPAs have been prevalent in the electrical industry for many years and while many distributors prefer net pricing, SPA usage will undoubtedly remain a sales and marketing tool for manufacturers and distributors well into the future.



The State of the SPA Market

Allen Ray Associates recently surveyed and interviewed electrical distributors regarding the issue of SPAs.

The goal of the research was to:

- Better understand the state of the SPA market from electrical distributors
- Identify their concerns in managing SPAs
- Understand the importance of SPAs to enhancing distributor profitability.

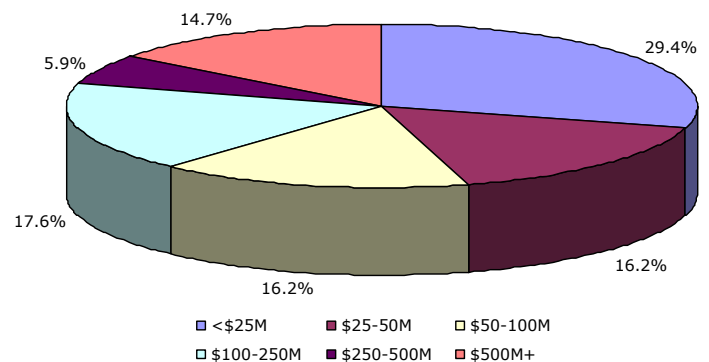
The research was sponsored by Datalliance, a leading provider of Vendor Managed Inventory (VMI) programs and other collaborate commerce services. The company is experienced in the electrical industry.

An online survey was conducted. Over 1,000 individuals were contacted via email multiple times. Considering bounce backs, out of office and un-deliverables, a response rate of approximately 8.6% was achieved. The list was an ARA in-house proprietary list comprised of the top 200 electrical distributors plus a few smaller companies. National chains as well as buying groups were also represented. Audience titles included senior management, purchasing, IT and sales management.

Allen Ray Associates then contacted a number of survey respondents and other individuals to validate survey results through a 30 minute interview. Fifty-six (56) interviews were conducted.

Survey Demographics

As mentioned, an 8.6% survey response was achieved. Recognizing the diversity and fragmentation of the electrical industry, respondent company size is relevant as larger companies, naturally, would be pre-disposed to having more SPAs with more manufacturers with potentially more problems administering their SPAs. Respondents are employed by all company sizes.



SPA Prevalence

As expected, SPAs are very prevalent in the electrical industry with many types of companies, regardless of their volume, requesting, and providing (in the case of manufacturers) SPAs. The issue has been discussed extensively within the industry as a profit driver and a cost generator as exhibited by the effort by NAED to develop guidelines for a process. While the intention was admirable, most manufacturers have proprietary efforts. ERP systems, to varying degrees of success, have attempted to address the issue to assist their customers.

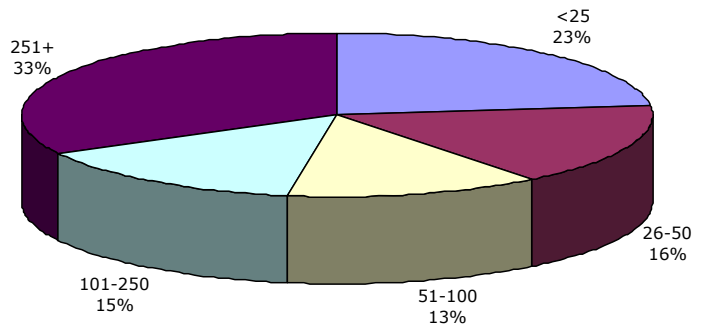
But the issue continues to proliferate and we have identified that the larger, and more profitable, distributors prefer to utilize SPAs as a sales tool as well as a margin enhancer.

Recognizing that distributors can have SPAs based upon:

- Product type
- Customer
- Customer type

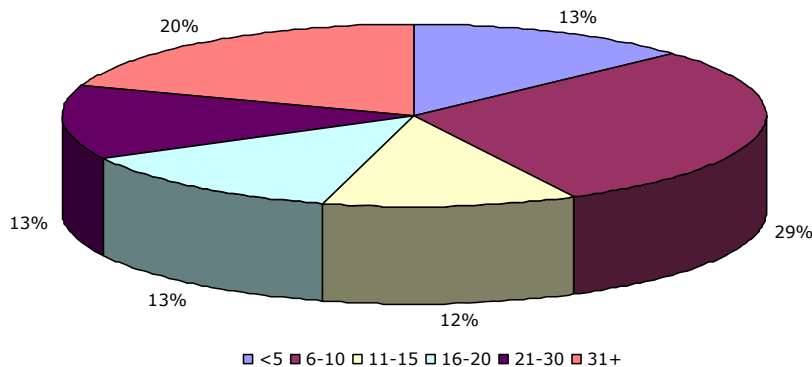
We asked how many SPAs, regardless of type, that a distributor had. Distributor responses can be seen in this chart.

Forty-eight percent of respondents admitted to having more than 100 SPAs within their company.



Interviews that were conducted with a number of these companies indicated that in the largest companies, they had in excess of 800 SPAs.

A cross tab of number of SPAs vs. distributor revenues reveals that distributors with revenue from \$25-50M typically have 25-50 SPAs, distributors with revenues from \$50-100M have 101-250 SPAs. From a manufacturer viewpoint, it is important to capture a significant percentage of their customer base in order to have an impact on manufacturer customer service operating costs. There are currently approximately 165 distributors in the industry who meet this criterion. As processes are developed to streamline implementation, reaching lower in the channel with the support of a manufacturer(s) becomes critical to achieving industry efficiencies and developing an installed base with significant recurring revenues.



To underscore the breadth of manufacturers with whom a distributor negotiates SPAs, we asked "How many manufacturers do you have SPA agreements with?" Interestingly, distributors either have many or a few. There is also a

correlation between size of distributor and the number of manufacturers that they negotiate SPAs with. 32.8% of distributors have more than 20 manufacturers with SPAs.



There is a wide array of manufacturers who currently provide distributors with SPAs. Some of the leading companies mentioned by respondents include:

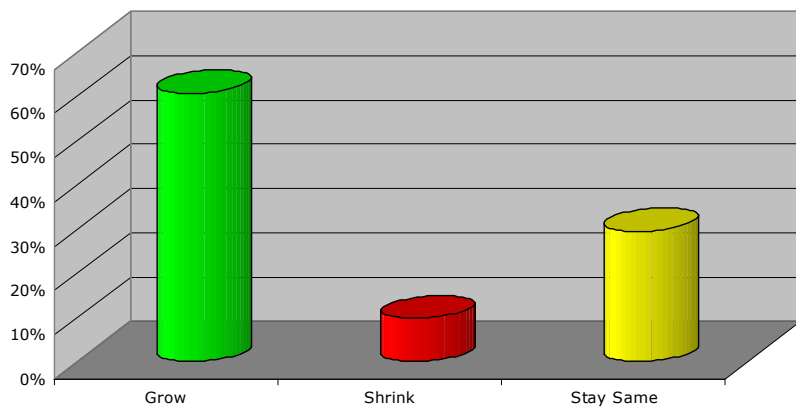
Manufacturer	% of respondents	Manufacturer	% of respondents
Thomas & Betts	64.7%	Eaton	32.4%
Ideal Industries	54.4%	Cooper Lighting	27.9%
Leviton	52.9%	Hubbell Lighting	27.9%
Advance	51.5%	Wiremold	27.9%
Hubbell Wiring Devices	50.0%	GE Consumer & Industrial (Lamp)	26.5%
Osram Sylvania	48.5%	Lithonia Lighting	25.0%
Pass & Seymour	47.1%	Lutron	25.0%
EGS / Appleton	45.6%	Cooper Wiring	19.1%
Cooper Bussman	42.6%	Thomas Lighting	17.6%
Hubbell Electrical Products	42.6%	Rockwell	16.2%
Philips Lighting	42.6%	Southwire	16.2%
Square D	41.2%	Allied Tube & Conduit	14.7%
Cooper Crouse Hinds	39.7%	Molex	14.7%
Siemens	39.7%	General Cable	13.2%
Ferraz Shawmut	36.8%	Lightolier	13.2%
Littelfuse	36.8%	ABB	11.8%
GE Consumer & Industrial (Gear)	35.3%	Belden Wire	11.8%
Universal Lighting Technologies	33.8%	Berk-Tek	8.8%
		Ortronics	8.8%

Other companies mentioned included 3M, Hoffman, Shat-R-Shield, Erico, Panduit, Burndy, IlSCO, Ray-o-Vac and more

SPA Growth Expected

Interestingly, distributors feel that the number of SPAs that they request, and receive will grow significantly in coming years. While they do not like the administrative burden or the delay in cash flow, they recognize that the ability to utilize SPAs can provide them with a competitive advantage. In fact, over 60% of distributors believe that SPAs will grow, and probably with their core / existing manufacturers.

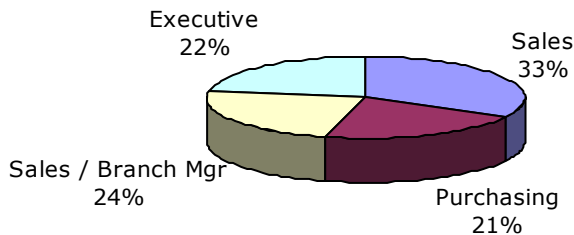
Effectively managing these SPAs will be critical to distributor profitability and, for manufacturers, may be critical to them retaining and capturing market share from competitors as well as alternative material sourcing providers.





SPA Processing

The SPA negotiating, processing and reconciliation process are major sources of frustration for distributors. Some feel that they do a good job of administering SPAs. These are companies that have recognized the potential source of profitability and have allocated resources to develop systems that enable them to capture, in their opinion, a high percentage of their eligible claims. Many, however, use the "wish and a prayer" strategy, hoping that they are capturing all that they are entitled to, claiming and hoping for few rejections and then wait for their reimbursement. Streamlining this process into an auditable, repetitive, automated process can be a significant profit generator and cost saver for distributors.

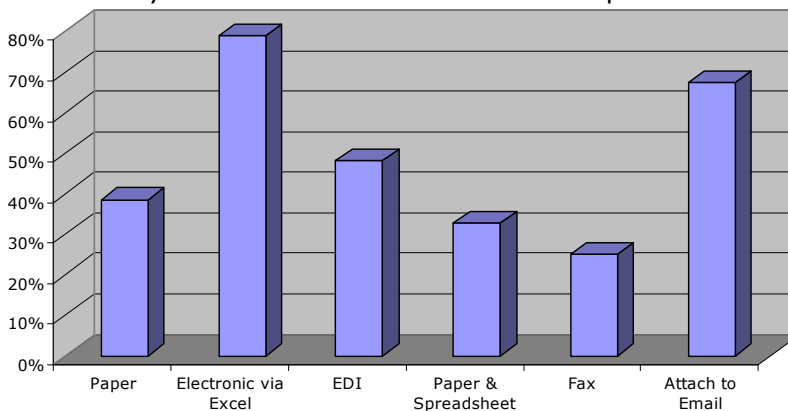


SPAs originate with an array of individuals within a company. The "negotiators" are very diffused and include all levels within an organization: senior management, sales and branch managers, salespeople, purchasing and potentially more.

Once an agreement is decided upon, a critical element is capturing the information to initialize the process. Survey respondents advised that:

- 86.5% of distributors negotiate an SPA and then let salespeople sell against it
- 30.8% let a salesperson sell product to a customer and then load the information into their system
- 26.9% flag orders when they are placed by the customer and then apply the SPA. This may be done manually or through an exception reporting process
- 13.5% track SPAs manually

The interviews we conducted revealed that fewer companies negotiate and then allow salespeople to sell than the survey reported and that the frequency of salespeople selling and then loading information into their ERP system is more prevalent than mentioned. From a business perspective, it is understandable that salespeople, and sales/branch management, want to capture the business and are not overly concerned about administrative processes. Essentially this becomes



"someone else's job." Few companies are so committed to managing a process that they restrict salespeople from selling until an administrative process is completed.

Administratively, distributors are submitting their information through a variety of methods.

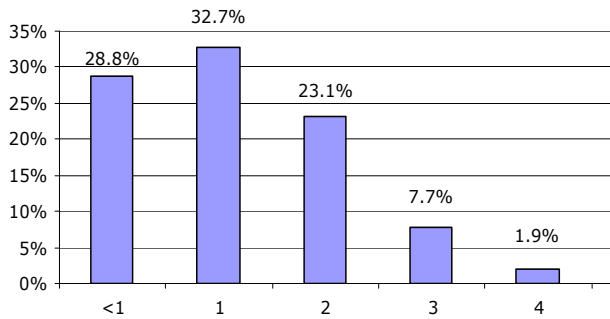


Practically all distributors use multiple methods of submission to meet their manufacturers' needs. Most distributors have to alter their submittal process by manufacturer. A few are able to convince a manufacturer to use their process. The methods and percentage of respondents using each can be seen in this chart.

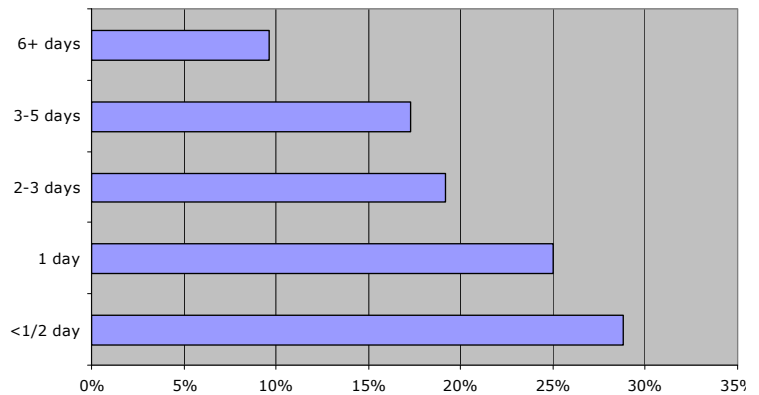
Some distributors reported that they upload information to a manufacturer's website or must file their SPA manually through a manufacturer's website, which adds additional steps to the process, and costs.

The myriad of processes cost distributor's time and money through personnel costs and the time to gather the information to submit. Distributors reported:

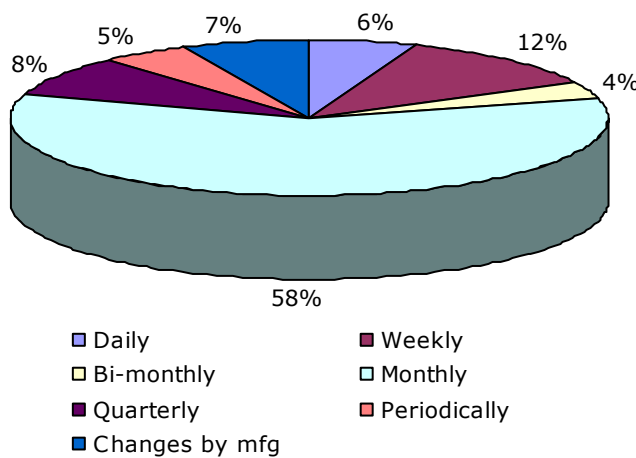
of People Who Handle SPAs



Days Takes to Process



As can be seen, 61% of distributors have 1 or fewer people handling their SPAs and almost 70% feel that they process their SPAs in less than 3 days, however, distributors submit their SPAs on an "infrequent" basis with 58% of distributors stating that they submit their SPAs on a monthly basis.



Our knowledge of distributor operations questions some of these responses. While distributors may claim that they handle the processing within 3 days, this frequently does not include the "back and forth" necessary to capture all of the pertinent information to enable filing.

Additionally, to our knowledge, the most efficient distributor submits claims weekly, on a Friday, and is reimbursed on Monday. We know of only one

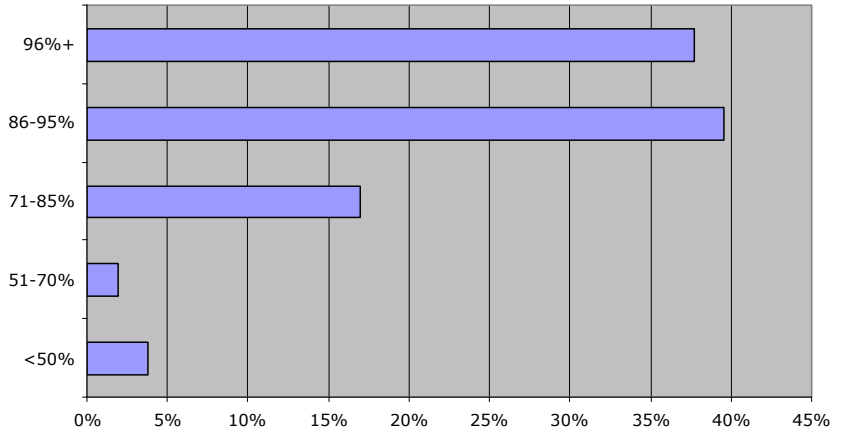
company that is submitting daily, and this is for only four of their suppliers. These cases should be considered an aberration and not the norm.



Missed SPA Claim Opportunities

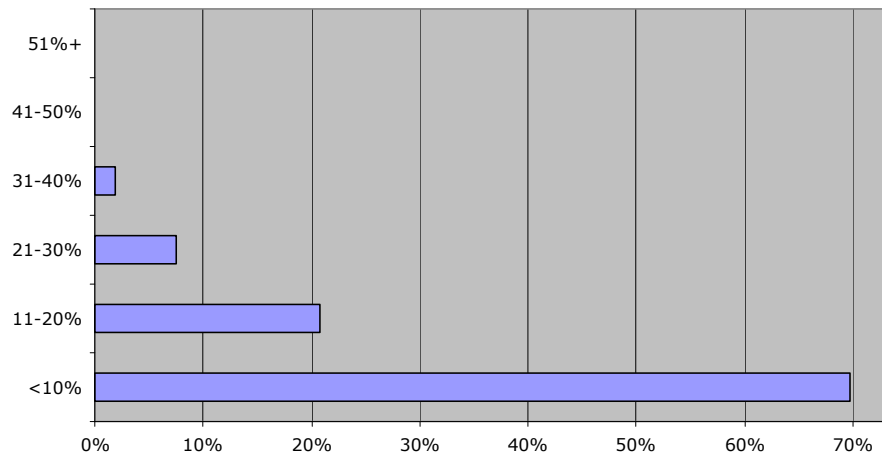
While distributors feel that they do reasonably well with submitting a high percentage of their eligible claims, they recognize that they are not capturing all that they are eligible to submit nor are they collecting all that they do submit.

When asked "What % of your eligible SPA claim backs do you feel your company captures for submittal to your manufacturers?" distributors responded favorably as depicted in the accompanying chart. Interviews, however, reveal that there is probably a halo effect in the survey results.

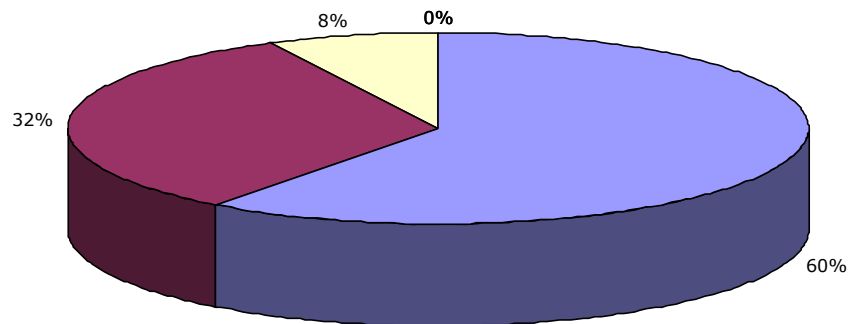


While 37.7% of survey respondents captured more than 96% of their SPAs and 39.9% captured 85-95% of their potential SPAs, 80%. This does not include the SPAs that should be filed that are never identified due to lack of applying the SPA, or correct SPA, to a sale.

Interestingly, only 69.8% of distributors feel that they capture all but 10% of their eligible SPAs. Alternatively, 30.2% feel that anywhere from 11-40% of their eligible claims are not captured and/or filed, with the majority of this being between 11-20%. In an industry where a nickel's profit is considered outstanding, this lost revenue, and cash flow, is significant for distributors of all sizes. Mid-sized companies are most prone to "missed SPA opportunities" due to lack of focus and systems.



Of the SPAs submitted, 92.5% felt that they had a manufacturer rejection rate of less than 10%, indicating that distributors are utilizing electronic tools whenever possible to facilitate the process. When interviewed, it became apparent that the rejection rate is based upon "feel" as distributors have not developed systems to quantify this. Instead they contest payments with manufacturers.



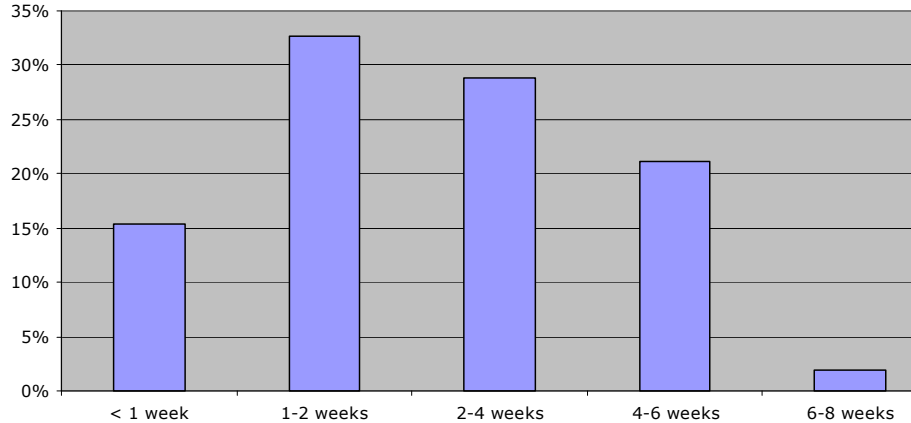


While 10% may appear to be acceptable, distributors recognize that this can represent significant lost. Some manufacturers, while not openly stating, welcome a rejection rate as this represents incremental profits for them. Other manufacturers, however, view SPAs as a tool to drive additional sales. In their view, unclaimed SPAs will hinder incremental sales.

Slowed Cash Flow

To compound the missed financial opportunity, distributors lament the time it takes them to receive, what they perceive is, "their money." This lost cash flow can be very important to distributors.

While it is exacerbated by the time it takes the distributor to file,



manufacturer reconciliation and payment can be extensive. Fifty percent (50%) of survey respondents state it takes between 2-6 weeks for them to receive reimbursement from their manufacturers. Interviews revealed that this wait may be low and that the reality may be closer to 3-7 weeks. During economic times where cash flow, and cash, is critical, for significant dollars to be delayed can be a significant operational challenge for distributors.

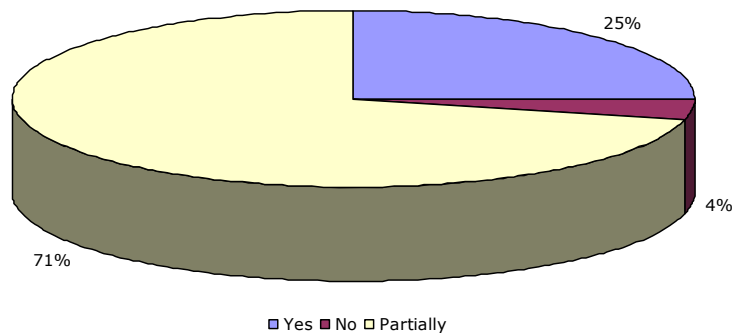
SPA Claims Typically Not Well Automated

Much of the processing and financial challenges are driven by the administrative processes that distributors utilize in managing their SPA processes. Recently, some ERP systems have introduced modules designed to facilitate the SPA process. The major ERP companies (Activant, Infor, and SAP) were involved in NAED's SPA discussions in 2007.

We asked respondents:

"Is your SPA submission process automated?"

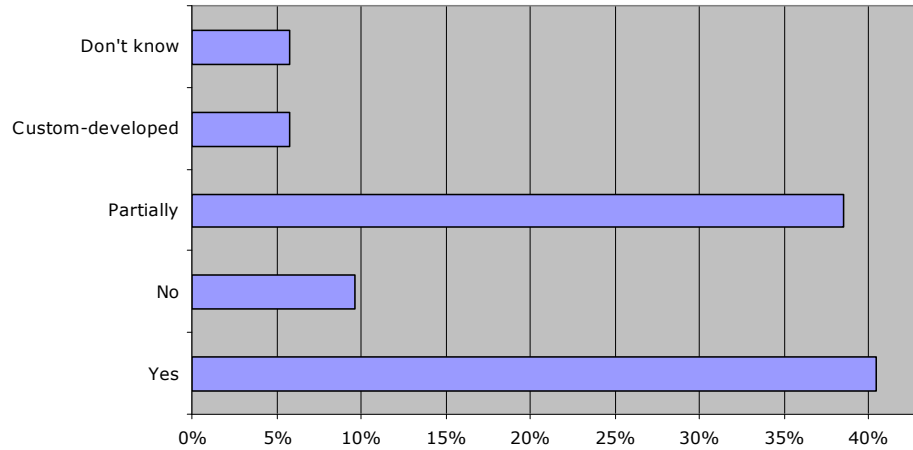
Only 25% responded that their complete process was automated with 71% responding that it is partially managed in an automated fashion. This may be understandable given that processes are not centralized at every company and the wide array of manufacturers whom a distributor may have an SPA as well as a wide range of versions of ERP systems that are used by distributors throughout the country.





As a follow-up, we inquired about if their ERP system handled their SPAs and what ERP system they used within their company. The responses are shown in the accompanying chart.

- 42% use Eclipse
- 25% use Infor
- 15% use Prophet 21
- 11.5% use Trade Service/Array



The remainders are ERP companies or custom-designed systems. Distributors expressed frustration with the SPA processes. Their issues focus on administrative issues, cash flow concerns, the complexity of processes, quality of data, varying manufacturer formats, an array of manufacturer issues and the time it takes away from other organizational priorities. Verbatim comments included:

Category of Question	Distributor Comments
Administration	Administration
Administration	Overall management of them. Keeping track, updating, following up, making sure we get full amount due back
Administration, time, complex	The administrative burden of untimely receipt of SPA contracts and the monthly filing process. Trying to tie back widget 123 at the time of sale is administratively burdensome to say the least - we've gotten the feedback from both our side and some of our
Cash flow	The fact that the manufacturer is using my money as an interest free loan.
Cash flow	Receiving our credit and making sure all agreements are current
Cash flow	Timely credits from vendors
Cash flow	Lost rebate dollars due to no paperwork errors
Cash flow	Some vendors do not send us our credits and we have to keep calling. We should not have to do that
Cash flow	We are distributor, not a banker. We are lending money to our manufacturers with spas. Need all into stock pricing and eliminate spas.
Cash flow and time	Receiving the credits back in the same format they were presented. Having to format spa's in multiple formats. Receiving credit back in a timely manner.
Cash flow, complex	Our money is tied up for a minimum of 30 days and if we do not do things "just right" (and "just right" is different from one vendor to next) then our claim is denied and we have to process it again so it then is another 30 days before we are reimbursed a
Changing of SPA	Renewal and different levels
Changing SPA	Osram Sylvania- everything at the item level and SPAs



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	are constantly changing
Changing Spas	Constant changes... Either products or submission changes
Changing SPA's	The ability to keep up with all the updates and adjustments to the SPA's...adding SKUs, changing prices, etc
Complex	Agents and our own people understanding the various types.
Complex	Complexity!!! (of keeping up with the programming necessary)
Complex	The entire filing and tracking process
Complex	I fear we miss filing some
Complex	Every one processes them differently
Complex and cash flow	Resources to administer and significant risk of not claiming some rebates
Complex, administration	Deficiencies of vendors as well as our own internal processes.
Complex, administration	Maintenance, voluminous paperwork, margin for unfavorable errors
Complex, data	Maintaining the rebate pricing in system and applying to appropriate customer. Producing a rebate report that is acceptable to vendor (each has different requirements)
Complex, data, cash flow and loss of profit	The fact that we pay the book price and then have to get a credit back, so if something falls through the cracks we get stuck.
Complex, time	The accounting process
Correct cost, data	Getting the correct cost set up in our system.
Data	Unmatched data
Data	Getting the data from the mfg
Data, cash flow	Rejected claims because of non-synchronized data
Distrust of manufacturer	These are not to help distributors; these are to help manufacturers from selling distributors at the right price to begin with.
Format	Every vendor wants them in a different format. You can't standardize anything. Takes a lot of time to extract the data and format it. That also makes it harder to train others.
Format	No standard format and difficult to transition from agreement end to new agreement.
Format	Consistent format from one vendor to the next.
Format and administration	Besides everything about them, the ability to effectively upload an SPA in our system and maintenance of SPA price changes.
Format and administration	Making sure special prices are correctly applied
Format and data	# 1 - getting electronic files of location-specific into stock prices and the spa agreements from the vendors. #1a - using old price lists to support SPA agreements. That practice is horrible.



Formats and cash flow	Widely varied delivery formats, untimely renewals, and flawed online submission tools that can create pseudo rejections/errors and delay credits
Manual	Having to handle manually
Manufacturer issues	Manufacturers who are not sophisticated enough to handle SPAs efficiently, reliably, and in a timely manner
Manufacturer issues	Manufacturers' failure to renew or extend on time.
Manufacturer issues of timely spa's	Vendor delay in providing the formal agreement
Manufacturer issues, data	It prevents an effective pricing policy by manufacturers. I am sure some new rebate eligible items are missed, too.
Manufacturer unwilling to offer	The unwillingness to utilize them to attack segments of business, they are fine for a specific customer who has known needs but the "book" price has gotten so far out of bounds, it is difficult to develop new business opportunities.
Time	The time it takes to manage the required paperwork.
Time	Time
Time and cash flow	Resolving discrepancies
Time,	Inefficient and costly to administer.
Time, cash flow	No reward for us for the time we put into the SPA process.
Time, cash flow, administration	That they need to exist. Having the correct bottom line to begin with instead of an artificial and arbitrary value which is discounted to everyone would eliminate the work. Delivering SPA data, updating of SPA data, reconciliation of claims
Time, complex	The time and hassle of filing and reconciling
Time, complex	Reporting and follow up.
Time, administration	Immense amount of time, effort and organization required to maintain multiple pricing agreements and the data administration of the rebate process and the pricing process
Time/complex	Amount of work involved
Volume of SPA	There are too many to administer, most manufacturers use net pricing instead of multipliers
	Too many with different claim processes

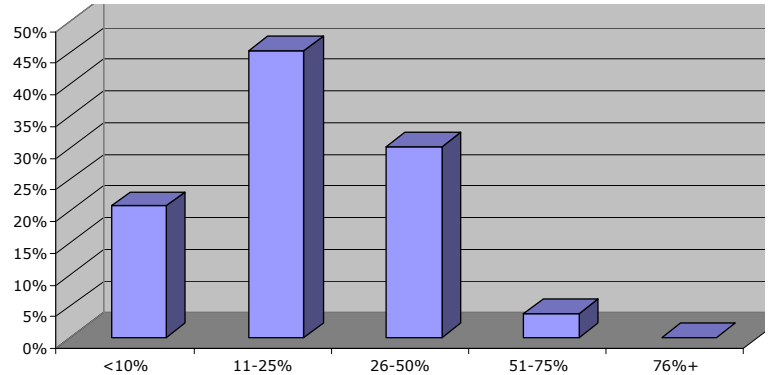
Importance of SPAs to Distributor Profitability

SPAs are an important component of distributor profitability. While marketing group rebates can equate to .3 to 1% of a distributor's net profit, SPAs may be equally as important given the percentage of SPA eligible sales of a distributor's sales.



Survey respondents were asked "What percentage of your sales are driven / influenced by SPAs?" As the chart shows, 75.5% of respondents felt that SPAs affected 11-50% of their sales.

Companies from \$50-\$500M+ report that 26-50% of their sales are influenced by SPAs. This also reinforces why distributors seek administrative efficiencies in SPAs while retaining SPAs as a price management and sales tool. SPAs provide these companies, in their opinion, with a competitive advantage

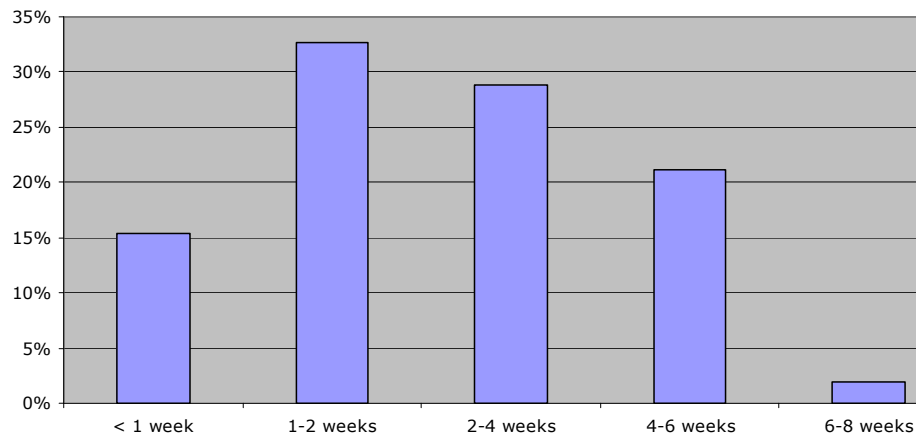


In comparison, marketing groups represent, on average 33-45% of a distributor's sales.

Distributors were also asked how important SPAs are to their current, and future, profitability. While a vast majority of companies cannot quantify this importance, on a scale of 1 to 10, with 10 being high, distributors consider SPAs as a 7.69 in level of importance today, with 78% of respondents answering this question with a 7 or higher.

From a future perspective, SPA importance to profitability ranked a 7.82, with 85% of respondents recording a 7 or higher as an answer. The advantage of SPAs will be a profit differentiator for larger companies that negotiate well and can efficiently manage processes.

Cash flow is also an important criterion in identifying the profitability of an SPA for a distributor. While SPAs enable the distributor to capture sales and market share through in-field pricing decisions, recapturing their profitability is critical to funding their operations. Without a timely reimbursement process, some distributors believe they are essentially funding some of a manufacturer's operations.



Survey respondents feel that the reimbursement process is cumbersome and not timely. Reported cash flow / reimbursement delays can stretch many weeks, as previously mentioned.

Distributors feel that SPAs, if managed more effectively, can further enhance their profitability through reduced administrative costs, better pricing methods, improved cash flow and increased sales through more effective utilization. Specific comments are included in the following chart.



Category of Question	Distributor Comment
Better pricing	More competitive pricing
Cash flow	We would probably be able to use them more and also move to timelier filing. Our current month end process takes a week, therefore, is virtually impossible to file multiple times per month.
Cash flow, increase profit	Getting credit faster improves cash flow. Standard formatting allows for more automated and efficient processes. Improving profit and simply making the sale can depend significantly on competitive rebate pricing.
Cash flow, quicker profit. Less administration	The profit would be realized quicker due to the claims being turned around faster. Less administrative cost also.
Competitiveness	Help price competitiveness
Control pricing	Gives us the ability to control pricing
Distrust	We would be certain we receive proper \$ but mfg may not like that
Greater profit	Maximize profits on individual customers vs lumping them all together
Grow market share	Gaining market share easily
Increase rebate dollars	Less rebate dollars lost
Increase SPA claim, more profit	We would waste less time administering and looking for missed rebates. Increase profitability could be significant
Increased SPA usage	We could focus more time working to get more SPA's and educating sales staff on how to acquire and use SPA's
Less admin	Lower maintenance overhead would reduce expenses thus increasing profits.
Less admin, collect 10% more credits	I would say if things actually worked smoother and not have to put so much effort into it special to collect your credits 10%
Less admin	Our processes are relatively clean and with the very largest everything is done electronically except for the initial loading.
Less administration	We could focus more on setting the sell sides of the SPAs rather than just making sure the costs have been loaded.
Less administration, increase cash flow	Is this a trick question? If they were easier we would claim correctly, reducing errors and claiming correct amounts. We are positive (based on vendor feedback) that we under-claim.
Less administration, increase cash flow	By reducing the labor involved in filing and the cost of missed opportunity.
Less administration, more profit	Reducing or eliminating the activity cost of administration would improve profits.



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Less cost, increase sales	Transaction costs would go down slightly; some modest increases in sales and in margins
Less cost, increase sales	Reduced transactional cost. More accurate inventory value
Less overhead	If SPAs were easier to administer, we would not need a staff of 2 to enter, maintain and reconcile claims.
Less time & overhead	We could use the SPA staff to generate sales instead of insuring profitability
Less time & overhead	Less time to process. This has become a full time job.
Less time & overhead	Fewer hours invested auditing, less steps matching claims to rebate credits, overall reduction of overhead in non selling support personnel
Lower cost	Lower costs
More claims filed	There was no other place to enter final comments. I had the SPA contact at one very large manufacturer tell me that "you wouldn't believe how many distributors fail to file their claims." This tells me that SPAs are a profit center for manufacturers.
More profit	Having up to date price and cost numbers means better chances of making the sale
More profit and business	We could grow our business and profitability.
More profit and business	More profits
More sales and SPA's	Could engage more vendors for rebate SPAs thus increasing sales and hopefully profits
More selling	More time to spend selling
More time for sales	More time to sell
More time selling	We could spend more time selling!
Pricing optimization	If they were easier to administer, I would take the resources that I have maintaining them and focus them on pricing optimization with the agreements.
Quicker cash flow	More accurate profit reporting; faster return of our money for reinvestment; greater ease in quoting special pricing to customers
Sell more product, less admin	Allow us to sell more products to more customers at a better price. Bottom line is the design is ok, but the administration of the agreements borders on the impossible.
Time and overhead	We would be able to advise the customer more accurately of the products covered / not covered; we would be able to recover our \$\$ from the manufacturer in a much more timely manner.
Time, additional agreements	Less time spent collecting the credits and managing the contracts; also if they were easier we would be more likely to enter into additional agreements
Time, less administration	Less time loading rebates and trying to Keep them updated and filed



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There Are SPA Success Stories

Our research also showed some distributors that are being very successful with SPAs. This included their usage of them as well as the processes that they use to ensure they claim, and receive, the funds for which they are eligible.

One distributor is in the automotive industry.

This company is a 45 year old, large distribution company with 16 branches. Like many industries, SPAs are prevalent in the automotive aftermarket industry.

This distributor typically handles SPA administration by running a report from their ERP system and electronically sending it to the manufacturer each month. The SPA information is entered into their system by their purchasing department. The company felt that they were under claiming SPAs due to inadequacies in tagging all eligible SPA items in their ERP system and that they were not claiming all eligible sales that were made throughout their sixteen locations.

Recently, the distributor was approached by one of their progressive manufacturers to participate in a pilot initiative to automate the SPA process. The rationale from the manufacturer was to enhance their Sarbanes-Oxley administrative processes and to ensure the profitability of their distributor. By ensuring that their distributors earn what they eligible for, the manufacturer recognized that it would enhance their relationship with the distributor, enabling for a more mutually beneficial relationship, which should result in greater sales and profitability for both parties. This manufacturer also believes that SPAs are established to encourage the targeting large opportunities. Losses in SPA claiming will likely lead to less targeting of large opportunities.

The pilot strategy was to utilize Datalliance as an independent, 3rd party service to facilitate SPA processing. The Datalliance system enabled the distributor and supplier to easily and efficiently automate their SPA processes.

The benefit to the distributor was a significant increase in the number of products that were eligible for SPA claims, the number of customers that were claimed and the reduction in time between sales, claiming and receipt of funds. According to the distributor "this was new found profit."

Months	% of parts claimed under new process	% of additional rebate dollars claimed under new process
1	30%	17%
2	41%	13%
3	22%	16%
4	19%	15%
Total	27%	15%

609 SKU's claimed against for this distributor



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In discussing SPAs with this distributor, we observed:

The major benefits to a distributor coupled with a maximum saturation manufacturer are:

1. Automating the system enabled the distributor to identify new items for the distributor to claim, for which they were eligible. This significantly increased claimed funds.
2. Additional monies were able to be claimed from current products, which were often under reported.
3. The claim back time was greatly compressed, improving the distributor's cash flow and profitability with this manufacturer.

The benefits to the manufacturer included:

1. Improves the levels of trust between the distributor and the manufacturer.
2. Allows for both parties to focus on sales rather than resolving SPA questions
3. Reduces manufacturer overhead to service SPA process.
4. Makes the manufacturer "easier to do business with".

We also spoke to a couple of electrical distributors who feel that their company "excels" in their SPA submission and collection processes, for at least some of their manufacturers. Interestingly, in these discussions, each company commented that the success that they have seen with selected manufacturers was difficult to replicate across all manufacturers with whom they have SPAs. Inevitably the issue becomes the ability to automate the process.

Observations

Distributors recognize that SPAs are an effective sales and price management tool. They recognize that efficient administration of SPAs is critical to managing, and maximizing, their profitability. Administration ensures cost-effective processing but more importantly, that they collect what they are owed and that the number of lost cash flow days (or float provided to a manufacturer) is minimized.

Distributors have a high sense of frustration with the process while sensing that SPAs are profitable for them, if claimed efficiently and collected on a timely basis.

Specifically, some of their areas of frustration include:

- Pain and confusion
- Lost profitability either through unclaimed credits or sales that are not submitted
- Not timely settlement to ensure good cash flow
- Loss of ego and control
- Naiveté
- Hassle and needless paper work
- Insecurity that they didn't claim all they are eligible for
- Distrust of the manufacturer and their representatives



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SPAs are about cash. Profitable distributors have processes to recapture their cash quickly and completely. To date, the best distributors are claiming no more than 98% of their claims with specific manufacturers. No one we spoke with claimed 98% across all manufacturers with whom they have SPAs. While complete collection may detract from manufacturer profitability, profiting from "breakage" (uncollected SPA claims), does not benefit distributor profitability and the ability of distributors to reinvest in their businesses.

Market Research Sponsor

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