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**NEW KPMG AND AGMA GRAY MARKET STUDY EXPOSES CAUSES FOR  
BILLION DOLLAR LOSSES**

**Study Highlights the Importance of Channel Management in Reducing the Unauthorized Reselling  
of New, Branded IT Products**

**NEW YORK, NY, and FREMONT, Calif., June 26, 2008** – KPMG LLP, the audit, tax and advisory firm, today announced it has teamed with The Alliance for Gray Market and Counterfeit Abatement (AGMA), and MarkMonitor to issue a whitepaper entitled, “Effective Channel Management is Critical in Combating the Gray-Market and Increasing Technology Companies’ Bottom Line”. As the gray market issue continues to impact the information technology (IT) sector, KPMG and AGMA have identified how the gray market has changed since its initial study published in 2002.

KPMG and AGMA estimate that the value of gray market products in 2007 averaged \$58 billion, placing the gray market between five percent and 30 percent of total IT sales. With an average impact on profits of between \$8 and \$10 billion, establishing deterrents to counterfeit and fraudulent business activity is a top of mind issue for technology companies today.

The latest study from KPMG and AGMA defines the gray market as the unauthorized reselling of branded goods as the result of diversion from authorized channels into the hands of third parties, including the open market. According to the report, the key to stemming the unauthorized flow of goods into the gray market is for IT manufacturers to establish strong partnerships with reputable distributors

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and resellers. Additionally, IT manufacturers need to implement consistent policies and a strong set of business incentives designed to foster long-term and mutually beneficial relationships with their channel partners.

"Today, there are strategic measures that IT companies can take to reduce the risks of gray market behavior by properly devising and implementing strong channel partnership programs with proper checks and balances," said Tom Lamoureux, KPMG's Global Advisory Sector Leader, Electronics, Software and Services. "The good news for IT companies is that by establishing tighter management policies and more effectively monitoring compliance among their business partners, the non-compliant behavior that is feeding the gray market problem can be greatly reduced."

The study results indicate that the Internet has impacted the gray market specifically in the areas of pricing policy, product availability, warranty, service and maintenance. Recognizing that the primary incentive for channel partners to engage in gray market transactions is financial, the report encourages IT companies to implement a variety of measures designed to help reduce their authorized partners' willingness to seek out these objectionable alternatives.

"One of the key challenges facing IT companies today is the use of the Internet as a key vehicle for news and solicitation of illegal and counterfeit technology products," stated Ram Manchi, AGMA president. "According to interviews conducted with electronics industry executives in the distribution sector, almost four in ten stated that the Internet has become a major highway for news and solicitations for gray market product offers."

This study also identifies several trends including the fact that most IT companies interviewed now have in place contractual provisions to address unauthorized channel issues. Conversely, many of these companies have not yet put into place effective means to monitor their channel partners for adherence to provisions. While IT manufacturers offer channel incentives that are serial-number dependent, they either lack the means or do not check serial numbers when processing incentives.

The bottom line, according to the report, is that while many IT companies have indeed bolstered their management of channel partnerships, the next step must be a comprehensive approach of channel management from IT manufacturers in order to truly stem the flow of product into the gray market.

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"When we talk about the IT industry, which has grown more than 81 percent since 2002, it should not be a surprise that the gray market in terms of dollar volume has grown as well," said Matt Behan, Principal in KPMG's Contract Compliance Services. "It is encouraging that the gray market has grown at a lower rate than the overall IT market."

The joint gray market study by KPMG and AGMA provides insight into key areas where IT companies can implement measures designed to help mitigate the risk of gray market activity by working closer with their channel partners to help establish best-in-class practices which can, in turn, help stem the unauthorized flow of technology goods into the gray market. These include:

- Review/strengthen incentive programs;
- Issue a comprehensive compliance and reporting policy to all partners;
- Monitor and act upon unexplained sales spikes from business partners;
- Put automatic alerts in place and act upon these alerts;
- Implement a robust process for performing due diligence on new channel partners.

AGMA urges technology companies to educate themselves about the dangers and pitfalls of the gray market. A copy of this whitepaper can be obtained at [www.agmaglobal.org](http://www.agmaglobal.org).

### **About KPMG LLP**

KPMG LLP, the audit, tax and advisory firm ([www.us.kpmg.com](http://www.us.kpmg.com)), is the U.S. member firm of KPMG International. KPMG International's member firms have 123,000 professionals, including more than 7,100 partners, in 145 countries.

### **About AGMA**

AGMA is a non-profit organization comprised of influential companies in the technology sector including founding members 3Com Corporation [NASDAQ: COMS], Cisco Systems, Inc. [NASDAQ: CSCO], HP [NYSE, Nasdaq: HPQ], and Nortel [NYSE/TSX: NT]. Incorporated in 2001, AGMA's mission is to mitigate gray marketing fraud and counterfeiting of technology products around the globe. The organization's goals are to protect the authorized distribution channels and intellectual property of authorized goods to improve customer satisfaction and preserve brand integrity. AGMA is open to any technology manufacturer that owns a branded product. For more information, please visit [www.agmaglobal.org](http://www.agmaglobal.org).