

# ELECTRONICS SOURCING

August 2011

## NORTH AMERICA

THE MAGAZINE FOR PURCHASING PROFESSIONALS  
[www.electronics-sourcing.com](http://www.electronics-sourcing.com)

this is the **last chance**

# Obsolescence

Act fast when supplies  
are limited



NEWS



OBSOLESCENCE



DISTRIBUTION



WHAT'S NEW

# BE PROACTIVE: WATCH FOR LAST-TIME BUYS

Purchasers who do the best job of avoiding supply-chain disruptions due to obsolescence are proactively managing their bill of materials for lifecycle management and keeping track of product change notifications

By Gina Roos

The first step toward better management of parts obsolescence is to be proactive and stay on top of product change notifications (PCNs) and product discontinuance notices (PDNs) so you can make those last-time buys to keep your product lines alive, say most independent distributors. If you miss a notification, the product available out in the open market could be suspect, which will likely require more testing to verify its quality, and thus add to the cost of the purchase.

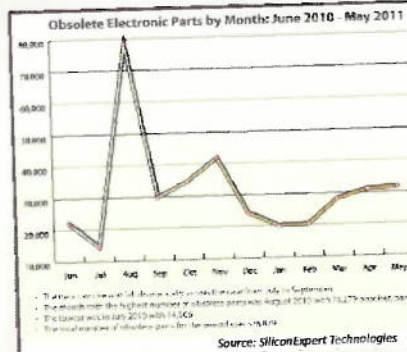
Generally, buyers have three options to keep their product going once parts go end of life (EOL). They can make last-time buys, find a cross reference or recommend a redesign.

"There is a lot of dynamics that go into the decision – when do you redesign, do you redesign, do you bite the bullet and buy end-of-life product, how do you forecast, do you need parts for depot repair, and how long do you have to maintain parts for the repair center," said Jim Magee, president, America II Electronics Inc., St. Petersburg, Fla.

## Monitor PCNs/PDNs

Many industry players suggest the best way to mitigate the impact of EOL parts is to put a process in place internally to monitor PCNs so you're not faced with a last-minute fire drill, scrambling to buy parts that have been discontinued.

"For almost every last-time buy, there are a lot of customers who miss those notices," said Magee. "If they buy direct or through franchised distribution, they probably received the last-time buy



"For almost every last-time buy, there are a lot of customers who miss those notices," said Jim Magee, president, America II Electronics

notice but there may be so many that come through that they don't have a process internally to react to them properly. At that point we're going out to the open market to buy product."


"The further away you are from a last-time buy notice, there is less product available and the product that is out in the open market could be more suspect. It could be good product but it will probably require more testing to verify," said Magee.

One of the main ways to mitigate the effect of obsolescence is being proactive about figuring out when products are going obsolete, said Vineet Chaudhary, product marketing manager, SiliconExpert Technologies, Santa Clara, Calif.

"What typically happens is that the buyer will try to purchase the part and discovers that the part went obsolete six months ago, and can no longer buy it," said Chaudhary. "But if someone was paying attention and receiving the PCNs or PDNs on an active basis, they would have six months to find an alternate part."

Buyers can also be proactive. There are several tools and services, including SiliconExpert's Part Search, PartMiner's CAPS database, and IHS' PCNalert, which can help procurement stay abreast of which products will be going obsolete. These

active monitoring services send out automated e-mails on product change, EOL and last-time buy notices, based on your uploaded bill-of-materials (BOM) or approved vendor list (AVL) parts.

"Collaboration and communications with suppliers is the best way to be proactive for handling obsolescence and last-time buys," 

said Kamran Malek, vice president of marketing, Advanced MP Technology, San Clemente, Calif.

"After nine to 12 months, companies should start thinking about obsolescence and last-time buys, and staying in touch with the component manufacturer to check on planned obsolescence," said Malek.

Because there are so many parts for any given BOM, many independent distributors suggest that buyers spend the time on managing sole-sourced and "A" parts, those that garner a bigger percentage of their spend.

"If I were an OEM specifically using product that was sole-sourced and didn't have multiple manufacturers on my AVL then I would manage those parts closely and make sure my communications with the manufacturer was spot-on regarding its plans for that product," said Tobey Gonnerman, Fusion Trade's global purchasing manager/European sales manager, based in Amsterdam.

"But there is a catch here, when notifications are sent out, the customer has to invest and purchase a certain amount of product," said Malek. "This is much easier said than done because most companies and their customers have become global so the issue is where to keep the product, how to ship it, how to keep track of the inventory, and who is going to service the repair or extended warranty," he added.

This last-time buy has become a significant part of the supply chain issue, said Malek.

It's also critical for any type of warranty and repair contracts, he said.

"We have seen many computer manufacturers and even cell phone manufacturers looking for parts that used to be common and available in the market but aren't anymore," said Malek. "This is the reality of the business today. The products change very quickly, and people buy expensive products and want to maintain them for a longer period of time. And components needed for repair become a critical part of the whole process."

## Managing last-time buys

In many cases, independent distributors can help OEMs manage their last-time buys by purchasing, inventorying and shipping the parts as needed or by providing inventory management services whereby the OEMs purchase the parts, drop ship them to the distributor and they warehouse and ship the parts when required.

"The initial investment is purchasing the components then it's how to maintain it, how to dispense it, how to ship it and how to track it. All of this becomes a big part of the equation," said Malek.

Advanced MP's Oracle software system allows customers to check on product availability. Then they can instruct the distributor on how and where to ship the product via an EDI transaction. "This makes it much easier for the OEM because they don't have to worry about how to maintain these products — warehousing, inventorying, monitoring and getting it out to where it's needed," said Malek.

If product is not needed after a certain period of time or contract and becomes an excess product, Advanced MP, along with most other independents, has resources and market knowledge on other customers who may need the parts.



"Collaboration and communications with suppliers is the best way to be proactive for handling obsolescence and last-time buys," said Kamran Malek, vice president of marketing, Advanced MP Technology

These last-time buys usually work one or two ways, said Gonnerman. "The OEM does the last time-buy through the manufacturer and then ships the product to us and we schedule the shipments to them as needed. This is more of an inventory management type of scenario where we're just managing the inventory for them so they don't have to be concerned about storage."

Another scenario is where the OEM would ask Fusion Trade to make the last-time buy on their behalf. "We communicate with the direct source to make the purchase for them usually using their direct pricing, bring it in and then schedule it out as they need it," said Gonnerman.

"The benefit for the customer is that they don't have to manage five years worth of inventory, fill up their warehouse with parts they won't use for a long time. And they don't have to pay for the product until we ship it to them. And what customers like about this is if they are three years into their five-year forecast and they can see that they overbought by X number of pieces, they will ask us to help them liquidate some of the last-time buy," Gonnerman added.

Admittedly, there are downsides to a last-time buy such as higher price tags and excess inventory if you miscalculated your forecast requirements, but most independent distributors do recommend this as the best and often the cheapest option when a part is obsoleted.

The challenge is that once a PCN is issued, prices for the part typically start to rise, along with demand.

"You're buying product that has a lot of demand and less supply, and you end up not being able to buy from one distributor," said Chaudhary. "In addition, authorized distributors may not stock the part so you might have to go to brokers or independent guys where you don't necessarily know where these parts are coming from."

Chaudhary also says that lifetime buys increase the OEM's warehousing costs and expose the components to moisture, oxidation and dust. They also run the risk of miscalculating the quantities that need, which could lead to additional costs for excess inventory, he said.

Typically, you can expect to pay more for parts once they are only available in the open market. There is also the possibility of getting counterfeit or low-quality parts from the broker channel that don't provide traceability or have the resources to implement quality processes.

But many leading independent distributors mitigate these potential issues by putting quality and testing processes in place and only buying from secured, audited or approved vendors.

## Finding an alternate part

One of the best ways to keep your product alive is to cross reference or find an alternate to that obsolete part that fits perfectly, said Chaudhary. "For some product lines like passives you're usually able to find crosses easily, but sometimes you have to make some minor changes to your end design to accommodate a cross but at least you're not totally redesigning your end product, which can be expensive."

"Finding a cross is probably the cheapest way to go, along with last-time buys as long as you don't wait too long when the part is no longer available in the market, which means you have to go to brokers," said Chaudhary.

But let's face reality, everybody misses deadlines, and one of 

the core competencies of independent distributors is finding parts in the open market.

If a part is no longer available from the component manufacturer or franchised distributor, buyers will have to go to the open market. Just choose your independent distributor the way you select any other supplier. Audit them. Many of the leading independents only buy from qualified and audited suppliers themselves, and have quality systems in place to ensure that parts aren't counterfeit or bad.

"It's not very hard to find these obsolete products through qualified suppliers, and that's the key, it has to be qualified suppliers. Of course, it goes through all kinds of quality control to ensure that the product is correct," said Malek.

"One of our core strengths should buyers miss a last-time buy, miss an announcement or if they are surprised by an end-of-life notice is finding product in the open market," agreed Gonnerman.

"There are times when the customer is surprised with obsolescence and that's when they come to people like us and say 'look I'm up the creek because this product is no longer available through regular distribution channels or direct, are there any product available in the open market, can you suggest any crosses, is there any leftover product or do you have any customers who might have them but aren't using them.' That's when they come to us with a Plan B," said Gonnerman.

"There's a false perception that people don't use the open marketplace; they have to. It's an imperfect world. There is always obsolescence and there are earthquakes. The supply chain is bumpy," said Andrea Klein, chairman and CEO, Rand Technology, Irvine, Calif.

"The reason why people get counterfeit product is because they don't have a controlled supply base. Quality is a factor and there is a cost for it," added Klein.

"Most OEMs spend 80 percent of their time on the top 20 percent of their materials; that's all they have time for so other parts get lost under the radar. There is a place for us and we are part of the supply chain," Klein said.

"Aside from the traditional EOL management that takes place at military, aerospace and medical companies, in particular, what's important for these companies that use older, legacy technologies is having a controlled supply base, and that controlled supply base needs to meet quality criteria first and foremost, in addition to being able to source the product," said Klein.

Klein says without a controlled supply base, OEMs can end up with a lot of poor quality product and put their companies at risk. Most obsolete parts aren't typically counterfeited; they are just improperly stored and handled, she said.

"Most important is to have a controlled supply base with a sophisticated global footprint, global searching capabilities so they have access to all product around the world, a very tight



"One of our core strengths should buyers miss a last-time buy, miss an announcement or if they are surprised by an end-of-life notice is finding product in the open market," said Tobey Gonnerman, Fusion Trade's global purchasing manager/European sales manager



"The reason why people get counterfeit product is because they don't have a controlled supply base," said Andrea Klein, chairman and CEO, Rand Technology

quality system at their organization to screen and filter products, and test capabilities," said Klein. "They also need to have the capability of solutioning the problem," she added.

If parts can't be found in the open market, then many distributors will help customers find a cross or alternate part.

"If we can't find product in the open market, the request goes to the product managers who start to look at datasheets to find cross parts that match or are the closest match to the component in

question and offer it to the OEM. The OEM has to make the decision either to do some alteration or get samples to make sure it works in their application," said Malek.

Since Rand offers full engineering services around the globe, Klein says they will "solution the problem," not just continue to buy older product and hope it works.

"If we can't find a solution on their AVL, it's Rand's commitment to find a different solution," said Klein. "At some point the quality product and exactly that part number is gone so it makes more sense to look at the flexibility of the part and create some viable options," she added.

"We have proprietary software that captures up to one million offers a day so we can see the excess as it turns through the channel around the world but even though we have this ability a lot of product is no longer available or quality product is gone," she added.

"If a customer still had the engineering resources, they would redesign or respin the board so now the onus is on the purchasing department to keep re-finding the same parts. A lot of them will make their end-of-life buys, which we recommend, from the original supplier or their franchised distributor, but then maybe they didn't buy enough or missed the end of life," said Klein.

Magee says recommendations for managing obsolescence are very industry related.

As an example, if a part is replaced with one not on the AVL for a piece of medical equipment after it has been approved by the U.S. FDA, it has to go through the entire qualification process again after the new part is designed in, Magee said.

"When it's a medical product, they try at all costs to not do a redesign. Most try to find enough product to get them through their next natural revision," Magee said.

"Their last-time buys or end-of-life support for obsolescence might only be a two-year period while they are going through the redesign," he added.

In addition to the distribution channel, you also can source parts through aftermarket or trailing edge sources like Central Semiconductor and Lansdale Semiconductor. In these cases, devices are made to the original manufacturers' specifications through licenses with the aftermarket manufacturer.