



Nonfranchised distributors are cautious about 2004

Nonfranchised independent distributors were harder hit by the electronics industry downturn than franchised distributors.

Independent distributors thrive during parts shortages when buyers scramble to find scarce parts. Conversely, their business suffers more during periods of high inventory and overcapacity, which has been the scenario for the past three years.

"It was the worst downturn that I have seen in my 25-year career in independent distribution," says Andrea Klein, CEO of Rand Technology, Irvine, Calif. Rand's revenue fell from \$265.9 million in 2000 to an estimated \$99

million last year.

However, as with franchised distributors, business started to pick up in the second half of 2003 for independent distributors and business has stayed strong in the first quarter of 2004.

Klein says business is picking up across many industries including computer, telecom, test equipment and consumer electronics.

Capital investment by companies will help drive growth in 2004. She notes many businesses have laid off people over the past three years. "Companies are having to do more with less. They are investing in software and are

going to have to invest in hardware and networking. This new marketplace will assure technology growth," she says.

Klein is optimistic that her business will grow at least 30% in 2004. As business builds during the year, shortages are likely.

"Component manufacturers are close to or at capacity right now and they are not going to open up any new factories or turn on new faucets," says Klein. "I think in the next 90 days you are going to see problems in the marketplace. There are going to be severe shortages."

While supply will continue to tighten, not everyone is sure there will be severe shortages.

"Clearly we see more demand. The number of requirements we see everyday is going up," says Leland Ackerley, vice president of Smith and Associates, an independent distributor in Houston, Texas. In terms of demand, "no commodities have gone through the roof yet. Right now there is strong demand for RAM, microprocessors, flash, logic, capacitors and hard drives, but no one category is leading the parade yet," he says.

He says while demand is healthy, it is not causing any price increases. "Buyers are surprised that prices aren't dropping anymore. A lot of prices dropped for three years. Now prices have firmed," says Ackerley.

He says there are two likely scenarios through the rest of the year concerning supply and prices: One is business continues to be strong, but there remains enough supply, so prices stay firm and don't rise. The other is that demand builds throughout the year and there are shortage items.

Like franchised distributors, independent distributors see growing opportunities in China and the rest of Asia and many have opened offices there. Many independent distributors buy product in Asia and much of the product they sell is used in equipment manufactured in Asia.

While the product is shipped to Asia, most is purchased by buyers in the U.S., according to John Irving, executive vice

president of sales and marketing for Fusion, an independent distributor in Beverly, Mass.

"With the shift of manufacturing going to the Far East, we see more buying coming out of the Far East, but the majority of purchasing is still happening in North America," says Irving. "Even though manufacturing has moved, purchasing has not."

Irving says 70% of Fusion's business is with contract manufacturers (CMs) and OEMs. "The majority of that is on the CM side because a lot of buying responsibility has moved from the OEM to the CM. More than 80% of the product we ship right now is to Mexico and China, but is purchased out of the U.S.," he says.

While independent distributors are doing more business in China, many buyers and distributors are concerned about counterfeit and substandard products that get sold in China. "The biggest issue coming out of China right now is counterfeit product," says Irving. It is scary. It's like the Wild West. We



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hear the counterfeit market has grown to a \$600 million per year problem. You have to make sure you inspect product and have back office processes and your vendor performance ratings to manage the issue," he says.

Klein of Rand agrees there is a "tremendous amount of counterfeiting taking place. There is a lot of product coming out of the backdoors of factories that had been quarantined, but the product ends up in the open marketplace," she says.

The problem could get worse if demand continues and shortages become acute. More substandard or counterfeit product will find its way to the open market.

The issue is not lost on the Independent Distributors of Electronics Association (IDEA) a fledgling group that rep-

resents nonfranchised distributors.

"You can get substandard or counterfeit parts from anywhere in the world. It's not a problem exclusive to China," says Nick Davis, IDEA president. However, there have been a number of counterfeiting and defective product issues with products purchased in China, he says.



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Problems run the gamut from mislabeled parts to chips being sold without dies or with fake dies, says Davis. In some cases, the parts have incorrect part numbers. In other cases, parts are pulled from boards or refurbished and sold as new parts. Components may look like the part that was ordered and may have factory part numbers and lot and date codes, but when the part is placed on a board it fails because it doesn't have the

correct electrical characteristics.

Independent distributors are sometimes criticized for selling poor quality parts or not doing due diligence in guaranteeing the robustness or origin of parts. In fact, some OEMs and EMS providers refuse to do business with independent distributors because of perceived quality problems.

Major independent distributors say they have robust quality systems that equal franchised distributor systems and will vouch for the legitimacy of parts.

However, substandard product from China will likely be a thorn in the side for the industry. IDEA is working with a trade group to come up with a counterfeit parts list to help distributors and buyers identify fake parts.

Davis advises buyers to buy from distributors who have rigorous testing and inspection processes in place.

"There are a lot of quality companies within the independent channel that do things right and stand by their parts. They have excellent paperwork trails and solid quality control systems. We want buyers to know we stand by our products," says Davis.

Top independent distributors

Ranking 2003 Ranking 2002	Company	2003 calendar year sales (\$mil.)	% change from 2002	Sales per employee	Total employees	% order \$ received through EDI	% of sales derived from VA services	Sales breakdown (%)					
								Active components	Passive components	Electromechanical	Interconnect	Computer products	Other
1 1	Smith & Associates	\$319.2	8.2%	\$1,056,953.6	302	0%	N/A	66	32	0	0	2	0
2 2	ce Consumer Electronics AG (6)	195.0	-7.1%	1,822,429.9	107	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
3 7	Resilien	183.0	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
4 4	Classic Components Corp.	180.0	5.9%	642,857.1	280	8%	3%	71	18	1	6	1	3
5 3	Converge	177.0	-2.7%	N/A	N/A	N/A	N/A	71	13	0	0	16	0
6 5	America II Electronics	175.0	15.1%	350,000.0	500	3%	10%	75	24	0	0	1	0
7 6	Advanced MP Technology. (2)	149.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
8 -	Fusion Trade (7)	121.6	298.7%	2,895,238.1	42	N/A	N/A	63	11	3	4	19	0
9 8	Rand Technology (2)	99.0	N/A	2,475,000.0	40	1%	N/A	91	5	1	1	2	0
10 10	Commodity Components International	33.0	-15.4%	733,333.3	45	N/A	5%	60	30	0	0	10	0

Leaders in active components

Rank	Company (Top 75 Rank)	Active component sales (\$ mil.)	% total sales	2003 calendar year sales (\$ mil.)
1	Arrow Electronics (2)	\$2,968.2	60%	\$4,947.0
2	Avnet (1)	2,703.0	53%	5,100.0
3	The Memec Group (5)	769.0	100%	769.0
4	All American Semiconductor (9)	283.5	90%	315.0
5	Bell Microproducts (4)	238.4	19%	1,254.9
6	Nu Horizons Electronics Corp. (11)	229.5	85%	270.0
7	Jaco Electronics (13)	170.0	67%	253.8
8	Dependable Component Supply Corp. (14)	130.2	63%	206.7
9	Richardson Electronics, Ltd. (12)	122.8	48%	255.9
10	Digi-Key Corp. (8)	107.3	28%	383.1

Leaders in passive/EM sales

Rank	Company (Top 75 Rank)	Passive/EM sales (\$ mil.)	% total sales	2003 calendar year sales (\$ mil.)
1	Arrow Electronics (2)	\$742.1	15%	\$4,947.0
2	TTI (6)	346.5	63%	550.0
3	Avnet (1)	255.0	5%	5,100.0
4	Newark InOne (7)	186.0	40%	465.0
5	Digi-Key Corp. (8)	183.9	48%	383.1
6	Dependable Component Supply Corp. (14)	76.5	37%	206.7
7	Jaco Electronics (13)	66.0	26%	253.8
8	Master Distributors (17)	63.1	82%	76.9
9	Wes-Garde Components Group (23)	52.6	92%	57.2
10	DAC (10)	49.4	18%	274.4

Leaders in computer product sales

Rank	Company (Top 75 Rank)	Computer sales (\$ mil.)	% total sales	2003 calendar year sales (\$ mil.)
1	Avnet (1)	\$1,938.0	38%	\$5,100.0
2	Arrow Electronics (2)	1,236.8	25%	4,947.0
3	Bell Microproducts (4)	1,016.5	81%	1,254.9
4	Richardson Electronics, Ltd. (12)	43.5	17%	255.9
5	Newark InOne (7)	18.6	4%	465.0
6	Fedco Electronics (61)	10.4	91%	11.4
7	Genie Group (30)	8.8	21%	41.8
8	Steven Engineering (38)	2.4	8%	29.7
9	Jameco Electronics (45)	1.8	10%	17.8
10	Cumberland Electronics (64)	1.5	15%	10.0

Leaders in interconnect sales

Rank	Company (Top 75 Rank)	Interconnect sales (\$ mil.)	% total sales	2003 calendar year sales (\$ mil.)
1	DAC (10)	\$225.0	82%	\$274.4
2	Avnet (1)	204.0	4%	5,100.0
3	TTI (6)	159.5	29%	550.0
4	Newark InOne (7)	79.1	17%	465.0
5	A.E. Petsche Co. (18)	75.0	100%	75.0
6	Digi-Key Corp. (8)	61.3	16%	383.1
7	PEI-Genesis (22)	56.3	95%	59.3
8	Powell Electronics (25)	46.6	84%	55.5
9	IMS (32)	37.7	100%	37.7
10	Allied Electronics (16)	34.4	21%	164.0

Top distributors by sales per employee

Rank	Company (Top 75 Rank)	2003 calendar year sales (\$ mil.)	Sales (\$) per employee	Total employees
1	Dependable Component Supply Corp.(14)	3,975,000.0	206.7	52
2	Genie Group (30)	3,800,000.0	41.8	11
3	Bell Microproducts (14)	1,568,625.0	1,254.9	800
4	The Memec Group (5)	961,250.0	769.0	800
5	Avnet (1)	945,845.7	5,100.0	5,392
6	Flame Enterprises (33)	841,860.5	36.2	43
7	Arrow Electronics (2)	772,968.8	4,947.0	6,400
8	EW Electronics (67)	716,666.7	8.6	12
9	JRH Electronics LLC (71)	677,777.8	6.1	9
10	Jaco Electronics (13)	626,666.7	253.8	405

Top distributors by sales growth

Rank	Company (Top 75 Rank)	% change from 2000	2003 calendar year sales (\$ mil.)	Total employees
1	JRH Electronics LLC (71)	90.6%	\$6.1	9
2	NRC Electronics (34)	58.2%	32.9	65
3	House of Batteries (60)	33.7%	11.5	85
4	Chip-Tech, Ltd. (40)	25.4%	26.2	50
5	Dependable Component Supply (14)	24.4%	206.7	52
6	Jaco Electronics (13)	23.5%	253.8	405
7	EW Electronics (67)	22.9%	8.6	12
8	Bisco Industries (26)	18.9%	53.4	225
9	Arrow Electronics (2)	17.8%	4,947.0	6,400
10	Universal Semiconductor (43)	14.3%	20.0	N/A