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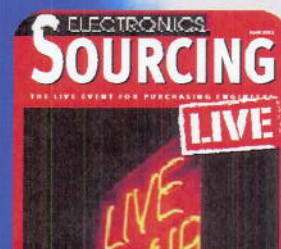
NEWS



DISPLAYS



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INDEPENDENT DISTRIBUTORS: THE TROUBLE SHOOTERS

In this article James Carbone looks at the driving forces behind the growth of independent distribution over recent years, plus their new relationships with original equipment manufacturers

Fusion Trade's general manager, Bill Masterson, opened the discussion: "Equipment manufacturers come to us for hard-to-find parts. Semiconductors were in short supply with long lead times. Business is still up significantly so far this year. Lead times aren't as long, but there are still pockets of shortages out there"

Fusion's CEO Paul Romano added: "Components at the lower end of the technology spectrum were in short supply last year and some continue to be an issue in 2011. There were shortages of capacitors, resistors, transistors, MOSFETS and diodes in 2010.

"It was kind of like rolling blackouts. As soon as one problem area was put to bed, another one cropped up. Shortages have somewhat abated, but there are still fairly significant issues

across the board with power MOSFETS continuing to be a nagging problem and relays are becoming a problem."

Fusion's vice president of trade, Carleton Dufoe, said: "Suppliers are now adding capacity, but they are doing it so slowly because they want to be profitable. Some are running lean because they

don't know where things are going to shake out for them. Memory suppliers such as

Samsung are increasing their capacity. Some have EOL'd [end of life] a lot of product lines and are retooling their capacity to lines that will be profitable."

In addition, during 2010 independent distributors have attracted new customers due to component shortages. Masterson explained: "These are buyers that did not go to independent distributors in the past. They came to us for shortages and we have been able to retain those new customers."

Executive vice president of America II, Chuck Magee, takes up the story, explaining that growth for independent distributors was driven by production cutbacks by component manufacturers in 2009: "The supply chain was in flux. Decisions were made to cut capacities and there was an unanticipated spike in demand.

"We had a 15 to 16 month period where each month was better than the previous. With employee layoffs and capacity reductions at suppliers, lead times stretched to 30 or more weeks for some parts and many parts were on allocation."

However, the scenario has now changed. Magee said: "Through January we have not seen the same robust market. The market is receding and has been for a few months. The fourth quarter of 2010 was good, but not at the same level as Q2 and Q3. That trend continued in January. Lead times have eased back. Semiconductor lead times are about eight to ten



"Shortages led to a significant increase in business across the board," said Bill Masterson, general manager at Fusion Trade



"OEMs are communicating with each other more. Purchasing and quality people are asking their colleagues at other OEMs who do you use for independent distributors," said Carleton Dufoe, vice president of trade for Fusion

Independent Distribution



"I think we will have a big second half and I think it will surprise everyone and there will be more shortages," said Andrea Klein, CEO of Rand Technology

Technology, Andrea Klein, added: "This year there is a funny market dynamic occurring. There are optimistic customers who expect business will be strong and conservative suppliers, who are not sure business will be robust and are cautious about adding capacity. This could blow up in the second half of the year. I think we will have a big second half and I think it will surprise everyone and there will be more shortages."

Klein said: "Longer term, there will be more opportunity for Rand and other distributors to grow business by partnering with OEMs and becoming more integral to them. Many OEMs have downsized to the point where they lack critical capabilities, including sourcing. This can be an opportunity for independent distributors that have the right services."

Besides helping independent distributors win more business, partnering with OEMs may have another benefit for independents. It could help them ease the fears of OEMs concerning counterfeit or substandard parts.

Authorised distributors and the Electronics Component Industry Association (ECIA), formerly the National Electronics Distributors Association, said OEMs and electronics manufacturing services (EMS) providers should only buy parts from component manufacturers or authorised distributors. It is the only way to guarantee that counterfeit parts don't get into the supply chain, they say.

However, the Independent Distributors of Electronics Association (IDEA) said there are many reputable, reliable independent distributors that have rigorous quality, screening and component inspection processes in place to prevent counterfeit and substandard parts from getting into the supply chain. While there are some unscrupulous component brokers who knowingly sell counterfeit or substandard parts, it is unfair to paint all independent

weeks and inventory levels are higher than last year. The only area where we see some difficulty delivering is passive and interconnect areas."

CEO of independent distributor Rand

distributors with the same broad brush, says IDEA.

General manager of IDEA, Debra Eggeman, said: "IDEA's 35 members recognise that counterfeit parts continue to be an issue for the industry. IDEA has developed its 1010 standard for inspection of parts and members have adopted those standards. Many members have also invested in test equipment to determine if a part is genuine, counterfeit or substandard.

"Many OEMs and EMS providers will require an independent distributor to be a member of IDEA and to use the 1010 inspection standard and pass IDEA's ICE-3000 parts inspection test."

Buying from reputable independent distributors, of course, is a major concern for buyers at OEMs and EMS providers. During last year's shortage, many buyers from different companies communicated with each

other about which independent distributors were reliable and performed well.

Dufoe said: "That was unique. OEMs are communicating with each other more. Purchasing and quality people are asking their colleagues at other OEMs who do you use for independent distributors."

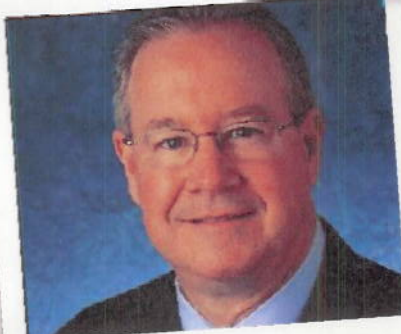
Romano added: "Communication among OEMs is part of a trend to 'vet their vendor base' and improve the level of their management of their independent distributors. In the past, everyone kept to themselves. Now there is a lot more communication."

Magee said: "To assure buyers that America II sells only genuine parts, America II offers a 10-year warranty on parts. Warranties from authorised distributors and component manufacturers are usually one year. It doesn't matter if it

comes from our stock or if we have secured the part from another source. We are confident in our supply chain and provide a 10-year warranty. It's been in place for over a year and we have not had a claim nor do we expect to."



"A lot of buyers have been burned with counterfeit parts and they don't want to get burned again," said Paul Romano, chief operating officer at Fusion Trade



"We have to have the ability to inspect the part to make sure the part has not been altered," said Chuck Magee, executive vice president of America II