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Don't call independent distributors 'brokers'

Independent distributors don't want to be called brokers. That's because the term broker in the distribution channel often is associated with unscrupulous behavior, and lower levels of quality and service.

Many independent distributors want to distance themselves from brokers as they continue to become a vital part of the supply chain, by implementing quality processes, instituting tough supplier certifications and building customer relationships.

Many of the big guys have already been making significant investments in counterfeit detection and testing labs to mitigate the counterfeit problem, distancing themselves from brokers that just sell components. These distributors are asking OEM and EMS companies to visit their facilities to conduct site audits in order to alleviate any of their concerns they have buying from an independent distributor. In some instances, they have up to four or five companies conducting site audits every week.

In a recent interview with Jim Magee, president of America II Electronics, for the Top 10 Independent Report, he said there is a core group of companies that belong to the Independent Distributors of Electronics Association (IDEA) that "have the integrity of the supply chain at the heart of what they do. Our job is to make sure that our large OEM and EMS customer base understands the value of the independent channel as a whole."

Still, independent distributors cite "credibility concerns regarding quality of open market products" as a big issue for 2011. Read our report on the top 10 independent distributors to find out what they're doing to keep counterfeit components out of the supply chain.

If you have any comments, questions, or story ideas, please send me an e-mail. I can also be reached at 207-989-2368.

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Model	Item	High	Low	Average	Market Change
DDR3 HDB 50-033M 128MB		27.00	26.00	26.50	↓
DDR3 2GB 50-033M 128MB		18.00	18.00	18.75	↓
DDR3 2GB 128MB 128MB		2.15	2.09	2.13	↓
DDR3 1GB 128MB 128MB		1.05	1.00	1.02	↓
DDR3 1GB 128MB 128MB		0.90	0.85	0.87	↓
DDR3 1GB 128MB 128MB		1.00	1.00	1.00	↓
DDR3 1GB 128MB 128MB		0.75	0.68	0.72	↓

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DRAM pricing rises slightly



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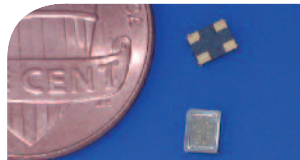
Collaboration is key at Silex

Company	2010 Global Sales (\$Millions)	Percent change from previous year	# of employees	Active Components	Price Commit
Advanced MP Technology	382.0	30%	272	19	1
A.I. Systems & Electronics LP	261.0	-1%	600	75	2
America II Electronics Inc.	200.0	28%	100	48	1
Foreign Trade Inc.	212.0	7%	100	63	1
Classic Components Corp.	205.0	4%	265	30	1
ICM Electronics	100.0	1%	100	10	1
Horizon Technology	68.0	15%	66	25	1
World Micro Components Inc.	23.0	20%	63	164	1

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GEOGRAPHIC EXPANSIONS, INVESTMENTS IN QUALITY DRIVE GROWTH

Leading independent distributors are positioning themselves as a vital part of the supply chain, as they continue to focus on quality assurance, counterfeit detection, and inventory management partnerships.

By Gina Roos

Global sales for the top 10 independent distributors grew by \$172.2 million or 11% percent, reaching \$1.75 billion in 2010, partly due to severe component shortages as the industry started to recover from a global downturn that began in the fourth quarter of 2008, according to Electronics Sourcing North America's (ESNA) survey of leading independent distributors.

In 2010, the supply chain struggled to keep up with demand, as component manufacturers cautiously increased production capacity, resulting in extended lead times and allocations across virtually all product areas.

Nearly all of the top 10 independent distributors posted higher revenues in 2010 with the exception of Smith & Associates, which attributes the decline to its exceptional sales in 2009. The distributor reported revenues of \$437 million in 2009, increasing sales 41 percent over the previous year. In 2009, five of the top distributors posted sales losses.

This year, you'll notice that Converge Inc., ranked number 3 in 2009, is not included in the top 10 ranking. Arrow Electronics, a leading franchised global distributor acquired Converge in 2010, and reported the independent distributor's sales as part of its global revenues last year.

The top five independent distributors virtually remained the same in 2010. The top two distributors - Smith & Associates and Advanced MP Technology - switched rankings this year. Advanced MP, ranked number one with \$382 million in sales, was followed closely by Smith & Associates, which posted \$380 million in revenues.

With the loss of Converge, America II Electronics (rank 3), Fusion Trade

(rank 4), and Classic (rank 5), all moved up one position. Rand Technology joined the top 10 ranks at number 6 with \$100 million in revenue.

The largest share of sales for the top 10 independent distributors was derived from semiconductors at \$1.1 billion, or 61 percent of global revenues. Sales of the top distributors for interconnects, passives and electromechanical (IP&E) reached \$482.3 million, or 28 percent of all sales. Top distributors posted computer product sales of \$158.3 million.

Thanks to overall strength in the electronics industry, several top independent distributors made significant investments in geographic expansions in 2010.

Advanced MP Technology expanded in France, Germany, China (Shenzhen), Brazil and Mexico. Fusion Trade doubled the size of its European office, tripled the size of its Hong Kong warehouse/quality hub and established an on-site presence in Guadalajara, Mexico.

Classic Components expanded in India and Asia, and Rand Technology expanded in Europe, Asia as well as North and South America.

Classic also made some sizeable investments in new inspection capabilities that included purchases for in-house X-ray capabilities. 4 Star Electronics also invested more than \$200,000 in quality-related equipment and plans to continue investing in leading-edge technologies to improve the company's capabilities. Stealth Components focused on upgraded technology, implementing a new enterprise database system and new phone system.

Key challenges this year, say distributors, include product availability, extended lead times, counterfeit components, and raw material price increases. They also say quality/supply assurance is a big issue for 2011, citing "credibility concerns regarding quality of open market products."

Top 10 Independent Distributors

Rank	Company	2010 Global Sales (\$millions)	Percent change from previous year	# of employees	% of total sales					
					Active Components	Passive Components	Electro-mechanical	Interconnects	Computer Products	Other
1	Advanced MP Technology	382.0	30%	272	50	27	4	10	9	0
2	N.F. Smith & Associates, LP	380.0	-13%	307	75	20	0	0	0	5
3	America II Electronics Inc.	300.0	26%	600	75	20	1	3	1	0
4	Fusion Trade Inc	250.0	7%	100	48	30	0	2	20	0
5	Classic Components Corp.	205.0	4%	265	68	19	2	6	2	3
6	Rand Technology	100.0	18%	70	80	5	5	5	5	0
7	Horizon Technology	60.0	15%	100	10	0	0	0	90	0
8	World Micro Components Inc.	30.0	50%	66	25	20	15	20	20	0
9	Stealth Components Inc.	23.0	207%	63	N/A	N/A	N/A	N/A	N/A	N/A
10	4 Star Electronics Inc.	18.0	58%	43	30	50	2	8	10	0

Source: ESNA

A QUEST FOR QUALITY

The independent distribution channel continues to evolve as many of the top independent distributors move well beyond being just a source of supply during times of component shortages

By Gina Roos

Although the existence of the independent distribution channel grew out of the need to support electronic component buyers during times of tight supply and shortages, top independent distributors are evolving their business strategies to include inventory management services including vendor managed inventory (VMI), consignment and excess inventory management.

They also have implemented tough supplier validation processes, and in some cases, made some big investments in counterfeit detection and testing equipment and labs.

Leading independent distributors don't just want to be the go-to guys during times of component shortages, they want to develop long-term relationships with their customers. And one way to do that is by focusing on quality, driven in part by rising incidents of

counterfeiting in the channel particularly when components are in short supply.

The independent channel has been undergoing a major transformation over the past several years, decidedly segmenting the channel into two distinct groups -- independent distributors that focus on building a quality supply chain and building customer relationships, and brokers.

What separates leading independent distributors from the broker channel is plenty -- they typically have quality processes in place, in-house component inspection and testing and invite customers on a regular basis to do on-site supplier audits.

Here's what the top 5 independent distributors have to say about their industry and their company goals.

1. ADVANCED MP

Advanced MP Technology offers three key services -- component distribution, vendor managed inventory, and excess inventory management. But one of the distributor's biggest concerns is quality in the component distribution channel.

"Quality is a bigger part of any operation nowadays and Advanced MP has put more focus on that," said Jens Gamperl, vice president of sales, Advanced MP Technology, San Clemente, Calif.

"Anything that comes into Advanced MP goes through very strict screening regardless if it's coming from an OEM, franchised distributor or factory direct -- they all go through the same documented IDEA-STD-1010-A process for inspection," said Kamran Malek, Advanced MP's vice president of marketing." In addition, all Advanced MP QC inspectors are certified by the Independent Distributors of Electronics Association (IDEA).

Malek says Advanced MP had more than 80 audits last year and "passed all of them with flying colors." Like any other supplier, independent distributors have to be audited in order to get on an OEM or EMS company's approved vendor list (AVL).

Malek attributes a lot of the company's growth to new management

Advanced MP at a glance

Headquarters:	San Clemente, Calif.
2010 revenues:	\$382 million
# of employees:	272
% of value-added sales:	23%
Key expansions in 2010:	Expanded in France, Germany, Shenzhen, Brazil & Mexico
Key challenges in 2011:	Product availability, extended lead times and counterfeit components

in Asia, and new offices in Shanghai, Hong Kong and Shenzhen.

The distributor also expanded in Germany, France, Brazil and Mexico in 2010, and earlier this year, opened a location in India. "Our focus is now in Korea, the Philippines, and Taiwan, and we plan to open one more Chinese location close to Beijing," added Malek.

Component shortages also fueled growth in 2010. "We haven't had shortages for eight years and last year was the first time we saw critical shortages for some passive parts," said Malek.

As for shortages this year, Malek's primary concern is Japan's infrastructure problems due to the earthquake and tsunami in March. "The industry is not going to get back to normal for several more months because power is a big issue. Power generation and blackouts are going to affect production this summer," he said.

Gamperl says growth this year will be driven by new technologies and components in renewable energy and LED lighting.

2. SMITH & ASSOCIATES

A new quality initiative is the biggest focus for Smith & Associates this year. The distributor launched SmithSecure to expand its quality processes throughout the supply chain.

The SmithSecure program consists of four parts -- SecureSource, SecureService, SecureTech and SecureTest.

Echoing the sentiment of most top independent distributors, Smith & Associates says quality is first, which has translated into big investments in counterfeit detection and avoidance. The distributor has state-of-the-art in-house testing labs at each of its three shipping and logistics hubs in Houston, Texas; Hong Kong and Amsterdam. Testing capabilities include dimensional statistics, digital imagery, stringent product verification, functional testing, and comparisons with manufacturer specifications.

Smith & Associates at a glance

Headquarters:	Houston, Tex.
2010 revenues:	\$380 million
# of employees:	307
% of value-added sales:	N/A
Key expansions in 2010:	Launched SmithSecure quality initiative and completed its counterfeit detection facility upgrade
Key challenges in 2011:	Economic climate, competition and quality assurance

In addition to the back-end testing, the distributor does most of its screening on the front end through its vendor rating program. "We have narrowed our vendor base down to more reliable, audited vendors that provide more traceability," said Marc Barnhill, chief trading officer, Smith & Associates, Houston, Tex.

Still, the distributor's top job is sourcing hard-to-find parts for its customers. "That is the true value of any independent -- getting

Top Independent Distributors

people difficult to find products and providing creative solutions for cost savings and for inventory management," said Barnhill.

Barnhill believes 2011 will be a better year than last year, or at least just as good. "We see across the board demand in every segment of our customer base for both commodity items and our service business," he said.

He also says opportunities created by the earthquake in Japan will drive growth in the third or fourth quarter "when companies want to

make sure they have product to build with."

"You will see more traditional-type shortage situations where you'll see some prices getting driven up and heavily allocated product in third and fourth quarter," Barnhill said.

To help keep up with demand, Smith & Associates opened two new offices in Taiwan and Singapore, and is now looking to expand in North America and Asia. Head count also has increased slightly over the last year.

3. AMERICA II ELECTRONICS

America II is on a quest to show OEMs and electronic manufacturing service (EMS) companies, one at a time, that the distributor lives and breathes quality.

"My main goal is to get every large customer to conduct a site audit of America II because seeing is believing, and it takes away the concern about purchasing from non-franchised distributors, at least from America II," said Jim Magee, president of America II Electronics Inc., St. Petersburg, Fla.

But Magee says you can't just say you're a quality organization, "you live and breathe quality as part of the culture."

And last year's shortages certainly gave America II the opportunity to prove it.

"Availability of quality product was the biggest challenge as lead times extended," said Magee. "That's why we performed so well because we are inventory-centric. When you decide to be an inventory-centric company you have to develop processes to support inventory management and inventory acquisition."

"The second biggest challenge is keeping the independents separate from the broker channel in terms of a quality testing perspective," said Magee.

As part of its quality focus, America II has invested a great deal of time and money into bringing in a third-party test facility inside of the

America II Electronics at a glance

Headquarters:	St. Petersburg, Fla.
2010 revenues:	\$300 million
# of employees:	600
% of value-added sales:	10%
Key expansions in 2010:	Started to duplicate its test house efforts in North America at its Singapore location.
Key challenges in 2011:	Availability of quality product and keeping independents separate from the broker channel

company's Florida facility. In place for three years, the solution, called Premier Semiconductor Services, offers a host of quality and counterfeit detection services including CCAP counterfeit testing, x-rays, decapsulation, solderability, and electrical testing.

America II says it didn't see an increase in counterfeits last year because it has a tough vendor qualification process and an even tougher vendor suspension system. America II has suspended more than 4,900 suppliers for counterfeit parts over the company's history.

America II attributes its 26 percent growth rate in 2010 to several factors including component shortages, higher average selling prices (ASPs) and some of the big EMS companies trimming their vendor bases.

Magee says 2011 will be an investment year for America II, expanding infrastructure in Asia, and potentially in Eastern Europe by the end of the year.

4. FUSION TRADE

Fusion Trade's philosophy about quality mirrors what most leading independent distributors say is one of their biggest, if not, top concern. The distributor also made a concerted effort about five years ago to take a customer-focused approach to its business in order to build relationships with its customers.

"Customer quality comes first in our entire organization," said Carleton Dufoe, vice president of trade, Fusion Trade, Andover, Mass. "Quality is a major aspect for every one of our customers. When they are transacting with the open market they want to make sure that they are getting good quality products each and every time."

"What we have now is true customer relationships instead of that of a broker just trying to sell them parts," said Dufoe.

"Our quality process starts with our vendor qualification process," said Dufoe. "New vendors go through a very strict vendor qualification process and product goes through a vigorous inspection process."

Fusion has two counterfeit detection labs, one in Wilmington, Mass. and the other in Hong Kong. The Anti-Counterfeit Screening and Analysis Laboratory enables the distributor to conduct both destructive and non-destructive screening and analysis.

The distributor's vendor verification process and vendor rating system includes site audits, a 21-point receiving inspection process where all components are documented and audited as well as a counterfeit avoidance program that includes 100 percent traceability using database comparisons and manufacturers' specifications.

This new business philosophy also helped Fusion Trade have a

Fusion Trade at a glance

Headquarters:	Andover, Mass.
2010 Revenues:	\$250 million
# of employees:	100
% of value-added sales:	16%
Key expansions in 2010:	Doubled the size of its European office, established an on-site presence in Guadalajara, Mexico and tripled the size of its Hong Kong warehouse/quality hub
Key challenges in 2011:	Increased counterfeit activity, raw material price increases, persistent product shortages

very positive year coming out of the economic crisis.

"Lead times were stretched out because manufacturers were running very lean after they cut costs over the last two years," said Dufoe. "It created a tremendous amount of opportunities for a company like Fusion and other independents."

There also have been some very quick shortages for some passives such as inductors and other devices including diodes in 2011, said Dufoe.

But the big issue for buyers was cost. Devices that normally traded at tenths of a cent were trading anywhere from 15 to 25 cents, said Dufoe.

There could be more supply issues ahead as component manufacturers obsolete some component lines ahead of schedule due to production problems caused by the Japanese quake and tsunami in March.

As a result, many customers are reviewing their projects for the next year and five years out, said Dufoe.

He expects continued growth across all sectors as well as in all repair segments, which has been on a growth path for the past 18 months.

5. CLASSIC COMPONENTS

Classic Components Corp. is undergoing a major evolution from a shortage-centered organization to one that offers different approaches and strategies to meet customer needs for inventory management, consignment and materials cost reduction. This year, the company plans to implement a reverse logistics offering.

"We are crisis managers but with that model you don't exist in the supply chain. You are more of a tool around the supply chain to help manage a materials crisis," said Ray Liston, vice president, global business development, Classic Components Corp. "The fact is that we do help them manage crisis and help keep their lines running, and there is a value in that," said Liston.

"If you look at how we have evolved in inventory management, excess management strategies, consignment agreements, those are getting big and more and more companies are looking at outsourcing some of those activities that aren't their core competencies," said Liston.

In addition, customers are looking to take advantage of opportunities to reduce their overall spend by allocating a small percentage of their spend to the open market to get pricing below what they're paying as a standard price, added Liston.

The distributor created a materials cost reduction hub, an exclusive OEM/EMS centered community for trade. "That was mainly to mitigate all the quality issues that were starting to surface in our industry in order to find good, reliable and trusted product," said Liston.

"Sourcing through a reliable, quality-driven supply chain is, and probably always will be our biggest challenge," said Liston.

Liston says Classic has experienced a measurable shift in strategy relative to managing excess inventory. He says customers can

Classic Components at a glance

Headquarters:	Torrance, Calif.
2010 revenues:	\$205.0 million
# of employees:	265
% of value-added sales:	4%
Key expansions in 2010:	Expanded in India and Asia
Key challenges in 2011:	Creating and implementing new supply-chain optimization programs and services, and continuing coordinated and sophisticated component counterfeiting from Asia

leverage its global operations and footprint to warehouse inventory regionally in an effort to reduce both logistics and carrying costs, while optimizing recovery rates through more qualified component level data.

The rising concerns over counterfeiting also prompted Classic to re-evaluate its global sourcing policies and shift more towards an OEM/EMS and qualified distributor sourcing strategy; relying less on open market sources, said Liston.

Classic also made sizeable investments in new inspection capabilities that included purchases for in-house X-ray capabilities, and plans to hire two SQEs this year.

Over the past few years, Classic has implemented significant changes to the organization in terms of management, MIS capabilities, IT infrastructure, quality management and corporate branding. The company also recently hired two new regional managers in its Singapore and Shenzhen offices.

Classic Components also recently launched its new website and corporate brand that reflect the changes to the company's revised business model. It's also looking into some new inventory financing programs through Classic Capital Corporation to provide additional avenues for its customers to reduce inventory carrying costs.

TOP RANKED INDEPENDENT DISTRIBUTORS: 6 TO 10

6. Rand Technology at a glance

Headquarters:	Irvine, Calif.
2010 revenues:	\$100.0 million
# of employees:	70
% of value-added sales:	10%
Key expansions in 2010:	Expanded in Europe, Asia, North & South America
Key challenges in 2011:	Quality, supply assurance

7. Horizon Technology at a glance

Headquarters:	Lake Forest, Calif.
2010 revenues:	\$60.0 million
# of employees:	100
% of value-added sales:	50%
Key expansions in 2010:	N/A
Key challenges in 2011:	Credibility concerns regarding quality of open market products, supply-chain software that streamlines supply-chain management, authorized distributor acquisitions

8. World Micro Components at a glance

Headquarters:	Roswell, Ga.
2010 revenues:	\$30.0 million
# of employees:	66
% of value-added sales:	5%
Key expansions in 2010:	N/A
Key challenges in 2011:	N/A

9. Stealth Components at a glance

Headquarters:	Charlotte, N.C.
2010 revenues:	\$23.0 million
# of employees:	63
% of value-added sales:	0%
Key expansions in 2010:	Deployment of an enterprise database system, and launched its new brand and company website
Key challenges in 2011:	Continuing the expansion of its supplier base with suppliers that meet its approval criteria to ensure counterfeit parts are kept out of its supply chain

10. 4 Star Electronics at a glance

Headquarters:	San Clemente, Calif.
2010 revenues:	\$18.0 million
# of employees:	43
% of value-added sales:	5%
Key expansions in 2010:	Invested \$200,000 in quality-related equipment
Key challenges in 2011:	Procurement, counterfeit parts and validation

Editor's note: ESNA understands that there are a host of independent distributors with revenues of less than \$100 million that likely would have made the top 10 ranking in 2010. Independent distributors must complete a three-page survey in order to be considered for the ranking.



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