

INDEPENDENT DISTRIBUTORS EXPECT ANOTHER STRONG YEAR

Business may not be as robust as last year, but some independents say double-digit growth is likely in 2011

By James Carbone, contributing writer

Strong demand, production cutbacks by component manufacturers and resulting component shortages drove 20-percent plus growth for many independent distributors in 2010 and some believe that double-digit growth will continue in 2011. Growth is expected to be especially strong in China, India and Europe.

Many independents said their sales grew 20 to 30 percent as many OEM and electronics manufacturing services buyers scrambled to find components last year.

"Shortages led to a significant increase in business across the board," said Bill Masterson, general manager at Fusion Trade based in Andover, Mass. "Equipment manufacturers come to us for hard-to-find parts. Semiconductors were in short supply with long lead times," he said.

Masterson added "business is still up significantly so far this year. Lead times aren't as long, but there are still pockets of shortages out there," he said.

Paul Romano, chief operating officer of Fusion, said components "at the lower end of the technology spectrum" were in short supply last year and some continue to be an issue in 2011. He said 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," said Romano. He said 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."

Carleton Dufoe, vice president of trade for Fusion, 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," he said. 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," said Dufoe.

While suppliers are adding capacity and fewer parts will be in short supply, Fusion is in position for double-digit growth in 2011, said Romano. One reason is strong demand in various geographies such as South America. In addition, "China is roaring and India is taking shape. Europe is hitting its stride," said Romano.

In addition, Fusion -- and other independent distributors -- attracted new customers in 2010 because of shortages.

"These are buyers that did not go to independent distributors in the past," said Masterson. "They came to us for shortages and we have been able to retain those new customers."

Of course other independent distributors attracted new customers as well, including America II. New customers helped the distributor have one of its best years ever. However, 2011 so far has been different, according to Chuck Magee, executive vice president of America II in St. Petersburg, Fla. He said the first half



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growth of the year will be slow, but business will pick up in the second half. However, Magee does not expect growth to be as strong in 2011 as it was in 2010.

"America II has been in business for 22 years and last year was our second largest year ever. It was only surpassed by 2000," he said.

Capacities cut

Magee said 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," said Magee.

He said business actually started to pick up in the second half of 2009. "We had a 15-16 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," said Magee.

Such a supply scenario is always good news for independent distributors -- and bad news for buyers -- because it brings more buyers into the open market and prices increase.


However, the scenario has now changed. "Through January we have not seen the same robust market," said Magee. "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," he said.

He said lead times have eased back. Semiconductor lead times are about eight to ten weeks and inventory levels are higher than last year.

"The only area where we see some difficulty delivering is passive and

interconnect areas," said Magee.

Still, Magee says the outlook for the year is positive. "I view it as first half correction and a second half pickup."

Andrea Klein, CEO of independent distributor Rand Technology in Irvine, Calif., agrees that the second half of the year will be strong. She says business will likely be slower in the first half as many companies "take a breather" from 

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Independent Distribution



"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

last year. In 2010, Rand increased revenue 30 percent, she said.

Optimistic customers

"This year there is a funny market dynamic occurring," said Klein. "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," said Klein. "I think we will have a big second half and I think it will surprise everyone and there will be more shortages," she added.

Klein said one reason the second half will be strong and shortages are likely is because new tablet computers will hit the market. She noted that about 35 new tablets were introduced at the Consumer Electronics Show (CES) in January.

In addition, there is greater need for more broadband capacity and telecommunications carriers will need to put more communications infrastructure in place, which will drive component demand.

"I am bullish about 2011," said Klein "The second half looks good and there will be solid growth for the year."

She added, that 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. She noted that 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, said Klein.

For instance, an OEM may have a sourcing issue with a part and its engineering department may try to find cross reference parts to find an alternative. An engineer may find a suitable part, but the part may not be readily available or produced in necessary quantities.

"What good is a cross if there is no product behind it?" she asked.

So the OEM may partner with a company that has the "engineering expertise, sourcing capability and sophisticated software that can provide information on crosses and upgrades," said Klein.

She said Rand will be a partner to more OEMs in the future and provide such 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. It's no secret independent distributors are often blamed for introducing counterfeit components into the electronics supply chain.



"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

Authorized 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 authorized 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 distributors with the same broad brush, says IDEA.

Debra Eggeman, general manager of IDEA based in Buena Vista, Calif., said IDEA's 35 members recognize that counterfeit parts continue to be an issue for the industry. She said 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.

She said 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.

"That was unique," said Dufoe. "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," he said.

Romano said communication among OEMs is part of a trend to "vet their vendor base" and improve the level of their



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management of their independent distributors.

"In the past, everyone kept to themselves. Now there is a

lot more communication," he said.

Romano said the fear of buying counterfeit parts is the reason for the greater communications. "During shortages buyers have to be out in the open market. To protect themselves they want references," he said. "They want to know who are the good players, the solid independents, and the ones who are going to send genuine parts. A lot of buyers have been burned with counterfeit parts and they don't want to get burned again," said Romano.

Magee said to assure buyers that America II sells only genuine parts, America II offers a 10-year warranty on parts. Warranties from authorized distributors and component manufacturers are usually one year, he said.

"It doesn't matter if it comes from our stock or if we have secured the part from another source," said Magee. "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."

He said America II is confident about its supply chain because it has done its due diligence with its suppliers and has a rigorous inspection, screening and quality process.

Magee said America II's quality standards are much better than franchised distributors. "When you work in franchised, and I did for 22 years, you get a factory sealed box and you ship it. It is a fairly easy process," he said.

It's different with independent distributors, Magee said. "We have to

be better. We have to have the ability to inspect the part, to make sure the part has not been altered. We make sure that the visual look of the parts matches the spec sheet with package and number of pins," he said.

For more on counterfeit parts, see pg. 22-24 in February 2011 issue.



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