

Distributors provide value by reducing cost, creating demand

Distributors' design, supply chain and value-added services help OEMs and EMS providers cut costs, get products to market quicker and manage supply chain risk

While some large semiconductor companies have questioned the value of distribution, many others in the supply chain including chipmakers and other component manufacturers, as well as electronics purchasers, say distribution's role is essential to the continued success and sales growth of their companies.

Last October, Texas Instruments caused a stir in the electronics industry when the company announced it would drop Avnet and some other distributors and would service more customers directly.

Many in the industry feared that other large semiconductor companies and component manufacturers would follow suit and drop some of their distributors and service more customers through websites. That concern does not appear to have legs as many buyers and component manufacturers have voiced support for their distributor partners.

Of course, the notion of distribution disintermediation is not new. Twenty years ago, there were some analysts who had forecast as technology evolved, the role of distribution would be greatly diminished. In fact, the role of distribution in the supply chain has been enhanced as more distributors offer technology-based supply chain

solutions and other services to boost efficiency and help customers compete.

Many electronics component suppliers point out that distributors reach and service customers that suppliers cannot. In addition the cost to service hundreds of thousands of customers would be prohibitive for suppliers.

"If you look at the TTI family of companies, we service more than 600,000 customers," said Don Akery, president, Americas for TTI. "Think of what it would cost to support all those customers. Whether customers give you a \$1 million order or a \$100 order, there is a cost associated with that and no supplier can handle that unless they can force the customer to buy in a way that the customer may not choose to buy," he said.

For instance, a supplier may require large minimum order (MOQ). There are many suppliers that require a customer to order 10 reels of 5,000 pieces or 50,000, said Akery. "Most distributors offer the same product at one reel or 5000 pieces or in smaller mini-reels of 100s or even in cut-reel quantity at exactly what the customer requires," he said.

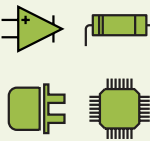
In addition, many OEM and electronics manufacturing services (EMS) providers require design, supply chain and value-added services that

component suppliers cannot provide.

Adding value, reducing cost

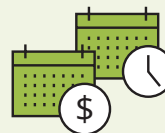
"The distribution channel is very important to us," said Jeff Thomson, senior vice president, global channel sales, for ON Semiconductor.

Top 5 Reasons to Use Authorized Distributors for Purchasing

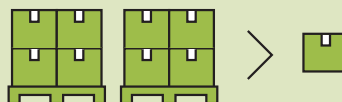


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SIMPLIFIED
Payment Terms And
Scheduling Flexibility



PERSONALIZED
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SMALLER
Minimum Orders

BROAD SELECTION
From Multiple Manufacturers



Connect. Influence. Optimize.



“They add value to the end customer and take away some of the cost of serving a customer from us by providing value-added services,” he said.

He added that about 60 per cent of ON’s revenue goes through the channel and distributors have provided excellent growth for us. “Over the last eight years, we have absolutely outpaced the industry in our growth of revenue in the distribution channel.”

He said growth has not just been with ON’s larger strategic accounts, but it has also been “in the mass market area, those hundreds of thousands of customers that we would never be able to support without them.”

About 25 distributors support ON, but 11 of them account for 90 per cent of revenue and 90 per cent of the units sold through distribution. “The rest of them are specialty distributors for end-of-life products, excess inventory, wafer sales, or high service,” said Thomson.

One way distributors help ON to grow sales is through demand creation. “We have our strategic accounts that we handle on a direct basis. We rely on our distribution partners to go after the wide mass market base and do the demand creation for that. It has proven to be very successful for us,” he said.

Creating demand

He noted that demand creation takes on different forms. “It could be the discovery of the ability for us to get on an AVL. It could be a design-in of one of our products into a new program. It could be expansion of our share due to work that the distributor does in an existing account,” said Thomson. He said distributors

not only help ON grow its customer base, but they also help the chipmaker to gain more business with existing customers.

“They help us go wider as far as more products or solutions. We call that solutions selling or designing in different types of sockets that we have to offer and they are able to drive even more share for us,” he said.

Distributors bring value to ON in many ways, including providing FAE resources, broad promotion of ON’s products, ensuring component availability through buffer stock, consignment programs and vendor managed inventory and extended credit payment terms for customers, said Thomson.

While suppliers such as ON appreciate such programs, so do OEM and EMS companies who benefit directly from services. One such customer is Data Electronic Devices (DataED), based in Salem, NH.

Michael LaFleur, vice president of operations for DataED, said the EMS provider buys tens of millions of dollars of components from distributors annually. One reason is the inventory and supply chain management programs that distributors offer.

“We have vendor managed inventory, in-plant stores from one of our larger distributors,” said LaFleur. “We also have a VMI cage for 10 other distributors for other parts. Those distributors handle all “the MRP signals they bring the material in and we don’t pay for it until it’s issued out of the cage,” he said. That is typically something a manufacturer would not do.

“We also have bread man programs with some distributors where they come in every week and refill the bins to a min-max level. We pay on a consumption basis,” he said.

DataED’s distributors also manage all end-of-life notifications and make recommendations at the technical level for substitute parts. The EMS provider also uses distributor value-added services such as IC programming and tape and reeling.

LaFleur said its distributor partners also provide crucial market intelligence about the supply chain. “We get reports from distributors on a weekly basis about trends in the industry,” he said. Such intelligence keeps DataED informed about market conditions, including availability, lead and prices for parts such as MLCCs, tantalum capacitors and chip resistors.

Supporting time-to-market

Distributor provided value-added, supply chain services and market intelligence are also important to EMS provider Coghlin Industries, based Westborough, Mass. Such services are essential to Coghlin because they help the company carry out its mission to get customers’ products to market as quickly and as cost-effectively as possible, said Jim Coghlin, vice chairman & chief supply chain officer for the company.

“One way we do that is by leveraging our distribution partners to support us with kitting or special packaging, special labeling, handling lower level subassemblies such as fan or cable assemblies,” he said. Those value-added services allow Coghlin to focus more on



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Jim Coghlin, vice president and chief supply chain officer for **Coghlin Industries**

supply chain management, integration, quality control and fulfillment, he said.

Distributors also provide Coghlin with bonded inventory, consignment inventory programs and vendor managed inventory programs.

Coghlin also values the level of service and technical expertise that its distributors provide. Distributors often have inside and outside salespeople and field applications engineers. “With a single phone call, you can get a high level of service. For instance, an FAE may be able to support you for multiple manufacturers in person and on the phone. In addition,

most distributors that we work with have local feet on the ground and local support,” he said.

Another key value of distribution is flexibility, said Coghlin. “Most distributors that we work with offer an early pay discount if you’re in a good cash position,” said Coghlin. “If you’re not in a good cash position and you need some flexibility with regards to extended payment terms, distribution is usually very good to work with in that context as well,” he said.

Coghlin buys from a handful of distributors. “We have about a half-dozen distributors and our goal is to purchase between 80-90 per cent of our electronics from those half-dozen distributors,” said Coghlin. “Distribution is definitely a core focus of ours.”

Leveraging services

Distributors are also important to the business model of EMS provider SMTC, headquartered in Markham, Ont., Canada. Phil Wehrli, senior vice president global supply chain for SMTC, said his company buys about 30 per cent of SMTC’s requirements through distribution including industry standard semiconductors, passives and connectors.

“Being a tier two or three EMS provider, we don’t have the volume as a tier one EMS provider to leverage things direct,” he said. “What we do is leverage the services that the distributors provide to try to offset the additional cost” of buying through distribution, said Wehrli.

“We have favorable payment terms through distribution and they provide in-plant store services, so we don’t take ownership of the inventory until we pull it from

the store,” he said. We also have some rebate programs when we hit a certain dollar threshold with the distributors,” said Wehrli.

Mark Shiring, president and CEO of ebm-papst Inc., based in Farmington, Conn., said it’s important that distributors provide its customers with the services that ebm-papst cannot. The company makes fans, blowers and motors and other products for companies in many industries.

“In our business we ship pallets of products, not small boxes of parts” except for samples and replacement parts, he said. “Breaking down skids and pulling out material is not our set up,” he said. However, many customers don’t need large volumes of products on skids.

“We have fairly significant customers that buy \$1 million of parts through distribution because that customer is looking for kits,” said Shiring. They want a returnable pack and a certain amount of our products and a certain mix of multiple products.

“I’m not set up for that kind of service,” he said. But ebm-papst distributors are. Distributors break down the parts out of the skids into the quantities and mix customers are looking for, said Shiring.

Some customers want small quantities of parts shipped weekly or biweekly. “Or they want total flexibility to tell us a week in advance when they want,” said Shiring. “I don’t have the bandwidth for that.”

If a customer is looking for smaller quantities of products and flexibility on schedule and preferred payment terms then “distribution is your best channel. We work with the customer to find the right partner and help them move

into a distribution model,” said Shiring.

He said about 20 per cent of his business is through distribution. Our distribution business has been growing in the high single-digits year on year and that has been keeping pace with the rest of our business,” he said.

Shiring said ebm-papst has a core set of authorized distributors, including some broad line distributors, catalog distributors and some local distributors in different regions.” Its distributors share the same values as ebm-papst. “They have the same customer-centric focus as us,” said Shiring.

Agnostic recommendations

While many OEM and EMS customers appreciate the value added and supply chain services distributors provide, they also appreciate the product expertise that distributors have to offer and the fact that they are “agnostic” in the parts they recommend, said Robert Derringer, director, global channel for Crouzet. The company makes switches, sensors, logic controllers and other products.

“We suppliers don’t like that, but quite frankly we would rather have them agnostic and trying to provide our customers with the best solution for their application,” he said.

“A distributor typically is not beholden to one manufacturer within a commodity,” said Derringer. That distributor is going to have multiple component manufacturers, some of whom are providing a standard solution for products, other suppliers may have less standard, more complex solutions.



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“You don’t need products that are over spec’d, over-powered and over-priced in many cases.” He said distributors can recommend the appropriate solution.