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The Distribution Paradigm Shift In the Eyes of a Rep

In recent years, catalog houses have had dramatic growth and it did not happen by accident. Digi-Key, Mouser, Allied and Newark are out-performing the traditional distributors in terms of growth rate and, profit margins. There is no doubt that catalog houses have higher GPM's because they have mastered cost-effective ways to process a large volume of small orders very profitably. Now some are going after high volume business as well. Read on and you'll see the feedback of industry professionals. This information was garnered by email surveys, as well as personal interviews at EDS '07.

Is there any question that the ultimate model of “lean distribution” is the catalog distributor? If the criteria is purely profit margin – it’s a no-brainer.

Our industry has experienced national distributors emerging into globals, locals into regionals, and creative independents into specialists. We have also seen the original catalog houses, like Allied & Newark, go hybrid with an outside sales force. Some industry people refer to them as “catalog houses on steroids”. More recently we have experienced the accelerated growth of catalog distributors, especially Digi-Key and Mouser.

Demand Creation

If the traditional distributors lay claim to “demand creation”, why are the catalog houses growing at a faster rate? Can it be that demand creation is exaggeration? Does the growth of catalog houses discount the value of registration programs? The leading catalog distributors are now assisting customers with engineering know-how. Maybe we are experiencing an era of teletech support versus traditional FAE’s.

What happened to the day of “value-added services”? It wasn’t long ago that national distributors (before they were

global) were debating the issue of “fee for service”.

To my best knowledge, catalog houses are not offering a myriad of services, but they are doing business anyway and at higher prices to boot. Is their service better? Is less better? Does it make buyers and engineers deliriously happy? Please explain to me the reasons for this paradigm shift.

Engineers & Buyers Have Less Time

Expediency is definitely a factor. Over 50% of OEM buyers stated that they don’t spend as much face time with distributor sales people as in the past. Purchasing departments are smaller and their jobs have become more extreme. In other words, greater workload is being placed on purchasing professionals. It’s easier and faster to place internet and phone orders with catalog houses and avoid the traditional banter about kids and sports – there’s just not enough time; it’s too precious. The latest Digi-Key stats show that 52% of their business is done over the internet. Engineers have even less time for non-technical sales people, but they are receptive to meet with disty sales people if their FAE is in tow.

Inventory Drives Sales

Nothing new here! Many industry observers feel that the A-team is selling at skinny margins, and therefore require more inventory turns and accordingly, have less stock on the shelf. It is also speculated that Global distributors are placing more importance on managing the semiconductor inventory side of their business than the IPE sector. As a result, the catalog guys are getting a larger share of the IPE DTAM. True or not, it’s the perception. Catalog distributors also seem to have an affinity for new products and suppliers. Trade papers, Woodstock, and catalog disty web sites are full of new products and new franchises.

Performance

Buyers reported that catalog houses are outperforming their competition in response time, P&D, and getting product off the shelf and out the door. There is little question that the logistic systems of Digi-Key, Mouser, Allied and Newark are state-of-the-art. If they weren’t, they could not support their accelerated growth. As an example, Digi-Key’s five year compounded growth is an impressive 23% versus 7% for Avnet and 2.2%

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and Arrow (*Electronic Business Magazine* 4/19/07). Maybe this is the reason that Future/FAI just hired two notable execs from Digi-Key and Allied.

DIGI-KEY

In recent years Digi-Key has been the most creative and celebrated catalog distributor. Their mantra is "Redefining Distribution". Most industry observers feel they are the #1 catalog house in the industry. The D-K 2007 forecast exceeds \$1 billion which represents a 20%+ increase. That's incredible performance considering they grew 25.7% last year and they're growing at 2.5 times the rate of the A-Team (Arrow & Avnet). They have over 360 franchises, a customer base of over 316,000, ship 2,000,000 parcels a year to 180 countries – out the door in as little as 15 minutes. If you think they're handicapped by the lack of FAE's – you're wrong! They have 95 teletech support people.

Incidentally, the May 2006 issue of *Electronic Supply and Manufacturing* magazine ranked them #2 between Arrow and Avnet in their preferred distributor survey. In case you thought D-K was an overnight success-wrong again. They got started in the early 1980's, and they've been on a roll ever since.

Reps and suppliers love them because they protect their suppliers' business by not quoting alternate sources – that's huge!

MOUSER

At EDS 2007, catalog distributors were recognized for their outstanding performance by numerous suppliers. As an example, Mouser received 14 awards. Suppliers cited numerous reasons such as double-digit growth, new product roll-outs and extraordinary teamwork. Vishay's V.P., Glenn Smith, cited Mouser as a preferred distributor with design engineers due to rapid product introduction, low minimum order requirement, as well as dedication to providing superior customer service. Mouser also touts having the largest and most diverse offering of wireless products. They may not be the largest catalog distributor, but they are the fastest growing, and they have the colossal financial empire of Berkshire Hathaway behind them. Like most catalog houses, customers and prospects can download hundreds of thousands of data sheets from their 330 franchised suppliers. Mouser's 1,850 page catalog and web-

site is used by over 280,000 customers in 170 countries. Mouser's mantra is "The Newest Products for Your Newest Designs". Apparently it's working. In 2006 Mouser added 8 acres of floor space under 50 foot ceilings.

NEWARK

This hybrid distributor is the grandfather of all catalog houses. They've been in business since 1940 (first catalog 1948), have 1,500 employees selling over 400 lines. Initially, Newark focused on small orders of prototypes and test production runs, and left the high volume business to the traditional distributors. Now, like other catalog houses, they operate globally 24/7/365 with tech support. Newark offers scheduled orders, dedicated inventory, vendor-managed inventory, kitting and bar-coded shipments. They also specialize in RoHS compliant components and list 40,000 products in a separate catalog. Today 20% of their orders, and total sales volume, is placed over their website. Their parent company is UK based Farnell.

ALLIED ELECTRONICS

Allied is the second oldest catalog house and in recent years has had a remarkable resurgence. They boast 56 branch locations in North America and a 99.9% order and shipping accuracy. Catalog circulation is 550,000 with 300,000 parts on-line and more than 135,000 featured products. They also have over 300 world-class suppliers that help fill their 193,000 sq. ft. distribution center with 100,000 SKU's. Their UK parent is the giant Electra Components, better known as RS. They tout a 5 volume catalog, and ship to 400K customers/year. They have 44 stocking locations that reportedly ship as quickly as 12 minutes. Their tech support group is a year old.

DISTRIBUTOR FEEDBACK

Surprisingly, an anonymous Arrow exec stated that catalog houses simply stock in greater breadth and depth and therefore, they are better equipped to respond to today's quick demand for prototypes and new products. Another exec stated catalog house growth was accelerated when the global distributors started referring tier 3 OEM accounts to call-centers. Many of these ROW (rest of world) accounts were the emerging ones. This exec further joked that the call-center number was 1-800-GET-

LOST. Not funny! Today, this attitude no longer prevails because distributors are hungry for ALL business.

SUPPLIER FEEDBACK

At EDS, some suppliers noted that global distributors appear naive to the "success factors" of catalog houses, or simply apathetic. A prominent switch company V.P. stated that catalog houses are outselling larger global guys in three simple words, "THEY STOCK IT!" Another supplier stated that much of the global distributor's inventory is customer specific or located at the customers "in house store".

Another sales manager stated that catalogs have created more demand where none existed before. He said it happens all the time simply by exposing product info to thousands of specifying engineers, and making it readily available. The product sells itself if it has technical merit just by virtue of its specifications, features, and benefits. The trick is making specifiers aware of its very existence.

REP FEEDBACK

Here is what some reps had to say:

- "I find that the catalog houses have some of the friendliest and obliging people that I have ever worked with. They send me reports in any format I would like, ie; first time buys, first time customers, plus a very comprehensive sales analysis."

- "Catalog distributors are doing it the old fashioned way, but using technology. In the old days, the distributor had the product in stock and would sell small quantities. The customer simply called down to the store or walked in and ordered across the counter. The catalog houses are doing a high tech version of this. They have stock and will ship in small quantities. Their website replaces the counter."

- "Catalog houses have embraced the rep community. An example is what Digi-Key did last month at EDS. They had "rep only" meetings to show how they would support our customers. What a novel idea! They are willing to share information with reps so they can grow their mutual business. Contrast this with some other distributors who only share zip codes on their POS reports."

- "We do see the catalog houses (Newark and Allied) actually going the other way and beefing up their outside sales force. This may be an effort to

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keep production business from moving to larger distributors after initial orders are placed. Catalog houses are capturing a larger percentage of the prototype/pre-production DTAM in North America before it leaves the country.”

- “Certainly the engineering driven distributors (D-K, Mouser, etc.) are out-pacing the industry growth, while the volume driven distributors are constantly fighting the margin war – high volumes and low asp’s, especially when selling to a heavy CEM customer base. I think it boils down to supporting the varying needs of a diverse and proliferating customer base that is under constant pressure to turn designs around faster and shorten the time-to-market window. It’s not all that complicated. Providing the right tools 24/7, and having the inventory to support it – the growth will follow. Price becomes secondary to excellence in service.”

SUMMARY

Based on the success of catalog houses, one might ask if the traditional distributors are heading for fewer feet on the street in order to enhance their bottom line.

According to Robin Gray, NEDA’s exec. V.P., “Catalog houses are outperforming the big guys, the public guys, the private guys, the little guys – Distribution as a whole”. He stated that, “NEDA’s data shows they’ve been outperforming everyone since we began tracking them as a separate group.” Gray went on to say, “Distributors who have survived have gotten away from competing on price and tried to sell services. They have been out there pushing the fact that customers buy value and not price from them. Those distributors that tried to compete on price alone aren’t around any more”.

Is there any question that catalog houses have found a unique way to go to market? This does not detract from the brilliant job that global and regional distributors have always done. It simply illustrates that there is room enough for distributors of every type. •

