Shifting opinions

Distribution has changed significantly in the last 10 years. So what does the future hold? By **Graham Pitcher**.

Distribution companies are becoming more important to the electronics sector. Yet in the space of a decade, many companies have changed significantly; and some have disappeared. So what does the distribution see for the future?

We asked how much the industry had changed in a decade. Martin Kent, ceo of Abacus, said: "Distribution has become more mature – it is still growing, but less fast, and competition is greater." Mike Carlucci, md of Azzurri, noted: "Azzurri was established nine years ago and the changes have been staggering. The most significant change has been the exodus of manufacturing out of Europe."

"There are two dynamics that stand out for me," said Chris McAneny, marketing director for Arrow Northern Europe, "and they are contrasting. First, the positive impact of the telecom/internet boom. Second was the negative impact of global business transfer between 2000 and 2005. Distributors have had to learn from and adapt to both."

So what changes can be expected in the next 10 years? Adam Fletcher, chair of distributors association Afdec, said: "The volume and value of business transacted via franchised distributors will continue to grow as component manufacturers outsource more operations and logistics functions. I expect that global franchised distributors will hold an even larger proportion of the component manufacturer's finished goods inventory and will be shipping to the manufacturer's direct customers and other franchised distributors as well as their own customers."

Consolidation has been a feature of the last decade. Is there more to come? Patrick Zammit, president of Avnet Electronics Marketing EMEA, said: "The big ones and small ones will still be around and have good growth opportunities, provided they adapt to market changes. Those challenged are in the middle – as we have seen in the past. The big question is will Asian distributors make it to Europe? Or will they change the rules on a global basis?"

McAneny added: "You could say mid size distributors are too big to be small and too small to be big. I envisage some mid size distributors will either go out of business or be acquired by a global distributor. Even what was historically a successful distributor, such as Memec, couldn't generate sufficient returns to remain independent."

Zammit (left): "Everyone will have to spend more time and resources to develop a decent engineering team."
Kent (right): "The challenge for distribution as a whole is (to maintain profitability)."

Carlucci believed: "It is harder and harder for a local distributor to make the right return on investment to grow their business. There will always be small/medium sized distributors in any territory, but these will greatly diminish. It will become virtually impossible for them to grow to a significant size."

Is design in becoming more important? Kent noted: "Increasingly, distribution faes are customers' main source of information on new trends and innovations in the component market. Equally, offering good technical support is the best way to ensure that customers start to talk to us at the start of a design project."

Zammitt said: "From opportunity finding to hands on design support, the design in part of the distribution service portfolio remains extremely important. And, because of rising complexity of products and technologies, our customers' technical support needs have increased dramatically."

Carlucci claimed: "Design in support by distribution is, without question, what suppliers and customers want. At the same time, it is something that no one is prepared to pay for."

With design in becoming even more important, how are fae head counts changing? Carlucci continued: "Our fae headcount is increasing. Our sales engineers are already the equivalent of faes in other distributors and then, to supply even greater support, we have specialist faes."

McAneny added: "Since 2000, our technical resources have increased significantly as a percentage of our total customer facing capability. Today, we have one technical specialist for every commercial account manager. Investments have been made across all areas."

Kent pointed out that technical support isn't everything. "We scale our technical resource to address demand for support from customers. We will always need sales people as well – because relationships form a second, equally critical, dimension to securing business."

Is it getting harder to find suitable faes? Zammit said it was. "This is a real challenge. Application engineers with the required qualifications are scarce. If you look for more specific know how, like analogue or power, it gets worse. Everyone will have to spend more time and resources to develop a decent engineering team." McAneny agreed: "It is always a challenge to find high calibre technical specialists, particularly in the analogue and programmable logic sectors."

So where do the challenges lie in the future? Zammit has no doubts. "Complacency. With price and time pressure on everything, an electronics service company like Avnet has to be adaptive and effective in its operations, and creative and innovative in the services it provides."

Kent believes: "Abacus has been a profitable business since it floated in 1993 and the challenge is to maintain that profitability so that we can continue to invest. The challenge for distribution as a whole is exactly the same."

McAneny sees offshore manufacturing as one challenge, tracking UK designs that are manufactured elsewhere. "Equally, the industry needs to achieve acceptable levels of profitability that enable continued investment in people and technology, in order to increase the value we provide to both customers and suppliers," he added.

Carlucci noted: "The biggest challenge I see is to distinguish between two different distribution models – fulfilment and demand creation. Each of these models has its own merits, but each has very different cost structures. We have to make sure that both suppliers and customers really understand these differences and are prepared to reward accordingly."

But Afdec's Fletcher has the last word. "In a maturing, lower growth electronic components market, the biggest challenge will be how to improve efficiency in front end sales and marketing operations, whilst reducing costs.

"The increased use of B2B tools, access to information and customer relationship management tools will help, but it is going to be a difficult and, I suspect, slow process. Most people will still want to talk directly to a knowledgeable individual with the power to make the decisions necessary to fulfil their needs. The electronic component market is, thankfully, a 'people' business and likely to remain so."

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McAneny (right): "I envisage some mid size distributors will either go out of business or be acquired."