



# **NEDA PUBLICATION**

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## **Supplier and Distributor Best Practices In Support of Demand Creation of Proprietary Products**

*An Industry Position Paper*

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**NATIONAL ELECTRONIC DISTRIBUTORS ASSOCIATION**  
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## **Supplier and Distributor Best Practices In Support of Demand Creation of Proprietary Products**

### **Problem**

Demand creation activities carried out by distributors and manufacturers' independent field sales representatives (reps) bring significant value to both suppliers and customers. Suppliers sell more parts, distributors and reps sell more parts and the industry prospers. However, with the accelerating globalization of our business, the successful business processes created to ensure that distributors and reps make an acceptable financial return on these design activities are breaking down. This breakdown includes factors such as:

- Distributors who supported the design are less likely to win production orders.
- When a distributor does win production orders, that margin is often insufficient to provide a fair return on both fulfillment and demand creation support.
- Inability to get POS information from distributors in Asia.
- Typical fulfillment margins in Asia are lower than other regions, not leaving enough margin to compensate appropriately for the design activities.
- The creation of "phantom inventory" caused by the ship from stock and debit model is not supported by Asian financial models.
- VAT considerations.
- Investment in systems and infrastructure.
- Management support

When the system breaks down, the distributors and reps are reluctant to engage in demand creation activities for those suppliers that do not support adequate compensation. In short, compensation consistency must exist to insure that demand creation focus continues.

It is critical for the survival of the supply chain that the problems with today's demand creation process be identified and solved.

### **Background**

The current demand creation process is one in which a distributor and/or rep works with designers to include a suppliers part in a design. During this process a supplier acknowledges the distributor efforts by assigning a design registration number through the use of the NEDA design registration form. The assembly is tracked to its manufacturing location and the purchase of the components through the distributor/rep. The distributor is usually compensated for the design work through advantageous pricing of the components which enhances the distributor's ability to win the production order at an acceptable margin.



The demand creation process is valuable for suppliers in that distributors and reps are working on their behalf to introduce new products and to include their parts in new designs. The process works successfully when the supply chain can track the assembly to the manufacturing location and fill the order for the designed in components. The process is completed when a fair return is paid to the distributor and rep and is reflected in the P&L for the designing organization as well as in the compensation for the rep.

This process breaks down if:

- The distributors or reps don't take the action to help design in a part as a result of past non-payment for services.
- The design can't be tracked to its manufacturing location.
- There is no reporting of POS.
- Fulfillment is not tracked back to the design activities
- There is no linkage among the various steps in the process
- The process is not applied globally.

### **Elements of a Successful Demand Creation Program (Proprietary Products)**

The following section outlines the minimum requirements for a successful design creation program. It is based on the successful experience with proprietary product.

#### **Supplier Considerations**

If suppliers want distributors and reps to create demand, then some critical factors need to be present.

Global pricing is a critical element in successfully managing a global demand creation program. Global pricing results in:

- Maintaining the market value of products in all regions of the world
- Extracting a financial return sufficient to reward distributor and rep for their demand creation efforts
- Preventing the transfer of less expensive parts to other regions thereby undercutting prices in that region.

In a global marketplace, proprietary products face similar price pressures in all regions. There is little justification for end-customer pricing to vary solely because of geography.

Top management must be committed to:

- Aligning global metrics
- Honor design registrations regardless of the manufacturing site
- Authorizing required investments
- Instituting global terms and conditions.



- Eliminating regional P/Ls – Regional differences regarding financial objectives should not influence compensations for Demand Creation.
- A consistent tracking process
- Extending the process that works well in North America and Europe to other regions.
- Consider providing compensation for design work when the distributor cannot win production orders
- Support the practice of ship and debit in Asia.

Global systems must be in place for tracking the design cycle from inception to fulfillment including:

- One global system for pricing, quotes, and registrations
- Global Ship-and Debit/Credit capabilities
- Global POS reporting

### **Distributor Considerations**

Demand creation, to be successful, requires distributor actions as well.

- Top management must be dedicated to supporting the efforts of the suppliers on global pricing.
- Support global terms and conditions that advance demand creation
- Establish ship and debit/credit capabilities in all regions
- All groups and individuals supporting the demand creation model must be in the payout equations
- Establish a process to distribute purchasing site margin to the design site team.
- Establish a global tracking process for design creation and ship and debit/credit
- Establish a process to provide early notification of potential manufacturing transfer situations to suppliers and the distributors' team at the manufacturing site.
- Include end customers in POS and design creation reporting

### **Problems to overcome**

- China Value Added Tax (VAT) must be understood to make the ship and debit/credit process effective.
- The ship and debit/credit model may create high levels of “phantom inventory”.
- International accounting systems are not always on the same data base.
- Fulfillment margins in Asia tend to be low thus not leaving enough margin to provide compensation for the demand creation activity.



## **Recommendations**

- Suppliers create one global “book” price for a component.
- Top management in the supply chain (suppliers, distributors, and reps) must be committed to the demand creation process including investing in systems.
- Suppliers must demand standard POS data from all distributors.
- Establish ship and debit/credit processes globally.
- Distributors and reps must “distribute” the income from the demand creation process to the right people within their organizations (i.e. those doing the design work).
- Establish a global tracking system for design registration (NEDA form) and ship and debit/credit .
- Understand completely the financial model in Asia to incorporate the successful demand creation elements.

## **Task Force**

The following companies comprised the taskforce that created this industry position paper:

All American	Arrow Electronics, Inc.
Avnet, Inc.	Empire Technology Group
Freescale Semiconductor, Inc.	Future Electronics
Intel Corporation	KEMET Electronics Corporation
Luscombe/Matrex Electronics Group, Inc	Mel Foster Company
Memec/Insight Electronics	Molex, Inc.
O'Donnell South, Inc.	Ohmite Manufacturing Co.
Sager Electronics	Texas Instruments
TTI, Inc.	