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A monthly newsletter for members of the National Electronic Distributors Association

To The Point

Robin B. Gray, Jr.  
NEDA Executive Vice President



# Product Shortages Point Toward Recovery Sustainability Trends Are Still Unclear

## What's Your Excuse?

It's May 11; do you know where your suppliers are? Your competitors do. Distributors and independent field sales reps are in Las Vegas meeting their key suppliers to learn about new products, plan sales strategies, evaluate performance and pick up new lines. If you are not attending the annual EDS Show, you are not where the industry meets.

Your competitors know that EDS is the ideal place to economically meet with suppliers. Instead of making multiple, expensive trips to visit your suppliers, you can make one trip and see them all. One trip over three days easily beats multiple trips, air travel hassles and weeks out of the office to meet your key suppliers. So, why aren't you attending EDS, May 11-13?

Here are the top ten excuses for not going to EDS:

10) *My buying group attends on my behalf.* Really!?! You want someone else to have that personal relationship with one of your key component manufacturers and represent your company's interest along with all the other members of the buying group.

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A recurring theme within the channel in the past several weeks has been product availability—leadtimes stretching out; spot short ages of components; and increasing prices. All of these signs point to a long-awaited recovery in the electronics market.

"Availability is a critical issue right now," says Andrew Femrite, head of Arrow Electronics Inc's Engineering Solutions unit. "As business conditions improve, demand increases for popular devices and puts a strain on designers that have to get products to market quickly."

Supply for key technologies, including NAND flash, DRAMs, graphic processor units (GPUs), analog components, logic and disc drives is tightening and lead times and prices are swelling, says Ed Smith, president, Avnet Electronics Marketing Americas. "As we've seen before, demand will outstrip supply as the market begins to recover."

The next question, of course, is whether this trend will continue. Visibility remains

challenging for a number of reasons. First, OEMs have been ordering hand-to-mouth during the downturn and are reluctant to commit to long-term forecasts. Second, improvements to the supply chain allow products to flow on more compressed schedules; again, discouraging long-term forecasts. Finally, component suppliers—

which scaled production back in response to the recession—are reluctant to add capacity for fear of ending up with an inventory glut should the economy start to go south again.

Activity in the spot market indicates March could be particularly

challenging for the memory market. February is traditionally a slow month for activity as box builders begin to get an idea of how their upcoming forecasts are going to materialize, according to Converge's February Market Insight Report.

March has historically been a busy month for memory as box builders begin to fulfill their forecasts. Industry analysts predict the memory market will start to take off

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“ Maintaining supply chain loyalties is one of the best business decisions you can make... ”

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## What's Your Excuse?

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9) *It's too expensive!* Airfares to Las Vegas are some of the best bargains around. Hotel rates at the Paris and Bally's conference hotels are a steal.

8) *It requires too much time out of the office.* If you are not meeting with your suppliers, your business might be the next one cut. The three or four days at EDS clearly beat all the single, time-consuming trips that you might make for one-on-one supplier meetings.

7) *There are no more t-shirt give-aways or show girls on the show floor.* Just checking to make sure you're reading this. This is not the EDS of days gone by, but rather it is a comprehensive business meeting, not an entertainment event.

6) *President Obama said business meetings should not be held in Las Vegas.* Another example of image over substance—Vegas is actually one of the most economical destinations for business meetings.

5) *I am a gambling addict, my doctor told me to stay away from Las Vegas.* I bet you that ... uh; I mean that you won't find a better wager...whoops, I mean a better investment in your time or money than networking with your peers at the industry's premiere meeting show.

4) *The show floor is filled with no-name manufacturers, so why bother.* Some of these so-called "no name" manufacturers just might have the next great product. You won't know until you visit these booths and meet with them. That way, you might get in on the ground floor with the next tech star.

3) *None of my buds are there!* The industry has changed and a newer generation is attending EDS. So, make some new friends. You might learn something new that helps grow your business.

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## Product Shortages Point Toward Recovery Sustainability Trends Are Still Unclear

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during the second half of 2010. Converge believes the uptick in spot market activity will begin sooner. Many box builders are reporting an earlier-than-expected migration to DDR3, and that will put a bigger strain on the supply channel.

Another example of the early migration to DDR3 is the steep decline in DDR2 spot pricing, Converge reports. The spot price for 2 GB DDR2 modules has dropped and large quantities of excess DDR2 is available for the first time in almost a year.

The supply-demand disconnect is not a new scenario for the channel. Distribution executives and supply chain consultants are getting ahead of the curve by recommending strategies for end-customers. The firm of Design Chain Consultants has drafted a set of "rules" for managing through the recovery.

### Rule 1: Supply lags demand during recovery

- Expect significant shortages and allocation during the first few quarters of recovery.
- Suppliers will take profits and look for sustained demand before adding capacity.
- Anticipate these shortages and take defensive actions.

### Rule 2: The early bird

- Understand your needs and place orders early.
- Expedite frequently to keep your place in line and watch lead times.
- Adjust material needs and order placements accordingly.
- Play fair.
- Do not get a reputation for double ordering or placing phantom orders. Suppliers must trust that your demand signals and purchase orders are accurate.

### Rule 3: Supplier relationships matter

- People, not machines, make decisions on which customers get supported.
- It is not just about size and volume.
- There are easy tactics and steps you can take to put you on the "A" list and keep you there. For instance, enter into a Vendor Managed Inventory (VMI) or similar agreement that places additional responsibility on the supplier to ensure your material availability.



Ed Smith, Avnet Electronics Marketing

"As we have seen before, when demand outstrips supply, OEM buyers will do what they have to do to secure the parts they need," says Smith. "Too often, they believe going outside authorized channels is their only option.

"Distributors are not just another source of supply," Smith adds, "but true partners with a breadth of market insight and technical expertise that cannot be equaled. The bottom line: maintaining supply chain loyalties is one of the best business decisions you can make – in good times and bad." ■



Barbara Jorgensen

## Industry Advocacy Campaign Will Deliver Your Message—Support It Today!

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The NEDA Industry Advocacy Campaign delivers the message that electronic component users and buyers can't go wrong dealing with Supplier Authorized Distributors. The renewed campaign will feature a significant online presence every month to grab the attention of your prospective customers.

### The Message

The threat of counterfeit product is still a significant industry issue. With more sophisticated technology comes even more advanced imitations. Depending on the type of component, counterfeits now comprise somewhere between 5% and 25% of all available parts. Counterfeit electronic components cost industry as much as \$100 billion per year. The estimated average cost to replace just one counterfeit part in one product after it ships is \$2,500.

### The Pitch

"What's a thousand dollars? Mere chicken feed. A poultry matter." *Groucho Marx*

Compared to the problem of counterfeit components, that's true. Your customers need to know that their safest choice for sourcing parts is the Supplier Authorized Distributor. Help us tell them. Don't be a chicken. It's time to pony up.

Bronze	\$1,000	Sponsor name listed on advocacy mini-site with click through to company Web page
Silver	\$5,000	Sponsor logo on advocacy mini-site with click through to company Web page
Gold	\$10,000+	Logo on advocacy mini-site with click through to company web page plus a separate company mini-page on the NEDA site.

There will also be acknowledgement of your support in the *NEDA Voice* newsletter. And sure - we'll throw in a pair of Groucho glasses with every contribution!

### The Reward

We need distributors and manufacturers to support this campaign. The return on investment will be an industry-wide marketing campaign aimed at increasing awareness of the important value of authorized distribution and the perils of buying from unauthorized sources. The value will continue to grow as companies use the campaign logo in their own advertising and online presence.

A very smart buy considering today's business climate. And that's no joke.

**Join today – click here to enroll.**

## What's Your Excuse?

2) *I'll miss my favorite TV programs and reality shows.* You prefer that to the real life drama of wheeling and dealing with your component manufacturers at EDS. If you don't go to Vegas, you won't be hearing the latest industry gossip or discovering the latest new product. By not going to Vegas, you will miss which company might be the biggest loser, or wins survivor consolidation or becomes the next American component idol.

1) *What, you are out of excuses?* There really isn't any good excuse for not attending EDS, May 11-13, in Las Vegas. It is the most cost and time effective way to meet with your suppliers, network with your peers and learn about the industry. ■

**Thank you to our generous advocacy supporters:**



Digi-Key Corporation



Projections Unlimited, Inc.  
Projections Unlimited, Inc.



Texas Instruments



Tyco Electronics



## NEDA Distributor Surveys: Compensation Survey and Productivity & Financial Report

The NEDA Compensation and DPR surveys are some of the most important in the industry. They offer unique industry statistics and NEDA is the only source of this data in the electronic distribution industry.

### The Compensation survey:

- Covers 30 sales, marketing, management and e-business positions
- Provides access to key data
- Effectively compares your compensation and incentive costs with industry practices

### The Distributor Productivity and Financial Report:

The DPR compares your operational and financial figures and ratios with the rest of the electronic distribution industry. By participating in the survey, you will receive two reports—the aggregate industry Distributor Productivity and Financial Report and your confidential individual Company Productivity Report.

Click here to review sample pages of past survey reports. They provide distributors a unique opportunity to gauge company performance and compensation practices within the industry. To make these surveys significant, we need a few more companies to participate.

Click here to participate in the compensation survey and click here to participate in the Distributor Productivity and Financial Report.

If you have any questions please contact Barney Martin [bmartin@nedassoc.org](mailto:bmartin@nedassoc.org).

## CNA: Technology Errors and Omissions

The electronics manufacturing and distribution industry faces loss exposure from physical operations, as well as unique exposures involving the services they offer and information that they handle. This article will focus on one of the specialized exposures and coverage solutions offered by CNA, Technology Errors and Omissions. The following is based on an analysis of claims incurred by electronics manufacturing and distribution companies insured by CNA between January 1, 2004 and December 31, 2007 and from industry data.

Electronics manufacturing and distribution companies face an evolving array of risks rising out of their product and service offerings. While it is possible for electronic components and devices to cause direct bodily injury or physical damage such as electric shock or fire damage, these incidents are somewhat limited by the nature of the products and their uses. In fact, only a limited number of these types of claims showed up in this study.

However, defects in components, devices or software embedded in these components and devices, can cause customers to lose revenue or incur significant financial expenses. For example:

- A component manufacturer is sued by a contract manufacturer or OEM for the cost incurred to rework, repair or recall product which was assembled using defective components supplied by the manufacturer. Damages can also include lost income and extra expenses incurred in implementing a work-around or in expediting repairs.
- Custom designed electronics do not fulfill the expectations of the customer. This may be attributed to actual performance deficiencies, miscommunication about what the product functionality should be or changes over the course of product development about the product's function. Damages often include the cost associated with development of the product as well as lost income due to the fact that the customer still does not have a functioning product to utilize.
- Technical advice provided by a component distributor causes selection of components that are inappropriate for the specified use. Damages can be similar to those caused by supplying a defective component to the customer. Rework, process interruption and even recall from the end user may create significant customer expenses.

In general, errors and omissions incidents may arise for a variety of reasons associated with emerging technological innovation, expectation or legal interpretation of obligations. The most common reasons for such disputes include:

- Misunderstanding between buyer and seller
- Misrepresentation by vendors
- Acceptance of customers' risk through hold harmless agreements
- Failure to state performance obligations in contracts with the buyers
- Delays in project completion
- Failure to maintain disaster recovery plans or failure to back up, maintain or retain source code as required to protect buyer source data
- Security errors
- Violation of government laws or statutes, including intellectual property disputes that bar delivery of products or services as specified

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## Make an Impression at EDS! Participate in NEDA's Project Host Program

For over 20 years Project Host has offered NEDA members a unique opportunity to meet the top Industrial Distribution students from universities throughout the U.S. The NEDA Education Foundation invites Student Ambassadors and their faculty leaders from 24 universities to attend EDS. Help us introduce the best and brightest students of the industry to its biggest show.

NEDA member Hosts are paired with the students for half-day sessions. Student ambassadors accompany their host to supplier/distributor meetings. While the students quietly observe, they gain real world exposure to the dynamic electronic distribution industry. In addition to providing a valuable experience to the future leaders of the industry, Hosts may identify candidates for internships as well as full time employment: You can host all three sessions or choose which are most convenient:

- Tuesday, May 11, 2010, 9:00AM – 12:00PM
- Tuesday, May 11, 2010, 1:00PM – 5:00PM
- Wednesday, May 12, 2010, 8:00AM – 12:00PM

Group sponsorship opportunities are also available during Project Host activities. They provide an excellent way for your company to make a lasting impression on all the students and attending faculty:

- \$3,000 Gold Level Sponsors host a luncheon on Tuesday, 5/11. Gold sponsors receive exclusive access to Student Ambassadors and Faculty Attendees, recognition at the University Orientation and acknowledgement in NEDA's monthly newsletter and Web site
- \$1,500 Silver Level Sponsors host the student/faculty orientation meeting on Monday, 5/10. Silver sponsors receive recognition at Project Host events, in all program materials, acknowledgement in NEDA's monthly newsletter and on its Web site.

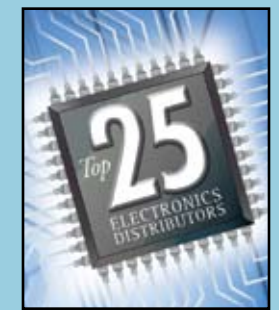
Sign up now to participate in the 2010 Project Host Program.

- Meet trained & knowledgeable job candidates.
- Develop valuable relationships with universities.
- Foster goodwill & spread the word about career opportunities in electronic distribution.



## EDN's Top 25 Electronic Distributors List

The annual list of the Top 25 Electronic Distributors will be published in a special 16-page section in the April 22nd issue of EDN. NEDA members have an exclusive opportunity to advertise in this special section. The section will appear in full-run issues of EDN as well as published as an "e-book" online. A comprehensive online traffic-driving program will direct online readers to the electronic version of the special section.



The annual list has become a must-read for engineers, engineering managers and executives. The list will be surrounded by 3 compelling articles:

- Channel Connections are key to success.
- Why some partnerships aren't perfect.
- Technology optimizes channel bonds.

This issue of EDN with the special NEDA section will also be distributed at the annual EDS Show in Las Vegas, May 11-13, providing additional exposure of your advertising message.

The ad close date is March 19th and advertising is open exclusively to NEDA member companies. For complete details, please contact Jim Dempsey, EDN at 440-333-3040 or via e-mail: [jim.dempsey@reedbusiness.com](mailto:jim.dempsey@reedbusiness.com)



## Are counterfeit components hiding in plain sight?



You bet your life, and maybe others', too. Faulty, fake components that often pass initial tests are boldly making their way into consumer products, medical products, even military products, threatening lives and livelihoods every day.

Supplier Authorized Distributors reduce the risk, delivering genuine parts from legitimate suppliers, with screening, traceability and warranty support you can trust. And they're easy to spot. Just look for the Supplier Authorized Distributor logo.



For a list of Supplier Authorized Distributors, visit the National Electronic Distributors Association. [www.nedassoc.org](http://www.nedassoc.org)

## CNA: Technology Errors and Omissions

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### Technology Errors & Omissions Loss Analysis

CNA data indicates a variety of complex causes of errors and omissions (E&O) claims with elements of the reasons listed above. Actual CNA claims parallel some of the examples given above including damages associated with rework of customer's product in which a defective component had been installed and failure of products specified by a distributor to meet customer requirements.

The data also indicates that the average E&O claim for this industry is \$202,670. While E&O claims are low in frequency, they can have a significant impact on a company's bottom line. Methods for controlling these risks should be included in an organization's overall risk management strategy.

### Technology Errors & Omissions Suggested Practices

The complexity of the technology products produced and decision guiding technical advice provided by this industry is daunting and becomes more complex daily. Completing a business transaction in this environment requires careful attention to the potential unexpected consequences of the utilization of these technological innovations, customer expectation and legal interpretation of obligations. Contracts and agreements can help to define these expectations and provide protection from liability and limit damages.

While product and service failures do occur, financial losses are sustained and claims are made against companies supplying electronic products or services. The hazard analysis and controls associated with a product safety program address the core factors in preventing errors and omission losses: product development methodology and documentation, quality control and complaint handling.

CNA offers resources such as industry and exposure guides and bulletins to help limit errors and omissions liability through appropriate risk transfer techniques. CNA also continually communicates emerging issues and legal trends for the electronics manufacturing and distribution industry and makes those available to all NEDA members. For more information on CNA's insurance solutions for NEDA members please click here or contact Lloyd Takata, CNA/NEDA Program Director at 678-473-4105 or [Lloyd.Takata@cna.com](mailto:Lloyd.Takata@cna.com).

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### In Remembrance: Seymour Schweber, Schweber Electronics

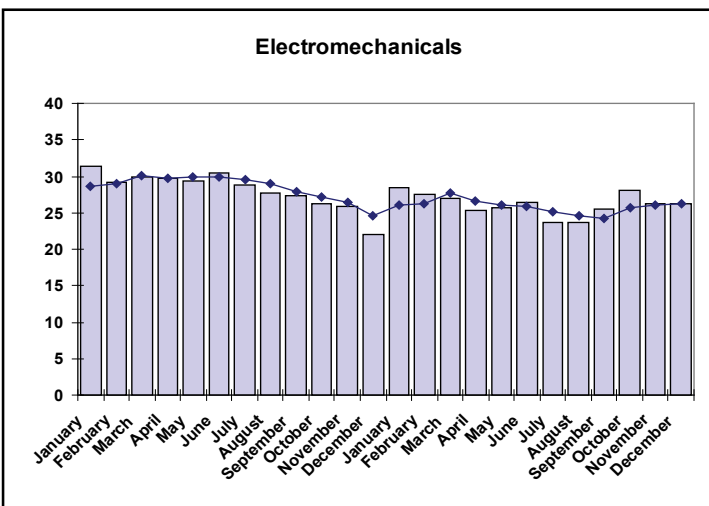
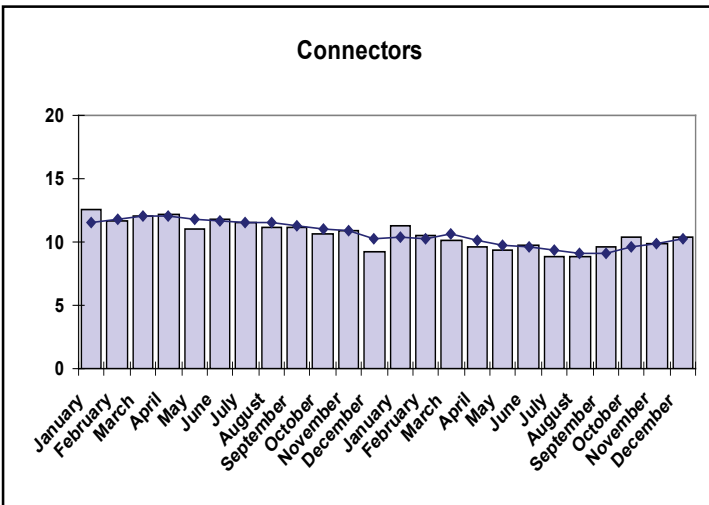
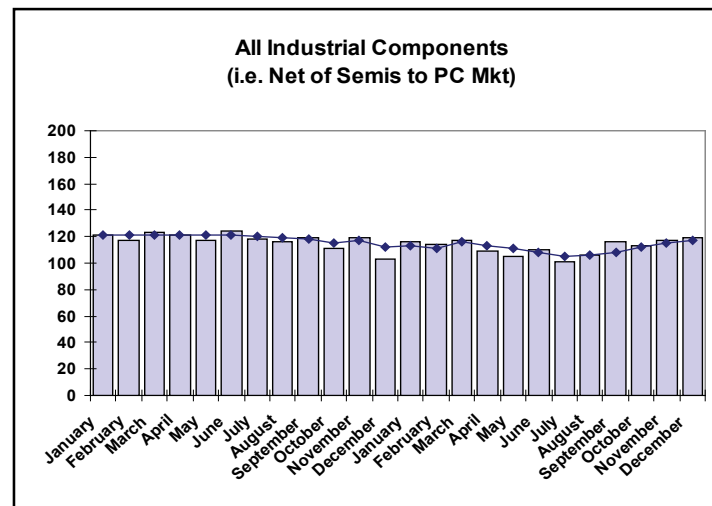
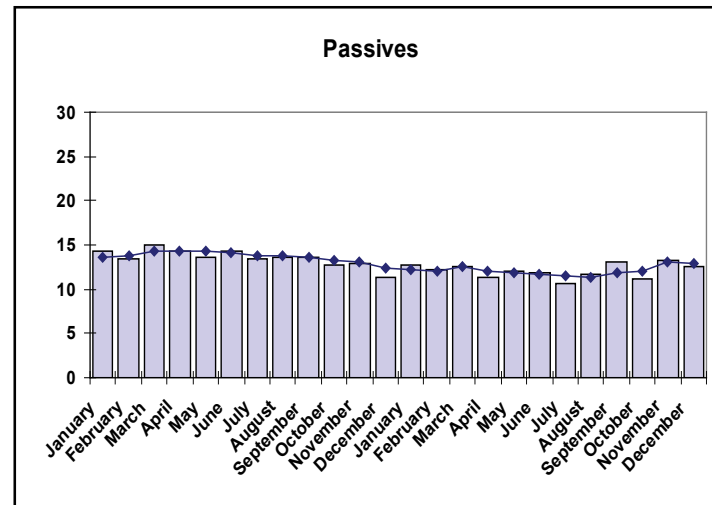
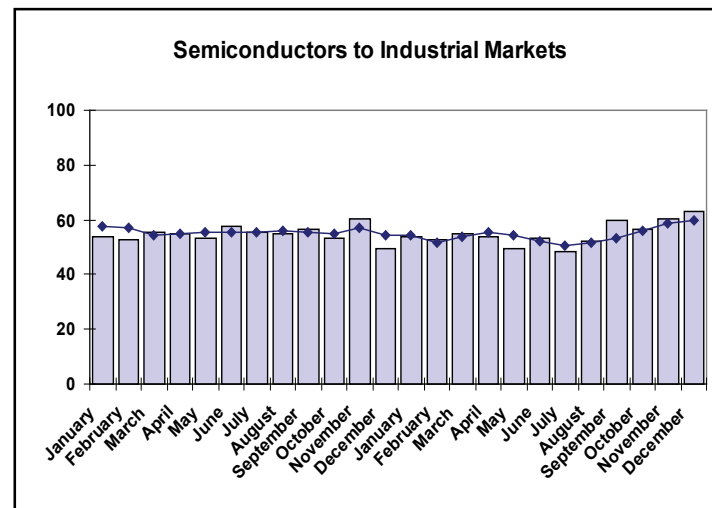
NEDA extends its sincere condolences to the family, friends and former colleagues of Seymour Schweber, an industry pioneer and founder of Schweber Electronics. His company held a prominent position at the forefront of the industry – embracing the latest technologies and helping other companies to adapt to the transitions. Mr. Schweber was also known for his creative advertising and marketing innovations. He provided the leadership and futuristic vision for the modern electronics industry.

Mr. Schweber was active in NEDA and received its Lifetime Achievement Award in 1998 – only the third recipient of the prestigious honor for unparalleled contributions to the development and success of electronic distribution.

AFDEC Monthly Statistics: Average Daily Sales by Month  
Sales in £k per day; ---- shows 3 month average

Each month AFDEC gathers statistics from its distributor members and summarizes bookings, billings, inventory, stock turn/earn ratio, debtors, gross margin, etc., split down by semiconductors, passives and electromechanical components and, where appropriate, into more detailed sub-categories. These monthly statistics enable members to check their own trends against those of the industry.

North American statistics are available through NEDA's Distribution Business Index.



Sure you have a Website, but have you truly harnessed the power of online marketing to produce business-building results for your company? Your answer can be the difference between a Website that is a money-maker and one that is nothing more than a glorified brochure.

In this results-focused three-part Webinar series, online marketing expert Bob DeStefano will make online marketing understandable and provide you with a practical roadmap for transforming your Website into your most powerful marketing tool.

You will learn how to harness the power of a customer-focused Website, search engine marketing and email marketing into an integrated marketing system that will continually generate new business, strengthen relationships with customers and maximize the results from your marketing investments.

- Webinar 1: How to Make Your Website a Lead Generation Machine on March 9<sup>th</sup> at 1:00pm EST
- Webinar 2: Seven Steps to Search Engine Marketing Success on April 13<sup>th</sup> at 1:00pm EST
- Webinar 3: How to Be Successful with Email Marketing on May 11<sup>th</sup> at 1:00pm EST

**How to Make Your Website a Lead Generation Machine**

Date: Tuesday, March 9, 2010 at 1:00pm EST

Price: \$149 per location



Is your Website a lead generation machine? Your Website should be your most powerful marketing tool, delivering a steady stream of new business leads filling your sales pipeline. Unfortunately, most industrial companies do not optimize their Websites for lead generation -- offering nothing more than a passive online brochure.

This enlightening Webinar will provide you with actionable tips and proven strategies for transforming your Website into a powerful lead generation machine. Whether you are an online marketing novice or an expert, you will learn proven ways to:

- Establish a niche online marketing strategy
- Create a Website your prospects & customers will love
- The best online lead generation techniques that most companies fail to use
- Generate a steady stream of new business online.
- And more!

Please see the NEDA website for a complete description of each Webinar in the series.

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## Upcoming Events: 2010

- |            |  |
|------------|--|
| March 3-5  | NEDA Board of Directors Meeting<br>New York, NY  |
| 7-11       | University of Industrial Distribution (UID)<br>IUPUI Conference Center<br>Indianapolis, IN |
| 9          | AEA Webinar<br>How to Make Your Website a Lead<br>Generation Machine                       |
| April 13   | AEA Webinar<br>Seven Steps to Search Engine<br>Marketing Success                           |
| May 11-13  | EDS<br>Paris Hotel<br>Las Vegas, NV  |
| 11         | AEA Webinar<br>How to Be Successful with Email Marketing                                   |
| Oct. 17-19 | NEDA Executive Conference<br>InterContinental Chicago O'Hare<br>Chicago, IL                |

## NEW NEDA Members

Manufacturer  
Fair-Rite Products  
Corporation  
1 Commercial Row  
PO Box 288  
Walkill, NY 12589  
Phone 845-895-2055  
[www.fair-rite.com](http://www.fair-rite.com)

Manufacturer  
W. L. Gore & Associates  
385 Starr Road  
Landenberg, PA 19350  
Phone 866-271-5955  
[www.gore.com](http://www.gore.com)

Manufacturer  
Visual Communications  
Company, Inc.  
190 Bosstick Blvd., Suite  
101  
San Marcos, CA 92069  
Phone 800-522-5546  
[www.vclite.com](http://www.vclite.com)