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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



## Component Sales Rebound, But May Soften Later In Year

By: James Carbone

### Hidden Costs In ObamaCare

ObamaCare is full of landmines for businesses, many of which are just coming to light and with more likely to come as regulations are drafted to implement the new law. One of the business hidden costs coming to light is a provision referred to as "Section 9006."

Section 9006 requires all businesses (including corporations, governments and nonprofits) to file 1099 tax forms for most purchases. Any business paying more than \$600 annually to a vendor must report that payment to the IRS on a 1099 form. This requirement becomes effective in 2012.

Under current law, businesses other than corporations are required to annually file 1099 reports for payments to vendors for **services** totalling more than \$600 annually. The new law significantly broadens the current requirement by:

- Expanding coverage by removing the exemption for corporations
- Expanding coverage to include **products** purchased by businesses
- Mandating electronic filing of 1099 reports

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Most electronics distributors report that business has been robust this year compared to 2009, and are cautiously optimistic that component demand will remain strong through the rest of the year. Many are reporting strong double-digit growth with many distributors forecasting at least 20% growth for the year.

Larger distributors have posted robust sales in the first two quarters of the calendar year compared to the first quarters of 2009. For instance, Avnet's component sales in its fiscal fourth quarter that ended July 3 increased 47% to \$3.12 billion. Arrow's component sales rose 44% to \$3.25 billion in its fiscal second quarter which ended July 3.

Both distributors forecast that their respective component revenue will continue to grow. Avnet says its sales will increase to between \$3.35- \$3.65 billion in its first fiscal quarter of 2011, while Arrow says its component revenue will be between \$3.32-\$3.52 billion in its third quarter 2010 fiscal.

Distributors smaller than Arrow and Avnet are posting strong sales growth as well. For instance, Digi-Key, based in Thief River Falls, Minn., posted a 75% increase in its sales in the first seven months of the year, compared to the same period a year ago, according to Mark Larson, president and chief operating officer for the company.

He adds Digi-Key's growth will be strong through the rest of the year although probably not as strong as the first seven months.



Mark Larson, Digi-Key Corporation

"The North American business has been holding up well," he says. "Day-per-day sales are strong." However, he says there has been a slowdown in Digi-Key's European sales. "Europe is off, but it is still more than double what it was last year," says Larson. "We're not putting on black armbands. There are still strong business conditions."

Michael Knight, vice president corporate product management and supplier marketing for TTI, based in Fort Worth, Texas, says TTI has seen a slowdown in its European business as well. "It feels like most of the continent takes a vacation in August," he jokes. "But the August slowdown isn't as dramatic as it historically has been," he says. Overall TTI's business remains robust and he says revenue will be up 20% for the year even if component demand slows down in the third and fourth quarters.

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## Hidden Costs In ObamaCare

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What this means for your business is that you will annually have to file with the IRS 1099 reports for **each** vendor that sold to your company **goods** and **services** totalling more than \$600 in a calendar year. The impact on the business community, particularly small businesses, will be significant. Some of the likely consequences are:

- Increased administrative costs to track and report all purchases from each vendor.
- Increased administrative costs to obtain each vendor's taxpayer ID number; and, if the ID number is a social security number, then the costs of safeguarding that information.
- Increased costs associated with storing the data and mailing 1099 forms to vendors.

However, Section 9006 does not apply to credit card purchases. As a result, some businesses may opt to pay for all purchases by credit card. One consequence of this practice will be increased costs for the vendor to pay the credit card processing fee, which in turn may result in these costs being passed back to the buyer in the form of higher prices.

Bills have been introduced in Congress to revoke Section 9006. The legislation, H.R. 5141 and S. 3578, is referred to as the "Small Business Paperwork Mandate Elimination Act."

NEDA has joined with the U.S. Chamber of Commerce in urging members

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## Component Sales Rebound, But May Soften Later In Year

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Business may in fact cool down a bit. "What we are just now starting to see is a softening in bookings," says Knight. "We closely monitor inventory for all of our supply chain customers. They update us on their on-the-shelf inventory levels and their forecasts. We are starting to see their on-the-shelf inventory starting to climb." He says, however, inventory levels are still low especially compared to 2008 levels. That means more parts will be ordered and component demand will remain healthy across all products. TTI carries passives, connectors and discrete semiconductors



Michael Knight, TTI

Knight says there is double-digit demand across most customer segments with the exception of military. "Military is still growing, but it has flattened out a bit, but at a high rate," says Knight.

For some distributors that specialize in products for the military/aerospace sector, business has been uneven this year. Frank Stalzer, president and CEO of Astrex, a Plainview, N.Y. distributor that sells a lot of connectors to defense contractors, says business has been better than last year, but has been unpredictable.

"We are going to have a good August. July wasn't bad but it is still a very spotty market," he says. "We'll have a couple weeks where there is a lot of activity and good bookings then we'll go a couple weeks where it is kind of quiet. It is choppy and unpredictable."

Stalzer says earlier in the year there was inventory replenishment occurring at customers, but now that has leveled off. Despite the uncertainty, more electronics manufacturing services (EMS) providers and OEMs are placing long-term orders, he says.



Frank Stalzer, Astrex

"Last year, no one placed any blanket orders that were 6, 9 or 12 months out," says Stalzer. "Now we see some contract manufacturing customers and cable houses doing jobs for prime contractors placing orders as long out as 12 months. That says they have visibility today which they didn't have a year ago. That's a good sign for sure."

Although business for distributors has improved, one issue that distributors and their customers are facing is long lead times for parts. "I would say we have 500,000 stock keeping units (SKUs) and 5% of those parts have long lead times or actual allocation," says Larson of Digi-Key. He says he expects supply conditions to improve over the next several months.

In fact, supply for some parts already has improved. "Some commodity resistors are coming off allocation," says Knight. "They were on allocation because of the big ramp-up in automotive this year. MOSFET supply is also getting better. We are getting delivery dates within a normal person's lifetime," he jokes. ■

James Carbone is a freelance writer covering the electronics supply chain. He is the former Executive Editor, *Electronics for Purchasing Magazine*.

## Components Council

### Update From Recent Meeting At Sager Electronics

Are industry issues causing you problems? Don't know where to go for help? Want to help craft an industry response? The NEDA Components Council is the place for you.

The council consists of 10 distributors and 10 manufacturers that, through a non-competitive, collaborative effort, identify industry issues, create committees to "solve" them, oversee the progress, and drive implementation. Formally organized committees within the council address the issues and provide direction, guidance, standards, and benefit to the supply chain.

Sager Electronics graciously hosted the most recent meeting at their headquarters in Massachusetts.

The council currently has three active committees addressing three industry issues: EDI, POS, and counterfeit parts.

#### EDI Committee

The EDI Committee has had several meetings. The team recently created a survey sent to all NEDA member companies to identify the usage of EDI transaction sets, which transactions are most frequently used, and what versions of the transactions are used. The committee will address those transactions that will have the most immediate impact on our industry. The goal is to ensure that the transaction set meets the needs of the distributor/supplier relationship. As a result of the survey, the invoice and purchase order will be the first reviewed.

#### POS Committee

This committee is reviewing the NEDA guideline on POS reporting. Initially, the

task was to look at the flat file version but, after some spirited discussion, the EDI version is to be included. The committee will work with the EDI committee on the EDI version.

Some considerations include.

- Optional fields should either have info included or some indication that it is blank on purpose.
- Should web sales be separate?
- Must include ultimate end customer.
- Using POS to help segment the market.

#### Counterfeit Committee

The counterfeit committee is tasked with creating an industry guideline that will address the following:

- Definition of Counterfeit – Used, rebranded, harvested die...
- Traceability with regard to stock rotation and returns
- Buy from legitimate supply
- Scrapping of parts

The committee is also investigating 3rd party databases for counterfeit reporting.

The SAE 19 counterfeit committee was discussed and how they may affect our industry.

The Components Council elected to establish two standing committees: Compliance and International Trade and Environmental. These committees will "monitor" their respective areas and report to the Components Council regarding developments that may require action by our industry.

If you would like to identify industry issues or volunteer for one of the committees, please contact Barney Martin (bmartin@nedassoc.org).

## Hidden Costs In ObamaCare

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of Congress to repeal Section 9006. In a letter co-signed by NEDA and sent to Congress, the Chamber noted that:

"...the new 1099 reporting mandate will alter behavior in the marketplace, which could lead to dramatic negative consequences for smaller merchants by driving purchases away from small vendors and startups. In order to minimize reporting, government, nonprofits, and businesses may consolidate their purchases with several large vendors with a broad geographic presence and a more diverse product line instead of a number of smaller ones."

Imagine having to track each purchase that your business makes by method of payment, amount and vendor ID and filing reports for such things as meeting registrations, airfares, hotel stays, restaurants, and limo service. Expense reports alone will become an accounting nightmare.

It is important that you make your views known to your congressional delegation on the impact that Section 6009 will have on your business. NEDA will continue to monitor this legislation and keep you apprised of developments. ■

# Competing for the Future: Are You Ready Today for Tomorrow?

NEDA Executive Conference — October 17–19, 2010

Act Now To Save \$100 - Early Registration Discount Ends September 24th

NEDA members receive a \$100.00 savings when they register by September 24th. After September 24th, the registration fee increases to \$920.00. Save even more with the special multiple attendee discount rates: the first two attendees from the company pay full price and every subsequent attendee pays just \$595 per person. Click here to register for the conference.

**Hotel Location:** We think you will find that the InterContinental Chicago O'Hare redefines expectations for airport lodging. It offers world-class facilities and impeccable services. There are many dining options on-site and within walking distance of the hotel. An added convenience is the complimentary airport shuttle to and from O'Hare International Airport 24 hours a day. Shuttles depart every 20 minutes

The special conference rate of just \$159 provides an incredible value for such elegance and luxury. To make reservations, either click here or telephone the hotel directly at (800-341-7949). Ask for group code "NED" when making reservations. The hotel reservation cut-off date is September 24th and rates are not guaranteed after that date.

## Conference Highlights

At a special presentation, NEDA will honor Steve Kaufman, retired Chairman and CEO of Arrow Electronics, with its prestigious Lifetime Achievement Award. Steve will also address the conference on Monday afternoon. With a unique perspective honed over 25 years in the industry, he will outline the challenges facing the industry executives of today and tomorrow and how they differ from his experience. He is currently the Senior Lecturer of Business Administration at the Harvard Business School.

Join other leaders from industry, government and academia to explore the impact of technology as it continues to shape our industry, the economy and the environment:

- Lloyd Kaplan, iSuppli Corporation, revisits his projections from the 2009 conference and measures them against the realities of 2010. Learn iSuppli's assessment of new technologies on the horizon and the opportunities for growth in areas such as smart grid, power, and bandwidth.

- Dr. Barry Lawrence, Texas A&M University, speaks about the Council for Research on Distributor Best Practices – a unique collaboration of 20 distributors working together to develop practical methodologies and tools to improve effectiveness of their sales and marketing strategies. Learn the results of this latest research that links the sales and marketing process to shareholder value and customer service.

- Ali Sebt, Renesas Electronics America, presents "Electronics – Changing The World We Live And Work In"; a discussion on how decisions about technology, channel strategy, market focus and corporate social responsibility are impacting the innovation that is changing our world.

- John McDonald, GE Energy, explains the "smart grid" and its ramifications for our industry and the world. Much of America knows that power companies, engineers and government experts are focused on building something called the smart grid—but not everyone understands what it is. Learn from one of the world's leading smart grid experts.

- Brad Whitworth, Cisco Systems Inc. talks about how Cisco and other companies have put social media to work in his presentation "Social Media: Marketing Cure-All or Internet Quackery?"

Use this up-to-the-minute information to your advantage and formulate a winning company strategy for your business. Position your executive team in Chicago October 17-19.

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## Conference Post It Notes



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## Patchwork Of Laws A 'Compliance Burden'

### Is A Federal Recycling Standard Possible?

In a rare moment of serendipity, the U.S. government has come to the same conclusion as some electronics industry observers—that inconsistencies in states' e-waste laws represent a compliance burden to electronics manufacturers and their business partners.

"To varying degrees, the entities typically regulated under the state laws—electronics manufacturers, retailers, and recyclers—consider the increasing number of state laws to be a compliance burden," according to a July report issued by the U.S. Government Accountability Office (GAO) [www.gao.gov](http://www.gao.gov).

More than 20 U.S. states have already implemented e-waste and recycling initiatives. The problem is, these statutes are currently managed on a state by state basis. The parameters of each law vary: for example, the scope of the products that must comply with these laws can be widely interpreted. Enforcement agencies vary from state to state. Moreover, there is no centralized approach for registration, cost, reporting structures or enforcement of the laws, according to Ken Stanvick, principal of consultancy Design Chain Associates (see NEDA's August newsletter, at [www.nedassoc.org](http://www.nedassoc.org)). Electronics companies such as Newark have also noted these differences and the difficulties in potentially complying with 50 different e-waste laws.

Stanvick notes that the European Union has already run up against a similar problem. Beyond the basic requirements set forth by the EU-wide WEEE Directive, member countries have a lot of latitude in defining who and what is affected by the law. "The bottom line is that there is currently no common registration process, cost or reporting structure. This has required 'producers' to comply with the unique requirements of 27 EU member states," says Stanvick.

The GAO suggests that the U.S. Environmental Protection Agency (EPA)—which currently enforces rules for the recycling high-lead-content products and oversees voluntary recycling efforts among manufacturers and their partners—could oversee a coordinated federal effort on e-waste. However, the GAO also notes that a federal statute could limit states' rights to craft their own laws. Relying on state laws, says the GAO, provides the greatest degree of flexibility to states, but does not address concerns that the state-by-state approach is a compliance burden. A federal law, however, may limit states' ability to enact standards that are more stringent than the government's. If a federal law does allow states to set their own standards, the addition

of a federal guideline will add to the compliance burden on manufacturers.

The GAO previously recommended that the EPA submit to Congress a legislative proposal for ratification of the Basel Convention, a multilateral environmental agreement that aims to protect against the adverse effects resulting from transboundary movements of hazardous waste. EPA officials told GAO that the agency had developed a legislative proposal under previous administrations but had not finalized a proposal with other federal agencies. The GAO now recommends that the EPA:

- Examine how EPA partnership programs could be improved to contribute more effectively to the management of used electronics products
- Work with other federal agencies to finalize a legislative proposal on ratification of the Basel Convention for congressional consideration.

"The EPA should undertake an examination of the agency's partnership programs for the management of used electronics," the GAO report concludes. "The analysis should examine how the impacts of such programs can be augmented, and should culminate in an integrated strategy that articulates how the programs, taken together, can best assist stakeholders in achieving the environmentally responsible management of used electronics nationwide."

The EPA agreed with the recommendations, according to the GAO report. The EPA is in the process of reviewing the GAO report and updates will be issued when the EPA takes action.



Barbara Jorgensen

## New Advocacy Website Delivers Updates on Counterfeit News While Promoting Supplier Authorized Distribution

The threat of counterfeit product is an ongoing significant industry issue—technology continues to become more sophisticated and more advanced imitators follow. The newly-launched advocacy website ([www.supplierauthorizeddistributor.com](http://www.supplierauthorizeddistributor.com)) delivers the message that sourcing electronic components through the authorized channel is the only protection that guarantees authentic product. The site is continually updated with news items concerning counterfeit product

**We Need Your Support** Distributors know that it is necessary to continue to promote supplier authorized distribution to end-user customers. For NEDA manufacturer members, authorized distributors account for a large portion of total product sales. Electronic component users depend on distributors. Having the NEDA industry advocacy campaign encourage the use of supplier authorized distributors is very important to business. We need your support today to make an investment in the industry.

Your return on this investment is an industry-wide marketing campaign to increase awareness of the important value of authorized distribution and the perils of buying from unauthorized sources. A very smart buy considering today's business climate.

One association speaks for supplier authorized distribution better than anybody else. Participate in that dialogue! Join the sponsors to the right and become a part of this campaign.

[Click here to enroll.](#)

### Electronics Sourcing North America September Issue - NEDA Supplement

NEDA membership offers a multitude of benefits. One such advantage is the work the association does with the trade media to bring members a variety of discounted marketing opportunities throughout the year.

Electronics Sourcing North America, one of the industry's newest publications, just released a special supplement that spotlights the upcoming Executive Conference and highlights the many advantages of NEDA membership. NEDA members were given preferred pricing and placement in this special edition. [Click here to view the digital edition.](#)



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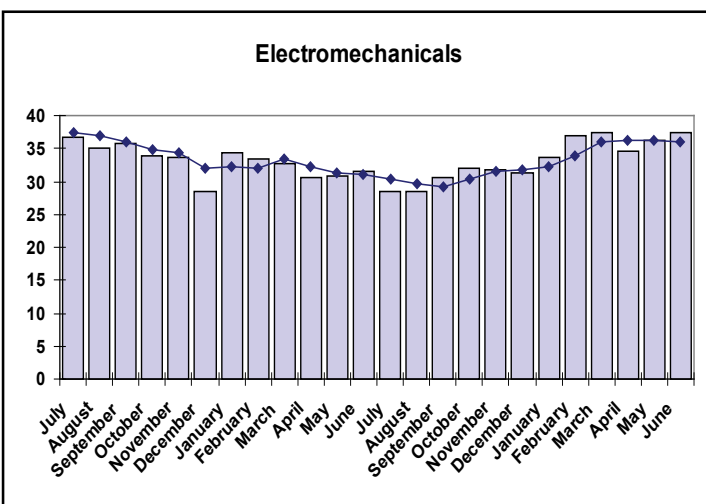
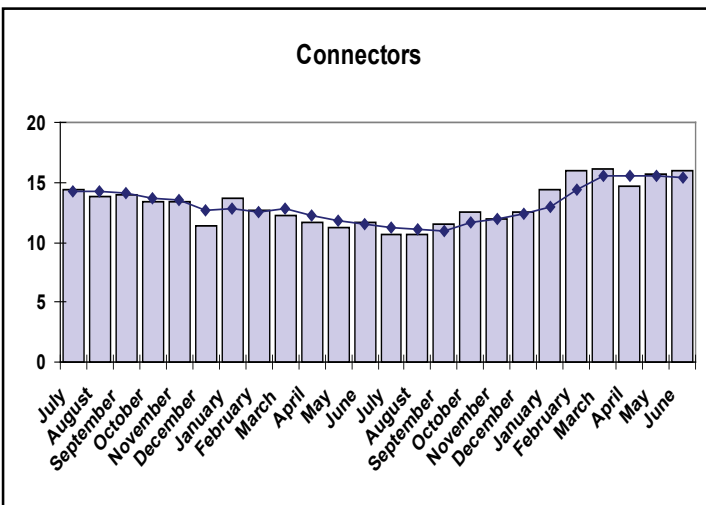
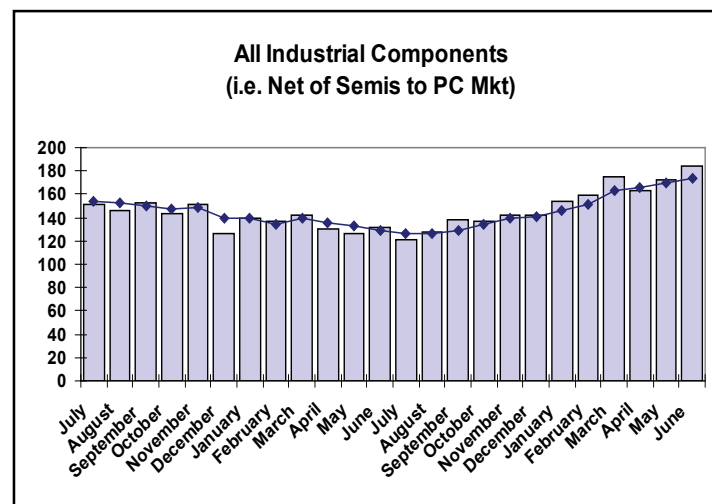
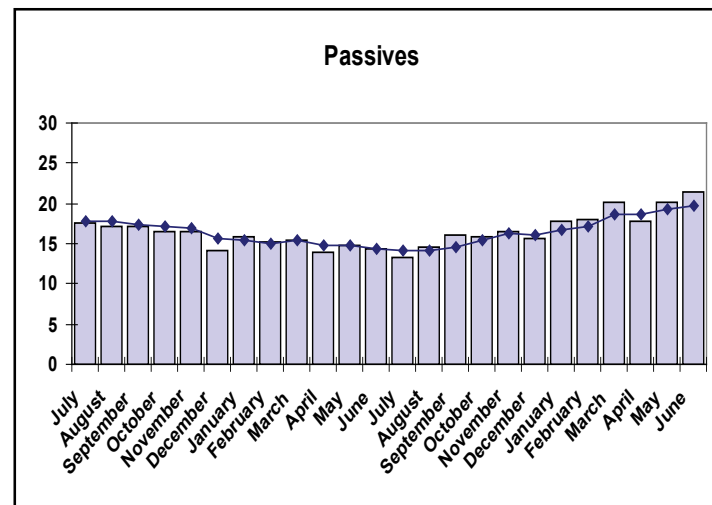
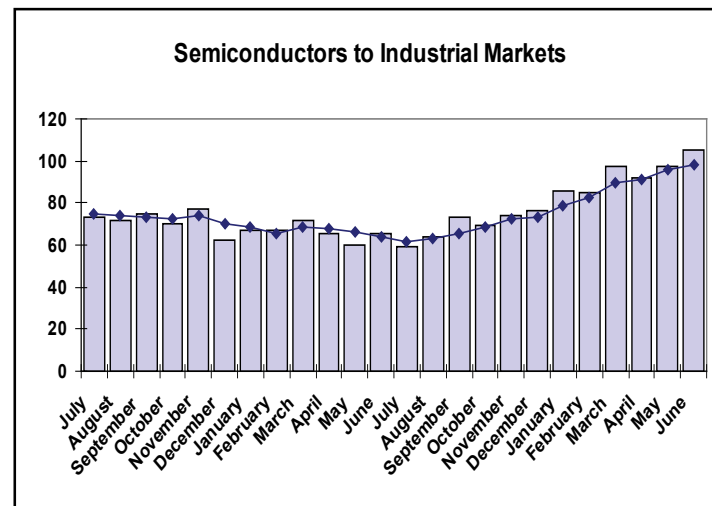
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AFDEC Monthly Statistics: Average Daily Sales by Month Sales in £k per day; ---- shows 3 month average

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.



## Last Call! 2010 Channel Marketing Awards Submit By September 17th

Since 2002 NEDA has honored the outstanding marketing efforts of our members with the Channel Marketing Awards. The annual competition provides you and your team a chance to showcase your exceptional marketing efforts and earn some well deserved recognition. A few trophies for the office are always nice!



Judging is conducted by business-to-business marketing professionals and winners are announced at the NEDA Executive Conference in Chicago.

Each entry must be received by Friday, September 17th and represent marketing efforts conducted between July 1, 2009 and June 30, 2010. Click here for complete details and to down-

load a copy of the brochure.

Enter your work in the competition today. We wish you the best of luck!

## electronica - November 9-12

electronica is the world's leading trade fair for electronic components, systems and applications and will take place November 9 to 12, 2010 in Munich, Germany. Innovations from the entire range of products and services in the electronic industry will be presented at the most important international meeting-point for the industry.

In addition to the exhibition areas, a supporting program containing first-class conferences – electronica Automotive Conference and Wireless Congress – and discussions.

electronica 2008 was attended by around 73,000 visitors from 113 countries and almost 2,800 exhibitors from 46 countries. We expect to tie onto the success of 2008.

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Parallel event: [hybridica](http://www.hybridica.de). Trade fair for hybrid-component production. [www.hybridica.de](http://www.hybridica.de)

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PH: 678-393-9990 FAX: 678-393-9998 [www.nedassoc.org](http://www.nedassoc.org)



## Upcoming Events: 2010

- Sept. 8-10** NEDA Board of Directors Meeting  
Long Beach, CA
- Oct. 5** Web Analytics: How to Measure the Success  
of Your Website  
NEDA/AEA Webinar
- Oct. 6-8** University Fall Career Fair  
University of Nebraska-Kearney
- Oct. 17-19** NEDA Executive Conference  
InterContinental Chicago O'Hare  
Chicago, IL
- Nov. 9-12** electronica  
New Munich Trade Fair Center  
Munich, Germany
- Nov. 16** How to Reach New Customers with Online  
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- Dec. 7-8** Sales & Marketing Optimization Seminar  
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- Dec. 8-9** Pricing Optimization Seminar  
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