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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



2010 NEDA Executive Conference:

Competing For The Future: Are You Ready Today For Tomorrow?



More on Counterfeiting

Counterfeiting of electronic components remains a serious and growing threat to the electronics industry. With increasing awareness of the problem and the threat to national security, the government is beginning to take action, particularly as it relates to electronic components in the military supply chain. It appears very likely that the federal government in the near future will make significant revisions in its procurement policies in an attempt to thwart the introduction of counterfeit products into the military and space supply chain.

A number of proposals are under consideration. One possibility is a regulation requiring that electronic components may only be purchased from authorized sources (i.e., directly from the manufacturer or from a distributor authorized by the manufacturer to sell that component). Under this proposal, if a component is not available from authorized sources, the buyer must take a number of steps to document that the source of the product is selling a genuine part. These steps could include testing, certification, documentation and escrowing funds.

If a distributor is contractually authorized

→ *continued on page 2*

Join industry leaders in Chicago for the annual NEDA Executive Conference. "Competing For the Future: Are You Ready Today for Tomorrow?" will explore the impact of technology as it continues to shape our industry, the economy and the environment. Use this up-to-the-minute information to your advantage and formulate a winning company strategy for your business.

Your senior management team deserves the opportunity to learn from these distinguished speakers:

- Dave Anderson, Corporate Executive Board
- Francois Calvarin, Souriau
- Glenn Derene, Popular Mechanics Magazine
- John Engel, WESCO International
- Lloyd Kaplan, iSuppli Corporation
- Paul Kasriel, Northern Trust Company
- Steve Kaufman, Harvard Business School
- Barry Lawrence, Texas A&M
- John McDonald, GE Energy
- Ali Sebt, Renesas Electronics
- Brad Whitworth, Cisco Systems

NEDA will mark the 2010 conference with an exceptional opportunity to honor an

industry legend. The prestigious NEDA Lifetime Achievement Award will be presented to Steve Kaufman, retired chairman and CEO of Arrow Electronics. Steve is currently the senior lecturer of business administration at the Harvard Business School.

Additional awards to be presented at the conference include the esteemed Gail S. Carter award, Distinguished Service Awards and Manufacturer of the Year. The Channel Marketing Awards will be announced during a special lunchtime presentation.

This recognized annual conference is a must attend event for the industry. Take advantage of the reasonable room rates and airport convenience of the new conference location, the InterContinental Chicago O'Hare hotel. Finalize your game plan and position your executive team in Chicago October 17-19.

Schedule:
Sunday, Oct. 17th
 Registration 5:00 p.m.
 Reception 6:00 -7:00 p.m.
Monday, Oct. 18th
 Breakfast 7:30 - 8:00 a.m.
 Conference 8:00 - 5:00 p.m.
 Reception 6:00 - 7:00 p.m.
Tuesday, Oct. 19th
 Breakfast 7:30 - 8:00 a.m.
 Conference 8:00- 11:45 a.m.

→ continued from page 1

by the manufacturer to sell a particular part, then these proposals are not likely to apply. However, authorized distributors must be vigilant in protecting purity of their inventory. This can be done by following strict customer return procedures to ensure that product being returned is genuine and not counterfeit. NEDA has a guideline on product returns. In addition, the NEDA Components Council has a subcommittee that is working on updating and expanding this guideline.

The other way that authorized distributors may protect their reputation is full transparency in identifying to customers when a product being sold is from an unauthorized source. This situation usually occurs when a customer requests a part for which the distributor is not authorized. In this situation, the distributor should disclose that the part is not authorized and was obtained from a different source. NEDA recently adopted a "Customer Notice" document that discloses this information to the customer. A NEDA subcommittee is working on a guideline for where this customer disclosure should be made.

One note of caution, just because a distributor sources a part from an authorized source does not mean that the authorization passes to the unauthorized distributor and then to the customer. In other words, there is no manufacturer warranty pass-through. Thus, the need to advise the customer.

A copy of the "Customer Notice" is enclosed in this mailing. If you are interested in becoming involved in the subcommittee working on product returns and unauthorized product disclosures, please contact NEDA staffer Barney Martin at bmartin@nedassoc.org.

The Next Phase Of Growth Steve Kaufman Shares A Few Thoughts On The Industry

Steve Kaufman, former CEO and chairman of Arrow Electronics, will be honored with NEDA's Lifetime Achievement Award at the 2010 Executive Conference in Chicago. Kaufman, who is currently a senior lecturer of Business Administration at the Harvard Business School, recently shared some of his observations about the industry he retired from in 2002.

Q: To what extent do you still follow the distribution industry?

A: Not particularly closely. I don't get any trade journals anymore nor do I subscribe to industry-specific online news. I follow it through my association with companies on whose board I sit, most of which are suppliers and customers of the industry.

I also hear things and talk about things [through the board associations] and I'm still asked for advice and help on occasion from these CEOs when there is a parts shortage, and of course I have many personal friends [in the industry] who pass on news.

Q: From the business perspective, what are the most notable changes you have seen in distribution since you have left the industry?

A: From where I sit, I would say the changes are relatively minimal. On the major issues-- the consolidation of the industry--that seems to have ended. There are two behemoths--Arrow and Avnet--and a smaller behemoth in Future; and three large specialists in Digi-Key, Premier Farnell, and TTI.

I'm impressed that the behemoths--Arrow and Avnet--were able to maintain an attractive level of profitability during the most recent downturn. Their profits went down but they were not the kind of losses

that we experienced from the 1980s through 2001; they have structured themselves to withstand the cycles in the industry. I think the trends that were apparent in the 1990s have continued and have exacerbated, such as the flight of production to Asia.

From the business point of view, the North American and European companies are being pressured by their markets declining as production moves to Asia plus the structural conditions in Asia being different and less profitable.



From a corporate point of view, the growth rates that [distributors] became used to are difficult to sustain with their core business, and they must look into adjacent areas to find the corporate growth that the stock markets are anxious for.

If you look at the earlier days, I'd say there were three broad strategic eras: First, the '70s through the '80s you had high inherent growth in the consumption of components: the underlying customers were ordering more and you could keep seeing 14 percent to 15 percent annual growth rates.

The second era from the late 1980s

through early 2000s, you had the consolidation era where the bigger companies could maintain their growth by acquisition, and that has run its course. The underlying growth and the consolidation [eras] are completed. If distributors want to maintain greater than 10 percent growth they have to go outside their core industry.

We were talking mainly about components, but computer products are moving along the same developmental path--you have growth, then consolidation and it, too, has had a flattening of growth.

[The current environment] increases the risks for corporations, and managers and boards have to grapple with [finding opportunities for growth]. They have to ask themselves "Can we learn new industries? Can we find adjacent industries close enough to our strengths, cultures and capabilities so we can be successful? Or are we going to look at adjacent industries that we don't know enough about? If so, will we have problems [if we enter them]?"

They are facing the issue of where will they find growth because the industries they specialize in are maturing. It's always risky [to expand into adjacent markets] and some companies will struggle.

Q: From the operational/supply chain perspective, how well do you think the industry is faring...in other words, have suppliers, distributors and customers improved communications, technology and aligned business interests so the electronics supply chain continues to improve?

A: The focus on the supply chain is a trend continuing from the 1990s. From where I sit, I don't think supply chain management--with all the time, attention, energy, money, software,

consultants and the like spent on it--has had any effect whatsoever.

In that sense, the more things change the more they stay the same. As proof I would point to the dramatic shift from product excess to product shortages, and from downward price pressure to sky rocking prices, all inside of 6 months, and in the most mundane commodity products.

All the linkages we are supposed to have--all the ERPs and all the [supply chain management] software--and within 6 months we are going from shutting down lines due to over capacity to [severe product] shortages. So I would say we have made no impact whatsoever.

The cyclical, the sales [cycles], the inventory signals, the double ordering, triple ordering, cancellations...if you look at the evidence I'd say the current cycle looks a lot like 1985. I don't know who the shame is on. Is it customers, that don't know how to manage with cyclical? Is it distributors, or the suppliers, or the software purveyors and consultants, which every year claim they have [developed] the Holy Grail or the silver bullet and everybody buys into it? I don't think much has changed.

I would add that when I retired, in 2000/2001, there was still the belief-- the vibrant belief--that the Internet would revolutionize and perhaps destroy the distribution industry -- the famous concept of "disintermediation".

It's clear that it didn't happen. It's clear that this industry had already developed as a very efficient industry. The Internet was a useful tool where an industry or a portion of an industry was inefficient. But the distribution industry had already reached a level of efficiency

where the Internet couldn't add any functions that didn't already exist, and couldn't replace any functions. Distributors still had to move and store physical inventories; credit had to be granted; bulk orders were broken down: the threat of the Internet to franchised distribution has diminished greatly. It is very valuable as an information tool; not as much as a commercial tool for production quantities.

Q: How well do you think distributors have communicated their value to the channel and has compensation for service improved as a result?

A: On the ability to be paid, I have no insight. I would only say from outside observation that the majors have maintained a responsible level of profitability so they must have figured out how to make it work.

To the extent that the customer asks for more things--all green packaging and the like--that has enhanced distributors' opportunities to provide service and made them more necessary. There are things the customer cannot do and the supplier cannot do and this creates opportunity for the distributor. That has played into the trend of the profitability and stability of the distribution industry.

Barbara Jorgensen



Kaufman Helped Improve Professionalism In Distribution

By: James Carbone

Working to make electronics distribution more reputable and aggressively recruiting on college campuses to bring talented young business people into electronics distribution are two accomplishments that Steve Kaufman says he was most proud of during his tenure at Arrow Electronics.

Kaufman is the recipient of the the National Electronics Distributor Association's Lifetime Achievement Award, awarded periodically to an executive who has made exceptional contributions to the electronics distribution industry.

Kaufman joined Arrow in 1982 less than two years after a tragic fire at a hotel conference room in White Plains, N.Y. killed 13 officers of the company, including the two founders of the company. Under Kaufman's leadership, Arrow grew from a \$550 million U.S distributor in 1982 to a \$13 billion global distribution powerhouse when he retired in 2000. Kaufman now teaches at Harvard Business School.

Kaufman continued the company strategy of growing through acquisition. "You might say I put the strategy on steroids. I did them a little more aggressively. I expanded the notion of geographic growth and expansion to include all of North America, making an acquisition in Canada and then began making acquisitions in Europe beginning in 1985.

He expanded Arrow's product lines to include computer products and accelerated the company's centralization of inventory management and purchasing and logistics. "I upgraded our computers dramatically, closed branch warehouses and built a big automated warehouse on Long Island," he says. Such actions improved efficiencies and customer service and helped Arrow become more competitive and to grow revenue dramatically.

While he is proud of expanding Arrow's business, he is equally proud of his efforts to raise the bar on how electronics distribution is viewed in the electronics supply chain.

"In the 1960s and 1970s distribution was viewed as a not fully reputable cousin of the semiconductor industry," says Kaufman. "The reputation was not disreputable, but it wasn't fully reputable either." He said that was due to aggressive sales practices and a lot of entertaining of customers to get orders. He said he did away with "booze cruises" and buying football tickets for customers to win business from them.

"I said if we lose the order, we lose the order, but no more football tickets. We still kept the business," he says. "We consciously raised our ethical standards. "We put a stop to questionable practices," says Kaufman.

At the same time Arrow decide to recruit young college graduates. "Back in the 1970s early 1980s, young people considering a job in electronics would jump at chance to work at Motorola or Texas Instruments, but not for a distributor," he says. Arrow decided to hire "college-educated kids, put them through technical training and hire a lot more engineers to be in our sales force and we started to look outside the industry for managers," says Kaufman.

He says the industry has been well known for hiring from within. Kaufman decided that sales people and purchasing people should be hired within the industry, but human resources, logistics and finance hires should come from outside the industry. He said Arrow's practices of raising the bar on sales ethics and recruiting on college campuses were copied by other distributors. As a result, distributors are viewed as equal to semiconductor suppliers in their terms of professionalism, skill level and business practices and the career opportunities that they offer to employees. "We are viewed as full brothers and sisters, no longer as slightly embarrassing cousins."

While some of the practices of distributors have changed, one thing has remained constant during Kaufman's tenure to the present day: the value that distribution brings to suppliers and to OEM and electronics manufacturing services provider customers.

Suppliers need distributors because "there are more users of components than suppliers could possibly cover with their own sales force," he says. A company may buy \$5 or \$10 million of components in a year, but the purchases would be spread out across dozens of suppliers and the spend with any one supplier would be relatively small. Suppliers don't have enough sales people to handle all those smaller customers.

Another reason suppliers value distributors is inventory. Suppliers also spend a lot of money on their plants and equipment and "don't have enough money to support the inventory requirements of all their customers," says Kaufman.

He says the future of distribution is bright because of the services that distributors provide to both suppliers and customers. Distribution will continue to grow and continue to be a part of the electronics supply chain.

"There will always be someone who has to help design the product, to move the product, to do all the special value-added services and to provide credit. That's what distributors do and their role is essential," says Kaufman.

NEDA Boards of Directors Meetings Long Beach, CA

Trade associations connect businesses to work together for common goals and provide a forum for brainstorming, information exchange, and industry standardization. The boards of directors of NEDA and the NEDA Education Foundation met recently in Long Beach, CA to discuss various industry issues, as well as the pending merger with the Electronics Component Association (ECA).

The NEDA Education Foundation meeting began with commentary on the industry by board president Ed Smith (Avnet). Even though electronics is a hot industry right now, the question of how long it will last is on everyone's mind, followed by a concern about lead times. A discussion of recruiting issues focused on a seeming disconnect between company processes and procedures versus what new hires see as benefits and optimal working conditions. In the future, the board will use a portion of its meeting time to bring in expert speakers to discuss solutions to some of these recruiting/training challenges. Business communication is one such topic—keeping a distinction between professional and personal usage of email and social media such as Facebook, LinkedIn and Twitter. The Foundation Board also discussed the Value Calculator's potential worth outside the electronics industry. Several trade associations have expressed interest in developing the software for their own industry use.

The NEDA Board meeting addressed ongoing business, merger issues and the newly structured Components Council.

The mission of the Electronics Components Industry Association (ECIA) will be "to promote and improve the business environment for the authorized sale of electronic components". NEDA and ECA have agreed in principle to the merger, the transition committee has proposed a membership and dues structure, and Robin Gray has been selected as ECIA President. Bob Willis will serve as ECIA Chief Technical

Officer. The new association will offer a strong value proposition: standards; market statistics; channel advocacy; conferences and symposiums; networking and the Education Foundation.

Don Elario, chair of the NEDA Components Council briefed the Board on the new structure and activities of the Council, which consists of 10 distributors and 10 manufacturers. Through a non-competitive, collaborative effort, the council works to recognize common, global problems and issues within the electronics industry, then formally organize committees to address them and provide direction, guidance, standards, and benefit to the supply chain. The council currently has three active committees addressing three industry issues, EDI, POS, and counterfeit parts.

The board also adopted a new Customer Notice Guideline to handle those sales of product specifically requested by a customer where the distributor is not authorized. A copy is enclosed in this mailing for your review.

The industry advocacy campaign is an ongoing effort to educate buyers to our value proposition and anti-counterfeit message: the only way to ensure protection from counterfeit product is to purchase through an authorized source. An advocacy website was launched at www.supplierauthorizeddistributor.com which features a search function for authorized distributors and their suppliers, news items on counterfeit issues and a list of member supporters. Campaign advertisements run in the trade print and online media.

NEDA is privileged to have strong leadership from a dedicated and active board of directors. If you have questions or comments on the association's direction and initiatives, please contact NEDA staff or the directors listed on page 8.



Frank Flynn, Sager Electronics and Michael Knight, TTI, Inc.



Jeff Eastman, Arrow Electronics; Paul Buckley, Newark Electronics; and Carla Mahrt, Tyco Electronics



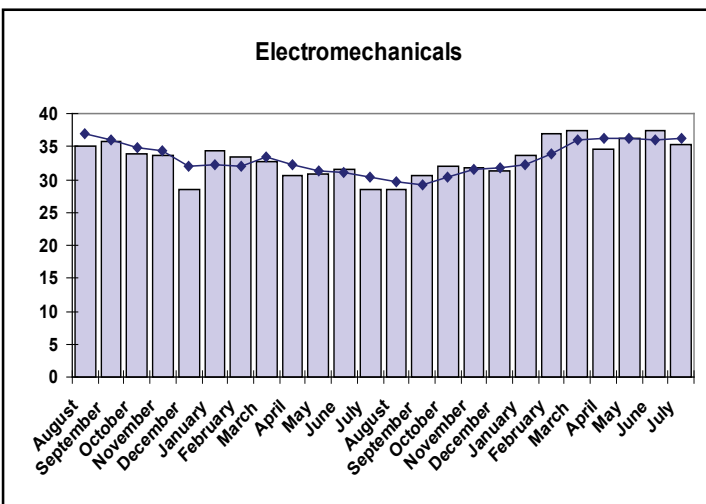
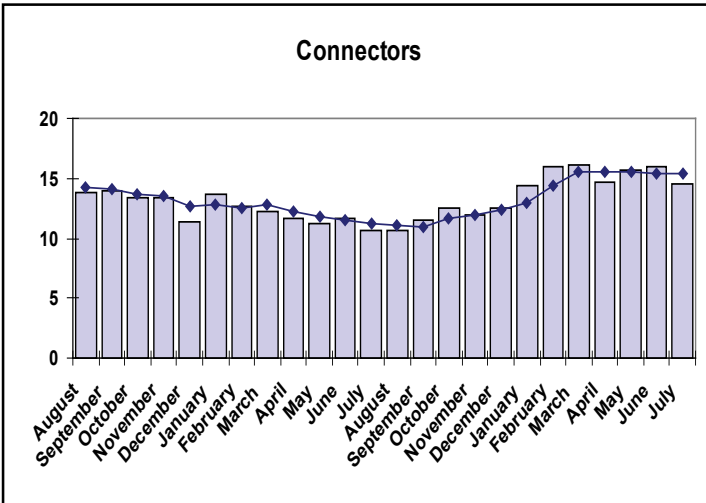
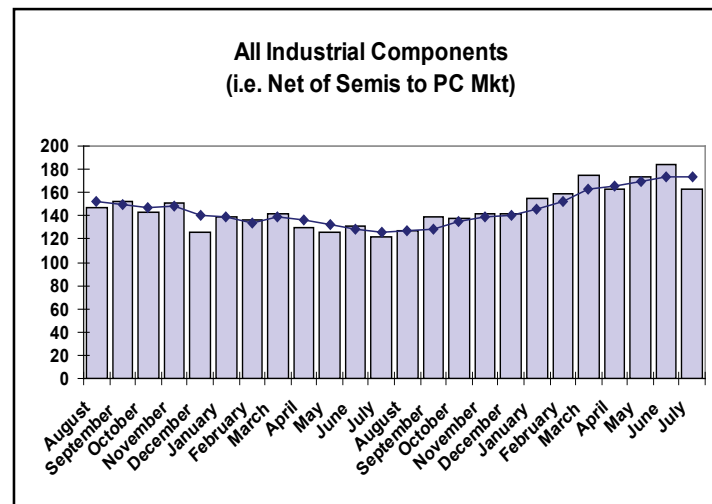
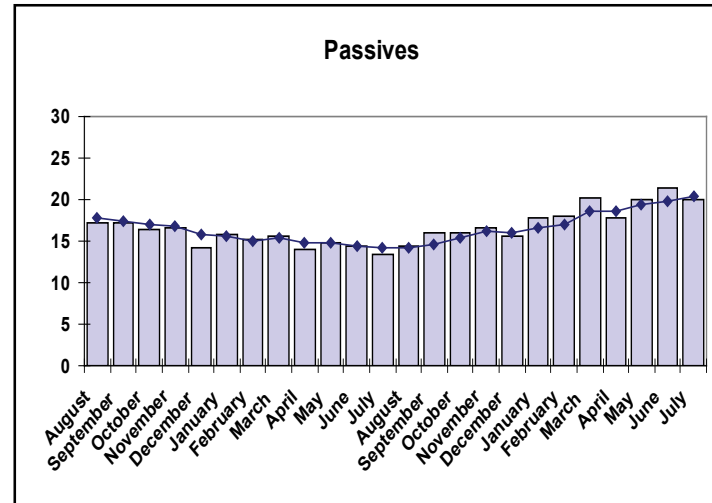
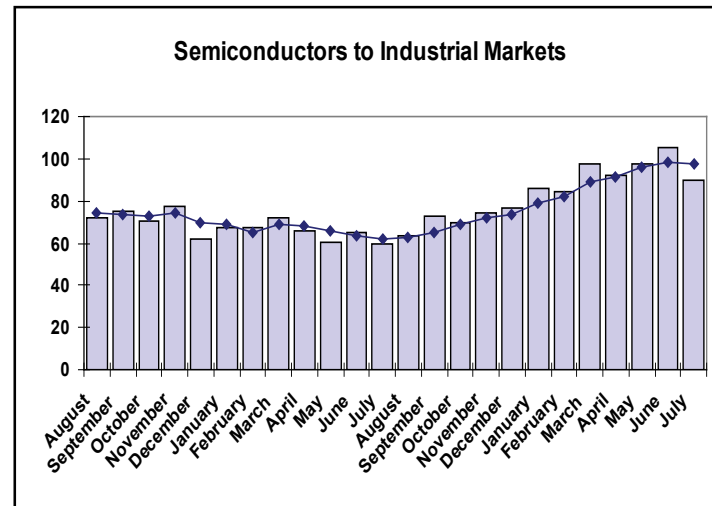
Bradd Schneider, Honeywell; Scott McLendon, Allied Electronics and Brian McNally, Arrow Electronics.

Statistics From The Association Of Franchised Distributors Of Electronic Components (AFDEC), A United Kingdom Trade Association. — United Kingdom Statistics for July

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.



NEDA Surveys Available Industry Benchmarks in Compensation and Financial and Operational Performance

NEDA Compensation Survey offers key data to effectively compare your compensation and incentive costs for 30 sales, marketing, management, and E-business positions. The report aggregates the results and presents them by company size based on sales. Includes information on general salary increases, structured adjustments, training hours, turnover data, incentive plans and compensation data by job title and geographic region. The compensation survey is the only industry source for this data and represents your best opportunity to benchmark your personnel compensation with the rest of the industry.

The NEDA Distributor Productivity Report (DPR) examines the industry's financial and operating performance, giving you an opportunity to measure your performance against the industry benchmark. Compiled from confidential survey results, the DPR provides broad performance "yardsticks" to measure your own performance and identify areas of strengths and opportunities for improvements. The report includes: financial ratios, asset information, profit margin analysis, sales and purchasing department measures, a ten year history of such measures as return on net worth, sales growth, payroll % of gross margin, sales expense % of gross margin, inventory turns, accounts receivable days, asset turnover, leverage, and many more. The report includes over 60 pages of data, charts, graphs, and analysis. Please see the enclosed form to order.

University News Texas Christian University Fall Executive Forum - October 15th

To be successful in today's environment, it is critical that companies continually identify global threats and adapt their supply chains to avoid significant disruptions and ensure continuity.

The focus of the Forum is on identifying and addressing uncertainties and risks in the global environment that create significant threats and disruptions in the global supply chain. The Forum will be introduced with a strategic, high-level perspective, followed by a panel discussion that will drill down into specific areas of supply chain risk and mitigation strategies.

The opening speaker is Fred Burton, one of the world's foremost authorities on security, terrorist and terrorist organizations. Mr. Burton oversees STRATFOR's terrorism intelligence service and consults with a number of Fortune 500 companies to help them assess global supply chain risks. He is also the author of the best-selling memoir, "GHOST: Confessions of a Counterterrorism Agent." For more information, please contact Renda Williams at r.g.williams@tcu.edu or call 817-257-6581. Basic registration is \$35.00.

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National Electronic Distributors Association

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Upcoming Events:

2010

- Oct. 5 Web Analytics: How to Measure the Success of Your Website
NEDA/AEA Webinar 1:00pm EST
- Oct. 6-8 University Fall Career Fair
University of Nebraska-Kearney
- Oct. 15 Fall Executive Forum
Supply & Value Chain Center
Texas Christian University
- 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 Public Relations
NEDA/AEA Webinar 1:00pm EST
- Dec. 7-8 Sales & Marketing Optimization Seminar
Texas A&M University
- Dec. 8-9 Pricing Optimization Seminar
Texas A&M University
- Dec. 9 2011 Online Marketing Trends to Know
NEDA/AEA Webinar 3:00pm EST

2011

- Jan. 13 Online Sales Success – Lead Generation and Buyer Behavior
NEDA/AEA Webinar 3:00pm EST
- Feb. 10 Mobile Marketing - Engaging Them at the Point of Need and Device of Choice
NEDA/AEA Webinar 3:00pm EST
- March 7-10 University of Industrial Distribution (UID)
Indianapolis, IN
- May 24-26 EDS
Las Vegas, NV