



## Top 35 Global Distributors

Ranking the top 25 franchised and top 10 independent distributors in the world

Going by the numbers, last year was a very good one for distributors. Top-line growth hit double digits at many major companies, following single-digit growth the year before, and some are reporting a revival of staffing and facilities expansions, particularly in Asia.

Echoing the sentiments of many in the business, Bill Mitchell, chief executive officer of second-ranked Arrow Electronics Inc., called 2004 "a terrific year for Arrow," which saw its global revenue increase by nearly 23 percent. Its chief rival, Avnet Inc., retained No. 1 status, even though it posted a more modest growth rate of 13 percent.

Collectively, the top 10 franchised distributors saw global sales rise to \$37 billion last year, up 20 percent from \$30 billion in 2003. Arrow and Avnet combined accounted for 54 percent of the total.

Similarly, independent distributors made strong gains last year, led by Smith & Associates, which vaulted into the top spot thanks to a 60 percent jump in revenue. Combined, the top 10 independents posted revenue of \$2.4 billion, up nearly 15 percent from 2003.

### Tough challenges

Behind the numbers, however, distributors face some tough challenges. Indeed, Douglas Kelly, Smith & Associates' president and chief executive, called 2004 a "tough and challenging year" despite the company's stellar performance.

First and foremost are short-term uncertainties. Last year may have started strong, but it ended weak. And looking ahead, many distributors foresee slower growth in 2005. Some even talk about "structural shifts" in the way OEMs and EMS providers plan and purchase components.

"They have shorter planning horizons and are controlling inventory more tightly," said Gerald Fay, senior vice president of operations and president of Memec United.

Many executives say this means less visibility and more uncertainty about short-term business prospects.

Longer term, industry figures point to the disruptive effects of global market shifts. China has been, and will continue to be, the primary growth engine for the electronics industry. Case in point is Taiwan-based World Peace Group, the only Asian distributor on the top 25 list. WPG moved up one position to No. 5 in the rankings by posting revenue growth of nearly 40 percent for the year, much of it coming from business in China.

U.S. and European distributors have been restructuring their operations to serve both existing OEM and EMS customers that have moved operations to Asia, as well as the emerging indigenous customer base.

"If you don't reallocate resources to Asia, you'll be history," said Joel Girsky, chief executive of Jaco Electronics Inc., the only top 25 franchised distributor to post a small revenue decline in 2004.

Like many midtier distributors, Jaco is trimming costs at its North American operations as it opens sales offices and hires field application engineers in China. "It's a necessity," Girsky said.

For those unable or unwilling to invest in Asia, the options are limited. At Sager, a Weymouth, Mass.-based specialized distributor, the focus is on improving service to North American customers.

"Volume is not the driver; bigger is not always better," said Faris Aruri, vice president of corporate marketing. Instead, Sager is focusing on increasing its sales and marketing staff, speeding product to customers and differentiating itself in the services arena, Aruri said.

### **Catalog success**

One consequence of the shift of the high-volume component business to Asia is the relative strength of catalog distributors in North America. According to data from the National Electronic Distributors Association (NEDA), catalog distributors outpaced the industry's sales growth in North America last year.

Why? Because catalog distributors typically serve the engineer who is buying small quantities of components for evaluation and prototyping. Broad-line and specialist distributors tend to serve the larger, production-volume buyers, which have shifted offshore.

"The North American marketplace has evolved to the catalog model," said Robin Gray, NEDA's executive vice president.

Leading the way in revenue growth in 2004 in the catalog sector was Mouser, which is owned by TTI Inc. According to TTI, Mouser's revenue grew 45 percent last year, driven by an 80 percent surge in semiconductor sales.

Pure-play catalog distributor Digi-Key Corp. had a strong year too, posting annual revenue growth of 33 percent — the third highest among the top 25 franchised distributors. Digi-Key derived approximately 45 percent of its revenue from Web orders.

The other two major catalog houses on the list — Electrocomponents plc and Premier Farnell plc, both U.K.-based — posted overall growth in the low teens in dollar terms. "We had an exceptionally strong end of year [in 2004] and still see a lot of activity," said Paul Tallentire, president of Newark InOne, the U.S. catalog operation of Premier Farnell. "With the volume business going offshore, there's been a shift in business to smaller orders and just-in-time dispatch service."

Newark InOne is getting business from customers it never heard from a few years ago, Tallentire said, such as large EMS providers ramping up prototyping and low-volume production operations in North America. This is the result of an increase in the range of products and Web-based services and technical support that Newark InOne is providing, he said.

In the last two years, said Tallentire, Newark InOne has added more than 80,000 new parts to its line card; has invested in its Web site; and now boasts 20 engineers in its technical-support group, which was launched about a year ago.

Other distributors are making similar investments in order to build market share and capture new business.

### **Not easy being green**

Another major challenge for distributors is the shift to environmentally friendly components. The European Union has mandated the use of "green" components for all 25-member countries in a directive restricting the use of certain hazardous substances, commonly referred to as RoHS. It is scheduled to take effect on July 1, 2006. Some distributors see RoHS compliance as a business opportunity, and some see it as a costly inventory and information systems headache. Many see it as both.

Regardless, "RoHS is the big issue for 2005," said NEDA's Gray.

Under the heading of "opportunity," savvy distributors are gearing up to provide enhanced inventory-management tools and services for customers as they transition to lead-free manufacturing operations. Some are already putting together exhaustive databases that list compliant and noncompliant components.

Distributors face the daunting task of trying to keep leaded and lead-free inventory separated in their own warehouses as suppliers adopt a variety of methods for identifying the new parts. Some will change part numbers, others date codes, while others will do nothing.

"The crossover is going to be extremely difficult," said Chuck Magee, executive vice president of fifth-ranked independent distributor America II.

### **Independents' day**

Independents face the same challenges to growth as their franchised counterparts plus a couple of others to boot. One is credibility.

At top-ranked Smith & Associates, business is about good-quality end-to-end service. "There's no magic to success," said CEO Kelly.

Kelly counts three basics that contributed to the company's 60 percent growth rate in 2004. First was global expansion — Smith opened 10 new offices worldwide, including an office in Shanghai. Second, Kelly cited the company's commitment to taking good care of its longstanding customers and third, its insistence on aligning with quality suppliers. "It all starts with who you're doing business with," Kelly said.

The other challenge that franchised distributors don't have to worry about as much is the proliferation of counterfeit components. In the aftermarket, counterfeiting remains a significant problem and one that, according to more than one company executive, is getting worse.

For the sake of self-preservation, the best defense is a good offense. Eighth-ranked Fusion Trade, for instance, claims to be ahead of the curve in its efforts to guard against counterfeits.

Like many independents, Fusion's counterfeit protection starts with a careful vetting of its component sources around the world and follows with extensive incoming inspection and testing of components. Beyond the tests, Fusion offers customers an insurance policy of up to \$5 million in the case of rework caused by counterfeit parts.

At least one other independent distributor offers a similar insurance option: Components International, based in Brooklyn, N.Y.

There is a simpler solution: "If you don't dip into China, you won't get burned," suggested Chuck Magee of America II.

Given the growth trajectory of China's electronics industry, that may be easier said than done.