

Choosing the Right Distribution Partner

Universal Distributors: The Next Evolution in Supply Chain Partners

By Nathan Hecht

For OEMs and CEMs seeking components beyond manufacturer-direct options, choices today are limited. Distributor partners typically come in only three forms: Franchised Distributors, Independent Distributors and Brokers. While working through these channels can usually garner necessary results, it is rarely easy, efficient and affordable – usually only one of the above, if you're lucky. But market evolution is making procurement and channel partnership less painful. A new breed of Universal Distributors demonstrates the experience and supply chain integration to offer the quality and service expected of Franchised Distributors combined with the prices and flexibility of Independent Distributors and Brokers.

The Typical Outlets

The advantages and limitations of the three primary distribution outlets are clear to most, though often debatable. Franchised Distributors offer a virtual guarantee of access to quality, qualified components with only a handful of the largest offering engineering support to assist with the lines they carry. However, due to a large number of authorized lines they carry, Franchised Distributors only offer limited stock in a small variety of parts, particularly if you are trying to fill shortages by considering cross-referenced parts that the particular distributor might not offer. Also, smaller companies are often forced to accept limited support and/or higher prices from the largest franchised distributors who focus resources on their largest customers.

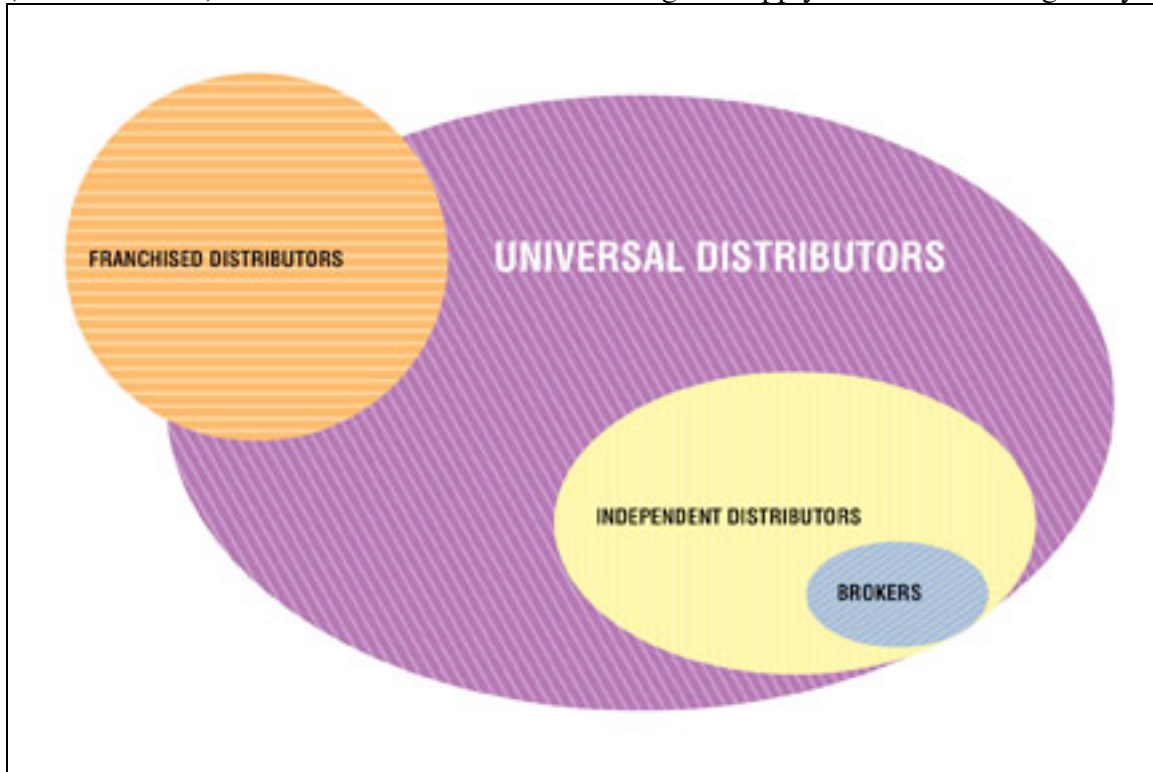
If the constraints of working with a franchised distributor are too costly, or if the parts are simply not available through those channels, a manufacturer may then work through the Independent Distributor channels, though at another price. While many independents carry a relatively affordable and diverse inventory along with access to supplies beyond their own, many of the product quality advantages of the Franchised Distributor start to come into question. Support and engineering resources may be lost, and the quality and/or guarantee of product quality have more potential to be of concern. But the flexibility and price breaks can be worth it in certain situations.

Finally, if a manufacturer needs to work through a Broker, more uncertainties arise. While the price may be right, particularly for hard-to-find parts, brokers typically never see the parts they acquire and sell. This leaves sellers free to dump their old inventory – good or bad – exposing the buyer to a huge quality risk. It is typically in the brokerage arena where substandard parts and old, unqualified components may enter the supply chain, often leaving manufacturers stuck with unusable inventory or worse, with returns from malfunctioning end products.

A New Breed of Distributor

Clearly, OEMs and CEMs often feel limited in their procurement options, particularly if they are too small to work directly with parts manufacturers or Franchised Distributors or need components that are outdated – at least by the manufacturer's definition. But an

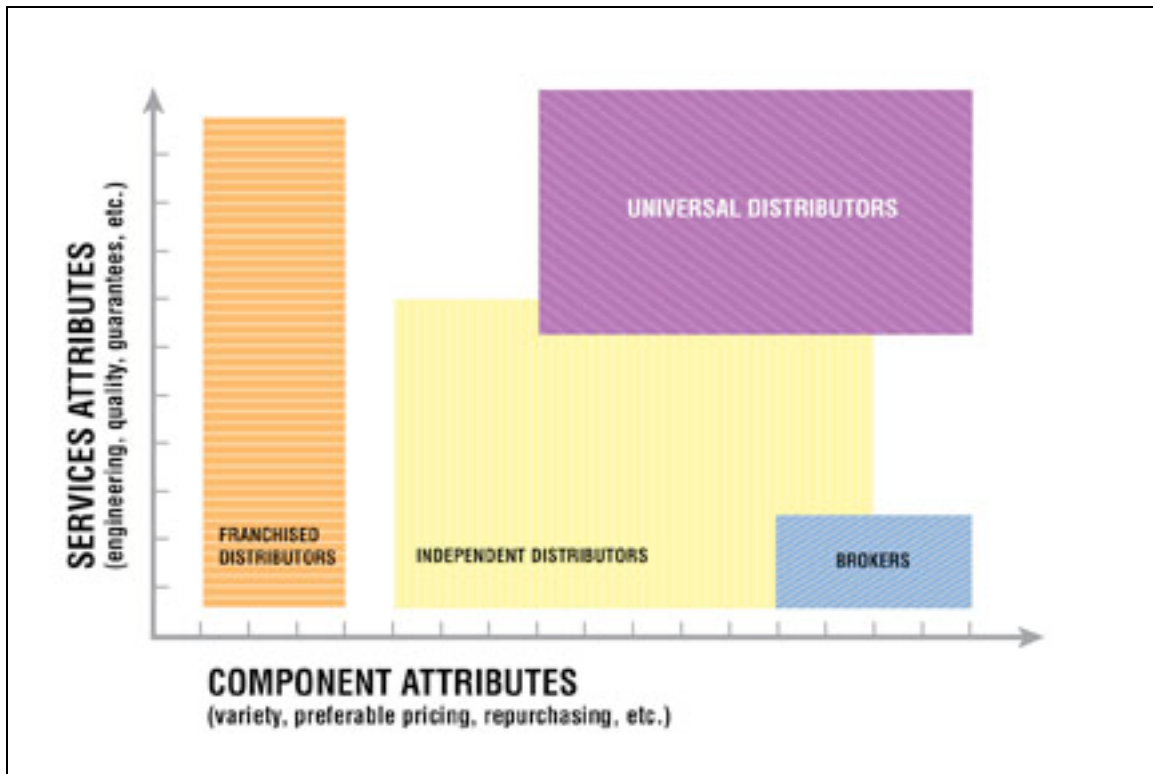
evolving form of distribution may help ease their pains, bridging the gap between franchised and non-franchised distribution channels as outlined in the attached chart (Chart 1, below). Universal Distributors are entering the supply chain, eliminating many



of the disadvantages of typical Independent Distributors and Brokers, while integrating many partner advantages that go beyond those provided by Franchised Distributors. The second attached diagram (Chart 2, next page) offers a rough graphical representation of the capabilities you may find with a Universal Distributor relevant to the three traditional options – the y-axis representing increasing service attributes, the x-axis offerings component attributes such as reduced pricing.

This new category of distribution can be particularly helpful if procurement problems typically involve the following questions:

- Will I be able to find the scarce parts I need (i.e. is obsolescence an issue) and will they function properly?
- Do I need a specific part from a particular vendor, or are there viable substitutes that might save me money or be more readily available?
- Will I receive the service and pricing levels of my larger competitors?
- Can I get engineering support, or will I have to add pressure to my in-house team?
- Is this a one-time order, or do I need a supply chain partner who can offer continuous delivery, warehousing or an in-plant store?
- Can I trust that the parts are legitimate and meet the specifications?
- Will my distributor partner buy or consign my overstock?
- In general, how much can I rely on my partner to be integrated into my project or business?



These and other questions can be critical to the success of the overall supply program and, ultimately, the end product. A Universal Distributor will typically achieve this through focus, quality and experience – traits that may be admittedly difficult to verify when analyzing a potential new distribution partner. Furthermore, a Universal Distributor will work to integrate these quality and experience advantages into their partners’ supply chains, offering unprecedented procurement services.

In choosing the right partner, quality can fortunately be verified in a variety of ways. In particular, a distribution partner with specific certifications can help to ensure certain quality standards, the most recognizable being ISO certifications. While thousands of manufacturers tout ISO certifications, relatively few non-franchised distributors or brokers offer their customers the comfort that comes from such third-party quality verification. The time and financial commitment required by the distributor to gain certification exemplifies their commitment to delivering a product of high quality. This dedication, alone, can speak volumes about the quality of services a partner can be expected to provide.

Experience in the components industry is also critical in providing efficient and effective distribution services. While most Franchised Distributors earn their contracts through reputation, Independent Distributors and Brokers offer a broad variety of experience levels. When reviewing a potential partner, some questions that may shed light on experience levels range from geographic representation to basic years of experience.

A global presence can also be critical to many component purchasers. Typically, a distributor or broker with a single office or limited representation around the globe will signal limited networks for delivering and/or obtaining quality parts. Without local personnel, suppliers may not be able to develop the long-term, personal relationships that help ensure credibility and high levels of attention. These reduced personal relationships could leave a manufacturer holding bad or even counterfeit parts if the distribution partner does not have the experience and relationships to fully understand the supply chain or trace the parts they might be supplying. Or they simply do not care about a long-term relationship with the procuring company and don't mind risking delivery of bad parts as long as they get paid. A Universal Distributor will have the experience and acquisition networks in place to offer numerous advantages, such as better understanding of counterfeiting channels and suppliers with reputations for delivering bad parts.

Furthermore, because a Universal Distributor remains integrated through the entire supply, it is multi-directional. Its customers are also its suppliers through repurchasing or consignment of excess or obsolete inventories. This two-way partnership adds further verification of product quality from a qualified distribution partner.

Supply chain experience also goes beyond industry relationships and reach. Consider a label for fixed tantalum electrolytic capacitors including the following print: "ECSH1CX685R, 2000 pcs. 6.8pF, 16V." First of all, tantalum electrolytic capacitors are typically found in the microfarad (μF) range, but the label clearly indicates "6.8 pF" (picofarads). Additionally, the code ending in "...685R" indicates μF , contradicting the pF mark calling the legitimacy of the parts further into question. Though a handful of distributors may have the experienced personnel and strict quality controls to identify these inconsistencies, many more would likely miss the questionable marks, potentially passing on bad parts to a customer.

In considering distribution channels, finding the right partner can be critical to your project's quality and profitability – and ultimately your company's reputation. While Franchised Distributors offer direct-from-manufacturer parts, price and component flexibility can be severely limited. Independent Distributors and Brokers can increase flexibility in regard to parts, as well as save you a lot of money. However, to the risk averse, the savings might not outweigh the potential headaches or hit-and-run partners delivering substandard or unqualified parts. With a Universal Distributor integrated throughout the supply chain, you can take advantage of the best practices the traditional outlets offer – without the drawbacks.

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