IDEA

I.P. NEWSLETTER

INTERNATIONAL DISTRIBUTION OF ELECTRONICS ASSOCIATION

A great future for the distribution industry

Uno sguardo ai fattori chiave che stanno stimolando le ottime prestazioni del canale distributivo

Electronic Component distribution continues to grow far faster than each of the individual countries GDP's around Europe. There are a number of factors leading to this.

Firstly the pervasive nature of the electronic component industry. The continuing replacement of mechanical devices by electronic alternatives will continue for at least the next decade. This encourages market growth.

Secondly the regular "market drivers" that emerge. In the early 90's it was the pc and now it is mobile communications. Tomorrow other drivers will emerge.

Thirdly the attractiveness of the independent distribution channel to both component manufacturers and customers. As distribution adds more and more value added services and at the same time reduces it's cost base it becomes more attractive as the "channel of choice"

Then the so called "Tam to Dtam shift" where the large Oem's prefer to deal with individual distributors supplying products from numerous manufacturers rather than with the individual manufacturers direct. With distribution's ever lower cost base as a % of sales together with competitive pricing more and more big Oem's are taking this route.

Then the fantastic growth of the Contract Manufacturers. With huge Groups such as Solectron and Flextronics almost doubling multi billion dollar revenues each year, the opportunities for distributors grows. Some see this as a threat but although it may mean some changes to the business model under which we operate (already being used in the Tam to Dtam shift business) I believe it is a massive opportunity as the Cem industry simply cannot afford to keep inventory but distribution must!

Overall the future for our industry looks great!

Gary Kibblewhite
Chairman

EDS 2001

The Electronic Distribution Show and Conference

"the global meeting place for the electronic distribution community"

for the year 2001 will be held at the Las Vegas Hilton Hotel during the
May 15-16-17

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United Kingdom

In the UK Book to Bill ratios have been positive for every month this year and the average daily sales still rising it is still looking strong for calendar 2000. We are now experiencing the "hockey stick" of market growth driven by increasing unit prices encouraged by lack of product availability.

The continuing strength of the continental European, US and Asian Basin markets means that we are unlikely to see any sharp market declines yet. Margins for the industry have slightly improved as the increased revenues drop through to the bottom line. The holiday quarter (Q3) is not likely to show growth in the UK and will surely drop in Continental Europe. The strongest half-year growth is in passive components showing 53% up on last year followed by 39% up for Industrial semiconductors and 20% for electromechanical components.

Inventory/sales ratios have not materially improved as distributors strive to maintain sufficient inventory of key products.

The pressures on the UK manufacturing base generated by the high sterling continue to impact our customers and we can only hope that by the time the next cycle starts the UK has become more exchange rate competitive in continental Europe.

The **Afdec** distributors' performance continues to be impressive. In the Industrial market, growth for Quarter 2 compared with the same quarter last year was 35.7%. Over the first half of 2000, sales were 35.4% up on those of the first half of last year, '99.

The higher growth over the quarter compared with the half year this year, albeit slight, indicates that growth continues to improve.

Above trend growth in Semis and particularly in Passives has been offset by Electromechanicals; but Electros growth over the half year at 20%, would in most other years be regarded as highly satisfactory.

Component prices are probably still rising. Anecdotal evidence suggests this is true for tantalum capacitors and the number of semiconductor components on allocation is still growing; there are also indications that connector prices are being raised. If this information is correct then the units sold in Q2 would not be much more than in Q1; this is the normal seasonal condition in a year when unit sales trends are flattish.

The Book to Bill Ratio is still on a longterm rising trend.

Of the individual product sectors, Electros are perhaps the most threatened where the trend seems fairly flat. Sales in absolute terms, over the last three months, were almost as much as 40% up on sales levels in 1998. As indicated earlier the situation seems set fair for the rest of the year in that sales should remain at much the same levels over the next two quarters - a seasonal dip in units between July and August should be absorbed fairly easily by some degree of price increases. Growth at the tail end of this year will probably reduce in percentage terms but only because the like quarter sales in '99 were greater than those for the previous 9 months.

Sweden

*The situation in **Sweden** is that we see a still growing market. We also see a continuing concentration of the companies in the market. We have earlier this year seen Avnet buying Hatteland and just recently Ericsson Microelectronics was sold to Eurodis Electron PLC.*

Ericsson is one of the most notable companies in the business and thereby the company naturally gets a lot of attention both in Sweden and internationally. Recently when they presented their latest economic report a lot of attention was paid to the red figures concerning their mobile phones.

It might be relevant to note that the phones only represent 20% of their business.

The major part of Ericsson's business consists of the mobile systems and in that area Ericsson is going very well.

*In times when business over the Internet is in focus, it might be of interest to mention the Swedish company **Elfa**. While the dot-com-companies are having difficulties, Elfa is an example of a traditional company being successful on the web.*

They started to publish their product catalogue on the web in 1997. Their annual sales is SEK 600 million (USD 60 million) and they are now performing 20% of the sales via their website. The ambition is to reach 50% by the year 2004.

USA

The **Electronic Distribution Show and Conference**, has been serving the U.S. electronic distribution community as a meeting place and marketplace since 1937. In recent years, more and more companies from outside the U.S. have visited **EDS** or exhibited in EDS. With the continuing globalization of the electronics marketplace, EDS welcomes international visitors. However, newcomers should be aware that EDS is different from the typical European or Pacific Rim exposition (although it has been influenced by them). The emphasis is on scheduled meetings, not on open exhibits. Most attendees are top level managers, and the overall emphasis is on quality of attendance, not quantity. For manufacturers who would like to sell their products in the U.S.A., EDS provides an opportunity to meet with virtually every U.S. electronic distributor company, from the small local distributors to the international giants.

For distributors who would like to find U.S. sources of supply, EDS provides an opportunity to meet with some 500 manufacturers. However, many of these companies use hotel suites and other closed-door facilities at EDS, and are available only by appointment. EDS provides a special on-site orientation program for international visitors, to help them achieve their objectives in visiting this marketplace

France

While it is quite clear that this growth has been generated by a recovery of the market, it must be pointed out that the strongest growth rates can be found in those products where the shortages are most severe. Thus, the year-to-date figures at the end of June showed the following growth rates:

	Bookings	Billings
Active (non-Pc market)	96 %	64 %
Passive	104 %	64 %
Connectors	29 %	29 %
Electromechanical	19 %	23 %
Pc Market	16 %	- 5 %

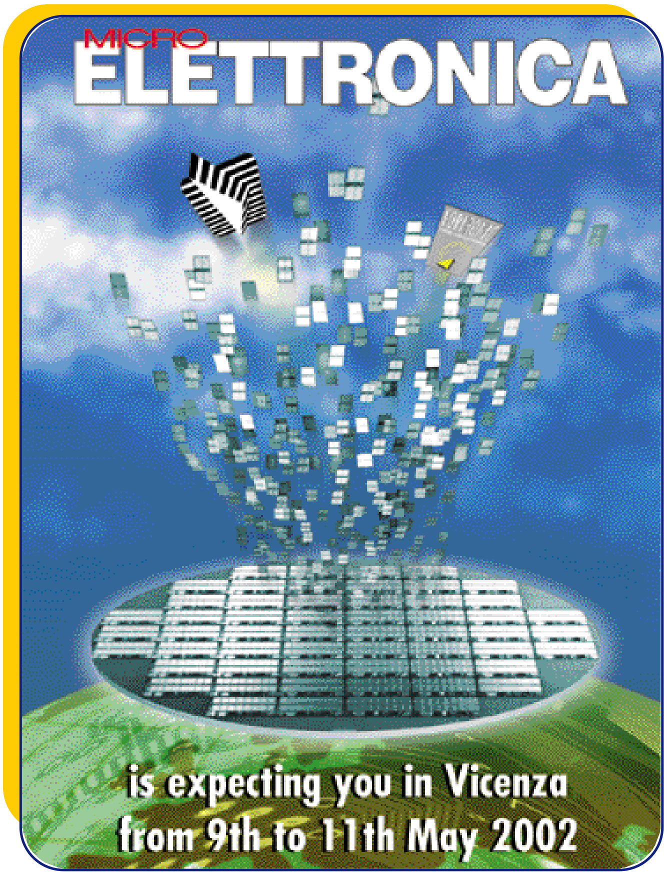
growth rate measured is close to that of the market.
As far as concerns active components (excepting CPU/DRAM's), with an average book/bill of 1.28, several facts can be noted.
All customers are turning to distributors to find components, which does not really happen in France in normal periods. There are orders that have been placed twice or even three times by some customers. Invoicing depends only on the number of items allocated by the manufacturers to their distributors.
Passive components are in an environment close to that of active components, but highlighted in particular for chip condensers. The average book/bill ratio is 1.63. It can also be seen that the whole distribution set-up is being prompted by the market as a whole.
The market is settling down and returning to a more stable growth rate. There was a peak in the month of May: Components as a whole (excepting CPU/DRAM's) with cumulated bookings at 93%, a billing rate of 66 % tending towards a growth rate of 70 % for bookings and 60 % for billings at the end of the month of August.

In spite of everything, the second quarter was quieter in terms of bookings, stabilising the progress achieved in the first quarter. It will be noted that the relative impact of the various different families of components is evolving, so that active components, which accounted for 79 % in 1999 were 75 % in 2000. While the share of discrete and opto components is relatively stable, that of integrated circuits (core business) has gone up from 45 % to 65 %, to the detriment of the PC market, which is dropping slightly. Passive components: a relative drop for resistor-type products, from an average of 23 % in 1999 to 19 % in 2000, and for inductor-type products (from 12 % to 9 %), to the benefit of capacitor-type products (from 40 % to 53 %). It must be noted that these products, widely sold by small distributors in general, are invoiced by the large groups mainly in 2000.
It can be seen that the connector market has not been affected at distribution level by the mobile telephone market, for which the components are not listed among distributable products, and the

The **SPDEI** is organising the evening of the fifth "Spdei Trophies" for distribution on 30th November 2000. This has become a major event, mobilising all component manufacturers. The Associations belonging to **IDEA** are cordially invited to attend.

Italy

*The demand for electronics components was strongly reinforced in the second quarter of the year as well. The data gathered by **Assodel** actually show a growth in booking of around 60% and in billing of above 40% (in respect of the second quarter of 1999), with a book to bill 1.15 and a total market in distribution that exceeds 700 billion lire. This confirms that the Italians are at the head of the European distribution forces.*
More technically speaking, the DTAM (or rather, the potential market assigned to distribution) in Italy is expressed in absolute terms similar to those in the French market which, on the other hand, can count on a much greater Total Available Market.
As a result, some questions emerge regarding the positioning Italy has on the international scene in relation to general trends.
The last years have actually seen a percentage-terms decline in the value of Italy's components' billing, which, as a share in Europe, has gone from 10% - 12% in the Nineties to a current 5% - 6%.
This is to show that in Italy the significant output in the leading sectors (i.e. telecoms and computers) has notably reduced while, on the other hand, SMEs (Small and Medium Enterprises) have held up, acquiring greater weight on the total of components sold in our country.
In short, the fear is coming true that electronics in Italy is beyond the control of the Government's industrial policies and our country's system does not reward potential foreign investors, who until now have been careful not to get involved in our bureaucracy and work-policy statutes.
From here it is a gradual step back, then, in the leading production areas, especially telecoms, to see us at the top of Europe only in the pro capita consumption of mobile phones.
On the other hand, the thousands of application niches and the inventiveness of Small Enterprises keep a high tax on the entrepreneurship which finds its own natural interface in distribution.
This last factor is in its turn favoured by the trend towards disinvolvement of the headquarters, either by strategic choice or because payments in Italy notoriously do not encourage the maintenance of a first person presence.
Whatever the reasons, Italian distribution excels in Europe, which is confirmed not only by numbers but also because its own management is increasingly at the cutting edge of international responsibility.



Since **1976 MicroElettronica** has been the biennial exhibition dedicated to the global offer of industrial electronics. Over 11.000 net sqm (25%more than the last microElettronica); nearly 400 exhibitors (10% foreign companies); 22meetings among convention on specific issues, company workshops and technical seminars.
The 17th MicroElettronica this year was structured to represent in total the "world" of components, equipment and manufacturing in the electronics industry. Exhibitors and visitors' were met.
They both had the opportunity of appreciating "on show" the global offer of the electronics industry in the Italian market. A sample survey made by Vicenza industrial associations has shown a clear improvement in the quality of contacts between exhibitors and a meeting of offer and demand more aimed to create job opportunitie. The exhibition hosted 11 groups of foreign exhibitors from the Far East, U.S.A and other nations; it presented a fully workingproduction line; it scheduled more than 15 different meetings and workshops (9^{th} **International Distribution Meeting).**

An event marked by quality

MicroElettronica's results confirm its strategies. Understanding the needs of small and medium enterprises, real strength of the Italian industry; the productive reality of the North-East; the proximity of the German and Central European (Austria, Croatia and Slovinia) markets; the capacity of a highly specialised and flexible subcontracting. These are the reasons behind the strategies which made the Exhibition so successful.
In addition, the 17th MicroElettronica, first in Europe, could count on a 500sqm area totally dedicated to I.P. (Intellectual Property). Promoted by Near-Est (North-Eastern Ring Electronic Science and Technology) this area aimed to offer to enterprises the potential of research, training, measurement and certification available in laboratories and universities.
The flattering results were gained also thanks to the important cooperation of the Association of Industrialists in Vicenza District, of Near-Est, Assodel (Italian Association of Electronics Distribution), Assipe (Italian Association of Electronic Design) and IDEA (International Distribution of Electronics Association).

Rome, center of Mediterraneum

The third **Fortronic**, the professional electronics' Forum, will be held from 5 to 7 April, 2001 at the Rome Exhibition Ground. The event is organized by **Tecnoimprese**, service centre of **Assodel**, the Italian Association of Electronics Suppliers, and is supported by **Bias**. It is intended as the reference for all the electronics firms active in the Central and Southern Italy. Fortronic already represents industrial and intellectual outsourcing businesses within the scope of **Bias** in Milan and **MicroElettronica** in Vicenza.
Its goal, in Rome, is to promote the products and activities of firms in electronic components, production, automation, testing and instrumentation. There are very many reasons for taking part in this initiative. Above all, the high number of sub-supplying initiatives in the various regions; Public Administration purchases of transport and logistics, telecommunications, teaching and defence: in short, an industrial market of more than 26 million consumers. Then there is the presence in the area of 27 universities and more than a hundred research institutes.
It should not be forgotten either that Central/Southern Italy is the preferred point of reference for the Mediterranean area countries; Spain and Portugal, Greece and Turkey but also Tunisia, Morocco and Israel. It is in this light that a meeting focussed on the opportunities this area can offer to European electronics distribution firms will be organized at Fortronic with the assistance of the Institute for Foreign Trade.

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