IDEA

I.P. NEWSLETTER

November 2001 Issue

INTERNATIONAL DISTRIBUTION OF ELECTRONICS ASSOCIATION

Some room for optimism

By Robin B. Gray, Jr. - NEDA, Usa

There is little doubt that authorized electronic distribution will be affected by the terrorist attacks on September 11.
The impact will depend on how we as a people react. The terrorists will win if we let fear affect our judgment. Things have changed and all of us will become more security conscious.
But, we can't let fear rule our lives. What has always differentiated Americans from other nationalities is that we confidently face the future. We adapt to life's challenges with a view that we are winners-that we'll prevail.

Move forward

As we learn to deal with our fear, grief and anger, we must press on.
Now, is not the time to hunker down in bunkers-we must move forward to show the world that we are not afraid.
It is too early to tell whether the terrorists' attacks will delay the industry's economic rebound.
My guess is that the industry will see gradual improvements as the military, law enforcement, security and intelligence communities gear up for the campaign ahead.

Role of electronics

Electronics will have a major role in the campaign. You may also see the private sector turn toward improving security with electronics being at the heart of this movement.
There will also be buying to repair the damaged infrastructure and to replace damaged and destroyed equipment in New York City. So, in the long-range forecast, there is room for optimism.

Demand of telecom

I believe that we will see more business being conducted by telecommunications and the Internet rather than in-person customer visits.
This trend, already begun by cost-cutting measures during the economic downturn, will accelerate as businesses cut travel for security reasons. In turn, this is likely to re-ignite demand for electronic components from the telecom industry as it expands to meet broadband demand, particularly video.

Turn to trust

I also feel that customers and suppliers will turn to authorized distribution even more in the days ahead. In times of stress and turmoil, businesses-like individuals-turn to the tried and trusted institutions.
Psychologically, there is a measure of comfort and security in dealing with someone that you know and trust. As I see it,

customers and suppliers will increasingly turn to their trusted partners to build a solid, dependable supply chain.
There are now new risks loose in the world; few businesses can afford to experiment with unknown risks from strangers.
Finally, while there is a need to cut back on some business travel, there is also a growing need for face-to-face interfaces.
Now is the time to strengthen our ties to those partners that we trust. Now is the time to reaffirm our confidence and to demonstrate that optimism, not fear, governs our industry's decision-making!

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Going from bad to worse

By Silvio Baronchelli - Assodel, Italy

The difficulties the market was already experiencing were compounded by the attack on the "Twin Towers". The tragic events in New York can now be considered the starting point of what is expected to be a long crisis with features that are difficult to define. Latent widespread fear has already made things difficult in transport, consumption and investments, and is spreading rapidly in a chain of causes and effects to every type of production activity.
It is obvious that all this will be overcome sooner or later. What we now have to ask is how long it will take and how it will happen for the electronic components market.
The current feelings cannot help starting out from the negative image that has been accompanying semiconductors and similar products for months now, and which characterise this year as the worst in "electronics" history, with drops in the demand of between 25% and 35%, job cuts and slashes, activities being sold even at knockdown prices, a collapse of over 50 % in prices (DRAMs are a good example of this). It is easy to imagine that the demand-and-offer cycle will take longer than it would have to return to a positive trend, and that in the short term consumer products will experience further slowdowns.

International overview

In today's international overview, the drastic cuts undertaken by manufacturers in order to reduce their stocks and overproduction have to take the indifference of stock markets clearly conditioned by the warlike events into account. And while it is likely that these activities will not be able to put very much life back into the prices of hi-tech securities, within a few months they might be able to substantially alter the availability of whole families of products on the market. This would result in widespread shortages among customers starting from the year 2002. It can therefore be presumed that in coming months the overall picture of the hornets' nest that is the component market, made up of general situations and specific choices, will see increased costs and longer shipping times (tension in logistics, transport and stocks etc. due to the need for checks and inspections), but also increased profitability for those who are most skilled in managing their stocks.

Italian situation

The situation in Italy is rather particular, consisting as it does of small and medium-sized companies, with all the consequences of this. Moreover, large-scale production still tends to migrate aboard, albeit passing through contract manufactures. Small companies, whose business is built on applications, feel the impact of their respective end markets rather than of what goes on in electronics.
Italy still lacks a far-reaching industrial policy in the field of electronics.

French market same as Europe

By Daniel Schneitter - Spdei, France

The figures coming in from our European colleagues reveal a sort of uniformity in terms of the downward trend of 2001 as compared with 2000. A high price has now to be paid for that exceptional year in which a growth rate in the region of 40% occurred in distribution. But while the sectors badly affected concerned are mainly on the manufacturing side, it is equally true that there were also considerable repercussions on the traditional distribution market. Indeed, distribution has "helped out" the major accounts in order to make up for the deficiencies of the manufacturers. A share of the turnover was permanently lost in 2001.

A very difficult period

Subcontracting also experienced a very difficult period. It is a fact that the halt in manufacturing requested by those who order components because they were overstocked with finished products has caused the level of stocks to rise considerably, since in 2000 the products being handled did not consist of a continuous flow through the system but, taking procurement difficulties into account, of reserve stocks.
This has also rendered the finances of businesses more fragile. Stocks have increased also in the field of distribution. Manufacturers are tending not to comply with the delivery dates requested by the distributors. Knowing that when it comes to semiconductors many apply the "ship and debit" approach, and taking the extremely steep drop in prices for some components into account, inventories have come to be valued at 20% to 30% over their actual value. In addition to this, there is the immediate payment of VAT on the purchase value, which is yet another cause of trouble for distributors' finances. The other cause is the way in which customers attempt systematically to gain days for payment. Lastly, the fact that some customer accounts that seemed to be firmly placed with distributors have transferred their business directly to manufacturers.

Impact on distribution

Now let us see how we can expect the year to end.
While billings remained positive up to Q2 as compared with 2000, the weak bookings during this period decreased the backlog to a great extent. The third quarter was even worse, and the fourth quarter will be catastrophic. Which distributors are most affected by this? Considering that semiconductors account for 75% of the DTAM, it is obvious that these groups are most hard hit. The small independent distributors who did not feel the impact of the 2000 boom to the same extent will also not be so badly affected by the crisis, and many of them will even grow in 2001, thanks in particular to connectors and electromechanical. Although 2001 is a very difficult year, many segments of industry will fail to reach the average for our own field.

About Idea

The **International Distribution of Electronics Association** was formed in 1987 with the express intent to share the best practices within the World Electronic Component Distribution Industry.

As a Federation, **IDEA** members are the Components Distribution Trade Associations of many of the major countries in the World. The **IDEA** Council is made up of the Representatives of each Trade Association and it meets usually twice a year to focus international standards and to develop plans within the Distribution Global Industry.

IDEA hosts meetings within the industry to create cooperation and partnership. It also encourages competences and professionalism in the emerging markets of **Mediterranean** and **East European Countries**.

Current active members include **Australia and New Zealand**, **France**, **Italy**, **Japan**, **South Africa**, **Spain**, **Sweden**, **UK**, **USA**. In addition rapresentatives from **Taiwan** regularly attend Idea Meetings. In these countries the partner Trade Associations represent several hundreds of distributors and many billions of U.S. dollars sales.

Idea market figures

▶ The data processed by **Idea** and referred to the second quarter of 2001 for distribution in the UK, in France and in Italy highlight a downward turn that can be seen overall, throughout the various families of electronic components included in the review.

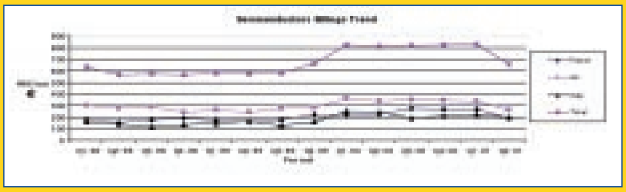
▶ On analysing the data as a whole *(they are also provided in the figures)*, it can indeed be seen that the consolidated sales figure, which has dropped from over 1,200 million Euros in the first quarter of 2001 to about 1,000 million Euros, has returned to the same levels as in the last quarter of 1999, after all of five quarters during which it had remained stable at 1,200 million Euros.

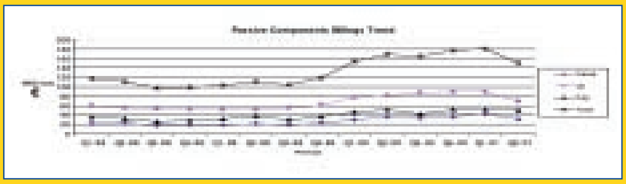
▶ One significant aspect to be pointed out is the sharp drop in orders, which have now gone down from about 1,100 million Euros in the previous quarter to less than 800 million Euros.

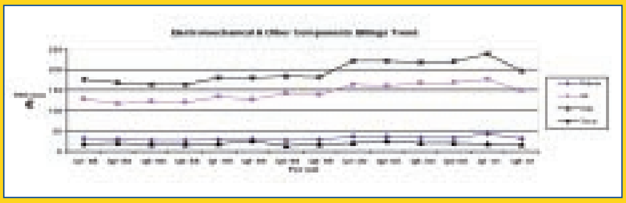
▶ Looking at the figures in greater detail, it should be pointed out that in **France** the drop in sales was from 2,300 to 1,700 million francs while orders have gone done from just under 2,000 million to 1,400 million francs.

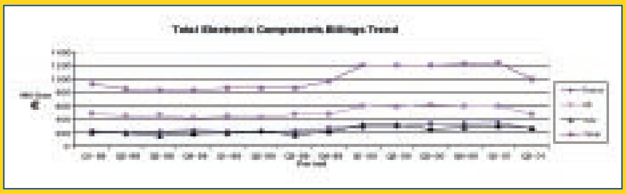
▶ In the **UK**, on the other hand, a drop in sales from 400 to just over 300 million pounds sterling can be seen, while orders have decreased from over 360 to less than 250 million pounds sterling.

▶ As far as concerns **Italy**, on the other hand, the situation is characterised by a sales figure that has remained relatively good, going down from 590 to 540 billion Italian liras, but by greater difficulties with orders, which have dropped from 510 to 420 billion Italian liras.









A high degree of concern

By Gary Kibblewhite - Afdec, UK

With over half the year now gone what does the remainder herald? Firstly billings for the first half of this year were 3,5% ahead of the first half last year. However, we should savour these words because unfortunately every input appears to indicate that the words "ahead of" are likely to vanish for some time. I am afraid the results so far indicate that the market is still in a sharp decline mode. On top of this the results for July show that the average billings per day fell a further 12%. Will the recovery be about market confidence?

I am afraid there are more questions than answers but with our bookings levels so low and horror stories from the component manufacturers, clearly show the term outlook is poor. There is a high degree of concern amongst business leaders end considerable disagreement amongst economic commentators about how the economy is going to behave over the short term - over the next 12 months.

The economy's recovery

Two critical factors are amongst those that will determine when the UK economy is going to begin to recover:

■ The start of the upturn in the US economy. That of the condition of the UK economy will not depend on that of the US during this cycle has been a widely held view amongst commentators is clearly incorrect. The chancellor, who has been frequently claiming "no more boom than bust" as a reward for this policies of prudence and stability may turn out to be mistaken. It is now the consumer who is largely responsible for keeping the US economy going.

■ The serious effects of the imbalance between the growths of the consumer and manufacturing sectors of the UK economy. The possibilities are beginning to become clear to several observers who until fairly recently have ignored it. While unemployment is still reducing - thanks to the consumer sector - warnings of lay-offs in manufacturing are becoming increasingly alarming. How much more of this uncomfortable information does the general public need before it takes fright, stop spending, start saving and thereby significantly inhibits the growth of the economy?

Consumers'attitudes

Both the US and the UK economies are now severely dependent on the attitudes of their consumers - and, as is fairly obvious, this is notoriously difficult to predict given any particular circumstances. Since it is currently difficult to provide a prediction for a likely set of circumstances with any conviction, forecasts are uncertain. Will the consumer continue to buy as many goods and services until the industrial sector starts to rally?

The condition of the electronics industry is itself attracting considerable negative publicity; a pessimistic environment may become self-fulfilling. It is very important that the industry as a whole promotes the positive and does not sink into pessimistic apathy.

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The Electronics Industry meeting point in Italy

The 18th **MicroElettronica** is organised by **Assodel** - *Italian Association of Electronics Suppliers*, the only Board in Italy to gather companies dealing with components and hi-tech equipment distribution and supply. Microelettronica represents the global offer of the electronics industry in the Italian market and is the meeting point between buyers and suppliers in the electronics sector.

▶ **MicroElettronica** registers a **growth trend of 20%** each year and, with its 11.200 sqm., it has now overcome equivalent exhibitions such as Intertronic, Paris (8.500 sqm.) and Nepcom, Birmingham (8.000 sqm.).

▶ **MicroElettronica** hosts the **Trading Post Area** which is dedicated both to foreign enterprises interested in finding sales channels and/or representatives in Italy and to Italian Businesses wanting to invest in foreign markets. The Trading Post Area will exhibit information desks of promoting Boards and fitted stands for groups of foreign companies wanting to present their products and activities to the Italian market. The aim is to stimulate exhibitors and visitors to create new trade contacts and relations.

Idea Meeting 2002

An international meeting is held at least once a year to concide with Master Electronics Exhibitions such as Electronica in Munich, Microelettronica in Vicenza and EDS in Las Vegas.

MICRO ELETTRONICA

The next meeting wiill be held in Vicenza (Italy) during the 18th MicroElettronica, the Biennial Exhibition of Components and System Application

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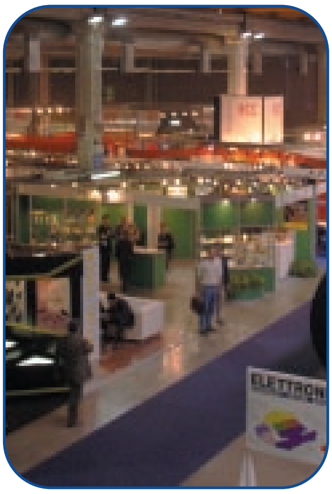
▶ **MicroElettronica** will be presented to the trade associations in Ljubjana, Zagreb and Bratislavia. The **Alpe Adria** initiative includes invitations with a bonus of a 50 Euros discount on logistic expenses for local technicians attending MicroElettronica. Presentation meetings will be held between 20th January and 20th February 2002.

▶ In 2002 the **International Electronics Distribution Meeting** will lengthen the stay of the top names of the various foreign associations to three days. This is an opportunity for distributors but also for those in search of purchases to investigate the situation and market prospects in greater depth.

▶ **MicroElettronica** hosts also the EMS Conference, the first meeting proposed for **Electronics Manufacturer Services** on the positioning and evolution of production activities in Italy in relation to opportunities existing abroad. Workshop on the internationalisation of Italian companies organised jointly with the Italian Foreign Trade Institute.



▶ The programme *(organised by ICE and Elettrimpex at the request of the Vicenza Fair)* for making **MicroElettronica** an **international event** has been operational for many years now. With reference to 2002, it is expected that about ten international missions will be attending and the 'collectives' from Taiwan, the UK, Slovakia, Slovenia and Croatia will also be there once again.

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