IDEA
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INTERNATIONAL DISTRIBUTION OF ELECTRONICS ASSOCIATION

Towards an interesting future

by Gary Kibblewhite, Chairman IDEA

We have all seen market conditions that we have never experienced before. The market decline was far greater than any forecaster believed. Where are we going now? Some say that the market will recover soon as it always has done in the past but will it?
I believe that one fundamental question needs to be addressed: What is going to stop our manufacturing industries migrating to China, Eastern Europe, Mexico etc?
If we fail to stop them will we have sufficient customers left to justify the current supply infrastructure? Until the inception of the **Mega-EMS** companies this was not a major problem as new manufacturing operations were started to fill the void caused by companies moving overseas.
Now the EMS provider will simply manufacture where his own economics dictates.
This is an issue for every West European Country and must be addressed.
In addition other factors are changing the way we work:
Rosettanet is certainly powering ahead for the larger groups but with typical set up costs of $0.5 mill for a company (or $100,000 for a limited installation) will it ever spread to the second tier and smaller distributors?
Are we seeing volume (as opposed to catalogue) distributors splitting into two distinct types.
- Design in distributors
- Fulfilment distributors

How far can "Globalisation" go or are we already starting to see a resurgence of "local" suppliers?
2002 and 2003 will certainly be interesting years.

Idea Meeting

The next meeting will be held

the 11th May 2002

in Vicenza (Italy) during the 18th MicroElettronica, the Biennial Exhibition of Components and System Applications

MICRO ELETTRONICA

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Short about the Swedish market

by Lena Norder - IM, Sweden

The telecom business is important to Sweden, with the **Ericsson Group** as a main driving force. The year 2001 was not a very good year for the business, to say the least. The **Swedish** companies felt the market going down more or less drastically. It's been especially tough for the suppliers and distributors in the electronic production business. Not only has the production been reduced, but also moved permanently out of Sweden to Poland and Asia. Now there is a growing hope that the worst time is behind us and that the market in general will start to grow again. Some companies say they see the light already - others are still waiting for it to come. The Ericsson Group is still very much in focus and we get both good news and bad news about them. Noted just recently is that cheaper chips for **Bluetooth** are on their way. The company Ericsson Technology Licensing, developing Bluetooth technology, has found a way to build in all the radio components on one chip. This will make it easier to use this technique in even more products. This also means cheaper production cost. They will come below the magic limit of 5 USD in production cost for a chip, but Ericsson is not all alone in this. It is said that both American **Texas Instruments** and Swedish **Spirea** have presented such solutions. More general good news about Ericsson is that important orders are coming in and they are improving their financial situation. On the other hand the problems in Latin America will most probably have a negative impact on Ericsson in lost payments and reduced orders. Our own estimation about the Swedish market is that telecom/datacom covers **50%** of the market available for distributors. The rough estimations of the other business areas are: Medicine **15%** of DTAM, Automotive **10%,** Military **3%** and Industry **22%.**

UK trusts a change of trend

By Gary Kibblewhite - Afdec, UK

What is going to happen with distribution markets in the **UK** this year? Last year the markets were extremely buoyant at the time forecast were prepared (Nov 2000) and some fairly ambitious projections were made for the Industry. By January last year, however, it was clear the market was turning down very rapidly. Since March the market has continued to fall. While making efforts to be cautious and prudent at the time of the forecasts for 2000, it was clear that demand was growing quickly and new investment in capacity was unlikely to come to fruition in under two years. All known factors were indicating a period of strong growth. As a result the forecast for 2001 was a growth of 18%. What in fact happened was that the distribution market contracted by **12%**! Major parts of the market ran straight into a wholly unexpected collapse. The assumptions made last year supported the 18% growth forecast, but clearly there must have been some serious variations between them and reality.

Looking forward we expect the market in **2002** to again shrink by about **9%.** If the bottom of the market has not been reached so far then it should be in the next quarter or two. We expect a change of trend, to upward, next year, but the contraction in 2001 has been so severe that recovery in 2002 will not make up the ground lost during the 2001 contraction. However, it is important to note that sharp fluctuations in the market have been experienced in recent years, so it is worth noting the underlying strength of the Component market. Between 1991 and 2001 theTAM has grown by an average **9.9%** per annum and the DTAM growth has averaged **9.8%** annually.

A year that did not go unnoticed

by Daniel Schneitter - SPDEI, France

There are many ways to draw attention to oneself and to beat records. Unfortunately, these are not always on the upturn. Thus it is that the electronics market, in general, which rose to great heights in 2000, then showed its ability, in 2001, to fall to levels rarely seen in this trade circle. Optimists claim that 2000 was an exception, and that, if one observes the growth curve over the five-year period, growth is still positive despite the fact that 2001 was a very bad year.

Although this general observation seems to diminish the profound effects of the crisis, if we stop to consider it, its consequences at the local level are nevertheless considerable, and can sometimes even be disastrous. The **French** electronics market has lost many jobs, especially in the telecommunications field, with its two telephone giants, **Alcatel** and **Sagem**. The consequences of this on sub-contractors, such as **Solectron**, just to mention one of the most important ones, are clearly seen.

Domestic **sub-contracting** is doing quite badly since numerous traditional markets have been relocated to the Eastern European countries and to China. Such migration appears to be an irreversible solution for reasons of cost, but it also serves to escape the very rigid structures of corporations in France, especially, with regard to layoffs. We should not forget the shock waves produced around the 35-hour work week. The consequences of this on distribution are enormous, when one realizes that sub-contracting represents nearly **35%** of its turnover.

The weakening of some enterprises results in numerous bankruptcy petitions, and in the case of others, in extended delays in payment, thus considerably increasing the financial risks for distributors.

To this is added a complete lack of visibility, with the orders backlog being six weeks at the most.

The gross margins have remained untouched by the crisis thanks to the negotiating flexibility of numerous manufacturers.

2002 is showing positive signs

by Robin Gray NEDA, USA

NEDA is not in the business of reading tea leaves. However, the association does track and report industry data through our **Distribution Business Index**. To the extent one can draw conclusions from trends lines, then 2002 is showing positive signs that a turn around in electronics is in progress. So far, the DBI trends lines show a slow recover rather than the roller coaster boom and bust cycle that the industry is accustomed too. Perhaps, the industry has matured enough to avoid the wide swings that were particularly evident in 2000 and 2001, when the authorized distribution community saw its best year ever and its worst year ever, respectively. A few months of data points do not make a trend, except in retrospect. With that caveat, let's look at what has happened in the past few months.

The **DBI Shipments Index** hit an all-time high of 17.28 in September 2000. From that point the index free-fell to hit bottom at 8.52 in August 2001. Since then, shipments have been slowly improving and stood at 9.22 at the end of November. What I hear in talking with members is that the number of shipments is rising, but the volume is not there yet. True recovery will be achieved when distributors are again shipping in volume.

The **DBI Inventory Index** tells a similar tale as the Shipments Index. The Inventory Index hit a record high of 6.87 in January 2001 as components piled up in distributor warehouses. Since then, distributor inventory levels have steadily declined and should reach normal levels this month. Normally, the Inventory Index hovers in the high 3's and low 4's.

The recovery is expected

by Keith J Anderson ECAANZ, Australia

The **Australian and New Zealand** electronics market has had a significant downturn compared to Year 2000, which was a boom year worldwide for the industry. Even compared to 1999 sales were significantly impacted by the sharp decline. The overall decrease was approximately 35% and fairly evenly spread on all components.

The estimated TAM for year 2000 was;

Semiconductors 500 M$ (30% DRAM/CPU)
Passive products 30 M$
Connectors 50 M$

There has been a significant impact on Contract Manufactures in the market with one major assembler going into liquidation and another, **Solectron**, deciding to close their operation in Australia. The main contract assemblers in the region are now Australian owned. Our association is supporting the **Austronics Exhibion** and conference to be held in Melbourne in 15-17th October 2002. This exhibition is held in conjunction with Automate and Electrix. Due to the smaller overall size of the local electronics market compared to Europe and USA the recovery is expected to be at a faster rate. In general terms the Australian economy is in a very good position to take advantage of a world recovery.

Well, not so well, I don't know

by Silvio Baronchelli - Assodel, Italy

Nobody knows how the market is going. Better, worse, still stagnant? It is clear that a lot depends of each individual's point of view and the circumstances considered. Even if we take it for granted that the year 2000 is no longer part of the story, having become one of the more-than-exceptional years, the fact remains that 2001 underwent a drop in the balance which was equally out of the ordinary. It is no coincidence that **Pasquale Pistorio**, who can consider himself among the top experts of chip, stated that he had never seen such a terrible year as 2001, when the manufacturing industries went from a +37% in 2000 to the collapse of -32% in 2001, with a decline of 70% or more.

What are the considerations that can be put on the table today to clarify our ideas? The meeting of **Assodel** provided various indications. The panorama has been characterized since 2001 by four substantial factors which have never appeared simultaneously.

Firstly, the slowdown of the American economy which rapidly spread to Asia and Europe causing a reduction of 6% in the installation of electronic systems.

Secondly, the Internet crisis, which involved a drastic decrease in orders and the spreading of an enormous number of semi-new systems on the market sold at very cheap prices by the dot companies who were going bankrupt.

Thirdly, the indebtedness of the telecommunications companies which found themselves with enormous debts. The result being that TLC companies cut as much as they could by suddenly stopping all investments.

Fourthly, the growth of the CEMs, favored by the tendency of large companies to outsource various production activities. This last-mentioned factor caused a reduction in stock and for producers a deceleration in demand equivalent to one or two months of production.

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.

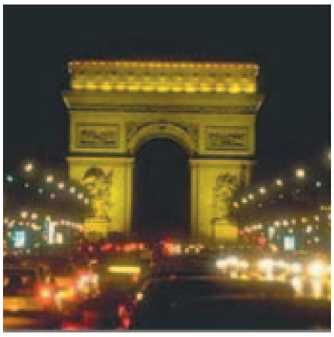
The new spring of distribution

The year 2002 promises plenty of events for those who work in the distribution of electronic components, with a series of important encounters and updates packed into the springtime.
Especially at a time like this, marked by radical changes, but most of all by uncertainties about what the market will have to face in the next few months, it becomes vital to exchange ideas with the protagonists of the world of electronics, whether they be suppliers, distributors, agents or representatives.

This year the calendar holds in store, in chronological order, the **Europartners Distribution Forum** of Paris, the **International Distribution Meeting** of Vicenza and the **Electronic Distribution Show and Conference** of Las Vegas.

Distribution takes off in Paris...

The first in chronological order is the distribution forum held by **Europartners** on 24 and 25 April 2002 at the Congress Building of Paris. This year too the topics, suggested by the *Steering Group*, will definitely be interesting.



Among them is an overview of the Electronic Manufacturing Services, the model used by the subcontracting giants, their possible evolution and the expectations that they have of OEM. Another topic will be the continuous migratory trend of production to areas of low labor costs, such as Eastern Europe and the Far East, with all the implications and repercussions that this phenomenon has on distribution.
Another topic will be the problems of demand creation and technical support; the market conditions for active, passive and electromechanical components; the role of specialized distribution; the developments of the supply chain; the globalization of e-commerce.

... it stops off in Vicenza

The tenth edition of the international meeting of distribution will be held by **Idea**, in collaboration with **Assodel**, on 11 May 2002 in Vicenza, on the occasion of **MicroElettronica**, the Italian fair dedicated to industrial electronics.

The goal of the meeting is on the one hand to take stock of the situation by presenting the results and forecasts of electronic distribution in the various countries examined and on the other hand to take on and develop, in a joint discussion, some important topics. It will therefore be an opportunity not only for distributors from all over the world, but also for buyers.

...and lands in Las Vegas

Finally, the U.S. proposes the **Electronic Distribution Show and Conference**, which will be held in Las Vegas from 14 to 16 May 2002.

It presents itself as a world-class event for producers, distributors and representatives who want to find a perfect situation for coming together. The event includes, besides the exposition part, an intensive program of conferences.

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