In the past many electronics purchasers bought parts from distributors because they did not have a choice. If buyers did not have large enough volumes to purchase directly from the manufacturer, they were told to purchase the parts from the component manufacturer’s authorized distributors.

Today more electronics buyers are purchasing parts from distributors even if they have large enough volumes to buy directly from the manufacturer. In some cases this is because chipmakers and other component manufacturers are operating leaner and have reduced their direct sales forces. But in other cases buyers are choosing to purchase from distributors because distributors provide flexibility and help reduce total cost of ownership through value-added, supply chain, inventory management and design services.

As a result in recent years distribution has become more strategic to purchasers and their companies, especially those in the electronics manufacturing services (EMS) industry.

“Our distribution partners play a very key role in our business overall,” said Troy Hiner, vice president of global supply management at EMS provider Sanmina.

He said that Sanmina is purchasing more materials as a percentage of its spend from “our preferred distribution partners every year. Over the last 10 years we’ve reduced the number of distributors, but we’ve increased the amount of spend with those that remain,” he said.

Hiner said in most cases Sanmina does not have to purchase through distribution because it buys large volumes of components. However he says, “distribution allows us to consolidate and leverage spend, and position material supply so we can increase flexibility for our customers. Distribution is an excellent fit for Sanmina,” he said.

Hiner added that Sanmina tries to differentiate itself with customers through world-class service and support, and “properly utilizing our distribution partners and their services helps in this effort.”

He said by forging close partnerships with preferred suppliers, Sanmina can maximize flexibility and services to its OEM customers.

“Our ability to take care of our customer’s needs depends in large part on our partnerships within our supply chain channel,” he said. Such partnerships “are a foundational part of our supply chain strategy.”

“The more business you channel through your preferred suppliers, the more aggressively you can drive your pricing, and the more services and support you can provide to your customer,” said Hiner.
Understanding needs

He said with partnerships, Sanmina and distributors work together to understand each other’s needs and the needs of customers.

“Our distributor partners know that Sanmina needs the best price, immediate material ability, the best service and support, and the best quality of product if we are going to help our OEM customers compete,” he said.

Hiner said that Sanmina’s key distributors “do a great job listening to us and focus on putting in place the support structure and pricing that will allow our customers to aggressively compete and grow their businesses.”

He added that said distributors are also important during supply shortages. “Anytime there is a short supply of material we’ll engage our distribution partners for help,” he said. “Close partnerships come into play during these times. When I need material I always want our partners thinking about Sanmina first,” said Hiner.

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More spend with distributors

Distributors have also become more important to small and medium-size EMS providers, many of which have increased their spend with distributors over the years.

For instance, Connie Wan, vice president of global procurement and supply chain for EMS provider SMTC, based in Toronto, said her company buys about 50 percent of the components it needs for production from distributors.

“The percent of spend with distributors has increased compared to 10 to 15 years ago,” she said. One reason is that sometimes distributors “have better competitive pricing because they are buying a huge volume of components,” she said.

But another is that component manufacturers are selling more products through distribution rather than selling direct to customers.

“More manufacturers tend to use distributors as their marketing arm to help them sell their products. Many of the big brands shut down their sales teams and moved product through distribution,” said Wan.

She said consolidation in the industry has also contributed to distributors selling more products. As a result of consolidation, distributors are carrying much stronger line cards.” It’s possible to buy a lot more components from one distributor than in the past,” she said.

She said although SMTC’s buy with distributors has increased, the EMS provider is using about the same number of distributors it was about 10 years ago.

Wan added that SMTC uses distributor value-added and supply chain services at its facilities in San Jose, Mexico and China.

“We use in-plant stores, consignment inventory, supplier managed inventory,” said Wan. She said such programs help SMTC reduce lead times.

Wan said while SMTC buys most of the parts it needs from large global distributors, in recent years it has added some regional distributors to support its facilities in Asia.

EMS importance grows

Distributors say that EMS has always been an important customer segment, but it has grown in importance in recent years.

“EMS is a very big customer base for Digi-Key,” said Chris Beeson, executive vice president sales and supplier development for the distributor. He said that most EMS providers are Digi-Key customer to some degree and many are small to medium-size North American based providers that have global manufacturing.

Digi-Key, based in Thief River Falls, Minn., has historically been a catalog distributor providing relatively small quantities of parts to engineers designing new products. However, over the past 10
years Digi-Key has also been supplying parts to OEMs and EMS providers for small to medium-size production runs.

Beeson notes that the EMS business is evolving and many EMS companies provide design support for OEMs’ new products. Digi-Key supports those design efforts and supplies parts once the design goes into production.

Many EMS companies have “global sourcing strategies that incorporate Digi-Key into their Asian operations or European operations,” he said. “Many of the European-based contract manufacturers are starting to engage us a little beyond the catalog space. We are starting to get into some high-mix, low-volume supply chain support, said Beeson.

EMS is playing a bigger role in the industry and “we know it is important to be close to the EMS community,” he said. EMS providers manufacture products for multiple OEMs, some of which are very large and global.

“So when Digi-Key sells products to an EMS provider, we are really touching a much greater ecosystem as a result of that EMS engagement. It’s important that we engage EMS providers,” said Beeson.

Lindsley Ruth, executive vice president, office of the president for Future Electronics, based in Montréal, said about half of the distributor’s business is with EMS providers and that percentage will rise over the next several years. He said five years ago about 30 percent of Future’s business was with EMS providers.

Future’s EMS business is growing because of consolidation and the fact that more companies are outsourcing and “Future’s value proposition for EMS,” said Ruth.

Ruth noted that large EMS companies purchase about 10 percent of their production requirements from distribution. “With tier 2 companies it’s about 70 percent with tier 3 it’s 90 to 95 percent,” he said.

**Similar requirements**

In some ways the requirements that small and large EMS providers have of distribution are similar, said Ruth.

“EMS companies all have the all the same basic needs. They want quality product, on-time delivery and flexibility,” according to Ruth.

He said smaller EMS companies rely more on Future for engineering, design and component management, while large EMS rely on Future for security and continuity of supply.

“We differentiate ourselves there. As a private company we hold four months worth of inventory for a customer around the world,” said Ruth. He added that Future “bonds a lot of inventory” for customers. “We are managing the fulfillment side of the business so production lines aren’t shutting down,” he said.

Ruth added that larger EMS customers are more cost revenue because margins are thin.

Smaller EMS companies tend to have very small engineering departments that focus on designing fixtures or on design for manufacturability.

“A lot of smaller EMS guys may have approved vendor lists (AVLs) that are just descriptions,” and need help from distributors, he said.

**Startups to drive demand**

Ruth said that the EMS segment for Future will continue to grow in North America due in part to startups.

“There’s a huge opportunity with startups,” he said. A startup may have an idea for a product, but need help with the design and manufacturing of the product,” said Ruth.

The startup will likely use an EMS provider to build the new product and distributors to supply the parts.

Distributors will likely be selling more products to EMS providers in North America because some manufacturing is heading back to Mexico, the United States and Canada due to rising labor costs in Asia. In addition some EMS providers in China have a employee turnover of about 30 percent per month, said Ruth. There is less turnover in Mexico, he said.

In addition some OEMs may decide to build new products closer to the markets where those products will be sold. So a product destined to be sold in U.S. will be more likely to be built by an EMS provider in North America.

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