



JULY-AUGUST

2002

CEM ACTIONS STIR CONTROVERSY, CONFUSION

The word is getting around that a few of our Contract Electronic Manufacturers (CEM) are making moves in the industry that are not being well received by the independent reps and distributors and are not setting all that well with some principals. What's it all about?

Well, that is the focus and purpose of the next chapter meeting, Tuesday, August 6th. Members will report on their direct involvement with this program and copies of what documentation that is available will be provided each member present.

The main CEM's involved are Sanmina and Solectron. We "hear" that Flextronics is getting into the act, as well. What the CEM's are proposing is that the manufacturer (possibly one of your principals) enter into an agreement that gives them permission to "qualify" principal's product for worldwide purchase and installation into the CEM's contracted assemblies, i.e. their customer's Approved Vendor's List (AVL). In return for this service, **principal pays the CEM a commission.**

When talking about this program to older reps, their comments verify that this is certainly not a new idea, just a new wrinkle.

People have been trying to get customers to eliminate rep's commissions and pass along the "savings" for years. The current idea is to get the discount from the manufacturer, with the added implication that, "if you don't cooperate, somebody else will" dropped in, in a not-so-subtle fashion.

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Henry "Hank" Lavin. We are sorry to report the passing of Hank, a long-time member, supporter and twice National President of ERA. This New England rep was also a friend to many and they all will sorely miss him. God speed, Hank.

NCALERA NEWS

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R.W. (Bob) Parsons, editor

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MEETINGS & SPECIAL EVENTS

August 6 Michaels at Shoreline
Regular Meeting
September 30th Crow Canyon
Golf Club -- Annual
Golf Tournament
September 21-26th WESCON
November 5th Michaels at Shoreline
Regular Meeting
Past President's Night
December 4th All Electronic Industry
Charity Event (ERA-NEDA
Christmas party)

PALM PILOT WORKSHOP

For Michael Onken

By Editor

Watch for a special report on this activity, held August 2nd. Here are some pictures, an indication of the attention of the crowd to this excellent program.



Michael, of course, at left, who put in a lot of time getting this program set up. We learned some lessons on venue, but it turned out well and well accepted, as shown below. The room became quite noisy as

lunch progressed, but everyone managed to get the message.

That's the speaker, Philip McClendon, Project Manager, Accessories, of Palm Corp., below, obviously holding his audience's attention.



We'll have a special report in a few days. Watch for it along with the announcement of our next Educational workshop in September.

ERA ANNUAL GOLF TOURNAMENT

by Ron Jenkins

The 2002 Golf Tournament is scheduled for Monday, September 30 at Crow Canyon Country Club in Danville. This is the week after the WESCON Show held in Anaheim.



Entries will be mailed in August. Please return completed entries promptly to secure your reservation. Dinner choices this year will be Grilled Filet Mignon with Wild Mushrooms and Jack Daniels Sauce or Chicken Wellington with Mushroom Duxelle and Puff Pastry, Bordelaise Sauce.

You can download an Entry Form at <http://www.ncalera.org/golfentry.html>.

The day's schedule is:

10:30 - 11:30	Check In and Match--Making
11:00 - 12:00	Lunch (Grilled Chicken, Burgers & Dogs)
- 12:30	Shotgun Start
5:00 - 6:00	No-host Cocktail Hour
6:00 - 7:30	Awards Dinner

The practice range is not available. We will play 19 holes. The 1st hole is for practice and to loosen-up those tight muscles.

Prizes will be awarded in three divisions: Gross, Net (NCGA Index required) and Callaway (non handicap players). The Net & Callaway will have 3 flights each.

For additional information you may contact the golf committee:

Ron Jenkins	Westech Associates	(650) 961-1422	rjenkins@westechassociates.com
Bill Walsh	Westech Associates	(650) 961-1422	bwalsh@westechassociates.com
Don Onken	Bridge Marketing	(650) 827-3600	don@bridgerep.com
Mark Conley	O'Donnell Assocs.	(408) 456-2950	mconley@odonnell.com

Please call if you have any questions or care to make any suggestions.

NEWS AND VIEWS

By Bob Parsons

IT NEVER RAINS BUT WHAT IT POURS

“WorldCom's accounting troubles will have a big impact on California. Silicon Valley will be hit the hardest, slowing its recovery. Cisco, Juniper Networks and other telecommunications equipment suppliers can expect fewer orders as a major buyer in the industry bites the dust. Businesses will probably pay more for long-distance service. With WorldCom out of the picture, competitors can raise their rates.”



That's right out of Kiplinger's California Letter a few weeks ago, a source we look upon as very valuable. Of course, WorldComm's subsequent Chapter 11 filing may well save the communications part of their business. We hope these shenanigans do not cause any major problems for you but hardly a day goes by when we don't hear of another accounting irregularity. Fortunately, Congress has stepped in and things will look up. Maybe we can gain if things just don't look down.

We are reminded of Damon Runyon's famous horse-player's comment, “I hope I break even today. I need the money!”

OWNER'S FORUM

The first Owner's Forum of 2002 was a success – so much so that we are planning another before 2002 is much older. More on this later on.

We had 20 members present, about what we had expected, although a few signed up and didn't show up. It is a shame that it works out that way, but unexpected events come into play -- customer emergencies; principals calling at the last minute and making requests that demand attention; and once in awhile a tee-off time may have forgotten and good starting times can be demanding. Right? Certainly.

The subject was originally listed as NBO (New Business Opportunities) reporting. Mark Conley, our speaker, was obviously prepared since he had presented the bulk of the program at the ERA National Conference a few months before.

This time he incorporated additional data he picked up from fellow conference speakers that enhanced the presentation immensely. We'll go through a few of the more obvious facts for you. It is hoped that we can do a good enough job of reporting that you will be persuaded to make it to the next such forum where we will discuss options around the subject of Fee for Service.

Mark first called on the Orlando presentation of Susan Mulcahy of Cahner's Publishing. We shared some interesting facts they had put together from surveys and other research. For instance:

- Only 40% of all initial designs get to the prototype stage.
- Only 40% of the prototypes get to the pre-production stage.
- Only 30% of the latter get to actual production.

Do the math and you will determine that less than 5% of the new designs make it to production. Is it any wonder that reps often find themselves wondering where all those samples go that they keep handing out? Of more importance, as commission cuts (and splits) proliferate, how does the rep get paid for all that non-productive work?

**"... less than 5%
of new designs
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production."**

Topics chosen as key at the National conference were many and varied. This forum targeted more specific Northern California challenges.

1. Where is the business today?
2. Where is it going?
3. How can a rep survive this market?

One of the advantages of being a larger, commodity rep, one that has been around awhile, is that historical data is readily available. As a matter of routine, Mark has tallied certain performance characteristics for years. He observed that the performance level of his customer base varied from year to year.

In 1990, he determined that of his top 20 producing customers, 18 were OEM's and 2 were Distributors. In Y2K he ran the same data and saw that 16 of his top producers were contract manufacturers, 2 were Distributors and only 2 were OEM's. Currently, the roles have changed so that 16 are now OEM's and 4 are Distributors. **No CEM's.**

One positive indication that changes are being made came to light when one of the members present pointed out a basic alteration of their qualification process. When talking with a customer, they used to probe into the

quantity, the specs, and the target pricing of an item. Now, the first thing they ask is “Where is it going to be built?”

What was not stated, for more or less obvious reasons, was what kind of dollar-vs-revenue comparisons came out. A \$1,000,000 account in 1990 could be worth many times that today and not be producing much more revenue for the rep.

NORTHERN CALIFORNIA ERA REPS

The Challenge? How to survive in today’s environment.

- DTAM is down 75%
- Territory TAM is down 69%
- Most PC board stuffing is done out of the country
- Largest Market (Telecom-Networking) is off by 80%
- Split commissions eating away at average commission rates and in some cases, non-existent!

Where the business is going is not an easy projection to make. Inventories are down and the financial guru’s are making noises indicating that this will likely increase production.

Some of us are old enough to recall when manufacturers went to Japan because of their low cost labor. Not today! The question is, is China going to follow that same path? To a degree, wage inflation has already hit Mexico in some product areas.

“How is the rep surviving...?” is a leading question. Different solutions apply to situations that are often equally as different. Mark commented that their company had just resigned (spelled f-i-r-e-d-) their second largest line one that produced several thousands of dollars a month in revenue. Another major rep member had also resigned just two years before. This “solution” actually *improved* their cash flow, eased the tensions extant and generally improved their company’s quality of life.

“ . . . their company had just resigned (spelled f-i-r-e-d-) their second largest line . . . actually improved their cash flow . . . ”

This principal consistently made ever-increasing demands for services (to the extent of demanding a fully-equipped desk in the rep's office). No pay, of course. If you didn't cooperate, you lost the line.

Most every rep with any history can recall lines that drifted from a position of dominance to one of lesser importance just because of such actions. Many *still believe* that it doesn't cost anything to change reps.

Last month, we published a very interesting set of suggestions about how to survive, written by Hugh Shyba, one of our more experienced members. This was good information as far as it went and we recommend that you go back and read it again.

But somewhere along the line reps must increase revenue. Cutting back can only preserve cash, not cash flow. This will be the thrust of our next Owner's Forum. A lot is being written about this phenomenon of fee for service, and we sincerely hope that more is forthcoming.

Be thinking about this subject – how do we avoid an ever-increasing amount of required work for which we don't get paid? Is it important? You bet! Is (are) the solution(s) going to be easy? Hardly. Which reminds us of a little anecdote we read recently:

“Many people enjoy fishing. Is it easy? No, if it were easy we would call it “catching” and many more would be doing it.“

Many (principals) still believe that it doesn't cost anything to change reps.

The Northern California Chapter of ERA is one of the more active chapters within the national association. We have received numerous national awards to prove it. Our success is a direct result of the interest and effort put forth by its members and the officers listed below, all volunteers.

CHAPTER OFFICERS, CHAIRPERSONS & DIRECTORS

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