



NCALERA NEWS

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“It is **DISTRIBUTION . . .**

not Disty!” So said Paul Halek, National Distributor Sales Manager for NEC/Tokin at our most recent meeting. One of many unique pieces of information that he shared with us was that Distributors hate to be referred to as disty.

Talk about timing? How could our members not show their interest in a presentation from a man who has been in all three phases of the business? This, at a time when we are looking into inviting distributors’ into our Chapter as associate members.

He started his career at Arrow. He also served with R.V. Weatherford and Milgray as both inside and outside sales person. Later, he joined Cypress Electronics and then Fujitsu Components, the latter as National Distributor Sales Manager. After a relatively short stint as a rep (three years with Electro-Sales, a local member) Paul returned to his first love, distribution management.

He kicked off the discussion by making a comparison between the number of distributors in the 1980’s, vs. today. He listed one top tier outlet, Avnet, with sales in the \$Billions; nine second tier firms, with sales in the greater than \$100 Million; along with (count ‘em) twenty third tier firms, all under \$100 Million.

Editor’s note: We suspect that Paul was counting only distributors with a National market presence. We were active in the Southern California market in those days and recalled names of a fair number of pretty large local distributors, including his old alma mater, R.V. Weatherford.,

Today, the ravages of mergers, acquisitions and bankruptcy have greatly reduced those numbers. He now lists four names in the \$Billions, seven in the second tier (>\$100Million) and six in the third (<\$100Million). He also lists six catalog houses, all of whom service the National market. The stigma of being a “catalog” house has been removed with the advent of the internet.

IN THIS ISSUE

Meeting report	Pg1
President’s Col	Pg5
News & Views	Pg5
Chapter Officers	Pg8

For those with a less-than-close relationship with distributors, which probably includes any rep who does not sell commodity lines, it was important to talk about what kind of things

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distributors do. What are they good at? Paul detailed some to those differences.

Distributors are excellent Inventory and Supply Chain Managers. This is, in fact, their core competency. He adds that larger distributors have departments that deal with CM's and VPA's. Some have Special Inventory Support Systems installed. International distributors all have good, internal split programs.

All provide Value-Added Services. Such items as White box, Kitting, MRP, ASIC Design Services, working partnerships with specific CM's and subcontractors. Many distributors do an excellent job of creating demand for specific items. Their staff often includes degreed engineers whose only purpose is to stimulate product acceptance by their customers.

That's called "design-in."

How you feel about local branches of larger distributors is important. Paul defined distributor's general attitudes by identifying them as Proactive, reactive or comatose. We were reminded of Jack Berman's parallel reference to reps. Some "make thing happen," some "watch things happen," and some "wonder what's happening."

► When it comes to distributor relationships, there are principals and there are principals. Some are aware that distributors are excellent inventory and supply chain managers, provide value added services and even contribute to the creation of demand for their products. Others still hold on to old ideas, that (1) distribution should not make more money than they (2) are only good for high credit risk customers and (3) could care less about their products. These are people who are quite familiar with what a 12AU6 does.

Paul was quick to point out that larger distributors are demanding. They expect that your company should have a distributor specialist whose main task in life is to see to it that communication is solidly maintained between their management and that of the rep. They expect the rep to be

They expect that your company should have a distributor specialist

aware that having such distributors on their line card will open up opportunities with second tier companies.

► Good principals are usually quite flexible. They are the ones who often have unique products with which engineers like to work. Often they show a lot of interest in Catalog Distributors. And, you can expect them to have decent commission split programs.

Experience will have taught them that VPA's (Volume Purchase Agreements) should be negotiated with distributors, rather than with CM's (Contract Manufacturers). Distributors are much better prepared to handle the complexities of a VPA than are their suppliers. Their "concession" demands are considerable less, as well.

Quality principals are in favor of setting up "special" part numbers, especially for Reference Designs. They regularly implement Design Registration programs with key distributor accounts. "Tagging" certain design activities at the customer level quickly identifies the distributor doing the work and assures the distributor of a fair and equitable price position.

☀ We hope that this review of Mr. Halek's presentation has held your attention at least half as much as it did for those present at the meeting. We really liked the way he closed the talk. Since the subject of the discussion had to do with distributors, he naturally started the summary with a list of "Do's and Don'ts."

► We start with the Do's which are pretty straight-forward:

Keep presentations to inside and outside sales people basic.

- Bring food and drink. Experience will direct you here.
- Give a product overview – use buzzwords – list competition.
- Identify markets; customer types; drop some local company names
- Provide part number breakdowns.
- Don't leave without setting up Joint Sales Calls.

Reward your distributors when you can by sharing things like Supplier Co-Op promotions. Share "spiffs"

► The don'ts are equally important:

VPA's (Volume Purchase Agreements) should be negotiated with distributors, rather than with CM's (Contract Manufacturers).

- As we said in the opening sentence, “It is **DISTRIBUTION**, not **Disty!**”
- Don’t mention another distributor by name. Always refer to them as “another” or “the other” distributor. Yes, you can name them if asked, of course.
- While it helps to have a major line, don’t expect red-carpet treatment until you have earned it.
- Don’t be Out of Sight or risk being Out of Mind!

“Out of sight IS out of mind.”

Paul then re-emphasized the point, “Out of sight IS out of mind.” If you have a distributor manager, remind them to take an outside salesperson into the meeting with them occasionally. When there, talk about account specifics. Set up joint sales calls.

One special note: If you are the owner or President of your rep company, plan on and carry out the plan to have meetings with your counterpart at the distributor at least twice a year.

- If your company is turning over leads; giving them personal help on a few deals; acting like you care about the relationship; they are more apt to steer potential new lines your way, as well as give you introductions into the CM’s in your territory. Good “word of mouth” will assure you of happy relations.

 We close with some suggestions Paul shared on how to better “sell” your principals on dealing with distributors.

Good “word of mouth” will assure you of happy relations.

- If you are successful at showing the principal the merits of these ideas, you may find them more willing to consider expensive EDI systems (pronounced “better splits!”).
- Enact a Scrap Program as well as Stock Adjustments. As we discussed this with Paul at the meeting, we recalled the hassle we used to go through with our distributors every year. Nothing they returned ever had much (if any) value and the factory usually ended up scrapping the stuff rather than carry it in inventory. In a Scrap Program, the principal allows a certain percentage of the distributor inventory to be literally thrown away and the distributor is given full credit for the original purchase price.

Any stock adjustment requirements above that number are usually much more current usable inventory.

So there you have it. We are certain that we missed a few points but we are also certain that if you do work with distributors, and you didn't make it to this meeting it was your loss.

Thanks Paul.

PRESIDENT'S COLUMN

By Phil Kipnis

Rain, rain, go away. Come again next year... please. We're growing gills! As if the life of a road warrior isn't stressful enough, Mother Nature has made travel between sales calls even more challenging.

Of course the weather isn't the only challenge we face. There's always the shrinking customer base, Vendor's demanding more services for less commissions and the overall problem of following the bouncing purchase order.



A major challenge the Chapter faces is the retirement of our long time member and Executive Secretary, Bob Parsons. Having Bob on "staff" made the executive committee's job a lot easier as he took care of the day to day issues. With his well deserved retirement, those of us who hold positions of responsibility are going to have to re-double our efforts and take care of the Chapter's business. As you read this, the Executive Committee will be well underway working on what we expect to be a thoughtful transition. Of course, we will keep the membership informed as plans develop.

NEWS & VIEWS

By Bob Parsons

Tuesday, April 4th turned out to be a day well worth remembering. After traversing a very up-tight previous week trying to decide how to carry off a meeting with no speaker, things started to fall into place. First off, Paul Halek stepped into the void with an excellent, well prepared presentation on distribution.- (Our review of this started on Page 1.)



Complications persisted, however. The weather had been cruddy! The day started out as "more of the same." As we left the office it was cold, raining, and the wind was adding to the discomfort. Arriving a bit early, however, we were blessed with bright sunshine.

As the ExComm members started to arrive, we started and stopped a couple of times before we were finally allowed to start our ExComm meeting. The cleaning people were

finishing up the preparation of our meeting room since the last party was late. Fortunately, the bar was open and some attitude-adjustment took place. The meeting went on as planned, finishing cleanly but not without several early arrivers forcing the issue.

The sun shown brilliantly in on our meeting, permitting a few pictures. The cleared weather assured us of our expected crowd and the meeting went off relatively free of flaws. Unfortunately, the picture-angel did not make it and we had camera problems. This explains the lack of pictures in this issue.

☀ As we had planned, we started the meeting during dessert. Brad Bowman, our Sr. VP, joined me in our efforts to lay out the necessary steps our members must take in preparation of our next meeting in June. We asked all member owner-managers present to plan on participating in the newest study carried out by Dr. Robert Palmatier.

- We first announced this need for cooperation in the form of a special newsletter. (Click on “March Special” on our website, www.ncalera.org.) We followed with an e-mail follow-on that further detailed Dr. Palmatier’s study and how to participate.

In our “March Special” we gave a review of Dr. Palmatier – who he is and why he should be looked forward to by our members. We paid particular attention to the benefits of your company’s participation. Here is an excerpt from that issue:

1. You will receive a *custom benchmark report* comparing your firm to all the firms in the study across more than 30 dimensions (customer relationship strength, commission rates, expertise, loyalty, willingness to pay a price premium, value your provide for your principals, etc.). Comparisons will be provided within industry segments when appropriate.
2. You will receive an *independent report estimating the value of your rep firm* and an analysis on the key drivers of valuation. This will provide you insights into how to increase your firm’s worth.
3. You will receive a *report evaluating your firm’s line card* including the value your multiple line selling approach and line synergies generate for your customer and principals. This will include an actual analysis of what customers are willing to do in order to deal with your rep firm versus that of a single line direct sales

organization (meet with, disclose information, pay premium, shift business, etc.). This report will be a valuable tool to use with your principals to minimize commission erosion. You will be provided recommendations on how to improve your line card (i.e., value of adding services).

► There are two ways to evaluate the reports just mentioned:

1. You may not like the results you see. In fact, you may refuse to participate for fear that your suspicions about your company's position(s) may be true. You may not measure up to your very own ideas of good and bad.
2. You may be pleased -- surprised at how well you look. Of more importance, you can identify signs of weakness that lead themselves to easy correction.

We doubt if any member can look at such objective material and really feel that nothing can be improved about their operation.

One major question came up after the meeting. "How do I know that my principals and customers will not be able to identify my company's participation? The answer is that unless you choose to tell them, they cannot identify you. In fact, we doubt if *you* can pick out data that you can use to identify yourself!

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Here's another comment from the March Special: "Note that all information will be kept strictly confidential and will be reported only in summary form. Dr. Palmatier will personally ensure confidentiality by assigning each rep firm and customer a code and the data will only be referenced by this code. Only Dr. Palmatier will have the cross reference key."

- *If you should be concerned about Dr. Palmatier's ability to assure confidentiality, just remember that this man's career depends upon the cooperation of people like you. One word of doubt and his career is finished.*

We again remind you, yes, this study is a task but it is also an opportunity. You will end up knowing things about your company and your customers that you might ever have otherwise known. Your friends who have left ERA will be very aware of this program's value. Their loss is your gain.

CHAPTER OFFICERS, CHAIRPERSONS & DIRECTORS

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CHAPTER STAFF

Executive Secretary	Bob Parsons		408	243-3372	246-4413
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*The Board of Directors shall consist of the current and the three (3) most recent former Chapter Presidents.