

COMPONENTS

Chuck Tanzola, CPMR

Fusion Sourcing Group
Ithaca, N.Y.
ERA Senior VP/Industry

2015's minimal growth may continue in 2016

December is year-end review and new-year planning time for many in the components industry (and I suspect other segments as well), and we are no exception. As I participate in the variety of reviews and business planning discussions on my calendar this month, a couple of things on the review (looking back) side stand out.

- For the most part, 2015 seems to be turning out to be a flat year overall. (Despite my best effort, I couldn't figure out another way to say that). I was reading an industry report recently that showed that the largest percentage of respondents (whether manufacturer, representative or distributor) reported results between 1 and 3 percent down and 1 and 3 percent up. That sounds like flat to me.

- Interestingly, in my travels and discussions, I have not really heard anyone predict that 2016 will be much different overall.

- My impression is that while most accept (or at least understand) the market for what it is, for the majority of companies, flat "doesn't feel very good."

I recall an ERA Conference a number of years ago where the speaker (whose name I do not recall) challenged the audience to consider the following (paraphrased) question: "What would you do if 1 to 2 percent growth was all you could expect in your industry?" (To put this in context, at the time of that conference, the industry had suffered a very down year after a number of double-digit growth years.) This sounds like an appropriate question for all of us to think about and answer. (ERA Conferences are really good for industry appropriate questions and answers, and I expect the upcoming event in Austin, Texas, at the end of this coming February to continue that tradition. Yes, you can consider this a shameless plug. See you there?)

Because minimal growth seems to be where we are, maybe some of the other observations from the planning (looking ahead) side of the review season will help.

- There seems to be an increasing direction toward focusing on targeted markets — call them vertical markets, call them focus markets, call them whatever name you choose. My impression is that most companies are looking for growth in very specific areas as opposed to an overall industry growth.

- What are those targeted markets, and where are the real opportunities? This is, of course, the multi-million dollar question. The answer for each is undoubtedly dependent on the product and position of the respective company, but the markets I hear the most talk about today are IoT, wireless communications, green energy, lighting and medical. Perhaps for you they are different, so I would love to hear your input.

- Picking the winners in these focused segments is increasingly challenging. The pace of activity and change within them is higher than ever. The potential for unrealized great expectations is high, but the rewards can be very satisfying, both financially and otherwise.

I hope these observations have been helpful. As we start 2016, I wish each of you a happy, healthy, productive and rewarding new year — and plenty of opportunity to "feel good" about our industry. See you in Austin!

ELECTRONIC SYSTEMS INTEGRATION

Gary Ponto, CPMR

GP Marketing
Kirkland, Wash.

Mergers and acquisitions are among several trends impacting this market

2015 was a dynamic year for security and audio video sales. It did not follow traditional sales trends from quarter to quarter, leaving many of us wondering why and questioning what is changing in the market.

2015 was expected to be the recovery year from the recession, and for integrators it was, but not for distributors and many manufacturers. Sales did not meet expectations for growth for many. So why were dealers booking business that did not equate to orders?

Services are becoming a greater part of large integrators' business portfolios for a number of reasons. Products are being offered through so many channels, as well as direct in some cases, and margins are very low for integrators. So they need to position themselves for a "value add" to their customers.

Manufacturers are relying more on their "partners" to provide marketing to the channel of their products, shifting the cost from the manufacturer to the channel, whether it is the rep or the dealer, depending on how they go to market. Distribution seems to be relying on the rep firms to provide most of this, either through local trade shows or direct marketing via email.

There were many mergers and acquisition that impacted the markets in 2015, and there are more in the works I would assume. These impact the sales and dealer channels significantly. When two companies join, there are usually two sales forces that need to merge into one, or one is turned loose, and the other needs to pick up the sales jointly from the merger. Sometimes the management's view of how to go to market changes as well with these mergers. Reps or a factory direct model can change quickly.

Brand loyalty has disappeared for price. With some manufacturers entering the markets with low-priced products, integrators cannot compete with high-end products in their proposals on some projects, driving them to lower-cost products and distribution rather than their direct factory relationships.

Distribution overall has become very aggressive in targeting key regional accounts and taking them away from direct factory relationships/accounts. This has been going on for several years, but I am seeing distribution getting more aggressive in targeting accounts and offering terms, pricing and freight deals that factories are not willing to match. Typically, therefore, the same business shifts from a direct account to a distributor at lower margins to the manufacturer. This activity is being encouraged by factories wanting distribution to carry more inventory so the manufacturers do not have to carry such high levels of inventory.

As a rep, I think 2016 will be interesting with respect to seeing if factories come back around to the value in synergistic selling with reps in the security and AV markets. I think that factories that are now hiring a direct sales force to increase their top line will soon realize how big an impact that has on their bottom line.

My experience has been that factories that stay with reps through thick and thin have the most loyal, devoted and connected sales force in the industry. I, as every rep, have been terminated from a line, but the customers know us, not the factory, and their loyalty follows. These mergers and acquisitions are disturbing relationships at not just the rep level but at the customer level. They are breaking long-term bonds with factories and salespeople that could and most likely will impact sales short term.

We, as reps, and ERA need to up our game on why reps are a better sales force solution.

There is a growing trend toward test equipment and instrumentation that surpass data rates of 25 Gbits per second and support amplitude modulation schemes, such as PAM4 (four-level pulse amplitude modulation). This new term is replacing the previous term called PAM2. PAM2 was simply what many in the industry knew as NRZ (non-return-to-zero). This new scheme came into existence as the solution to reduce or eliminate inter-symbol interference (ISI).

This new scheme spans a wide variety of instrumentation. Transmitters, receivers, clock recovery systems (bit synchronizers) and waveform analyzers are just a few of the instruments that will be designed for use with the new scheme. Also, precision power supplies, both component and bench test varieties, will be critical to this industry's growth.

DesignCon 2016 in Santa Clara, Calif., on Jan. 19-21, 2016, will be a good forum to see this latest technology.

There are a wide variety of companies that are incorporating biometric touch sensors into their products and systems. This is the same type of technology that we are familiar with seeing and using on the Android and iPhone systems. The initial applications will be security for some field controller applications.

Staying on touchscreen technology, there are continued improvements being made on the screens used in automotive applications. Improvements in the capacitive sensing technology and waterproof sealing will also allow actuation with a gloved finger.

There is also a new trend for Bluetooth-based pressure sensors. I know of two manufacturers that have this technology already incorporated into their general purpose line of sensors. There are iPhone and Android apps that can read the outputs of these sensors.

If you have any questions, please contact me at tom@agtechnologiesllc.com.

(continued on page 32)

INSTRUMENTATION, AUTOMATION & CONTROLS

Tom Diercksmeier, CPMR

AG Technologies, LLC
Scottsdale, Ariz.

**Here are the new trends
in this product sector**

MATERIALS, ASSEMBLY, PRODUCTION & SUPPLY

Troy Gunnin
Sun Rep, Inc.
Tampa, Fla.

Business isn't 'bad,' but it's definitely cooled off

When you read this, 2015 is in your rearview mirror. As I write it, I'm reflecting on what we experienced in 2015 — what was good, what was bad and how we could have influenced it. More importantly, how can we benefit from our experience and make 2016 more productive and profitable?

Just today, while talking with one of our good customers, he asked, "What are you seeing out there?" That triggered my thought process. In looking back over the year, I see a really mixed bag. As an example, last month we participated in two trade shows. One was a locally-produced and well-promoted SMTA Expo. For a local show, it was well attended, and we felt that the benefits certainly repaid the costs. On the other hand, there was a regional show that was a pretty large event. It seemed to me that attendance was sparse, to say the least. There was a lot of "down time" in the booth, and a lot of vendors talking to each other.

That customer went on to say that things were not "bad," just that the excitement that seemed to be present earlier in the year just was not there now and really has not been for the past few months. That made me think that, in retrospect, we have not felt the vibrant activity level in the past few months that we did earlier in the year. It's not "bad," but it just seems to have cooled off a bit.

We just came through the past few days that encompassed Black Friday, Small Business Saturday and CyberMonday, all of which didn't quite live up to the hype. I think much of that is due to everybody trying to get a jump on competition and offer Black Friday specials for an entire week, and of course CyberMonday is now "cyber everyday," so perhaps the hype is just not there. We see Amazon.com giving same day delivery, so why go to the brick and mortar store when you can get it "now" without leaving home.

That "Amazon mentality" is, I believe, present in our industry as well. We see our online customers doing very well with those items that lend themselves well to online shopping (and really some that don't). Thankfully, there are still a lot of brick and mortars that are doing well. They remain relevant by keeping in touch with customer needs and offering services that you just can't get online.

This has nothing really to do with the above discussion, but here are other observations that I found interesting in looking at the status of electronic distribution. *Electronic Design* each year publishes a list of the top 50 electronic distributors. The number one distributor's revenue was \$28.1 billion. Number 50's revenue was \$12.8 million. What a whopping difference! It points out the haves and have nots. To carry that a little further, number three was about half the revenue of number one. Number four was about half the revenue of number three and number five was about half the revenue of number four. And, of course it took a nose dive from there.

Some of this is fueled by mergers and acquisitions. This is true not only in electronic distribution, but in industrial, electrical and security as well. There have been some major shifts over the past year that have realigned distribution in several areas. I think that will likely continue into 2016.

How do we fit into that? Obviously, mergers can create opportunities but also dilemmas. Agreements that are in place in one distribution channel may create problems when combined into another channel.

As we move forward into 2016, I'm reminded of the one-third, one-third, one-third concept about sales. The writer observed that in the wonderful world of sales, about one-third of sales to your customers would probably come to you anyway; about one-third you would not get, no matter what; and the remaining one-third is the really important part. Those are the ones you can influence.

We need to do our best to recognize those three facets of our business and put a lot of effort into the one-third that we can hope to move into the sales column. And, don't assume that the first one-third is automatic. Take care of those customers to be sure you will retain that business. ■