

## Distribution Trends in 2010

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The electronics industry is enjoying what appears to be a generally strong recovery from the brutal business conditions with which we were confronted in 2009. It is interesting to note that although the economic meltdown traumatized almost all sectors of our industry and caused a sharp drop in sales, several basic industry trends continued unabated. In fact, the hostile market conditions served as a catalyst in driving these trends that I believe will be prominent in 2010:

1. Relationship Marketing is being sharply challenged by Performance Marketing.
2. Speed and Efficiency are increasingly important in design and procurement.
3. Electronic Component Sourcing is rapidly becoming more globalized.

Since not all distributors recognize or choose to address these trends, I will reference how Digi-Key Corporation has responded. Of course, I believe Digi-Key is addressing these trends most effectively. I believe our efforts to address these trends are contributing factors in driving our first quarter sales increase of more than 63%. That is what has driven Digi-Key to become the 4th Largest Distributor of Electronic Components in North America.

Relationship Marketing implies that a purchase is based on interpersonal or business relationships. In the real world, although relationships alone are not typically the sole factor in making a business decision, they often have a strong impact on purchasing decisions and can skew a decision to the disadvantage of the purchaser.

Historically relationships have been based on interdependencies. For example, an engineer, out of necessity, depended on a distributor account representative for product data, access to prototype quantities and technical support. However, with the advent of the internet this dependency was broken. Now, through Digi-Key, the engineer can access a far broader range of product data on components from hundreds of manufacturers on the web. Additionally, if an engineer needs prototype quantities, hundreds-of-thousands of components are available for off-the-shelf delivery from Digi-Key. Technical support can be accessed 24/7 by phone, fax, web chat or e-mails with immediate responses. In addition, Digi-Key's Product Training Modules (PTMs Online...On Demand®) give the design engineers access to

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hundreds of tutorials on new products and innovative technologies.

By the same token, a professional purchaser or buyer of components in production quantities was formerly forced to rely on a distributor sales representative for product availability, pricing, lead-times, possible substitutions and tracking shipments. Today this dependency is broken. Digi-Key's website gives the purchaser instant access to this information and far more. Digi-Key processes millions of quotes a year for volume purchasers. For purchasers of production quantities that require or desire a single point of contact at Digi-Key, Volume Business Division representatives are prepared to work with them on both daily sourcing issues as well as scheduled releases. With the dependency broken, Performance Marketing is rapidly replacing Relationship Marketing. The distributor that consistently performs is the one that earns the business.

Speed and Efficiency also continue to become increasingly important for both design engineers and professional purchasers. Time-to-market has always been important, but never more important than today. How does Digi-Key play into this equation?

1. By stocking the broadest range of board level components for off-the-shelf delivery in the industry.
2. By shipping 99% of orders received by 8 p.m. central time the same day.
3. By providing world-class supply chain support.
4. By offering competent technical support on simple to complex products/issues.
5. By resolving any problems or issues quickly and fairly.

The third major trend, Global Sourcing of Electronic Components, is probably the strongest of these trends and is supported by the move from Relationship Marketing to Performance Marketing as well as the increasing pressure for Speed and Efficiency.

Evidence: Digi-Key sales for the first quarter of 2010 in Europe were up 115% from the same period last year. Our sales in Asia for the first quarter were up 150%. In a European market in 2009 that saw total sales for all distributors plummet 24%, Digi-Key's sales showed an increase. Our 2009 sales in the Asia-Pacific region were up a robust 27%.

Electronic components typically have a relatively high value-to-weight ratio that allows them to be shipped cost-effectively from country-to-country and region-to-region throughout the world. Free trade agreements exist in almost all major markets, which further facilitates worldwide sourcing. Additionally, UPS and FedEx deliver quickly...worldwide.

Digi-Key is unique among major distributors because all orders processed are shipped from its sole Product Distribution Center in the United States. This means we can stock inventory based on the aggregate usage from all regions in the world and, thereby, economically justify stocking the broadest range of board level components in the world. We can also justify stocking in great depth. This strongly plays to the advantage of Digi-Key customers.

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The design engineers and professional purchasers of electronic components are the drivers of these trends. They are the people who define our business. Digi-Key is totally focused on meeting their needs.

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