



FOR IMMEDIATE RELEASE

CONTACT: Tess Hill
Phone: 630-545-9101
E-mail: thill@era.org

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How Electronics Industry Manufacturers' Representatives Work with Distribution

Flashback: It's 1995, and the media are predicting that the advent of distributor field application engineers (FAE) has made the rep an endangered species.

Flashback: It's 1998, and the media are predicting that the advent of the Internet has made the rep an endangered species.

Don't believe everything you read in the papers. The Internet has relieved the rep of some of the "errand boy" chores (such as delivering data sheets) but has also demonstrated that high tech will never replace "high touch." Moreover, with the role of the distributor FAE itself in flux, the supposed competition between the two functions is even less of a factor that it was when the seeming problem first surfaced.

The key word is "function." The typical component manufacturer in the electronics industry is at one end of the three-piece supply chain: manufacturer - delivery logistics - customer. The distributor is the key player among the channel intermediaries who supply the logistics. The manufacturer has to interface at one level with the intermediaries in the channel and at another level with the customer. The interface function is called field sales. Some manufacturers choose to have their own payroll employees handle field sales; others (a vast majority) find it more economical and effective to outsource the field sales function to professionals. These professionals are generally known as manufacturers' representatives (reps). As the title suggests, reps are not extra elements in the supply chain but differently compensated extensions of the manufacturer.

It is simplistic but accurate to differentiate the job of field sales (demand creation) from the job of the distributor (demand fulfillment). The component manufacturer cannot depend on the distributor for demand creation because the distributor sells competitive lines. Field salespeople, having created the design-in at the customer level, will typically steer the customer to a distributor for the actual purchase. And why shouldn't they? Reps receive commission on everything that is shipped into the territory, whether or not the distributor is involved. That's what enables the positive, supportive partnering that typifies the rep-distributor relationship.

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The difference in function is also characterized by the difference in method of payment. The field sales organization — outsourced or factory-employed — is paid by the component manufacturer. The distributor, who carries inventory for and extends credit to the customer, is paid by the customer (through the margin between what the distributors pay for and sell the components). Note that there have been many recent reports about reps and distributors seeking fees for the application engineering support that has been, historically, bundled into the price of the product. This joint concern arises at the front end of the upward trend of manufacturing moving offshore, making it difficult for manufacturers (whose reps created the design-in) to compensate on a commission basis. The back-end concern of the distributor shares some of the same POS (point of sale) elements, but also relates to the erosion of margins (which doesn't leave room in the product price to cover the cost of the field engineering).

Flash forward: It's 2005, and the double whammy of offshore manufacturing and EMS expansion into a wider spectrum of manufacturing services has challenged reps and distributors to develop new paradigms for conducting business: fee-based compensation for value-added services; normalization of the expanding prevalence of EMS and mechanisms to cope with the new dynamics that it creates; more sophisticated communications amongst far-flung office locations of manufacturers, field sales, distributors and customers. But the supply chain will still include: manufacturers of components; logistics suppliers (most dominantly distributors) to assure that products are available when and where they need to be; and customers, encompassing their outsourced production arms. And there will still be field salespeople, working at the point where products are being designed. That's the way markets have always operated, and come what may, that's the way they will continue to operate.



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The list below describes some of the specific ways in which reps work with and support distributors. Obviously, for this support to be effective, distributors must provide the reciprocals throughout their organizations, including scrupulous respect for customer callouts established by the rep.

How Manufacturers' Representatives Support Distribution

1. Maintain in their own organizations an awareness and appreciation of the role of distribution in the marketplace and the value it brings to the marketing strategies of the manufacturers in the reps' portfolios.
2. Create an environment of mutual trust, respect and cooperation.
3. Create demand among the distributor's customers for their principal's products, both for new design and for second source opportunities.
4. Establish with each distributor in the territory a business plan specific to the goals for each line the distributor handles.
5. Establish compensation plans based on distributor point of sale (POS) reports, so the rep's OEM salespeople have no incentive to bypass distribution in placing the order.
6. Provide effective sales and product training to the distributor sales force.
7. Cooperate fully with approved promotional programs designed to motivate distributor efforts.
8. Initiate and support joint venture sales opportunities; never compete with the distributor for the order; and provide fair and equitable disposition of "meet comp" situations.
9. Provide an active referral and sales lead program to the distributor.
10. Assist distributor product managers in all phases of inventory management.
11. Serve as the distributor's voice and advocate with principals, including recommendations of the optimum franchise assignments.
12. Serve as a resource to the distributor for customer information, market intelligence and product knowledge.

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How Electronics Industry Manufacturers' Representatives
Work with Distribution

The chart below clarifies and contrasts the differentiations between the role of the rep and the role of the distributor.

Understanding the Differences between Reps and Distributors

REPS

DISTRIBUTORS

- Sell only in a defined territory.
Do not handle competing lines.
Sell as an agent, do not take possession.
Are compensated by commission on sales.
Typically handle 10 to 14 lines.
Are typically entrepreneurial, owner-operated.
Interface with distributors, refer orders to distributors and receive commissions on sales through distributors.
Add value through application engineering, design-in and product synergy.
May warehouse (for a fee), but do not maintain inventory.
Focus on customer needs.
Are not part of the supply chain but a differently compensated extension of the manufacturer.

- May sell anywhere.
Frequently handle competing lines.
Buy for resale; assume ownership.
Are compensated by margin of sale price over cost price.
Often handle several hundred lines.
Are large firms, often publicly owned.
Rely heavily on reps for referrals, training and engineering support.
Add value through time-place utility.
Maintain inventory.
Focus on selling what's on the shelf.
Perform a critical middleman function in the supply chain.