

COMPONENTS

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Growth malais is continuing

As I complete this report, the calendar has changed to September, the last long weekend of the summer is behind us, the East Coast and Hawaii have recovered from a series of weather events, and as a nation, we are preparing to either “Make America Great Again,” or be “Stronger Together.”

Every quarter I try to provide an update on the component market conditions, and not surprisingly, the same general industry growth malaise I covered in last quarter’s components market segment report continues this quarter. A review of the monthly POS Index report, provided to ERA members by Budde Marketing, confirms this as well.

Also, based on the published outlooks and guidance that I’ve read from several public companies for the next quarter — as well as the predictions of manufacturers, distributors and representatives as collected and reported by ECIA in its Quarterly Electronic Components Sales Trends Report — it appears that we can expect this to continue through the end of the year (and maybe beyond).

Merger and acquisition activity, both among manufacturers and distributors, continues. Although it is not necessarily at the record pace of CY 2015, it is still in significant measure, with some notable announcements, including the ADI acquisition of Linear Technology and Avnet’s recent offer to purchase Premier Farnell.

Two trends I am seeing in this area are: 1) private equity/investment fund acquisitions in the electronics industry; and 2) European companies increasingly looking to enter the North American market through acquisition. (This seems like a good time to note ERA’s status as an electronica 2016 partner organization. I would like to extend thanks in advance to John Hutson, CPMR, of The MacInnis Company and ERA CEO Walter Tobin for manning the ERA stand at the trade show in November. Also, I am putting in a shameless plug for participation in the ERA’s electronica 2016 Field Sales Reps Available Directory.)

Finally, one additional interesting observation (at least to me) is that despite continued flat-sales results, which could be inherently disappointing, historical data in the ECIA report I mentioned earlier show that industry predictions of market growth regularly exceed the actual reported results. This attests to our industry’s generally optimistic outlook and belief in the future.

Last quarter I suggested that, “Flat is the new normal.” This quarter I have a corollary statement: “Hope for the best, plan for the worst, prepare to be surprised, and you will never be disappointed.” As always, I welcome your comments and feedback and can be reached by email at ctanzola@fusionsourcing.com.

ELECTRONIC SYSTEMS INTEGRATION

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Shift in sales trends in AV and security markets expected to continue

I have had several conversations with manufacturers regarding the shift in trends of sales in the AV and security markets over the past two years. There has been a shift in buying cycles that was not expected, and factories are wondering if this is a new trend that will continue.

I plotted our sales over the past five years, and 2015 and 2016 are very different from the previous years, regarding trends.

Historically, there has been a sales bump in February and March in the first quarter. The past two years showed a bump in January and a falloff in sales in February with some recovery in March, but not significant. June and July usually experience a boost for the school installation season over the summer break months, but this has not been seen in our industry over the past two years. The third quarter has been flat with a slight bump in the fourth quarter usually triggered by government purchasing in September and October. Business tends to fall off quickly after Thanksgiving, impacting the fourth quarter sales.

So my point is that the big spikes have not been there for the last 24 months, recession aside. So has the industry trend shifted? I believe it has!

There are a lot of new players in these markets. They include IT companies and structured cable companies that are providing installation of these systems, taking them from the traditional channel partners.

With IT and structured cable accounts entering these markets, the new trends also have changed where the product is being purchased. Distribution and the Internet are playing a

larger role in providing products and services than ever before. Because many products are now IP-based, and the cost of IP products has come down over the past few years, new vendors to these markets are much more interested in expanding their offerings to their customers to include AV and security products that are IP-based. It is just another IP appliance on the network to them, and they understand networks better than many traditional AV and security integrators.

So my point is that the markets are evolving and so is the customer base that we need to be working with. If you are still of the mindset that electrical contractors and IT providers are not the customers you want to work with, you are missing where the market is shifting to.

Good selling!

“But we have always done it that way ...”

Sandy Vasser, a senior advisor at ExxonMobil Production Company, described starting every project by asking, “Do we have to do it that way?”

Albert Einstein once said, “We cannot solve our problems with the same thinking we used when we created them.”

Einstein also said, “The world as we have created it is a process of our thinking. It cannot be changed without changing our thinking.”

Another great contributor in our growth, Thomas A. Edison, said, “Five percent of the people think, 10 percent of the people think they think, and the other 85 percent would rather die than think.”

And one more — and this is one of my favorites. Henry Ford said, “Whether you think you can, or you think you can’t — you’re right.”

Conventional thought focuses on “improving” or “perfecting” the process. Some of that is necessary and good. But, to use the old cliché: “thinking outside the box,” we need to ask: “Is there a better way to do it?”

Some feel that following the first industrial revolution of steam and mechanical equipment, the second of electricity and mass production, and today’s current revolution of electronics and automation, we will see “Industry 4.0.” A full manufacturing process without human intervention, Industry 4.0 will be making significant design decisions throughout the manufacturing process with robots and artificial intelligence taking over all or most of the process, making it not only more efficient but more accurate.

Now, to the point. The U.S., with its technology, is poised to again be the most competitive nation in manufacturing, in part because of a shift toward advanced manufacturing technologies.

Currently, Deloitte Touche in its Global Manufacturing Competitiveness Index, ranks the U.S. number two, up from number four in 2010. The index predicts that China will fall from its number one ranking to number two in the next four years. Germany and Japan will likely remain number three and four accordingly. India is expected to climb to number five, and Mexico will likely move from number eight to number seven.

An example of change, and from the “we have always done it that way” thinking, is the move HP started in October 2014 when it announced in May that production would start on its Multi Jet Fusion 3D printer. One of the really significant things here is that HP, which traditionally tied its printers to HP ink (the “razor and blade” concept), will conform to the 3MF file format using open materials from major manufacturers. This is a very significant change for HP and the kind of change that must take place.

Another headline I noted said, “U.S. Manufacturing Expands But Jobs plunge.” This is certainly a fallout of the above mentioned scenario. Manufacturing is going to require more highly skilled talent which will pay higher salaries, but there likely will be fewer jobs in that highly technical sector.

I think that we must be flexible and willing to adapt to change. There will be jobs. We just have to recognize where the changes will take us and adapt quickly to train and be trained for a very fast-moving Industry 4.0.

MATERIALS, ASSEMBLY, PRODUCTION & SUPPLY

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**Advanced manufacturing
technologies expected to
gain momentum**