

They are the key questions that have been tumbling around for a while now in the heads of rep firm owners/managers and manufacturing executives throughout the electronics industry — and every other industry for that matter — even before this new year launched into its first quarter.

**“How will our revenue and markets change?”
“Where will the changes originate?”**

About a year ago, IHS, the research and information development firm, projected a 2014 revenue growth rate in the global electronics industry of 5.6 percent. However, IHS predicted that spurt would be followed by a much more conservative annual growth rate of about 2 percent in 2015 to 2017.

Statistics for the 2014 year-end were not yet available as this issue of *The Representor* went to press, but a number of reports from *Electronic Design* and two trade associations — SEMI and the Semiconductor Industry Association — indicate the 2014 industry growth rate could end up being considerably higher than IHS and many others projected. Some early estimates for growth in 2015 range from 4 to 6 percent.

So it seems the industry outlook is quite positive on a worldwide basis, but what are ERA member reps projecting for their own firms, markets and territories? What expectations do manufacturers have in this new year? For the answers, ERA conducted a brief member survey in November. Read on to learn how the responses might or might not match up with your own 2015 projections.

Overall results are positive

This survey was answered by a total of 135 reps and manufacturers. An overwhelming majority of the respondents — 76.4 percent of reps and 92 percent of manufacturers — agree that 2015 will be a year of increased revenue.

No manufacturers expect decreasing revenue, and the remaining 8 percent expect revenue to be flat. Those looking forward to increases cited hikes ranging from as low as 2 percent to as high as 30 percent. The majority, however, are planning on increases of 4 to 10 percent.

Among the rep respondents, 17 percent are looking for revenue to be flat this year, and 6.5 percent are projecting a revenue decline. In the respondent pool, firms of all sizes, geographic territories and product groups are represented, and the predictions of higher, lower or flat revenue are spread across all demographics. So there are no territories or product groups that jump out as clear winners or losers.

Reps were also asked to project whether the percentage of their total revenue from POS will

increase, decrease or remain flat. Of the 109 respondents to this question: 55 percent project increased POS income; 28 percent are looking for POS commissions to remain flat; and 17 percent are preparing for a decrease.

As for market fluctuations and trends, the manufacturers' responses were diverse, depending on their product lines. Perhaps not surprisingly, the military market is projected to be both a source of growth and also possibly a sector in “slight” decline. Active and passive component suppliers and several electromechanical manufacturers see growth in 2015 in military and aerospace sales because they believe funding cuts will be restored, but several other respondents disagree, saying lack of funding could curtail growth and result in continued decline.

A number of component and electromechanical manufacturers are expecting growth in the medical and telecommunications industries, and while a few respondents named automotive as a market that will produce higher sales revenue, one power supply manufacturer feels “the auto market is shrinking.”

Other markets that manufacturers are looking to for increased sales this year are office and home automation, new energy, white goods, networking storage, power distribution, laser radar, synchronous optical networks (SONET) and transportation. The markets in which manufacturers predict sales will decrease in 2015 are laptop computers, servers, printers and televisions.

Much like the manufacturers, the rep responses about markets were varied. Summaries of these follow, grouped by geographic region.

Rep results from the Northeast/Mideast

For reps in the Northeast and Middle Atlantic regions, the medical market is the favorite to expand this year, with a third of respondents saying they expect their sales to grow. One rep calls the medical field “the driving vertical in our market ... [with] the development of many new products in the works.” Another says, “Some of the [medical] startups should continue their growth, and other startups should emerge.”

Right behind the medical market, reps in this region feel military sales will increase, but, as one respondent notes, “only because it can't get any worse.” Another rep comments, “The change to a Republican majority, coupled with the increasing load on our military, will require an increased level of spending.”

The automotive, industrial, energy and government markets also earned high rankings for potential growth from this region's reps. Several believe

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COVER STORY: Up, Down or Flat in 2015?

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that at least some sales increases will come from the need for governments of all sizes, as well as transit providers and utilities, to upgrade their security equipment and systems.

Countering the optimism of reps who named military as a growth market in 2015, almost an equal number of respondents feel their military sales will decline, due to budget cuts, government regulations and “government malaise.” Two reps, however, added the caveat that military spending and sales could pick up if “something bad happens” or if “Middle East conflicts continue to escalate.”

For the region as a whole, a number of reps say the move to off-shore manufacturing has diminished the customer base. As one respondent notes, “We see very little business that went off-shore coming back.” And another says, “Manufacturing in the cost-competitive sectors is still moving off-shore to lower cost regions. Reshoring really isn’t happening as it seems to be touted.”

Rep results from the Southeast

Like their fellow reps in the Northeast, survey respondents in the Southeast foresee the medical market as the top source of sales growth in 2015, followed closely by the industrial sector. One respondent notes, “The medical market in Florida is in developmental mode. Despite the movement of some players to off-shore manufacturing, we see the

industry as a significant part of our 2015 revenue.”

A number of Southeastern reps also predict growth in LED lighting and smart meters as well as 3D printing. One rep comments, “3D printing is in its infancy, LED lighting is just scratching the surface ... and smart meters took a backseat recently, but we feel energy conservation will be a topic of much discussion in the coming year.

Other markets projected to be on the upswing this year are automotive, utility metering, home automation, off-road vehicles, white goods and packaging. The military/aerospace market was again named as both growing and in decline. While several reps feel government and commercial space programs show promise, others say government spending cutbacks will have negative effects. One electromechanical rep reports, “Most of our major contractors fear funding for programs will remain on hold or static until after the 2016 election.”

Additional markets identified in the survey as slowing down this year are transportation, material handling, telecommunications, consumer electronics, computers and instrumentation. Several reps also predict that all their markets will be flat.

Rep results from the Midwest

Typical of the “regionalism” that affects markets, ERA’s survey shows that Midwestern reps consider the automotive sector as one of their top choices for sales growth this year. One fortunate rep comments that his firm “has managed to design our components into all of the big three car manufacturers,” and another says, “This industry is up and represents 95 percent of our customers.”

Like all other regions, however, the medical market is the number one segment projected to produce higher sales in 2015. One respondent notes that this is the only field in which his firm is forecasting significant growth, and several others feel sales will increase to meet the needs of an aging population.

Almost a third of the respondents in this region feel the industrial market will likewise be strong this year because, as one rep says, “There are more opportunities for manufacturing growth and designs in the U.S.” Other markets that reps feel optimistic about are LED lighting, energy and power. “Everyone wants more power,” according to one rep whose firm specializes in that field.

Even military/aerospace received a few votes for growth in 2015, but virtually half the Midwest reps participating in the survey feel this market is continuing to decline. They cite government budget cuts and/or difficulty in obtaining funding, “closure of a few locations in our territory,” and sequestration as the culprits causing the market weakness.

A few reps also expect slowdowns in consumer electronics, contract manufacturing — where one rep says supply is greater than demand — and the education sector. This latter prediction, respondents note, is due to both lower spending on technology and because voters are failing to approve bond issues to build new schools.

Like their fellow reps to the north, survey respondents in the Southeast foresee the medical market as the top source of sales growth in 2015 ...



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Rep results from the Mountains/Plaines

Once again, reps in this region — encompassing the Rocky Mountain, Southwest and Plains states — believe the medical market will be among the sales leaders this year, thanks in part to “long-term designs coming into production” and other “strong designs now in process.” But they are also expecting growth in the geophysical, mining, industrial and energy/alternative energy markets.

At least several reps are likewise confident about sales growth in these segments: unmanned aerial vehicles (UAVs or drones); intelligence, surveillance and reconnaissance (ISR) equipment; smart appliances; data centers; and all products and applications related to the Internet of Things (IoT), including commercial, medical and industrial usages.

Once more, though, projections about the military/aerospace market were almost evenly split between positive and negative outlooks. One rep expects growth because funding for aerospace is predicted to increase, and another believes the demand for more efficient, cost-effective systems will strengthen the market. On the flip side, a third rep says government spending cutbacks “still affect the market and will not change until the new Congress takes effect in January.” Then, this rep believes, it will be many months after that for the military market to begin to rebound.

Yet another market that received both positive and negative comments from reps in this region is oil and gas. While several reps are looking for growth, several others say that low prices, lower levels of investment in exploration and more regulations are reasons for caution.

Rep results from the West/Northwest

Survey respondents in the West, Pacific Northwest and Canada repeated the most dominant pattern of responses that came from other regions. The medical market is their leading choice for growth in 2015, and they are divided on whether the military/aerospace sector will rise or fall.

One rep supports his projection that both markets will grow, commenting, “There’s always a war, and people are always getting sick, especially the older baby boomers.” Another says, “Medical equipment manufacturers seem to be strong,” and a third adds, “Commercial aerospace is increasing [its] production rates.” But other respondents view the military/aerospace market as “oversold” and continuing to decline because of “political situations.”

Additional markets that reps in this region expect to grow this year are industrial, energy/alternative energy, consumer electronics and transportation, including electric vehicles. About this last market, one rep insists, “Everything is about batteries, portability and charging.”

“Stay-at-home markets” — i.e., not moving to China — will also grow this year, believes an electromechanical rep, because “China has proven to be a problem for all companies in terms of intellectual property disrespect and counterfeiting. The smart

companies today are seeing the impact of that.” Conversely, another rep feels that high-volume production will continue to go overseas, especially in the consumer and industrial sectors.

Markets that reps predict will slow this year, in addition to military/aerospace, include computers — “as tablets and phones take over” — and telecommunications. About the telecom sector, one rep cites reports that infrastructure spending by AT&T and Verizon is expected to be down 20 percent.

Wrapping up

ERA’s survey results indicate there’s a solid year of growth ahead in terms of both total revenue and in certain markets. The medical sector should be more than healthy, but it’s anybody’s guess about military/aerospace. It could begin to come back, in whole or in specific segments, but it could also continue to languish.

For the other many electronics markets, reps and manufacturers predict plenty of upswings and certainly some declines, all primarily depending on a specific region’s customer base. So hang on, everyone ... it’s going to be a fascinating year! ■

This article was written by Katie Boysen, assistant editor of The Representor, and Tess Hill, editor.

The complete results of the ERA survey summarized in this article are available to members at era.org on the Member Resources page.

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