

Mitigating Counterfeit in Authorized Distribution

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INTRODUCTION

In this paper, I am placing some of my thoughts concerning mitigating counterfeits in the Authorized Distribution chain. Serving as the Director of Quality at Mouser Electronics for the last 9 years and as a contributing member of the G-19 Counterfeit Electronic Parts committee, I poured copious hours into this subject even before it became the topic of the day for the DoD and its contractors.

In January 2010, the U.S. Department of Commerce's Bureau of Industry and Security (BIS) prepared and published the [Defense Industrial Base Assessment: Counterfeit Electronics](#). In the assessment, BIS stated that responses from OEMs/OCMs indicated a prevailing belief amongst this group that they had received 21% of the counterfeit they encountered from authorized distributors. They used this to point a finger at alleged problems within Authorized Distribution. Without disclosure of the full details of these counterfeit incidents, Authorized Distribution has found itself in the difficult and unenviable position of defending itself from government statistics. Here is my take on possible causes of these responses by the OEMs to the government survey.

Customer A orders and receives a particular product from both distributor A, an Authorized Distributor of the product, and distributor I, a distributor with no contractual ties to the original equipment manufacturer (OEM). Customer A uses stock from distributor I and discovers a problem. Customer A returns

problem stock to Distributor A as the distributor is authorized and has a relationship with the OEM. Customer A has more success in return of product for counterfeit testing by the OEM with the authorized distributor. While not common, this can and does occur. Upon return of the product from Customer A, the OEM performs a failure analysis on the product and declares it counterfeit. The OEM attributes this counterfeit to Distributor A, their authorized distributor, instead of Distributor I who has no relationship with the OEM. Distributor I would never have received an alert necessitating return the subject product to the OEM. The end result: OEMs report 21% of the counterfeit products they experience as coming from Authorized Distributors.

Insufficient inventory control by customers warrants mentioning as well. Some customer inventory records do not allow for accurate traceability back to the valid source of the product. I have observed this firsthand. On numerous occasions, we have discovered customers returning product to us which they obtained from another vendor. This definitely needs to be addressed in revision "B" of AS5553.

HOW MUCH AUTHORIZED

How much authorized does a supplier have to be to be called an authorized distributor?

Much confusion surrounds the definition of the term authorized distribution. This chiefly comes from distributors labeling themselves as authorized distributors though they do not have

distribution agreements with OEMs for all of the lines they distribute. True, they are authorized for those lines, but I argue that this should not constitute the moniker of Authorized Distributor. Customers need to realize this and regard distribution as a transaction. When dealing with marginally authorized distributors, customers should verify the OEM has authorized the distributor for the products the customer may purchase. While consumers have several means of verifying this, ECIA (Electronic Components Industry Association) recommends examining the OEM's web site to confirm the distributor's status as an OEM authorized source. Some consider this method too weak a system as OEM's fail to keep this information current; however, I find this approach more reliable than an easily counterfeited manufacturer's certificate. ECIA continues to solicit OCMs to improve their web sites.

ECIA DISTRIBUTOR

Differentiating between these aforementioned marginal distributors and more creditable Authorized Distributors could boil down to membership in the ECIA. Current ECIA bylaws require distributor members maintain 100% OEM authorization for their Line Card and have sales of over 50% from those lines. Customers should also consider using well established, reputable authorized distributors. These distributors remain very conscious of their reputation and work hard to defend it. They also typically have developed closer relationships with OCMs.

ECIA CERTIFICATION

The ECIA is also working on certification for Authorized Distributors. Customers have AS5553A and independents and brokers have

AS6081 to substantiate the authenticity of their processes. My argument to leadership has been 'What does Authorized Distribution have?' Is our label enough? Consequently, ECIA has an Authorized Distributor standard in process. Drafts have been written and ECIA Leadership has been reviewing the draft in preparation of handing the working draft off to the SAE G-19AD committee. The SAE G-19AD committee has been approved by SAE and the first meeting is slated for February 27th.

TRACEABILITY

Traceability has become a big sticking point. Customers have now taken to treating their Authorized Distributors like brokers, requiring Authorized Distributors to produce Manufacturer's Packing List. Authorized Distribution did not create the issue of counterfeiting and has campaigned against use of unreliable sources to combat counterfeits even before the authorities and the media put them in the spot light. Customers and others in the industry need to recognize the efforts of the reliability of this group. Of course, Authorized Distributors retain and store documents of product origin (Packing Lists), but it is incredibly burdensome and adds unnecessary effort. For instance, assume we ship 4,500 lines in any given day, which would require 4,500 packing lists. If we allot an average of 5 minutes to search, find the record, print the record, etc., that is 375 hours or 47 employee days added to the process. Brokers could accommodate this given they are smaller in size and in their volume of transactions. If we add \$50 per transaction to our customers, we could employ the added 47 personnel needed to process these requests. A more cost effective and reasonable approach would be to perform Traceability Audits. We have indicated on our

certificate of conformance “documentation on file or on file with the manufacturer”, yet, we did not imply supplying a document with every transaction. We will support traceability audits, for instance, in response to an FAA request, a request from our customer’s customer, or a customer request to check proof of authorization. This has been our usual method of operation and should continue.

Let us consider another practice with Manufacturer’s CofC and traceability. Manufacturer A can approve use by Authorized Distributor B of a Manufacturer’s CofC template as a method of confirming authorization. When customers request a Manufacturer’s CofC, the distributor can supply the appropriate information supplied by the manufacturer with receipt of shipments from the manufacturer on this document and supply this to the customer. This should meet customer requirements for traceability when authorized by the OEM.

DISTRIBUTION AGREEMENTS

Distribution Agreements: These mysterious documents between manufacturer and distributor typically remain confidential and proprietary, as well they should be. They contain competitive information that will never be shared beyond the parties involved. The sole organization with the ability to verify the presence of Distribution Agreement is the ECIA. ECIA standardly uses these in confirming an Authorized Distributors compliance with ECIA bylaws. No other organization should expect to see them as part of an audit of an Authorized Distributor.