

Perception vs Reality: What Independent Distribution actually brings to the Supply Chain

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Perception

Independents are viewed as a source of risk because they are perceived as:

- Having no reason to exist other than source obsolete product



...by name...

...by nature...

...by definition

astute *adj.* having insight or acumen; perceptive.

No reason to exist other than source obsolete product

- Independent Distribution exists to facilitate multiple routes to market ...flexibility is key
- BPO...Business Process Outsourcing...
- Vendor Reduction programmes
- LLI stocking
- Global sourcing of traceable stock, multiple currency **[INSERT MAP]**
- Management of sole source suppliers
- Non-production equipment for R&D
- Internal maintenance
- Stocking profiles ..LTB, Kanban, JIT, Kitting.



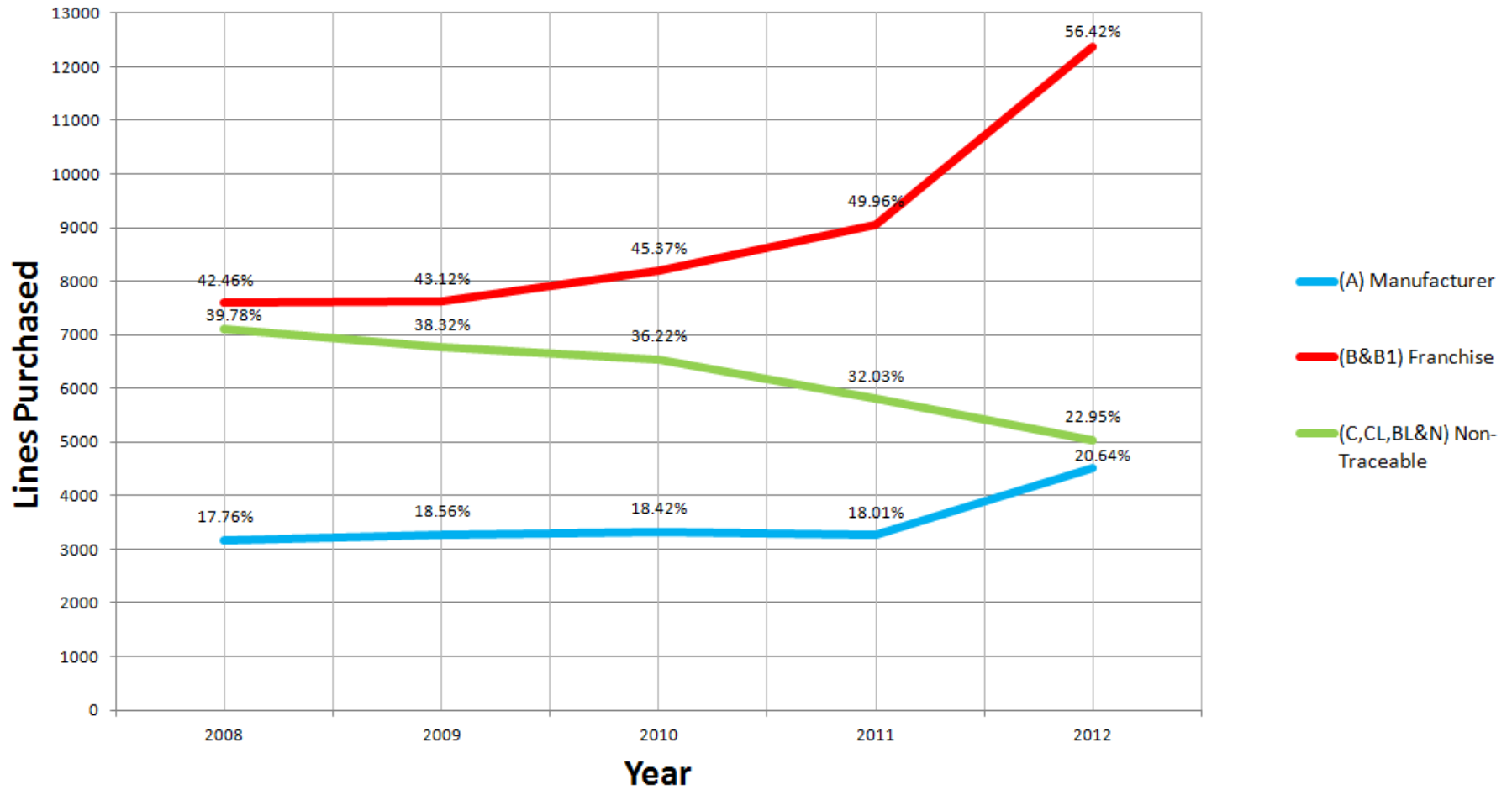
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- Putting profit before quality by predominantly purchasing non traceable parts



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- Putting profit before quality by predominantly purchasing non traceable parts
- Having limited liability



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Limited Liability?

Industry Coverage Requirements:

- Product liability \$1,000,000.
- Aggregate \$2,000,000 PA

Additional:

- Warranty backed supply



Perception

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- Putting profit before quality by predominantly purchasing non traceable parts
- Having limited liability
- Testing in-house to achieve a sale, not to limit risk



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Testing in-house to achieve a sale, not to limit risk

- Counterintuitive....self defeating
- Significant investment in both equipment and personnel
- Limits costs to customer... failure of rejected product results in no charge to the customer, Independent is still tasked with re-sourcing
- Increases ownership of liability on the Independent as reputation at stake.
- Reduces time to delivery.
- Existing and awaited standards enable the process to be auditable.
- Test house - ownership of results (AS6081, Awaiting AS6171)



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Anything else...?

- Therefore, the AS Standards define Suppliers as:-



Blurred lines: AS5553A Supplier definitions

- **AUTHORIZED DISTRIBUTION:** Transactions conducted by an OCM-Authorized Distributor distributing product within the terms of an OCM contractual agreement. Contractual Agreement terms include, but are not limited to, distribution region, distribution products or lines, and warranty flow down from the OCM. Under this distribution the distributor would be known as an Authorized Distributor. For the purposes in the Standard, Franchised Distribution is considered synonymous with Authorized Distribution.
- **AUTHORIZED SUPPLIER:** Aftermarket Manufacturers as defined above and OCM authorized sources of supply for a part (i.e. Franchised Distributors, Authorized Distributors).
- **BUSINESS PROCESS OUTSOURCING ORGANIZATION (BPO):** An organization contracted by a customer to provide the operations and responsibilities of the customers specific business functions (or processes). For example, including, but not limited to, Procurement, Logistics etc.
- **BROKER DISTRIBUTOR:** A type of independent distributor that works in a “Just In Time” (JIT) environment. Customers contact the broker distributor with requirements identifying the part number, quantity, target price, and date required. The broker distributor searches the industry and locates parts that meet the target price and other customer requirements. Broker distributors do not have contractual agreements or obligations with OCMs.
- **INDEPENDENT DISTRIBUTOR:** A distributor that purchases parts with the intention to sell and redistribution them back into the market, Purchased parts may be obtained from OEMs or Contract Manufacturers (typically from excess inventories), or from other Distributors (Franchised, Authorized, or Independent). Resale of the purchased parts (redistribution) may be to OEMs, Contract Manufacturers, or other Distributors. Independent Distributors do not normally have contractual agreements or obligations with OCMs. See definition of “Authorized (Franchised) Distributor”.

Supplier Engagement

- **AS5553A, B.1.1.1:** Electronic parts should be purchased, whenever possible, directly from OCMs or from authorized suppliers.
Independent distributors should be used only after consideration of alternate parts, redesign, schedule adjustments and a reasonable search for material from authorized (franchised) sources has been conducted and approval has been obtained from a designated authority.
- **TRUSTED SUPPLIERS:** Obtain electronic parts that are in production or currently available in stock from the original manufacturers of the parts or their authorized dealers, or from trusted suppliers who obtain such parts *exclusively* from the original manufacturers of the parts or their authorized dealers [NDAA FY2012 Sec 818]



➤ Where do we go from here?

