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A Converge White Paper

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Finding Components in a Shortage Market

- What is a Shortage Market
- Causes of Shortages
- Risks Associated with Shortages
- Solving Shortage Problems
- Why It Pays to Plan Ahead

Unexpected Changes.
Reliable Results.



What is a Shortage Market?

In the electronic components industry, a shortage market is a situation in which demand for a particular type of component exceeds available supply. A shortage market can also be a widespread phenomenon in which multiple components are in short supply.

One of the main characteristics of a shortage market is a sudden rise in the value of a product. In addition, lead times for delivery are significantly longer than usual. Original design manufacturers (ODMs) and distributors may place products on allocation, which means that they will parcel out the limited available inventory on a FIFO (first in, first out) or “most valued customers served first” basis. When allocation is in play, lead times can stretch to 40 weeks or longer, which can seriously disrupt a manufacturer’s production schedule.

Causes

Shortage markets can be caused by a variety of factors. Some shortages are caused primarily by an unexpected level of demand. Situations that can lead to demand-based shortages include:

- Popular new technology
- Inaccurate forecasts
- Seasonal demands

Other situations that can lead to supply-based shortages due to unexpected production problems include:

- Raw material shortages
- Parts becoming obsolete or reaching end-of-life
- Natural disasters that affect manufacturing sites

Risks

Any technology-driven company that finds itself with an inventory shortage will face substantial financial risks. Electronic component shortages can literally shut down production lines, resulting in substantial lost productivity and revenue. All it takes is one missing component to force a manufacturer to go “line down,” or stop production. The longer a production line is shut down, the more money (and customers) a company stands to lose.

In addition, there is an increased risk of substandard electronic components entering the supply chain during a shortage market. Disreputable individuals may try to capitalize on the fact that manufacturers will do whatever they can to avoid stopping production lines and may use less caution when procuring needed parts from unfamiliar sources. For this reason, it is essential for technology-driven companies to always work with a procurement partner that has rigorous testing and inspection measures in place – but even more so in a shortage market.

How Do Companies Solve Shortage Problems?

Technology-driven companies may have limited options when their regular distribution channels (typically ODMs or franchise distributors) cannot provide them with the parts they need within the required time frame. Whether the shortage problem is due to a raw material shortage or obsolete parts, a manufacturer who is facing a halt in production must find a way to obtain the needed components in time to meet its predetermined production schedule.

Most likely, the manufacturer will work with an independent distributor who specializes in procuring hard-to-find parts. A reputable independent distributor mitigates risk and expense in a shortage market by helping manufacturers procure the parts they need when they need them. However, this does not affect the manufacturer’s relationship with its regular contracted distributors; the independent partner simply helps the manufacturer fill its inventory gaps until its original orders can be fulfilled. In the case of obsolete or end-of-life components that are no longer being made, the only way to find them may be through an independent distributor.



Independent distributors use their market intelligence and network of global contacts to identify companies that may be able to sell components that another company needs. In most shortage situations, the parts exist somewhere. However, it takes an expert to be able to identify who owns them and might be willing to part with them for a mutually agreeable price. Large independent distributors often have their own inventory to draw on, as well.

What to Look for in a Shortage Inventory Partner

When looking for an independent distributor to help with the procurement of shortage inventory, you should look for several key qualities:

Size. Independent distributors come in many shapes and sizes. The bigger the company, the more traders and “tribal knowledge” you will have working to your advantage. The more connections a distributor has, the more likely it will find the parts you need in as little time as possible.

Commodity managers. Generally speaking, commodity managers go hand-in-hand with size. A small independent distributor will probably not have experts that are solely dedicated to studying one particular commodity’s global activities; larger ones probably will. Commodity managers devote their time to assembling complete market intelligence around one or two specific commodities, and can provide a wealth of in-depth market knowledge about where to find shortage components.

Quality control. A trustworthy shortage inventory partner is one that provides a stringent component testing and screening process. You should look for an independent distributor that invests heavily in engineering staff and testing equipment in order to ensure the quality and authenticity of every purchase.

Around-the-clock workforce. We operate in a global economy, not one that ends at 5 p.m. in the time zone that we happen to live in. When it is 5 p.m. in the United States, the workday is just beginning somewhere else in the world. A global independent distributor will have traders and/or commodity managers working around the clock in different regions of the world, which gives their clients a clear advantage when racing to find shortage parts.

Why It Pays to Plan Ahead

The need to locate hard-to-find or obsolete parts will always exist, no matter which market currently prevails. Despite the best-laid plans, every technology-driven company will face a shortage situation at some point. High product demand is theoretically a good problem to have, but when a company can’t fulfill its orders due to a component shortage, the results can be disastrous.

Thus, technology-driven companies in the manufacturing industry are wise to plan ahead. Before they are adversely affected by a shortage situation, manufacturers should establish a relationship with an independent distributor they can trust. Every potential partner should be carefully vetted to ensure that it has rigorous inspection and screening processes, product traceability, global capabilities, and widespread market intelligence.

When a company has a pre-established partnership with a trusted independent distributor, it has the advantage of being able to move quickly and discreetly to source constrained products before an electronic component shortage situation adversely affects market prices. By planning ahead for the inevitable, savvy manufacturers will be better prepared to handle any shortage market challenges that come along.

About Converge

Converge is the premier global supply chain partner for technology-driven companies. We provide solutions that increase your bottom line and reduce your risk in electronic components distribution.