

**CONVERGE**<sup>®</sup>

AN ARROW COMPANY

**SOLVE THE FUTURE.**

# Recovering Value from Surplus Inventory

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## What is Surplus Inventory?

In the electronic components industry, a surplus market is a situation in which supply of a particular type of commodity, such as DRAM memory, exceeds demand from buyers. An excess market can be a widespread phenomenon as well, with general oversaturation of unneeded components. Either application can also be referred to as an “excess” or “buyer’s” market.

One of the main characteristics of a surplus market for a specific product is a sudden drop in the value of the product. In addition, lead times for delivery are significantly shorter than usual.

The definition of “excess inventory” has changed over the last ten years . Formerly, electronic components were considered surplus after they had been in inventory for at least six to twelve months. Now, due to the rapidly changing pace of modern technology, parts can be considered surplus after they have been in inventory for only three months . At that point, the owner must rush to “move” the excess inventory before the parts become obsolete. With new technology continuously being introduced, the velocity of turning surplus electronic components into recovered value is critical.

## Causes of Surplus Inventory

There are several predominant factors that can cause a particular electronic component to oversaturate the market.

**Inaccurate forecasting.** At times, and based on a lack of historical analytics, inaccurate analyst calculations cause companies to buy more inventory than they end up needing. For example, the MLCC major market allocations from 2018 resulted in companies purchasing higher quantities than normal. Manufacturers were reporting a 20 percent increase in their revenues from the high demand.<sup>1</sup>

With most fearing the shortage to continue and purchasing in higher quantities along with manufacturers ramping up production as quickly as they could, it led to the market quickly flipping over to a surplus market. Starting in 2019, those companies that invested heavily in stockpiling MLCCs were in a new panic. They were sitting on inventory that is quickly losing value due to the new excess supply in the market.

**Getting the greatest recovery from your excess inventory calls for a rare combination of process, people, and technology.**

## Late cancellation of current product lines.

If a product line is unexpectedly cancelled after manufacturers have already ordered the parts needed to make that product, excess inventory can result.

**Seasonal lows.** Demand for certain products can vary greatly with the seasons. The end of year demand season, for example, can lead manufacturers to buy a large number of components needed to make a popular item. If the item does not sell as well as expected, manufacturers may be left with significant surplus after the buying season is over.

## Risks Associated with Surplus

There are substantial financial risks for any company that finds itself with excess inventory during a surplus market. A manufacturer could lose millions of dollars, depending on the volume of excess inventory it owns and the original purchase price of the components. The original purchase price is also known as the “established cost.” Ninety-nine percent of the time, the company will not be getting that entire established cost amount back.

It is possible to find a buyer for surplus parts in a saturated market with the help of an expert with vast market knowledge and global connections. The owner of the inventory must understand that the resale price probably will be less than the original price, but that it is better to recover some of the loss on surplus inventory than to sit on it indefinitely. The longer a company waits to remarket surplus inventory, the more recovery value it will potentially lose.

$$\frac{\text{Established cost of surplus inventory} - \text{Recovered value}}{\text{Total loss from surplus inventory}}$$

## Solving Surplus Problems

Independent electronic component distributors offer critical solutions in a complex, fast-moving supply chain — purchasing excess inventory, responding to shortages, balancing demand, and bringing flexibility to the marketplace. Neither OEMs nor EMS companies could function without them. Yet, by serving in the role of “middleman,” the distributor takes on the additional job of protecting manufacturers by stopping counterfeit and substandard parts before they make it into the supply chain and, eventually, into the hands of consumers. If you are dealing with a distributor that does not have a rigorous quality management program, you are putting your company’s reputation on the line with every transaction.

When choosing an independent electronic component distributor, be sure to choose one with a world-class quality management program and ask to see the details. Anyone can procure a part. Only quality-driven distributors can guarantee parts that protect their customers and the manufacturers that they represent.

A reputable independent distributor mitigates risk and expense in a surplus market by helping manufacturers recover value from surplus inventory. There are several different ways in which to do this:

**Outright buy programs.** The independent distributor purchases the surplus and obsolete inventory directly from the manufacturer and remarkets it through its global sales channels.

**Consignment programs.** The independent distributor partners with the manufacturer to take “consignment” of surplus inventory. In other words, the manufacturer consigns its surplus inventory to the distribution partner without having to do any of the legwork.

The distributor then remarkets the materials through its global sales channels, with proceeds returned through a mutually agreed upon shared revenue program.

**Demand opportunity.** The independent distributor provides the quickest time to market while the manufacturer maintains possession of its inventory throughout the sales process, consigning parts on an as-needed basis.

**Custom tailored programs.** Keeping stockpiles under control and getting the fastest return on investment is paramount to profitability. The custom programs begin with a comprehensive discovery process. This includes a thorough evaluation of excess as well as specific business operations and goals, and then determining the best method of management and or disposition. Ultimately, this will result in mutually understood documented process and strategy that ensures the maximum value recovery.

No matter which solution is used, timing is a vital part of the remarketing process. When it comes to surplus inventory, the company that goes to market with a specific type of component first is likely to see a better value return than the companies that remarket the same component in the days that follow.

### **What to Look for in a Surplus Remarketing Partner**

When looking for an independent distributor to help you with the sale of surplus inventory on the open market, there are several key qualities that you should check for:

**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. Size does matter when it comes to recovering the most value for your inventory.

**Commodity managers.** Generally speaking, commodity managers go hand-in-hand with size. A small, independent distributor will probably not have experts who 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 to the traders working on your behalf.

**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. here, 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 enables them to find a solution for your surplus parts in as little time as possible. In addition, because an independent distributor with an around-the-clock workforce never stops working, it never misses a beat when it comes to knowing about world events that may affect the market.

**Global reach network.** In addition to a global workforce, a global independent distributor will have a preferred status with OEMs, EMS, ODMs and Integrated Partners to bring product to more diverse global channels. By utilizing leading-edge data analytics and market intelligence, you can be confident you are making better decisions, faster.

The need to remarket surplus inventory will always exist, whether there is a surplus market or a stable market. Despite the best-laid plans, manufacturers will end

up with more parts than they need for the current demand on their products. It is simply the cost of doing business in an unpredictable world. The good news is that solutions do exist to help mitigate surplus inventory costs, no matter which market currently prevails. By partnering with an independent distributor you trust, your company will be better prepared to handle any surplus market challenges that come along. ■

*1 Morra, James. "Capacitor Shortages to Continue at Least Another Year, Executives Say." SourceToday, 8 Aug. 2018, www.sourcetoday.com/supply-chain/article/21867122/capacitor-shortages-to-continue-at-least-another-year-executives-say.*

*Converge tackles your supply chain challenges for today with solutions for the future. As the only publicly owned market distributor, we possess a unique combination of global access, manufacturing industry expertise, and proven quality. With this, we can create customized, end-to-end supply chain solutions for electronics components sourcing and inventory management. We have the relationships, market intelligence, and product expertise to respond to urgent needs and dynamic market conditions, and the financial backing to provide terms that empower long-term growth.*

# We 'solve the future' by meeting challenges with solutions

Converge tackles your **supply chain challenges** for today with **solutions for the future**. As the only public open market distributor, we possess a unique combination of global access, manufacturing industry expertise, and proven quality. With this, we can create customized, **end-to-end supply chain solutions** for electronics components sourcing and inventory management. We have the **relationships, market intelligence**, and **product expertise** to respond to urgent needs and dynamic market conditions, and the financial backing to provide terms that empower long-term growth.



## Connected distribution

We are a team of creative, experienced problem-solvers that bridges the gaps through connected distribution and a unique approach to long-term, end-to-end supply chain optimization.



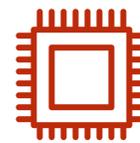
## Values that matter

We're all about respect, growth, and pride. We treat everyone, from employees and customers to industry partners, the way we would want to be treated. Our goal is growth – not just in the financial sense, but also in terms of personal and professional development.



## Community

Our success has been built on a genuine commitment to nurturing the community of OEMs, EMS, supply chain partners, and our customers around the globe.



## Quality management

Quality is the cornerstone of everything we do. It is the heart of our suppliers' and customers' experience, their brand and, ultimately, their profitability.



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