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AN ARROW COMPANY

SOLVE THE FUTURE.

Navigating the Open Market

Choosing a Reliable Independent Distributor

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There are times when your primary and authorized source for components simply do not have the availability or stock or may have lead times that are outside of your production schedule. While you have a few choices, you may be forced to turn to the open market.

In years past, the open, or secondary market, was viewed as the dark back alley of component sourcing. However, most independent distributors today have high standards and procedures in place to keep your supply chain safe. Now, due to the market having a number of independent distributors, the challenge is choosing a reliable one.

Criteria 1: An Environment of Quality Throughout the Organization

Choosing an independent distributor is first and foremost a quality decision. In addition to the necessary certifications and affiliations, they must also reflect these standards in their quality philosophy and in their work processes.

Having certifications like ISO9001, AS9120 and AS6081 are important. However, those are things that an auditor spends a few days in an organization assessing and allows that company to prove that they meet those requirements. Beyond just obtaining the certifications, it is vital to work with an independent distributor

that has laid out work processes and instructions under those certifications into a robust quality manual. This systemic approach to quality will also come with a well-staffed quality team that can handle any quality related issue, as well as perform internal auditing that guarantees adherence to those work instructions and processes.

As far as affiliations to look for, they should be members of the Government-Industry Data Exchange Program (GIDEP), Electronic Resellers Association International (ERAI), and Customs-Trade Partnership Against Terrorism (C-TPAT), amongst others. By joining these affiliations, they show the level of investment they have made in their best practices.

These affiliations create an environment of quality throughout the entire organization. However, it's not just about

With commodity managers and trade teams located around the world, and a parent company with over 60 legal entities shipping to over 80 countries, you can trust Converge to execute on every phase of electronic component procurement and distribution.

the certifications and affiliations they are issued, it's the work they do in the background to make those things actually happen. You want to choose a partner that prioritizes quality first and these standards drive their overall business behavior and practices.

Criteria 2: Multi-Layered Counterfeit Prevention & Detection Strategy

A solid counterfeit prevention & detection strategy is multi-layered. Beyond testing and inspection, one of the easier aspects to implement, the more important piece is to make sure the independent distributor you're working with is doing their due diligence to prevent suspect counterfeit or poor-quality material into their building in the first place.

Expert Team

The first layer is to have an expert team who are knowledgeable and have a heightened attention to detail. A reliable independent distributor will have purchasing and commodity management expertise, along with well-trained and experienced buyers who understand the product, understand how they are made, and understand how manufacturers operate. This will allow them to identify suspicious components or supply chain behavior.

Supplier Management Program

The second layer needs to have a very heavy emphasis on a sourcing strategy. That sourcing strategy is made up of a couple of elements. The first of which is the cornerstone, a strong vendor management program. Vendors of independent distributors, and their supply base, should be rated, scored and managed accordingly.

Every supplier should have their

performance rated for every order that comes in and results in a supplier or vendor score. These scores are calculated and managed on a predetermined and reoccurring basis.

A challenging area is that most independent distributors compete with one another and therefore not often allowing one another to audit each other. This is why it's important to use other methods of verification. One of the most important is to manage and rate the deliveries you've already received. The other is to check them against GIDEP and ERAI for any evidence of complaints or other industry issues.

These performance scores and ratings should be made available to your procurement organization who is making decisions on whether to quote or buy materials from those independent distributors. That being said, any supplier that has a score and/or level that's in a risk category should make their information available to everyone in their supply chain.

Sourcing Prioritization

The sourcing strategy should also include prioritization on where the independent distributor sources the parts from. They should attempt to source directly from chip manufacturers first and then franchised distributors second. This keeps the components within the authorized range.

Next, they move down the list to original equipment manufacturers (OEMs), who are the most reliable of the open market suppliers because they are generally one-step away from the manufacturer or franchised distributor (FD). Contract manufacturers (CM) are a close second sourcing choice in the open market. The reason they are next in the hierarchy is because they generally purchase a lot

more inventory and a lot more parts than the OEMs do and as a result, they may end up buying from the open market a little more frequently, raising their risk. However, it is still a very safe option for buying parts.

The last sourcing option on the prioritization hierarchy list are independent distributors. When an independent distributor buys from another independent distributor, their own vendor management hierarchy needs to kick into gear, and source from the most reliable suppliers first. There are times, unfortunately, in this space where there may only be one distributor that has inventory, and it may not be reliable. In these cases, an independent distributor needs to have the processes in place to deal with those situations.

Consistent & Thorough Inspection Process

The final layer of a well-established counterfeit prevention & detection strategy is the strict incoming testing and inspection process that is operated within the highest standards available to independent distributors.

At a minimum, you want to have a partner with aerospace standard certifications, such as AS6081. This will require them to invest in machinery and equipment like decapsulation technology, X-Ray, XRF, and have the ability to do solvent testing for remarking. In addition, it's good to see if the independent distributor has added any of their own steps into their inspection process.

Beyond this, you want them to have a comprehensive approach to their process. A part should not come in, go to a line inspector and if it looks "good," be packaged for shipping. There

needs to be multiple levels and steps to verify the authenticity of the part. It's also good practice during auditing of your independent distributor to see the checklist they use during inspections to confirm they are checking all of the boxes and elements of these steps.

Looking specifically at Converge's method, we have three different inspections that check every part that comes in. This applies whether we buy it from another independent distributor, an OEM or CM, or a franchised distributor — they all get the same inspection, leaving nothing to chance. The first step, performed by experienced line inspectors, validates the material is correct. That the part numbers and labels are correct and there are no obvious signs of quality problems. Only after it passes, does it move on to an engineer or senior inspector to do an authenticity and reliability inspection. The final step is an outbound inspection on shipping. This may seem like overkill, but when working with an independent distributor and in the open market, it's critical to be extremely thorough in order to catch anything that may be a suspect counterfeit or substandard part.

As mentioned earlier, all these practices need to be implemented across an organization. It's important to work with independent distributors that have hubs in each of the primary sourcing locations: North America, Europe and Asia. Having people on-site doing the buying, the inspection and following the same procedures will ensure the same quality standards are implemented globally and followed the same way in each region.

Criteria 3: Component Databases

Another criteria when looking for an independent distributor is working with

one that is using up-to-date databases from organizations such as GIDEP, ERAI, and SiliconExpert. This should go hand-in-hand with their multi-step inspection process.

Databases such as these, are excellent external data points that should be used as part of the validation process that the inspector uses. These include information around date and logo identification, Moisture Sensitivity Level (MSL) information, Restriction of Hazardous Substances (RoHS), and any product alert listings. By subscribing to component databases, such as SiliconExpert, they are alerted to product change notifications (PCNs), end-of-life (EOL) notices, last-time-buys (LTB), and more.

Independent distributors should also be collecting reference labels from franchised distributors and OEMs to build their own database, as well as creating a golden sample list, so when they re-buy parts they have something they can check the parts against.

Criteria 4: Compliance and Record-Keeping

The last major criteria when navigating the open market is to look for an independent distributor that has a very strong compliance department and handles documentation and record-keeping in a consistent and proper manner.

Compliance is extremely important; you want to ensure that you do not have any issues with the Commerce Department based on the compliance rating of different classifications of different parts. This is the reason it's important the independent distributor handles this in-house and it's not something they are outsourcing to a third-party.

If your business requires International Traffic in Arms Regulations (ITAR) compliance, the independent distributor needs to verify their certifications to prove they are compliant. If there are any customer specific requirements as far as compliance, you need to make sure ahead of time that they meet those as well.

Likewise, your independent distributor needs to have excellent documentation and record-keeping. Should you come across a problem downstream on something that you built for one of your customers or sold to a customer and there was an issue, it's vital to have the ability to access the documentation from your independent distributor on where those parts were bought, the inspection results and evidence of that inspection.

To summarize, your company's supply chain is your responsibility – no one else's. You do not want it to be derailed by picking the wrong independent distributor. It is your responsibility to verify the processes they claim to have in place are actually being implemented globally through on-site auditing. You need to make sure you are not only focused on the certifications and affiliations they have, but that they have a proper counterfeit prevention and detection strategy. In addition, they must manage their suppliers in a cohesive way, have a multi-level inspection, verification, and testing process on-site, use the proper components databases for their validation, and finally can handle any of your compliance documentation and record-keeping needs.

The overarching message here is you want to work with an independent distributor whose quality philosophy is not driven by their profitability but rather

safeguarding the supply chain. In other words, you want to receive the same inspection whether you're giving them \$100,000 order, \$10,000 order, or a \$500 order. Regardless they should provide the same level of quality and protection for everything that enters their door. ■

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

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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.



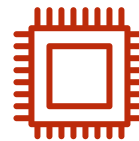
Values that matter

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.



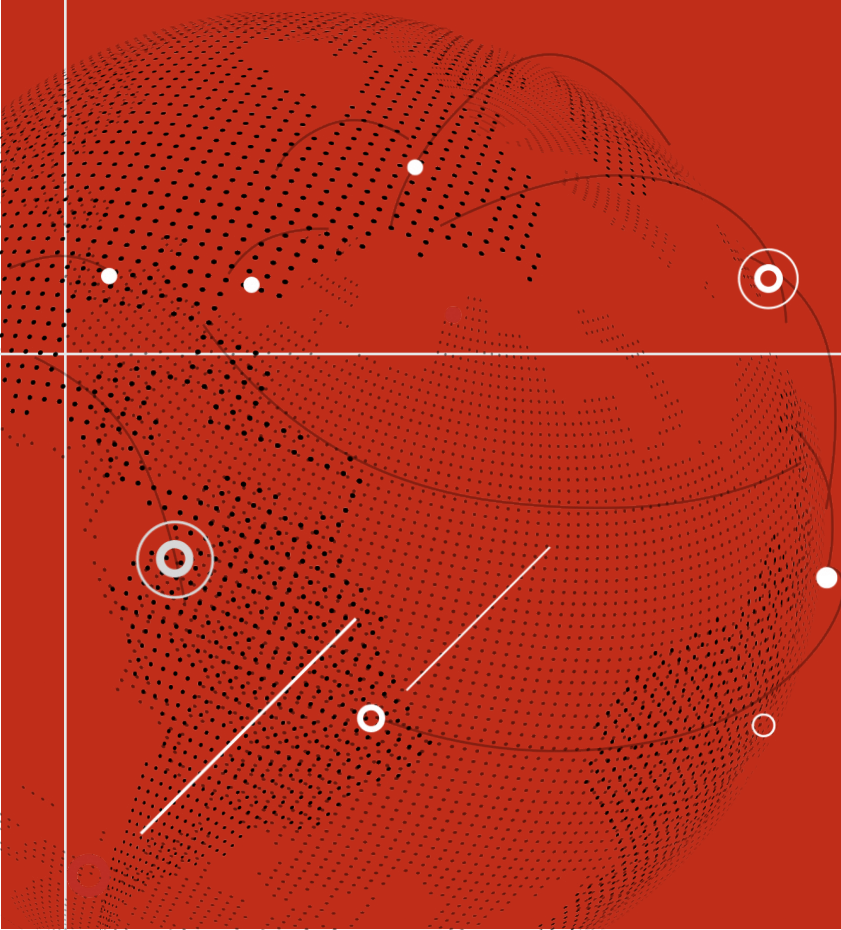
Community

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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