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Demand Creation is too often Exaggeration Everyone wants to take the credit, but who deserves it?

The purpose of this article is to applaud ALL of the players who drive exciting new designs. This starts with the supplier's product development engineers, the customer's circuit designers, then the sales channel of manufacturer's representative, distributor and direct salespeople. So, does it make sense that any one person take ownership to demand creation? But nonetheless, they still do?

Isn't it time that distributors, reps and direct factory personnel stop laying claim to "demand creation?" What I am referring to are "design wins," because none of the aforementioned sales channels exclusively create demand. More simply put, the OEM customer is creating the demand while salespeople are chartered to recognize an opportunity and help supply the solution. So, at the very least, salespeople can refer to themselves as "opportunity recognizers." The creative salesperson grasps the opportunity and then sells solutions. When distributor sales people are involved, they typically chronicle the new business opportunity in the form of a registration program. This is done to earn an added discount to compensate them for the theoretical time and effort invested with their customer.

Reps and factory direct salespeople are especially challenged because they can only sell solutions out of a bag of non-competing lines, while distributors have a bag of hundreds of lines. There is a common perception, or misconception, that most distributors are supplying components that are "called out" (specified) when the OEM's engineer has already worked in conjunction with the reps or a direct factory salesperson. You can be the judge...

The distributor's primary charter is still "FULFILLMENT," not creation. Is this always the case? No, there are some distributors with very talented FAE's, who are qualified to help specify complex semiconductor products. As a matter of fact, registration programs were inaugurated and designed to protect the effort, time and energies of disty FAE's and salespeople. When distributors use the term "demand creation", it may be a gross exaggeration for most components with the exception of complex semiconductor wins. To that point, it's even more bogus to claim design wins for the sale of resistors, capacitors and other generic components at most accounts. I almost forgot power supplies also fall into the same bucket of registerable commodities. These components are the glue between the semiconductors and IC's.

The challenge that salespeople face is to add value to the transaction and that's a far cry from "demand creation." Most design engineers strive to specify "pre-engineered," readily available, off-the-shelf standard devices. When parts are special, they typically entail longer lead times and limited sourcing. Forward thinking specifiers and procurement professionals try to stay away from "specials." When the OEM specifies standard components, the supplier must

find the most viable channel into that OEM, be it the distributor, CEM, etc. These channel intermediaries are not creating demand either.

SHIFT OF EMPHASIS

Ten years ago 80% of the global distributor's sales were to OEM accounts. Now that has changed dramatically. According to POS reports, approximately 80% of North American disty sales are to CEM's. This leads to the question, how much time are disty FAE's spending at their largest customers, and is there any need for them to have a presence at CEM accounts?

IT'S OBVIOUS

Just because a distributor is supplying certain components, it obviously does not imply that they create the demand for these products. Unfortunately, demand creation and demand fulfillment are terms that are often used interchangeably. The distributor's goal is to obviously convey the image that they create the entire spectrum of customer commerce.

Many distributors claim that they are called upon by their suppliers to "create demand" – that's great! However, many industry observers feel that design-in activity is the primary charter

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of reps and factory direct personnel. Distributors are pushed for more business, but so is everyone else in the supply chain. Just because the distributor is being asked for help, it doesn't imply that they are in it alone. An interesting observation is that the D.A.M.N. team (Digi-Key, Allied, Mouser & Newark) do not lay claim to demand creation even though they provide exposure to new and existing products on their fabulous websites and catalogs. This supported by their billions of dollars in sales.

TIME TO MARKET

There is a tremendous emphasis on fast turn-around times on the design of new products. Semiconductor advancements are yielding shorter life cycles of end products. Accordingly, new designs are more rampant than ever before. It takes & channel resources to get the information, samples, evaluation kits, etc. to the design engineer. No single channel has a monopoly on dispersing technology to the engineering community. And to that point, no one entity should take full credit for DEMAND CREATION.

FAE's

There is some question whether distributors have more FAE's in the field than ever before. There are reports that the number has shrunk during our soft economy. FAE's obviously do not replace manufacturers' reps, since more major semiconductor companies are utilizing the talents of manufacturers' reps. This includes many prestigious companies. This further proves that no single entity should take ownership of the phrase "demand creation." One distributor claims, "Our FAE's allow us to get deeper penetration at the customers where we have design engagements." I don't know if this should be considered

to be meaningless rhetoric or just drivel. Frankly, this is the first time I heard the expression "deeper penetration" used in a business sense. It sounds risqué to me!

Demand creation should be a team effort. If an individual wants to take all of the credit, I would say that he is an example of my previous article entitled "Partners or Imposters." FAE's are often compensated on the number of design wins versus a quota. If they "blow away" their quota (budget), they benefit monetarily. If they don't, they are penalized, hence the rush to register.

FOCUSED LINE CARDS

Hard to believe that a semiconductor executive just referred to a global distributor as having a "focused line card." Apparently this individual did not take the time to count 350 product lines. How can any distributor be focused with that many lines? The press release went on to say that they have 160 FAE's, including 28 analog FAE's. I assure you that this refers primarily to semiconductor companies with registration programs. Passive, electromechanical and interconnect suppliers should not be misled by thinking that they will receive demand creation without registration programs.

SPECIALTY DISTRIBUTION

The specialist (limited line distributor) has typically been looked upon as being more knowledgeable than the broad line industrial distributors. If they have fewer lines, it stands to reason that they have a more focused line card. I grant you that they cannot sell an entire Bill of Materials (BOM), but they can do other things well, including making a greater gross profit margin than the global guys. Why is that? Probably because a lesser percentage of their sales are to low margin, high volume CEM customers.

PERFORMANCE & PARTNERING

Every time a distributor receives a new franchise or a rep is appointed by a new principal, statements are made relative to the expectations of demand creation. One should not forget the adage that "A distributor will never be successful in their marketplace if the rep or factory direct people aren't successful." This premise reinforces the idea that demand creation is a partnership and not exclusive to any one party or sales channel.

DEMAND CREATION MODEL

Some semiconductor suppliers state that they have developed a proven model for sales creation. Call it what you may, but it's a "registration program." The strength of semiconductor suppliers and their distributors is based on "protection" and profit margins. The supplier cannot be held accountable for those distributors who are giving away valuable gross profit points to their customers for the sake of gaining market share. Registrations typically protect distributors' margins to a minimum 15%. Therefore, it is hard to understand why the world's largest distributors are averaging GPM's of a meager 12%. But for the past three years that's what they've averaged, and they seem to be content with it. They are obviously giving away some of the valuable points that were given to them by virtue of registration programs. Looks like they are willfully taking plenty of 10% and below business – so why complain?

SUMMARY

Demand creation is a collective effort of channel partners working towards a common goal. Just because you add value, it doesn't mean you create demand.

