

Expanding in a single-digit growth industry

Avnet's Roy Vallee looks to smaller customers, the Web, and expansion to increase the top distributor's market share.

By Suzanne Deffree

Avnet Inc may hold the spot as the world's largest distributor by revenue with \$3.89 billion in sales recorded for its December 2006 quarter, but it won't stay there by serving only other big companies. In a market whose participants celebrate growth in the single digits in the same way the other markets celebrate double- or even triple-digit growth, Avnet is looking to expand. "The rate of growth slowed as we exited calendar year 2006," says Roy Vallee, chief executive officer and chairman of Avnet, pointing to a more-than-\$300 billion industry. "Everyone is going to be looking for ways to outgrow the market in 2007."

One such approach is to look beyond Avnet's existing customer base of large companies. "An opportunity for Avnet is to focus more on smaller orders, smaller customers, and the power of the Web," Vallee says, pointing toward Avnet Express, the distributor's online-sales channel. "We're talking about NPI (new-product introduction); we used to call that R&D. There is some growing MRO (maintenance-and-repair-operation) opportunities, and then there are just smaller customers. While, in many cases, we can't have field-application engineers...physically face to face with those customers at the moment...that they want, we created this service offering where we have centralized telesales people, as well as a robust Web capability that allows these customers to be well-served pretty much any time of day."

The goal is to up Avnet's total market share as the market consoli-

dates by focusing on building relationships with smaller companies.

"We have the franchises, and we have the inventory. The inventory was more than 1.3 billion electronic components across a broad set of suppliers [by the fourth quarter of 2006]. ...If we can do a better job of making those resources available to a broader base of customers...we think that we can increase Avnet's share of the market," he says.

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Vallee also is looking to increase Avnet's reach across the globe through mergers and acquisitions, despite the company's presence in 70 countries. Indeed, Avnet acquired a number of companies in 2006, including GE's Access Distribution subsidiary in a deal worth \$412.5 million, and ESCO Italiana, one of the most successful distributors in Italy.

"We think about mergers and acquisitions as opportunities to extend our presence, as well as to consolidate the industry. We will continue to acquire when the acquisitions fit from a cultural, strategic, and economic perspective."

Vallee points to Asia/Pacific's

high growth rates. He also says that, although Avnet has a small presence in Japan and the rate of growth is not high there, the size of the market relative to the distributor's size is enormous. "Avnet could add a lot of value to the supply chain in Japan, and we will be looking for ways to expand our role there," Vallee says.

So how is 2007 shaping up for distribution? The answer depends on inventory. "Where 2006 started strong and finished a little weaker, 2007 is starting a little weaker but has the prospects of finishing strong," Vallee says. However, Vallee notes that the industry was at the tail end of an inventory correction at the end of 2006 and the beginning of 2007, which dampened the sale of components.

Still, the 30-year Avnet veteran would not venture anything but a general guess on 2008.

"Those of us who have been in the industry a long time have gotten accustomed to these fairly wild cycles in the semiconductor-supply chain. It would appear that that cyclical nature is permanently changed. I'm not saying that it has gone away, but it certainly seems as though the volatility has dampened. Based on the way the cycle appears today, it seems as though we could be in for many years of high-single-digit or low-double-digit growth rates without a major correction until there is some sort of global economic recession."



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