



A great time

Graham Pitcher talks with Digi-Key's vice chairman **Mark Larson**, who recently stepped down after 39 years at the helm.

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Asked how he sees the role of electronic component distributors changing in the coming years, Larson conceded things will be different. “It won’t continue as it is today because there are so many sources and it’s a dynamic industry. If we look back to Digi-Key 40 years ago, the distribution world had been stable for years. But things were already happening when we got involved.”

Some observers see the potential for internet giant Amazon to be a major headache for distributors – and for so called ‘high service’ distributors like Digi-Key in particular. Larson isn’t so sure. While he believes Amazon’s marketplace approach could, in theory, act as a channel, it’s unlikely the company will take the step of actually stocking components itself.

“There has also been talk about EMS companies repositioning themselves, encroaching on distribution channels,” he noted. “Now I’ve passed the baton at Digi-Key, I’ve been clearing my office and found a magazine article from 20 years ago that was discussing these issues. So things take time to happen.”

High service companies like Digi-Key have built their reputations on getting small quantities of the latest components to engineers within a couple of days, no matter where they are. More recently, they have started to expand their activities; for

to be a customer

It’s not usual for a leading executive of any company to be in the same position for 39 years; in fact, that degree of longevity is probably unmatched by anyone in the electronics industry.

But Mark Larson’s tenure as president and chief operating officer of components distributor Digi-Key came to an end in June 2015, when he transitioned to vice chairman and a corporate advisory role. During his time at the helm, he grew Digi-Key from a company with 14 employees based in Northern Minnesota to its current turnover of \$1.76billion, with more than 3400 employees globally.

Larson acknowledged issues affecting distribution. “The dollar/Euro exchange rate has caused some problems, so there are headwinds in Europe. I’m optimistic in the long term – it’s likely that business will surge in the near term – but the market is a bit lethargic at the moment.

“These periods are inevitable,” he pointed out, “but they do give the industry chance to catch its breath, to strengthen its infrastructure and to build a foundation for the future.”

example, adding a broad range of technical articles and videos to their websites and forging alliances with other companies to bring different services. Digi-Key itself has worked with Mentor Graphics to develop design software. Where does Larson see this trend heading?

“It’s an interesting development,” he said. “These offerings are relatively new and it’ll be interesting to see how relevant they are to buyers. Intuitively, Digi-Key would think the broader the value added, the better. They will be better positioned, but sometimes you make an offer and it doesn’t have the impact you anticipate.

“Some of the elements have been targeted at a set of customers that will embrace them strongly, but they are a subset of a much larger group. The jury is still out,” he believes, “whether we as an industry might go further in that direction. But we are making efforts to expand our reference design offerings and provide a more seamless ability to design. It’s possible that, in a couple of years, this whole area might have taken off.”

But might this broader coverage have an adverse effect in that engineers are ‘swamped’ by the amount of information available

from one website? “I get the feeling that when an engineer comes to a website, they are looking for solutions. I’m not sure that blending product information with news and the like is necessarily a good thing; it could actually be a distraction.

“Engineers want to focus on product selection, to drill down and put together a bill of materials. I don’t think they want to be diverted by articles, but someone else might think it makes perfect sense.”

One recent development was Arrow’s acquisition of Hearst Publishing’s technical assets, including *Electronic Products*. Can a distributor be a publisher? “It has put us in a conflicted role,” Larson admitted. “We don’t want to aid and abet a competitor and our reaction has been to pull back. But Arrow has an interesting challenge.”

When Larson first took the reins at Digi-Key, the distribution world was stable and well understood; there were broadliners and regional distributors. Today, that picture has changed; on one side sit the broadliners, while the high service sector sits across the divide. That divide used to be populated by a range of local and regional distributors and, more recently, by specialised design in companies. Many of these companies – seemingly in ‘no man’s land’ – have been acquired. So will the divide disappear and is there a chance that a big company from one camp might by one from the ‘other side’?

“There’s no question that if you take a traditional distributor, such as an Arrow or an Avnet, their position would be strengthened by aligning with or acquiring a company that’s more focused on designers,” Larson said.

Larson cited some recent research he’d done. “In the last eight years, Arrow and Avnet have acquired more than 30 component distributors, plus acquisitions in complementary areas. Some of these have been to strengthen their position in China, but others were simply to limit competition.

“The broadliners failed to change their business model early enough,” he contended, “and have now realised their mistake. But from the customer’s point of view, I’m not sure there would be advantages in such a move; they want and expect a certain amount of competition in the market.”

Returning to the question of whether Amazon might be a threat in the future, Larson said it was still too early to call. “I wouldn’t rule out competition from Amazon or a similar organisation, but I don’t see it as imminent or even highly likely in the next 10 years or so. It’s not logical that it would want to expand into the complex B2B market, where there is already a range of specialised services. There are easier things for Amazon to target.”

Despite the recent success of the high service sector, Larson sees some vulnerability. In particular, he sees two of the four leaders in the sector as potential acquisition targets. “The broadliners will only be interested in their electronics operations,” he said. “That could be a bit of a ‘speed bump’, but I wouldn’t be a bit surprised to see it happen in the next couple of years.”

Larson noted the relative luxury of Digi-Key being a privately owned company and compared this to the market driven



broadliners. “While Digi-Key has grown organically to revenues of \$1.8bn, if Arrow and Avnet, for example, are going to create value for their stockholders, they can’t rely on organic growth; they have to do some of it through acquisition.”

Another major change over Larson’s four decades in distribution is relationships; whether between distributor and customer or distributor and supplier. One of the key strands in Larson’s approach has been ‘relationship marketing’, largely superseded by ‘performance marketing’, although the two remain interlinked. While performance marketing reflects the ‘can do’ attitude of the high service sector, relationship marketing reflects the bond between Digi-Key and its customers.

There have also been attempts by high service distributors to create communities. Does Larson see any value? “They are challenging,” he said. “If you ask component purchasers what ties them to a distributor, they’ll say things like ‘performance’, ‘product range’, ‘availability’ and ‘delivery’. Once you get past these, the rest is less relevant.

“With the web, customers move from site to site, which makes creating a community more challenging. What we do has to be based on fundamentals and I think communities may be a distraction.”

Will companies like Digi-Key become more deeply involved in their suppliers’ marketing efforts? “A lot of marketing programmes are already joint efforts,” he noted. “It’s not hard to envision that developing into significant efforts in terms of product development and of better understanding the market. There’s more of an open relationship between us and our suppliers than even five years ago.”

Over his 39 years in the ‘hot seat’, Larson has learned a few lessons. “I believe that what’s best for the customer is best for the distributor and the supplier. If a distributor wants to change its business, those changes must be driven by customers. And I think it’s a great time to be a customer,” he concluded.

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