

ECIA

PUBLICATION

ECIA Guidelines for Disposition of Excess Inventory

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Electronic Components Industry Association

Industry Guideline

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ECIA Guideline for Disposition of Excess Inventory

1. Purpose

Identify excess inventory disposition practices in the supply chain and create an industry best practices document which will help suppliers, customers, and distributors understand the potential negative effects of mishandling excess inventory and give those companies that don't currently have excess inventory processes and procedures a guideline to follow.

2. Scope

Define best practices for disposition of excess inventory including Scrap, Return, and Resell.

3. Definition

Excess inventory is defined as those inventories above and beyond desirable levels.

4. Reference Documents

- NIGP 113 NEDA Guidelines for Product Returns

5. Counterfeit Concerns

The authorized supply chain represented by original component manufacturers (OCM), their contractually authorized distributors, and their contractually authorized representatives continues to be the best source of counterfeit free components. This supply chain has and continues to develop practices that mitigate the entry of counterfeits. Product returns is an opportunity for potential counterfeit parts entry (See NIGP 113 NEDA Guidelines for Product Returns).

Although disposition of excess inventory doesn't directly lead to counterfeit parts in the supply chain, the careless disposition may provide counterfeiters with components, packages, etc. that could be used to create counterfeit parts. Instances of discarded parts being taken out of trash containers and used to "make" counterfeit parts are all too common.

There are primarily three options for disposition of excess inventory: scrap, return, and sell/re-sell. This guideline will address best practices in each of these areas.

6. Scrap

Scrap Allowance – Distributor Process	
<i>Example of a High Level Process</i>	
Distributor will review the supplier scrap allowance matrix to determine what is eligible for scrap return during the fiscal period.	
Supplier provides dollar amount eligible for scrap based on the terms and conditions of the contract. The distributor validates through their internal audit process.	
The distributor's material organization will determine what product is to be submitted for scrap/return based on the supplier's terms and conditions.	
Submit scrap allowance form to the supplier for approval.	
The requested return is approved; information is reviewed to ensure inventory position has not changed. The suppliers terms and conditions specify whether this is to be a return to the supplier for scrap or distributor is authorized to scrap using a 3 rd party certified scrap house.	
Documents are generated referencing the supplier authorization number. The method is the same for both stock rotation and scrap allowance, with the ship-to location designating this is scrap allowance (sent to scrap house or supplier).	
Logistics releases the return documents and pulls, inspects, packages, and ships all referenced product to the address specified in the ship-to location of the debit memo.	
For product sent to certified scrap vendor a certificate of destruction must be provided upon completion of destruction.	
In the cases where the distributor is required to return the product to the supplier for scrap processing the suppliers internal processes for scrap apply.	
The supplier receives the debit request, reconciles, issues credit to the distributor.	

Stock Rotation – Distributor Process

Example of a High Level Process

Distributor will review the supplier stock rotation allowance matrix to determine what is eligible for stock rotation during the fiscal period.

Supplier provides dollar amount eligible for stock rotation based on the terms and conditions of the contract. The distributor validates through their internal audit process.

The distributors' material organization will determine what product is to be submitted for stock rotation based on the suppliers' terms and conditions.

Submit stock rotation allowance form to the supplier for approval.

The requested stock rotation is approved; RMA information is reviewed to ensure inventory position has not changed.

Documents are generated referencing the supplier authorization number and the ship to address supplied by the supplier.

Logistics releases the return documents and pulls, inspects, packages, and ships all referenced product to the address specified in the ship-to location of the debit memo.

Supplier receives and validates that the return is valid and meets their requirements, reconciles, and issues credit.

Distributor debits the supplier.

Supplier reconciles, and issues credit.

Supplier Disposition Process for Distributor and Customer Returns (Stock Rotations)

Example of a High Level Process

Review and approval process completed, for stock rotation and RMA issued to distributor or customer.

Upon receipt of product all boxes and pallets shall be counted and verified against the shipping verification document or Bill of Lading from the authorized distributor. Return authorization numbers shall be confirmed as well.

Each package is reviewed for the manufacturer's label. Any package without the manufacturer's label is considered discrepant and potentially counterfeit. This product is quarantined and documented on the appropriate form and the product is scrapped. Any deviation from this practice requires a documented approval. This documentation shall be kept on file as determined by internal policies and procedures.

Compare part number and quantity from the purchase order and/or packing list, and count and confirm each individual part number. If box is not a sealed box from the factory, then weigh count or hand count to determine correct quantity. All discrepancies shall be documented.

Verify and confirm any date codes or expiration dates listed on the product and outer carton labels. If the product is expired, document with the expiration date. If necessary, disposition product to be scrapped.

Review receiving documentation. Identify any discrepancies and disposition accordingly. If necessary, reject and return to customer or distributor, and/or scrap.

Once all part numbers and quantities, along with date code and expiration dates, have been verified and are within date code requirements, document and proceed with receiving and locating processes.

The supplier receives the debit request, reconciles, issues credit to the distributor or customer.

Supplier determines disposition of the returned product. Return to stock for sale or scrap.

7. 3rd Party Processes

3rd Party Engagement for the Disposition of Excess Inventory: Distributor Process
<i>Example of a High Level Process</i>
Distributor contractually engages with an authorized 3 rd party that meets the distributors' and suppliers' requirements for disposition of excess or EOL product.
Distributor and the 3 rd party agree on the terms of sale, quality requirements, etc. (Typically Confidential)
Distributor provides the 3 rd party partner with a listing of excess inventories using various methods of delivery. (Spreadsheet, EDI/B2B, or direct access via web portal)
3 rd party will purchase the product from the distributor when they have an immediate need or in anticipation of a future requirement (spec buy).
Shipment of the product may come from the 3 rd party or direct ship from the distributor depending on the terms of the engagement.

3rd Party Engagement for the Disposition of Excess Inventory: Supplier/3rd party process	
<i>Example of a High Level Process</i>	
Supplier contractually engages with a 3 rd party.	
Upon receipt of product, all boxes and pallets shall be counted and verified against the shipping verification document or Bill of Lading.	
Each package is reviewed for the manufacturer's label. Any package without the manufacturer's label is considered discrepant and potentially counterfeit and is quarantined. The product may be scrapped or tested and re-certified.	
Review product for obvious damage.	
Compare part number and quantity from the purchase order and/or packing list, and count and confirm individual part number.	
Verify and confirm any date codes or expiration dates listed on the product and outer carton label from the factory.	
Review receiving documentation. Identify any discrepancies and disposition accordingly.	
Make the parts available for sale.	

8. Companies involved with the creation of this Guideline.

Allied Electronics	Mouser Electronics
Avnet	TE Connectivity
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