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The Website for Professional Auction Sellers

SPECIAL REPORT



The Wholesale Partnership

*The new way of sourcing hard to find
products to sell on eBay, overstock.com,
Amazon and a web site*

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Introduction

“Where can I buy hot consumer products at true wholesale prices with enough profit margin to make money on eBay?”

I get emails from my readers like the one above all the time asking where they can find a true wholesale source for popular consumer items such as digital cameras, iPods, consumer electronics, computers and software, expensive watches, name-brand clothing and accessories, perfumes and other goods that they see selling on eBay every day.

I would love to just give you a list of these sources and tell you to call them, or go on the website, and place an order –but it doesn’t work that way in the real world. I’m sure you’ve seen ads for drop ship companies with the logos of famous name products plastered all over their web site as a come-on to sign up for a \$395 web site pre-loaded with all of these products, or to sign up for a \$29.95 a month membership that will be your passport to wholesale Nirvana. Good Luck! Do you know how many people have signed up for those deals? *Thousands*. Do you know how many people are making money with those deals? Zip, nada, none – or if they are out there I haven’t met one of them yet.

No matter what someone claims in a sales letter or web site pitch, here is the truth:

The wholesale sources for popular name-brand consumer products are very tightly controlled by the manufacturers and their master distributors.

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Yes you can buy from these master sources. I spoke with a rep from Apple Computer's largest distributor. He would happily sell me as many iPods as I wanted to buy. But first I had to open an account with a \$25,000 order **and** prove that I had a \$100,000 line of commercial credit with my bank.

I attended the annual Consumer Electronics Show (CES) in Las Vegas last January. While I was there I met with representatives from Microsoft, Canon, Sanyo, Sony, Hitachi, RCA and others. Most of them told me that they only dealt with a few, very large, online sellers. All of their other dealers who sell on eBay, and other e-commerce sites, all had physical stores. They typically use eBay, Overstock and Amazon as additional outlets for their products.

So back to the original question: Where can I buy popular consumer products at true wholesale prices with enough profit margin to make money online? That is what this report is all about. So let's get started.

How Wholesale Distribution Really Works

What do we mean by wholesale distribution? Remember what I said in the introduction – manufacturers will sell to owners of physical retail stores. Retail stores come in all types and sizes. There are department stores like Sears and Macys, large specialized chains like Best Buy, The Gap, Williams Sonoma and Foot Locker, and then there are your neighborhood retail stores.

Really large manufacturers employ master distributors – usually just one or two to represent them. These master distributors typically have two sales departments: Major Accounts and General Retail.

The major account sales reps call on the Sears and Best Buy's of the world. They deal in orders worth millions of dollars at a time. The other sales group, General Retail, works in one of two ways. Some of them have a sales force who calls on retail stores directly –and others employ general, or regional, distributors who have sales people who sell to your local neighborhood.

Smaller manufacturers typically employ commissioned manufacturer's reps – people who call on retail stores or who have exhibit space in wholesale trade marts.

When it comes to wholesale cost, you can probably figure out that the major accounts people get the best prices. When you can place an order for 20,000 Sony Cybershot cameras at one time, you can really negotiate a good price. Whereas your neighborhood camera shop may purchase only a dozen or two of the same camera –they are still getting a wholesale price, but not nearly as good as the big chains.

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Since we started off mentioning digital cameras, let's stay with that for a minute as an example.¹ Prices for digital cameras change rapidly as new models are announced and others are dropped and make their way into the liquidation channels, but the following prices were accurate at the time of this writing and serves to show a real-world example using the Nikon D-70 camera:²

The lowest price I could find online was from a company called Rainbow Tronics: \$869.00

The Ritz Camera Store (a large chain) was selling the same camera for: \$949.00

The small neighborhood camera store in the town next to me was selling the Nikon D-70 for: \$999.00

(I sent this information to my friend who works for a large distribution company who got back to me with his best estimate of the wholesale prices each of these outlets paid. (He couldn't tell me the exact price because that varies so much with quantity and special incentives retailers are often offered, but he felt his estimate was accurate within $\pm 5\%$).

He estimated that the online retailer RainbowTronics was probably paying about the same price as Ritz, but since RainbowTronics was strictly online they could operate with smaller margins than Ritz who have retail stores in large shopping malls. His research showed that both RainbowTronics and Ritz were

¹ While I was writing this book, I consulted with an acquaintance who works for a large master distributor and he helped me with these price examples.

² Camera prices fall so rapidly that when you are reading this the price for this camera will be much lower. But these were the prices at the time *I was writing this and are meant to be an example only.*

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paying about \$540 per unit. On the other hand, he assumed that our local camera store was purchasing in quantities of five to ten at a time and places an order every 60 days. In that quantity, their wholesale cost would have been around \$660 –a difference of \$120.

So when Ritz sold a camera for \$949 they were making about \$409 per camera. When my local camera store sells the same camera for \$999 they are only making \$339.

Now some people like to shop at neighborhood stores to support local merchants and they usually get better service. But most people like to save money. The problem for the merchant store is that he sells in less volume than Ritz (or the online sellers) and yet still has overhead costs such as employee salary, rent, utilities, advertising and so on.

The other problem for the retail store is that it can take him two or three months to sell a handful of this one particular model of camera. You see, there is one thing I forgot to mention. Distributors give you two types of discounts. They base their pricing not only on the size of your order, but on how much you order from them during the year. So if you want to reduce your cost, you *have to place larger orders or place orders more frequently*. My friend told me that if the retailer could buy a dozen or more units at a time and place an order every month, he could not get his cost as low as Ritz, but he could get it down to around \$590 to \$600 –A saving of around \$70 on each unit. Now that is pretty significant for a small retailer. With that kind of saving he can be more competitive with Ritz or he could leave his prices where they were and make more money.

I know you are anxious to find out how to access all these great products and I think you may be starting to get the idea, but please read all of this information carefully as it is very important and you won't be able to make the kind of deals I am going to show you without understanding it.

Understanding Inventory Turn and its effect on profits

A retailer's inventory turn rate ³ is how many times he replaces his inventory in a year. A large mega-store such as Wal-Mart will turn their inventory over completely several times a month. Small retailers cannot always do this, but they want to turn it over as often as they can. The more often you turn your inventory over, the more money you have to invest in more goods to repeat the process and to grow your business.

There is no better way to improve your cash flow and boost your profits than increasing your inventory turn rate. Inventory is not static, and everything sells at different rates, but I will use a static example to demonstrate the point, as doing so makes the concept easier to understand.

Suppose your local jewelry store sells expensive watches. Each watch costs \$625. We will assume that the store owner can only afford to purchase 25 watches at a time. He sells the watches for an average selling price of \$999, and it takes six weeks to sell all 25 watches.

His margin on each watch is \$374, or \$9,350 on all 25 watches. Let's make the assumption that he could sell more watches if he lowered the price.

³ This information is also true for your eBay business. Maximizing your inventory turn rate is one of the fastest ways to increase your profits and grow your business.

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For example, if he lowered the price to \$925 he could sell all 25 watches in three weeks instead of six weeks. His margin would drop to \$300 per watch, or \$7,500 for all 25, but he would earn this \$7,500 in three weeks instead of six weeks. What is the effect over a year?

There are 8.6 six-week periods in a year. So $8.6 \times \$9,730$ (the original margin) works out to \$83,678 per year. By lowering the price and accepting a lower margin per sale, he will sell more watches in a year. There are 17.3 three-week periods in a year. So $17.3 \times \$7,500 = \$127,750$ per year. That's an increase of \$44,072!

Now, I admit this is a highly simplified example, but the point is important: if a retailer can increase his turnover rate by lowering the price, he stands a good chance of making more money. Of course, this only works up to a certain point: You wouldn't want to sell your watches for \$695 even if you could sell many more, because your overhead and other costs would make this unprofitable. Besides there is probably a limit to how many watches you can sell in any one-, two-, or three-week period.

The important point I am making here is that store owners (and eBay sellers like you) can really increase their earnings if they can sell more product in a shorter period of time – up to a point.

Now why is this important to you and why did I insist you read this carefully? Let's find out in the next chapter.

Understanding Wholesale Partnerships

We have just seen that small retail stores can really increase their sales and profits if they could just increase their volume.

The problem is that in any given retail location there is just so much traffic. A retailer can pull more customers in with advertising, but that is very expensive. However, customers will visit retailers more often if their pricing is better. So if a retailer can buy in higher volume, he or she can either make more profit per sale, or lower their prices, thereby increasing their sales and turning their inventory over more often.

This is where you come in. The secret to a wholesale partnership is finding a retailer you can help. If I were to approach my local camera store and tell him that I could buy a dozen Nikon D-70 cameras a month at his wholesale price so I could sell them on eBay, do you think he might be interested? The truthful answer is that some will and some won't. But we need to concentrate on finding the ones who will.

Personally, as you will see below, I have never been successful doing this with cameras, but I have done it with famous name brand clothing (I will show you an example later). But the methods I am going to show you will work and are working with all types of consumer goods. I have done it and I know several large eBay sellers who use this method of sourcing goods. Some of them do no more than spend a few hours going through the yellow pages and calling retailers with their proposition. Frankly a lot of them will say no, but if you are persistent you will find retailers who are interested and would like to explore the idea.

You are probably wondering why a retailer would say no. Well, some people just lack imagination. I did in fact talk to a local camera store owner about doing this and he had no interest at all. In fact he was very rude to me. (His exact words were: *“What in the hell makes you think I would ever sell to you at my wholesale prices? Do you think I’m crazy?”*) I tried to explain the rationale to him, but he was just not in the mood to listen.⁴

Besides just lacking imagination there are some legitimate reasons why a retailer may not want to work with you. First of all he could be selling on eBay himself, or already working with someone else and may not want to let you know that. Also there are some manufacturers who prohibit retailers from selling online or who have strict territorial regulations (I will give you a suggestion for dealing with this one later).

As you may have guessed by now, this method will take some work on your part –and some personal salesmanship. You have to explain the concept to the retailer in such a way that he or she will understand what they have to gain by this. Remember, they could care less what you have to gain –the first question people ask when someone tries to sell them something, whether it is a product or an idea, is: “What’s in it for me?”

But, if you can master this technique you can do it over and over. You don’t just have to limit yourself to one product or one store. Remember this is a situation where some, or even a lot of people will say no, but you only need a couple of

⁴ That was really interesting because I had been shopping at his store for several years. Now when I want something I just drive 12 miles to the shopping mall where they have a very nice Ritz Camera store. He not only lost out on a good business deal, he lost a customer.

people to say yes. Also, in most neighborhoods all of the store owners know each other and they talk to each other. Once you have a couple of references it will be much easier to approach the rest.

As I said above the store owners are going to ask what's in it for them. But at this point you may want to understand what's in it for you too.

There is a small resort town we visit that features a charming little street along the waterfront filled with upscale boutiques. One of my favorite clothing lines is Tommy Bahama. If you have seen Tommy Bahama (TB) clothing you know how expensive it is (\$90 for a shirt or \$140 for a pair of silk trousers).

Well, this small town has a small store that sells mostly Tommy Bahama clothes and a few other expensive lines. I have been in there a couple of times (usually at the end of the year when he puts things on sale) and bought a few items. One day, after purchasing a new shirt we started chatting and I told him about my eBay business. I asked him if he ever sold on eBay. He said that he dabbled in it a few times. I asked if he had tried selling his clothing on there. He explained that he couldn't because the distributor prohibited it. So we got to talking and I explained that there are several stores that sell TB clothing in the greater Seattle area and if I sold it they wouldn't know where it was coming from. He sounded interested and we agreed to meet again.

I went back the following week and took him some print outs of TB items that had sold on eBay over the past few weeks. He was very impressed with the prices. They were lower than he charged in the store, but still not too bad. After some discussion he agreed to sell me a few items from his sale rack. They were shirts, silk shorts and several pair of shoes that he had on sale 30% off. He

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knocked off another 30% and sold them to me for cash. I sold them all on eBay over the next 10 days. I paid him \$485 for the whole lot and realized \$805 for them on eBay (selling the items individually). This brought me a gross margin of \$320 or 39% before eBay and PayPal fees.

He was very impressed and said he would sell me some more of his sale items but I told him I wanted the new merchandise. To make a long story short he told me that he really couldn't double his orders because the TB rep would be suspicious, but he did agree to give me all of his sale merchandise. To date, over the past two years I have sold over \$10,000 worth of goods from his store and he continues to give me merchandise from time to time. The best part, however, is that I keep a few nice things for myself from time to time –at 50% to 60% off.

In the next chapter we will look at how exactly you go about finding store owners and convincing them to work with you.

Setting Up The Wholesale Partnership

In the preceding story I showed how you could run into profitable relationships accidentally just by keeping your eyes and ears open. I call this the “Three Foot Rule.” Everyone who gets within three feet of me learns what I do for a living.

But you can also go out and find these partnerships –in fact that is what I recommend you do. In my second year selling on eBay, I really wanted to sell jewelry and watches because I knew they had such a high markup. I visited seven different jewelry stores before I found one who would work with me. I learned very quickly that I didn’t want to mess with jewelry because there were so many issues of quality, and appraisal. Selling luxury jewelry takes some specialized knowledge and skills that I realized I just didn’t have and didn’t really want to take the time to learn. But I did understand watches. He was a licensed dealer for several brands of expensive watches including Movado and Omega. I focused on the Omega watches because they are popular, easy to sell and bring high prices.⁵

To make a long story short, I was very successful selling his watches. At one point I was selling 3 or 4 watches a week at prices over \$1,000 each and making between \$150 to \$300 on each watch. Unfortunately I was too successful. He realized the potential and cut me out by hiring an employee. He still sells on eBay to this day.

I have used this technique off and on over the past few years. It really is as simple as contacting small independently-owned retailers. You can also try

⁵ I like to sell high-priced items because there is more profit for the same amount of work.

contacting chain stores. There are some very large eBay sellers who work with the major chains, but you have to be pretty big and sophisticated to do this. The real opportunity for the small seller is to work with independent stores.

When you are contacting the stores, the other opportunity you can look for is a consignment arrangement. Often a store owner will not want to sell to you at his wholesale prices, but he or she may be willing to give you goods to sell on consignment. I know one seller here in Seattle who does this for several galleries and helps them sell expensive pieces of art glass and sculptures. He doesn't make that many sales but when he does he can make over \$1000 on each piece.

There are also a lot of retailers who will agree to give you their excess stock or end-of-season merchandise on consignment. The trick is to stay away from low-cost merchandise (under \$25 final value) as you are doing a lot of work for a little amount of money. Try and find retailers with products that sell for \$50, \$100 or more. One guy I met at eBay live contacted all of the hot tub dealers in town. He moves both their excess merchandise and used hot tubs that people trade in. He sells some of them on eBay, but he does much better with Craig's List on these larger products as they are sold to people who live close enough that the store can deliver them or they will come and pick them up.

Presenting Yourself and Your Business Proposition

The key to making this all work is in how you present yourself. If you are shy and can't comfortably speak with people about your business, you may not be able to use these techniques.

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As I mentioned earlier you can start by simply telephoning retailers out of the phone book. I would start by calling stores you have shopped at before. The advantage of this is that you can start the conversation by saying:

“Hello. This is Sara Wilson and I am one of your customers. I have an online business that helps small retailers move more merchandise online and there is no cost or risk on your part. Do you have a few moments to speak now, or could I make an appointment to come in and show you how this works? I would only need about ten minutes of your time.”

If you are calling stores where you have not shopped, you can still use the same type of call. In this case you might say something like:

“Hi Mr. Weber, my name is Jim Brogan and I run a business that helps small retail shops sell their products on eBay and other online venues. I do all the work and there are no upfront costs or any risk on your part. Do you have a few moments to speak now, or could I make an appointment to come in and show you how this works? I would only need about ten minutes of your time.”

If you don't like calling people on the phone then you can just walk into their store and say about the same thing. The thing to remember when calling on stores in person is to dress neatly, speak clearly with confidence, and visit the store during the hours when they're not busy. It also helps to have a business card and a little folder with copies of your auctions, your feedback statement and some facts about eBay such as how much merchandise sells in a year (\$44 billion), how many items are listed on eBay every day (over 1 million) and a list

of the product categories. (You can get that by clicking on the category listings on the home page). A really neat thing to do is print out auction results for the kind of products the store is selling. For example if you went into a hardware store, find a few closed auctions for DeWalt Power Tools and show the store owner what they sold for on eBay. They will probably have sold for less than he sells them in his store, but you just explain how even though he is selling them at a lower price, that you do all the work and there is no overhead or cost to him. Plus, as he sells more tools he can place larger orders with DeWalt and thereby get lower wholesale prices. Remember, you can offer to buy them wholesale from him outright or put them up on a consignment basis and take a commission on each sale.

Conclusion

Well that's how wholesale partnerships work. I realize this isn't for everyone, but if it can or will work for you it's a great way to make money. I have not done it that often, but I have done it often enough to know it works and I do know there are hundreds if not several thousand sellers using these techniques or a variation of them to source wholesale products.

Good luck on eBay

Skip McGrath