

TALKING SHOP

Reprinted & Excerpted from:
ENTREPRENEUR MAGAZINE

RUNNING A BETTER BUSINESS

By Richard J. Maturi



BEST LITTLE WAREHOUSE IN TEXAS

There's another twist to the warehousing game that can work to your benefit. What do you do when one of your major customers is in financial trouble?

You want to keep their business by shipping goods to them, but you also want to be paid.

Dallas-based DiversiCorp, Inc., a turnaround consultant and collateral management company offers a service that allows trade creditors to place their products in the debtor's warehouse while retaining title to the goods by using a locked and segregated storage area. DiversiCorp agents maintain on-site custody and physical control of the goods, while you provide instructions for the delivery, receipt, and issuance of the product, as well as invoicing and payment terms. With the secured inventory, banks are more willing to finance the transactions, allowing you to save the

business account without risking nonpayment.

"Besides preventing losses when dealing with financially troubled companies, controlled distribution is an effective sales expansion tool," points out Jim Mayer, DiversiCorp's president and CEO.

Jack Moses, executive vice president of ST. Louis-based Inventory Verification Services, agrees. "Our inventory control services help clients expand sales potential by allowing businesses to stock more inventory than they could under their conventional lending arrangements," says Moses.

Controlled distribution or collateral management allows profitable businesses to store, on their own property, the higher levels of inventory they must maintain to spur increased sales, without having to pay for the inventory until the goods are actually needed for sale.

To Ron Seago, president of Branded Products, Inc., a wholesale appliance distributor in San Antonio, Texas, the program has been a

godsend. "In the wake of the oil bust and financial institution collapse in our region, asset-based lending all but disappeared," says Seago. "The controlled distribution system allows us to get the washers, dryers, air conditioners, and other appliances we need to finance our business expansion. In this way, we have doubled our volume since 1987."

DiversiCorp also offers a variety of auxiliary inventory warehouse, and management consulting services. For instance, the company conducts comprehensive business surveys of a client's customers to determine that customer's financial stability. This in-depth analysis includes auditing the company's operating procedures, paying careful attention to cash flow and aging of payables.

"We provide another valuable service to the entrepreneur," says Moses. "Besides assuring the unhindered flow of goods to the firm to support growing sales, we provide the much-needed business discipline to establish concrete inventory controls and procedures. Too often, firms run into financial problems by not having the proper purchasing and inventory policies. They can learn a lot from how we operate."

The fees for controlled distribution services average from 2.5 to 4 percent annually of the value of the inventory, depending on the complexity of the situation. Of course, it's preferable if your customer absorbs the total cost of the fees, but you may have to pay a portion to maintain the customer relationship. When trying to build up your own inventory to increase sales penetration, you must compare the cost of the program with the enhanced profits derived from rising revenues generated under the program.

Richard J. Maturi is a writer in Cleveland who specializes in business and finance topics.