

## CLOSING SHOP - LIQUIDATING THE INVENTORY

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Closing a business is never a happy moment. Although, it probably should be. As business owners, we tend to get emotional about the business. This makes us slow to react. It's kind of like a bad relationship. Most of the time, it was over several months ago and we were just too stubborn to realize it. Deny, rationalize, blame and then accept. These are the typical phases that we go through when it is time to shut the doors. Now comes the hard part – what do I do with all this stuff in my warehouse?

Many of you have read my articles on liquidating dead inventory. Unfortunately, businesses that are closing their doors are probably not the best managers of inventory. They tend to be littered with last decade's hot products and knee deep in surplus. Many of the inventory liquidation techniques that I suggest to healthy entities apply to this situation. They are just a bit more concentrated.

The first step is to define the problem. Spend time getting an accurate record of what you have on hand. In most distributor warehouses, mystery items tend to find their way to the shelves. These are generally special order items that never make it into the hands of the intended customer. We need an accurate record of these items. At the very least, get them on an excel spreadsheet. You need some consolidated list for the liquidation effort.

The next step is to get in touch with the suppliers. Now this isn't the most fun call to make. If the supplier rep has been doing their job, this call will not be a surprise. Start to negotiate the terms of the return. This negotiation can go

very well – especially if you still owe them money. The supplier has a choice here. They can work with you and get something out of the deal or they can watch you file bankruptcy and wait in line with the other creditors.

At a certain point, your accounts payable will run out and you will still have inventory on the shelf. Some suppliers will take it off your hands so that a bunch of low cost inventory doesn't head out to the market. Watch out for really low offers here. You may want to try your luck with other strategies first, then circle back to them. Don't let this first round of negotiations with the suppliers last more than 45 days. This is a sprint, not a marathon.

After I have completed the first round with the suppliers, I will generally start working with my industry peers. We have made several contacts over the years and now is the time to leverage those relationships. By the way, this is a really good reason not to burn bridges in your industry. You need local friends in your business. Let the sales people slug it out, but maintain friendly relationships with competitive owners.

Start with the local competitors. They have the most to lose if you start dumping cheap product in the marketplace. They may want to cherry pick your inventory, but I suggest that you try to liquidate in large bundles. For example, \$10,000 purchases buy them 25% off your cost. \$5000 purchases buy them 15% off your cost. At the risk of being redundant, this process will be much easier if you have created friends in the local market.

Once you have exhausted your

local opportunities, start contacting competitive companies outside your local market. If you have been involved in your industry, you should know who sells particular lines. If you don't, check on manufacturer websites for a dealer locator. If you belong to a trade association, they should be able to provide you a list of companies in the industry. I have had very good success offering companies inventory at around 15% below my cost. Here is the kicker, you have to pay for shipping. There are two words that get the attention of most buyers: free freight. Remember, you are in the business of liquidation.

My next avenue is with the customer base. Many people will ask why I wouldn't start here first. As a believer in the supply chain and a desire to maintain friendships in the local community, I want others to have a shot at making a profit. Screwing up someone else's business, just because I couldn't make a go of it, is petty and childish. Closing a business doesn't mean that you have to resort to gutter tactics. Integrity is doing the right thing even when nobody else is looking.

With the customers, I will often organize a yard sale or clearance event. Prior to the event, create some product bundles with complimentary items. The key to successful liquidation is that buyers never leave with just one item. Some people will recommend that this should only be a cash sale event. I may argue to the contrary. It can often be easier to turn an accounts receivable balance into cash than doing the same with inventory on the shelf. With the receivable, at least you have some legal recourse.

After the clearance event, and it

doesn't have to be just one, you should start mining your sales data for potential buyers. The most recent buyer of an item will often yield the best results. Be prepared to offer a substantial discount. Ego often stands in the way of a successful liquidation effort.

After you have made your best effort to recover some solid cash, it is time to bring in the pros. These are liquidation specialists who buy up inventory at very low prices. Make sure that they are willing to take very large quantities because your recovery percentage will be very low here. Most liquidators will offer somewhere between 10 to 20 percent of your original purchase price. This is a very viable strategy when you are faced with the cost of renting the facility for a few more months.

Finally, I will start looking for charitable options. Several trade schools can use the materials for educational purposes. Habitat for Humanity and other building related charities could benefit from your donation. Whether you receive any tax benefit or not, this is still a better option than the dumpster.

Closing a business is not something that most of us aspire to do. Unfortunately, many of us will have to face a challenge like this sometime in our career. If we lose our emotional attachment, and leave our ego at the door, the process can be far less painful. Good luck and I am always here to help.