



The Riches are in the Niches

By Jason Bader

Over the course of my advisory career, I have been blessed with becoming friends with some of the most interesting people in the distribution business. The perspectives I am exposed to are truly worth their weight in gold. I was having dinner with a former client of mine last year and the subject of differentiation and small business came up. For a little background here, this gentleman took over a small industrial company and grew it into a highly profitable entity in about 10 years. He recently sold that company for one of the highest multiples I have seen in the distribution industry. Not only was he a very efficient operator, but he was a master at discovering profitable markets.

Before he acquired the company, he worked as a salesperson for the organization. They were trying to compete in the very crowded world of industrial distribution by calling on the same plant maintenance people that the larger players were going after. Since they were clearly not the deepest pockets, price was not going to get them in the door. Service became the only differentiator they could offer. Unfortunately, with the sophistication of some of these plant procurement people, the unique service offerings were minimal. It was time to expand the hunt.

After taking over the company, my friend started thinking about how to break away from the crowded fishbowl of these large industrial facilities. He began to identify and study smaller niche businesses in the industrial market. He then began to take his show on the road. One of the small markets he identified was the automobile recycler market. Nobody was actively calling on these companies, but he realized that several of the products he was already stocking were being used by these companies every day. He began to develop lists of items specifically for this small market. These lists of items ultimately became a small market specific catalog strictly for automobile recyclers. By focusing on this underserved niche, he was able to create a perception that they were experts in serving automobile recyclers.

As he travelled around the country, he found several other obscure industrial markets just dying for attention. For the next several years, the pattern continued. He would find a niche, learn everything he could about their consumable needs, then proceed to build a marketing campaign geared specifically to that type of organization. By focusing on these underserved markets, he was able to show them a level of service they had been unaccustomed to. These companies, in turn, provided him the volume necessary to command deeper discounts with his suppliers. As I recall, he had identified over a dozen small niche markets to build a business on.

Although this gentleman is an extreme example of discovering profitable business opportunities in small niche markets, he is hardly the only example I have run across. A number of years ago, I was asked to visit a thread distributor. Yes, you read right, a thread distributor. When I spoke to the person who reached out, I was trying to get my head around this one. I was saying stupid things like, “as in needle and thread, right?”. Before I agreed to fly across the country to work with the company, I went online and saw that they had 5 large regional warehouses around the country. Now these weren’t just small 5000 sq. ft. shops in an industrial park. These were 60 – 100 thousand sq. ft. facilities. That’s a lot of thread.

I flew out to see these folks and we took a little stroll though the main facility. There were entire rows of yellow thread in varying shades, thickness and spool size. Thread as far as the eye could see.

Needless to say, I was in awe. I finally asked the question, “Who buys all this stuff?” I mean, how many needlepoint hobby shops can there be? Perhaps a few of you are a little quicker on the uptake than I; but that day I learned that these folks catered exclusively to the apparel industry. Every stitch of thread on my body was coming from some thread supplier like the company I was standing in that day. An interesting side note about that business is that the inventory management people have to keep a keen eye on the world of sports. My client told me that they pay close attention to events like the NCAA March Madness tournament to see what teams are progressing and what school colors their customers will need to be gearing up for. Think about all that logo gear with high quality embroidery. Fascinating.

One of my longest standing clients had created his multi-million dollar business around the parts and accessories that go on truck tankers. These are the tanks that you see hauling petroleum, chemicals, dairy and certain dry bulk products. Talk about a very tight niche. You would be amazed how many parts and accessories go on these vehicles. Anything from valves to signage, meters to hose, my client stocks it all. Because he understands that business so intimately, he has been able to diversify into both the sale and leasing of these rolling behemoths. By staying in his lane, no pun intended, he has been able to build a strong distribution business that will be enjoyed far into the next generation.

Over my travels, I have run across police equipment distributors dedicated to making sure that law enforcement officers are looking good and remaining safe. I have met distributors who focus exclusively on the dental industry. Incidentally, it was at this distributor that I ran across one of the most sophisticated inventory carousel systems. Down in Orlando, I ran across a small niche distributor who built his entire business around selling the replacement cables and sensors used on patient monitoring equipment used in hospitals. All very focused and all very profitable.

Discovering the myriad of ways that distributors find and fill a need has been one of the greatest byproducts of my advisory career. When people say that distribution is dying and it will ultimately be overrun by some prime overlord, I beg to differ. I have seen the resiliency and tenacity of these niche entrepreneurs. They look for the pain points and offer solutions. Perhaps I am an eternal optimist and a bit naïve at times; but I truly believe that there are still plenty of riches left in the niches.

About the Author:

Jason Bader is the principal of The Distribution Team. He is a wholistic distribution advisor who is passionate about helping business owners solve challenges, generate wealth and achieve personal goals. He can be found speaking at several industry events throughout the year, providing executive coaching services to private clients and letting his thoughts be known in an industry publication or two. He can be reached at (503) 282-2333 or via email at jason@distributionteam.com. You can find additional resources on his website: www.thedistributionteam.com