ARE B2B SALES SHRINKING?

A number of strategies can help wholesalers improve profit margins and avoid common pitfalls. By **Robert A. Hoberman**

The sourcing, manufacture and sale of a retail jewelry piece involves numerous parties. Consider a diamond bracelet. At the commodity level, stones can pass through several dealers. Multiple assemblers might each be responsible for parts of the manufacturing process. After the bracelet is in its final form, it might be sold among wholesalers before reaching the retailer, who then sells it to the final buyer.

Each of these transactions — except the last — represents a business-to-business sale. If any part of the sales chain becomes inefficient and experiences a declining volume of transactions, a ripple effect will cause problems for other parts of the supply chain, and that's what's happening now.

Credit-quality concerns

The primary financial concern among my clients is the credit quality of other companies in the jewelry trade. It's one thing to sell a diamond to another wholesaler, but it's something else to get paid for it. There are two factors to consider in granting credit. First, can the buyer raise the funds required for the purchase? A business with $25 million in annual sales can handle large purchases more readily than one with $5 million.

Liquidity is the other important aspect of credit quality. A buyer might have a high sales volume, but invoices require cash to make a payment. If the buyer's funds are tied up in other purchases, he or she might be unable to muster the funds necessary to pay for new merchandise in a timely manner.

Unfortunately, there is no standardized central reporting database that can provide real-time credit-quality reports on prospective trading partners. The best sources of information in the trade are usually several months old. Consequently, many merchants rely fairly heavily on word of mouth. They talk to other merchants in the sector and industry trade groups to find references on those who want to buy their merchandise. Alternatively, they may have a long-standing history with the people and trust them based the strength of that relationship.

IMAGE: Three Photographers

When wholesale prices are falling, selling to other wholesalers can create a loss for the seller. For example, assume an item cost the wholesaler $10,000, but two months later, its wholesale value had dropped to $9,000, while its retail value was $11,000. In those instances, it makes more sense to hold on to the piece and sell it to a retail customer. The concern over possible losses on inventory flows back through the product channel, leading to slower sales at each level.

However, it's prudent to find the right balance between the costs and benefits of holding inventory versus increasing cash flow even when selling at a loss. The additional working capital can be used to purchase new inventory with higher gross margins that will meet customer demand. The more your business capital is dedicated to holding excess inventory, the less inventory you can stock that is likely to sell at higher profit margins and in a timely manner. In addition, selling inventory before further declines in market price take place will reduce the risk of further losses.

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Manage your stock

Wholesalers with retail outlets are in a stronger position when prices are falling, because they can avoid losses to other wholesalers. Because they have the retail customers, they are in a position to turn their inventory back into cash at the highest price achievable. This power of liquidity allows them to negotiate the best prices for their future purchases and puts them in the position of being the most profitable link in the chain.

By effectively managing quantities of inventory purchases that turn over quickly, you free up working capital to invest in other business needs. Equipment purchases and renovations of retail store space are examples of areas where you could invest money you've saved by not overspending on inventory.

Also, communicate with your suppliers to improve lead time for deliveries. You may be able to manage your timing of purchases and cash flow better if you provide suppliers with projections of your future purchases. When you are ordering items that need to be manufactured, it can be difficult to control lead times. Buying from suppliers located closer to you may give you greater flexibility and be more profitable in the long term than purchasing less expensive inventory with longer and less predictable lead times.

Auctions: Cutting out the middleman

The role of auction houses in direct jewelry sales continues to grow. *Forbes* reports that in 2017, Christie's and Sotheby's had over $1.1 billion in combined jewelry sales, with Christie's achieving $556.7 million and Sotheby's $551.3 million. Both firms increased their e-commerce efforts and held special sales throughout the year.

Some of the items were unique, high-value pieces, but the auction houses' growing role reflects a trend of individual sellers favoring auctioneers. In addition, during 2017, both auction houses hosted several "online-only" jewelry auctions and have plans to increase this number. They claim it is the best way to attract new worldwide clients. The firms have also seen a dramatic increase in online bidding during live auctions.

Previously, in a typical transaction, a private owner would work with a jeweler or wholesaler who would purchase the entire collection. That buyer would in turn sell items to other wholesalers who had customers for particular types of merchandise, such as rubies or emeralds.

Today, however, the seller is more likely to approach an auction house about the prospect of selling the collection. During an auction, the pieces typically sell individually to end buyers, effectively cutting out the intermediary.

Wholesalers are also using auction houses more frequently. If a wholesaler is unable to sell a piece, he or she can attempt to sell it through an auction directly, eliminating the concerns about credit quality and liquidity involved with business-to-business sales. ■

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