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Should a Wholesaler Abandon His Most Profitable Sales Channel?

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6–8 minutes

Gerald Shvartsman has expanded his start-up to more than 50 employees and sales of $7 million. John Van Beekum for The New York Times

We just published a case study about a Florida importer and wholesaler of outdoor furniture facing a sales dilemma born of entrepreneurial chutzpah.

Knowing nothing more of the furniture industry than the sticker shock he suffered when shopping for patio furniture for his family's Miami condo, Gerald Shvartsman started Source Outdoor in Miami in 2008, assuming he could build a successful business on lower prices and good customer service. And he has. Now overseeing 50 employees, Mr. Shvartsman has pushed annual sales to $7 million by selling through multiple sales channels, targeting South Florida furniture stores, Internet retailers, local decorators and designers, and condos for their pools and common areas. But Source Outdoor, though conceived as a wholesaler, did not stop with business-to-business sales.

Roughly every other month Mr. Shvartsman began selling to consumers at big Florida home shows where he enjoyed much higher margins — even on hard-to-move items. He saw none of the retailers he normally sold to at these home shows and for some time, there seemed to be no problem with his operating as both wholesaler and retailer. That is, until one of his biggest retailers objected and accused him of a conflict of interest. “Gerald,” said the Ft. Lauderdale furniture-store owner. “I understand you’re doing home shows. I know that’s important to you, but we’re your customer. It’s not fair to us. You might be taking our sales.”

Is there a conflict of interest, even in the absence of actual side-by-side selling? Should Source Outdoor abandon a market that has grown to 20 percent of its sales?

Below, you will see recommendations provided by two small-business consultants. Please use the comment section to offer your own advice. Next week, we will reveal in a follow-up post what Mr. Shvartsman has decided to do.

Sean Rosser, a partner at Bridge Management Consulting: “Mr. Shvartsman is faced with the classic ‘channel-conflict’ issue. Many companies have faced this issue with regard to Internet sales, and most have found no simple answer. In theory, since none of Mr. Shvartsman's current customers exhibit at the Home Shows, there is no current channel conflict. However, looking forward, Mr. Shvartsman is wise to address this issue before it hurts his core specialty retail channel.

"My advice would be to create a second corporate entity that specifically targets home shows. This 'NewCo' should have a different name and would purchase product from Mr. Shvartsman's current business on an as-is, no-return basis. Mr. Shvartsman should then take this program to his other retailers, letting them have the opportunity to buy these obsolete products and expend the resources necessary to exhibit at these home shows. He could even give his existing retailer customers a right-of-first refusal on local home shows. If the local retailer was not interested in program, Mr. Shvartsman could exhibit at the home show without creating a conflict for his existing retailers."

Caroline Hipple, chief executive of HB2 Resources: "Multiple channel management can be a brand-building strength. By having a presence in heavily trafficked home shows, on the Internet, in high profile commercial installations, and in better retail stores, demand for his brand can actually be a marketing asset. This will in turn drive traffic to his retailers. Finding ways to show his retail clients that this presence actually benefits them will be a key to maintaining good will and space on their floor.

"What are some ways to do this? Developing exclusive product by channel is one way. Another is including the local retailer in the sales made at the home shows, providing them with valuable sales leads and names for other product needed. Rewarding them for providing service or further support for an ongoing relationship with customers. Using their sales staff at the home shows and rewarding them. Passing out coupons for discounts on purchases made in partner retail stores, thereby driving traffic. The key is to find ways to benefit his retail customers who help him build his brand by using the non-retail channels to drive future business to their stores. In the end, he wins, they win and the end consumer wins by having access to well designed products at an affordable price, accessible to them by their preferred channel."

What do you think?