

## ***CHOOSING YOUR LIQUIDATOR***

**W**hen choosing a liquidator—do your research! You want someone ethical and honest who will partner with you to get the best possible return for inventory, fixtures and other assets. Someone who will relieve the pressure, work with your employees and gain the respect of your customers. You need someone with experience who has done it many times before for the independent storeowner. That's Wingate!

Unfortunately, our industry has attracted some fast operators. I used to know everyone in the business. Today, I can pull up websites all day long from people and companies I've never heard of. They claim years of 'retail' experience. Where did they come from? Were they storeowners or managers of chain stores that were liquidated? Did they work in stores that someone else liquidated? They all claim years of retail experience and give the impression of having closed a lot of stores. Make them prove it. Oh, and by the way, 'retail experience' and 'liquidation experience' are about as closely related as 'farming and fishing.'

My guess is most have been involved with only a few store closing sales and they may have been chain store liquidations.

Chain store liquidations are easy in comparison. The head office does the advertising, determines discounts then tells the Consultant what to do every day. The Consultant has little or no input, he makes no decisions, he just follows instructions. It's a cookie cutter operation. They aren't involved with fixture sales and a lot of merchandise is moved to other stores or sold in bulk for little of nothing just to complete the sale.

The chain store liquidation concept just doesn't work well for independent storeowners who need to get the best return possible. We have helped independent storeowners successfully close their stores for over ninety years. Our sales are successful and we can prove it!

Watch out for companies offering front-end loaded percentage contracts. They make a lot of money early in the sale and very little on the last half of the sale. They often bail out when the best of the inventory is sold and volume drops off. They are ready to push for a bulk sale and move on to another sale. That's when you need help the most. After all, what you get out of the last half of your inventory determines your return.

There are almost as many come-on gimmicks as there are liquidation companies. Read the contract thoroughly. Make sure you understand it and know what you are getting.

### **Guarantees**

In the liquidation business there are ***NO*** guarantees! Beware of anyone offering a guarantee. *I will guarantee you there is a catch.* It may not be apparent but it's there.

## Combination Flat Fee and Percentage Companies

One combination flat fee percentage company offers a ***DOUBLE GUARANTEE!*** Here's how it works. They charge a combination flat weekly fee plus 5% of gross sales of inventory, fixtures, rolling stock or anything else sold during the sale. This includes anything you might take home, bulk sales, an auction or the sale of the business should you find a buyer. They will insist on helping you cash out at the end of each day to make sure they are getting their entire share. The Consultant will spend more time watching the cash register making sure every sale is rung up than doing his job.

The length of their contracts will vary from sale to sale. It could be 6 weeks or 16 weeks. Example: If the contract is for 10 weeks and the flat fee is \$2,000 per week the total weekly fee equals \$20,000. Under their agreement 40% of the total fee or \$8,000 is payable the first Monday after the sale starts, 35% or \$7,000 is payable the second Monday and 25% or \$5,000 is due the third Monday. On top of that the storeowner is paying 5% of gross sales and the first few days are the largest volume days of the sale. Their guarantee is that the storeowner can cancel the agreement on the Monday after the sale starts and on that day only. The poorest liquidation sale in the world should start with a sales volume considerably higher than normal. So, who would want to cancel at that point? But, should the storeowner choose to cancel he owes 40% of the flat total weekly fee or \$8,000 plus 5% of gross sales through that Monday. They don't tell you that, you have to figure it out for yourself. They make the cancellation guarantee sound good until it is closely examined. If cancelled they go home with a nice profit!

The second part of the 'Double Guarantee' is if sales don't reach projections they will not charge for the last week. They were paid the entire weekly fee back on the third Monday and they aren't going to refund it. All they are giving up is the 5% of sales for that week. The last week should be the lowest volume week of the sale so they aren't giving up much. They make this a strong sales point when selling the contract, but in reality it doesn't amount to much.

After the third Monday when all the weekly fees are paid and volume tapers off, what is the incentive for the Consultant to stay and squeeze the most out of the remaining inventory? Shortly, a bulk sale might be suggested in order 'to save overhead.' Then they get on to another high paying front end loaded sale.

After the third week the Consultant may be out several days a week calling on prospects to line up his next job. At Wingate we figure you are paying our Consultant to concentrate on your sale and work on your behalf a full six day week.

Part of this company's sales pitch is they start their sales with only a 13% discount. So, they claim to make a higher profit margin than other sales companies. Sounds good but is totally deceptive. Margins may be high the first two or three days but volume is lost and many customers are alienated and lose interest in the sale. By the third week sales have taken a severe drop off even though by then they have taken their third discount. I'm sure this company has a few good sales but anyone who understands store closing

sales understands the risks of overpricing, and watching customers walk and not come back.

This company prices the merchandise the lazy man's way. They hang percentage discount charts at the end of the isle so customers have to look up the sale price. The next week, or earlier if needed, they hang a deeper discount chart and so on. We sale price as much of the merchandise as possible in the time allotted. We want the customer to see the retail price and the sale price, then pick it up and buy it. No having to go to the end of the isle to find the discount chart and look up the sale price.

We work on a variable pricing system. We discount merchandise as it will sell, short discounts on fast sellers and deeper discounts on slow, old and out of season merchandise. With only a few additional selected discounts we are usually able to hold the first discount on good merchandise well into the sale. We try to sell the slow turners early in the sale then go into the last half of the sale with a cleaner inventory than we had to start with. Our system of discounting and sale pricing merchandise is proven to sell more merchandise and sell it at an overall higher profit margin than theirs.

Front loaded combination flat fee percentage contracts can be dressed up to sound real good! Salesmen pitch these contracts to make them sound like they protect the storeowner but in reality they protect the company. Example: After the third week of a sale that's not producing enough volume to make it profitable for them they may push for a bulk sale to "save overhead" or get *generous* and let you cancel the balance of the agreement. After all, they have received full payment for the flat fee. They are only forfeiting 5% commission on the last half of a low volume sale. Small stores are especially vulnerable in front loaded flat fee/percentage contracts.

## **Percentage Fee Companies**

Most liquidation companies charge a percentage of sales. Their percentage fees are almost always more than flat fee companies. They make it sound good but when the sale is completed you pay more and end up with less. Their sales pitch is that their Consultant is more motivated. He will work harder because the higher the sales the more he makes. Not true! He keeps one eye on the cash register all day to *make sure all sales are rung up* rather than doing his work. He keeps the other eye on the back door to make sure you are not taking merchandise out of stock. He *overspends on advertising*, after all you are paying for it and he is only interested in volume. Once the inventory is half to two-thirds sold and volume drops he is *ready to bail out* with a bulk sale and go on to another high paying job.

There's no one more motivated and dedicated than Wingate Consultants. They'll manage your sale like the store was theirs. Their primary goal is to get the highest net return possible for you.

There are three kinds of percentage based liquidation companies. The first are individuals who usually charge 10% to 12% plus board, room and travel. They stay until

the sale is completed or until it becomes unprofitable for them to stay longer. These individuals usually have little experience closing stores.

The second charges 10% to 15% plus board, room and travel to help set up and start the sale. After about a week (the highest volume part of the sale) they leave and are off to start another sale. After leaving they advise from afar and continue to collect 5% of gross sales until the sale ends. If they do several sales back to back they may be drawing a 15% commission and several 5% commissions at the same time. Not a bad deal for the liquidator especially when the 5% commissions are like finding money in the street.

One even charges \$4,000 up front before he will fly in to see you. This fellow pays huge finders fees to clothing reps to push business his way.

The third kind of percentage based liquidator usually charges from 8% to 15% depending on the size of the store. These companies require that all receipts be deposited in an escrow bank account they control. They pay themselves (commissions and merchandise) first, advertising and other sale expenses next and you get what's left after all overhead is paid.

These companies usually specialize in furniture or jewelry stores. They get most of their clients by paying large finders fees to wholesalers, manufacturer's representatives or salesmen who call on stores.

They bring in their own merchandise and use your store's good reputation to sell it. It's usually low-end merchandise with highly inflated retail prices. Example: Merchandise they buy for \$1 is sold or consigned to you for \$2 then marked up three to six times for a retail price of \$6 to \$12 then discounted 30% to 75% for the sale price. They double their money on the bottom end and then charge you a percentage of gross sales and make a handsome profit off the top end. Sweet deal for them!

In many cases these liquidators let your people go and bring in their own sales crews. You pay them an additional 5% to 7% commission for anything they sell. Without asking, their sales people have the authority to take an additional 20% discount off the sale price to close a sale. You have no say in it. Also, the liquidator won't tell you but he pays his sales people an additional commission to sell his merchandise. Guess whose merchandise gets sold first.

Beware of companies that make you open a joint escrow bank account. What you do with your money is none of their business. At Wingate, we'll do everything possible to make your sale a success. The exceptions—we won't take a key to your store and we won't manage your money.

## **Flat Fee Companies**

Flat fee companies are the easiest to work with. You know what the fee will be before you make a commitment. Most flat fee agreements are simple and easy to understand. At least ours is. It's written in English, not legalese, and it's on one 8½ X 11 page.

Another flat fee company's agreement is printed on legal size paper but they charge for interior and exterior signs and other supplies that we provide without charge. Extra charges take more print space and the storeowner ends up paying quite a lot more.

In 1981, I closed the owner of this company's failed sporting goods store. Our client's sales figures are confidential, but due to circumstances this is the one and only exception. Starting inventory cost was \$176,000 and reported sales were \$232,000. This was a full line sporting goods store with half the inventory in ski hardware and outerwear. The sale was held in May and June, the most difficult time of year to liquidate ski merchandise.

This company also charges several hundred dollars for their sales rep's call. They may call it a consulting fee or a travel fee. They may claim to be coming from Denver when they really live in the general area. You shouldn't have to pay a salesman to call on you. They tell you this fee is deducted from their contract if you sign the agreement. This creates a lot of pressure to sign the contract.

We don't believe in pressure tactics. Our Representative will call on you without charge or obligation. He'll explain how we can help you recover more for your and let you make up your own mind without pressure.

Rates flat fee companies charge will vary from store to store. Many things have to be considered when determining the fee. The two most important are the type of sale plan to be used and the cost of living in the area. Example: New York City and small town USA.

## **Self Conducted Liquidation Sales**

Many storeowners have the misconception that they can save money by conducting their own Store Closing Sale. Nothing could be further from the truth. Experienced professional liquidators pay for themselves many times over.

Self conducted liquidation sales are a high risk proposition. The storeowner takes on the responsibility of managing the store during a time when customer traffic and sales should be at an all time high, customer questions, employee stress, and pressures from lending institutions, suppliers and so on. On top of that the owner has to develop a liquidation sale plan, chart discounts, constantly redisplay the merchandise to keep the store looking full, plan and execute advertising, sell fixtures and equipment and on and on. Even if the storeowner is experienced in the art of liquidation it's more than any one person can manage efficiently and the results suffer.

A self conducted liquidation sale seldom rescues the true value of the stores assets. In many cases the store assets are all but lost. The owner has worked long and hard to build

assets only to see them slip away with an ineffective liquidation sale. Our sale plan is built on over ninety years of successful liquidation experience.

For best results an experienced liquidator (Wingate) should be employed. With your supervision let us plan and manage the sale freeing you to manage the store.

## **Auctions**

The only liquidation method less productive than a self-conducted Going Out Of Business Sale is an auction. The primary users of auctions are bankruptcy courts and lending institutions. They liquidate as quickly as possible to get the file off their desks. They are not concerned with getting the best possible return. Store auctions typically get a 5% to 30% return and the auctioneer's fee and advertising comes out of that.

## **Business Listing Firms**

Beware of business listing firms that ask for up front payment. In the 1920's and 1930's there was a business listing firm that would send a sharp young salesman to give the business owner a sales pitch. During the sales pitch the salesman would lean over to get something out of his briefcase and a pocket bible would fall out of his jacket. He would calmly pick it up put it back in his pocket and continue his sales pitch. After assuring the business owner of a quick sale he would collect a check for services to be rendered. As soon as he got the check he would go to the bank cash it and get out of town. That's the last the business owner would hear from them. They would never advertise or make an attempt to find a buyer. Eventually the Federal Government passed a law making this practice fraud and put them out of business.

Today there are several business listing firms operating on the same basic theory. Except they make it legal by spending a small percentage of the fee on advertising. They collect up front and their two year contract requires a percentage commission be paid them no matter who should sell the business, or how, during that time. About a year later the owner will receive a copy of an ad legally proving the business listing firm advertised and made an effort to sell the business. A month or two before the two year contract expires the business listing firm will come up with a prospect but for the prospect to be revealed the owner must pay \$500 to extend the contract for another year.

## **Bankruptcy**

Chapter 7 bankruptcy is to be avoided at all costs. Once filed there is no way out. The only winners are the bankruptcy attorneys and court appointed receivers. If asked a bankruptcy attorney will always suggest bankruptcy. After all, it's their business. With Chapter 11 there is the opportunity to turn the business around under the courts supervision, but it's difficult and there is a timeframe and restrictions involved.

I don't know how many times I have received phone calls from storeowners who have already filed for Chapter 7 bankruptcy. If what they told me about their assets and

liabilities was true we could have liquidated the store and raised enough cash to keep many of them out of bankruptcy and from losing their homes and/or other collateral. On top of that, I could refer them to a debt reduction service that can usually reduce supplier debt by 50% to 80%. Sometimes they can also help with credit card debt.

In any case, find out if we can help before filing for bankruptcy.

## **Check With Us**

Our business has survived and thrived for over ninety years by conducting honest ethical sales and getting the results our clients expect and need. We understand closing a store is a lifestyle change that creates a lot of stress. We treat our clients and their customers with dignity and respect.

Check with us before proceeding in any other direction. Give us the facts and we'll give you straight answers. Call 1-888-480-7253.