

How to Increase the Value of a Distribution Business

Transforming a distributor or reseller into a valuable company may seem like a daunting task. Distributors are usually not worth very much, because an acquirer reasons that without a point of differentiation, a distributor is vulnerable to a price war. Rather than acquire a target company, a savvy potential acquirer of a distributor could temporarily lower their price for whatever is being distributed and woo most of the target company's customers without acquiring the company.

However, the key to this transformation lies in setting yourself apart through innovation and the development of intellectual property (IP).

The Value of Developing Your Own IP

Look at the story of Miles Faulkner, the founder of Blended Perspectives, a reseller specializing in Atlassian products, which offer software solutions for large teams. Faulkner's story provides a blueprint for how to punch above your weight when selling a business that distributes or resells other companies' products.

Driven to create a more valuable reseller, Faulkner set his sights on creating a product of his own: the Marketplace Analytic Research Service, or MARS. This tool is designed to guide Atlassian users in selecting the most appropriate aftermarket apps to supplement their Atlassian software.

While Blended Perspectives still made the lion's share of their money by reselling Jira and Confluence licenses, MARS provided Blended Perspectives with a unique selling proposition, separating it from the multitude of other Atlassian resellers and, in the process, enhancing its appeal to prospective clients. MARS also rendered Blended Perspectives an attractive acquisition target for Contegix, a larger reseller of Atlassian products.

At the time Contegix acquired Blended Perspectives, observers may have wondered why the larger firm didn't simply lower its prices temporarily to attract Blended Perspectives' customers. However, for Contegix, the acquisition was not just about growing market share; Blended Perspectives brought a differentiating element to the table.

By owning MARS, their intellectual property, Blended Perspectives was more than just a distributor in the Atlassian ecosystem. This point of differentiation gave Contegix a compelling reason to acquire the firm far above what would typically be paid for a distributor, underlining the value of creating unique products and services in a highly competitive marketplace.

How a Parts Distributor Became a Valuable Company

Another example of someone who went from middleman to eight-figure business is Mahul Sheth. Sheth started VMS Aircraft in 1995 as a distributor of airline parts. He offered a "one-stop shop" for airlines and their maintenance crews to find parts and accessories.

VMS was the local distributor and survived on gross margins of 22–23%. It was a subsistence living, and Sheth was determined to build a more valuable company. He decided to evolve his value proposition from just being the local warehouse for distributing other people's stuff to a sophisticated provider of advanced materials. Sheth chose to focus on the materials that airlines need to be stored and handled meticulously. If the safety of your metal tube flying 300 people 40,000 feet in the air is determined by the quality of a seam of metal, you want that steel to be handled carefully. You also want the sealant that joins the sheet of metal kept at a temperature that maximizes its adhesiveness. You may also want your rivets stored with the same care a surgeon uses to put away her scalpel after performing life-saving surgery.

Sheth invested in a clean room that minimized dust at his facility. He bought dry ice containers so certain materials could be stored in a cold environment, maximizing their effectiveness. He also repackaged materials into smaller containers so that an airline that only needed a small amount of a particular material didn't need to buy an entire tub.

Sheth's evolution from simple reseller to value-added provider fueled his gross margins to 60–70%. Along the way, Sheth attracted a French company that wanted to enter the U.S. market. Rather than set up shop to compete with Sheth, they realized VMS had created a unique offering with a layer of value-added services that would be difficult to imitate. They decided to acquire VMS for 7.4 times EBITDA.

In Conclusion

If you're a business owner operating in a highly competitive field like distribution, it's crucial to pinpoint your unique selling proposition and dedicate resources to developing your own intellectual property. These strategies not only augment your business's value but also strategically position it for potential acquisition down the line.