THE world of consumer goods and retail has been heating up and has clearly become one of the fastest growing and most vibrant business sectors in Southern California. The landscape of managing such businesses has rapidly evolved as well – with laws, regulatory protocols, best practices, consumer and business needs and industry trends seemingly changing by the season. To take a closer look at how this sector works, we asked several experts in the field to weigh in for a roundtable discussion. We hope you’ll find the resulting dialogue to be an insightful resource – whether you are looking to buy, sell, launch or grow a business in this industry.
**CONSUMER ROUNDTABLE**

**APFELBERG:** Because of the increasing sales online and the ease of price comparison in that platform, companies have had to alter their strategy for building brand and making sales. No matter what the price point, savvy companies are trying to create a memorable brand that clearly conveys their value proposition and distinguishes themselves from their competitors. They are trying to create a "reason" to buy their product. Many companies are deciding to embrace rather than fight the fact that an increasing percentage of sales are made online and via mobile devices.

**FRIEDMAN:** Consumers are looking for discounts and will not spend unless they feel like they are getting a bargain. Consumers walk the aisles in-store, but then they pull out their smart phones to comparison shop online. They are aggressive about finding the best price before committing to a purchase. The industry needs to be more creative in attracting customers. Retailers need to make social networking and the internet an integral part of their business plans. The local retail store may become a thing of the past as more and more manufacturers go vertical with their own retail stores. We are starting to see a trend where-by retailers are starting to manufacture merchandise for their own stores to increase gross profit margins. As the manufacturers go vertical, the retailers are going to need to respond and produce merchandise with the store brand to compete with the manufacturers.

**GEIBELSON:** Trends in Reverse Showrooming, Disintermediation, and Recurring Revenue have created a new norm in the consumer goods industry. Reverse Showrooming involves consumers researching online and buying in a store; either in a traditional sense, or through a "ship to store" model or a "pick up in store" model. Disintermediation refers to direct-to-consumer sales, which have been facilitated by faster and cheaper shipping. Recurring Revenue models involve subscriptions for all manner of consumer goods and services. All of these sales practices have dramatically changed retailers’ relationships with their customers. They have also magnified the need for a compliance program that ensures that products are consistently advertised and priced across channels, and in accordance with applicable law. While each of these trends presents a heightened opportunity to develop the customer relationship, they also heighten expectations and present opportunities for disappointment...and class actions.

**CONSUMER ROUND TABLE**

**What changes in legislation are expected to have the greatest impact on retailers and manufacturers of consumer goods?**

**GEIBELSON:** Legislation along with continued awareness of the properties of materials and a desire for organic and non-harmful components will drive up costs of manufacture (hopefully in line with the public’s willingness to pay a premium) and use of such decisions for branding purposes. For instance, the current review by regulators of sunscreens could be a game changer for the industry.

**How would you describe today’s overall climate for retail in Southern California? How have things improved over the last five years?**

**SHAW:** After some challenging years in the past, it now appears that the retail climate in California is poised for growth. We can see some improvement from emerging retailers who are opening new doors and looking to expand, while we see some larger national retailers struggling financially. The emerging retailers are developing both e-commerce and brick-and-mortar, and are simultaneously building both platforms. They seem to understand their niche in the retail landscape and are making significant progress. Digital marketing and advertising are also becoming increasingly important, as consumers are becoming more accustomed to buying products without physically seeing and touching them.

**APFELBERG:** Retail in Southern California is vibrant, though not always with respect to sales. Our region is still viewed as a testament as a result, manufacturers, distributors, retailers and customers are actively watching what we are doing and trying to get a foothold. The increased scope of web-based purchasing has meant, though, that a local company is not always the one to make the sale even though they may have been the one to put forth the product that is garnering attention.

**FRIEDMAN:** The current retail climate for most retailers remains challenging, with the last five years showing slow signs of improvement. Consumer budgets are still tight, with average household income declining and costs holding steady. Retailers continue to respond to more discounting, which has a direct impact on their bottom lines.

**How have recent trends in consumer behavior and purchasing habits affected the consumer goods industry?**

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EVER WONDER WHERE THE PEOPLE WITH ALL THE ANSWERS, GET ALL THE ANSWERS?

The truth is, you don’t need to have all the answers when you know someone who does. At Marcum, our team members put to work their decades of experience to answer your toughest questions quickly and effectively. Need some answers?
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ANDREW APFELBERG

er. It is well known that most manufacturing is done overseas. Some companies in the past few years are really trying to bring jobs and manufacturing back to California, and they are doing well. Consumers will typically pay a premium for goods manufactured in California. If companies can successfully navigate the legal minefield for manufacturing in California, they will see an amazing opportunity to create quality products with a meaningful story behind the products.

GEIBELSON: Class actions and the protection of confidential information (including customer lists, business plans, and processes) from competitors present the main challenges in California, compared to other states. California’s prohibition (with limited exceptions) on noncompetition agreements makes the protection of trade secrets and confidential information more difficult and more delicate. And California’s liberal class action rules and its Uniform Competition Law and False Advertising Law continue to pose an unparalleled challenge for retailers doing business here. The business risk posed by these laws is amplified by statutory damages for violations of law that cause no injury, such as requesting personal identification information (including ZIP codes) as part of credit card transactions, and recording customer service calls without customers’ consent. These laws also have emboldened public prosecutors to seek dramatic changes in company procedures over miniscule pricing errors.

APFELBERG: Challenges include higher tax rate, human capital costs and risks of litigation. Opportunities include being able to create new product categories and have them rapidly adopted by a community that thirsts for some- thing new and better. Southern California will always be among the handful of regions around the world that are ahead of the trends. We also have some of the nation’s largest celebrities and athletes who can influence others through their use or endorsement of a product.

What do you project will be the major issues and risks facing retailers in the next 3-5 years?

MASSIE: Retailers’ major issues in the next 3-5 years will be to effectively streamline their supply chain in order to operate as efficiently as possible. With the globalization of sourcing raw material, manufacturing, and distribution, it is imperative that retailers have a sound strategy for all levels of their supply chain. Retailers should consult with their global logistics partners to devise, implement, and monitor an effective operating plan – from “concept to products on their shelves.” These phases should include a comprehensive plan for goods, funds, and information. In addition, the shift of offline to online retail represents both a risk and an opportunity for retailers. To mitigate the risk retailers must look for opportunities to differentiate themselves from the mass of online retailers by connecting more closely with consumers. There will be significant opportunities to engage with consumers through social media and other one to one forums that improve customer loyalty. Retailers must realize that their work isn’t done once the sale is made. They must continually try to engage with consumers in a meaningful, valuable way.

FRIEDMAN: Retailers are going to be challenged by branded manufacturers opening their own retail channels of distribution through web sales and their own retail stores. Manufacturers see an opportunity to capture gross profits at both the fabricating and selling levels. How will retailers compete with this? They will need to follow the trend and start manufacturing and developing their own brands. Retailers will also have to create an environment in the store that will entice customers to visit on a regular basis, which may encompass setting a place for people to socialize. Bookstores like Barnes & Noble, for example, were early to recognize the advantages of this, and more retailers will begin to adopt this model of interfacing with their customers and providing ways for customers to interface among themselves within the brand environment.

GEIBELSON: In addition to more frequent but smaller class actions, data breaches like the recent ones at some of the nation’s largest companies will continue to present risks to retailers of all sizes. The concept of Big Data is exciting. But after it is collected, it is often unused, or is used ineffectively or incompletely. Too many companies keep data for the sake of participat- ing in the Big Data frenzy without accounting for or handling it properly. If the data is not being used, delete it. And if the data is not going to be used in the future in an intentional and strategic way, don’t collect it.

SHAW: Some issues and risks include: 1) Employee turnover – or large scale layoffs that can cause worker continuity. Employees coming in and out of your business as if it were a revolving door creates big problems for human resource professionals who must constant- ly find and train new staff, which can eat up valu- able time and resources. 2) Auditing. Retail busi- nesses are regularly engaged in competition with one another, and this competition can create price wars, forcing a need to keep tight control over inventory and other important data. The retail industry is often faced with inefficient and poor auditing plans that make competing with other companies difficult. Existing auditing sys- tems may be outdated and provide inadequate audits needed to stay competitive. 3) Economic Uncertainty. The retail industry as a whole is largely dependent upon the economic wellbeing of the nation. As the nation prospers and people have more money to spend, the retail industry generally flourishes. However, in more difficult economic times, the retail industry is often faced with potential shrinkage. The current economic outlook appears good, but it is difficult to predict when a downturn will occur. 4) Technology. Keeping up with the pace of modern technology is another problem the retail industry faces. For instance, retail point of sale technology often uses computer systems that are several years behind the computer industry as a whole. Also, the inability of retail industry technology to keep up with initiatives such as mobile digital coupons is a problem that the industry regularly faces. Given the rate of turnover and the con- stantly changing economic environment, con- stantly upgrading and keeping their equipment and networks running on the newest technolo- gies can be difficult for retail leaders.

How about consumer goods manufactur- ers? What challenges do they face in the next 3-5 years?

GEIBELSON: The tip of the iceberg in false adver- tising class action cases has been the “Natural” legisla- tion – cases in which consumers contend prod- ucts are not actually naturally made. While “natu- ral” cases continue to be filed, other buzz words are emerging as consumers’ next targets for manufac- turers’ advertisements – “non-GMO,” “organ- ic,” “gluten free,” and “handmade” to name a few. Given recent changes in class action law, and since manufacturers don’t always know who their customers are, these cases are now being filed against retail- ers as well. As Proposition 65 claims continue to be pressed aggressively, manufacturers will have to redouble their efforts to confirm that their products – particularly products they white label, and ingredients or components they buy from others – do not contain substances about which Proposition 65 warnings must be given.

FRIEDMAN: Manufacturers have been finding their gross profit margins squeezed by the retailers for many years and they are fighting back by going direct to the consumer. We are not seeing this trend only increase in the years to come. Branded manufacturers are in the best position to expand and change their business models to fit the verti- cal distribution. The manufacturer is now into social media, blogging and other new methods to connect directly with consumers.

Why is important for retail companies to enter global markets online, especially if it appears so complex to do so?

FRIEDMAN: Retailers need to recognize that it is time to bring the mountain to their customers. The customers of the 21st century are conducting much of their lives online, and that includes pur- chasing. Baby boomers still like to get in the car and drive to the malls to look for something spe- cial, but that group of shoppers will be spending less money in the years to come as they approach retirement. Retailers better understand who will be buying and how to market to that group. Technology has made the world a much smaller place, and retailers can reach literally anywhere to sell. The local mom and pop retail store is becom- ing a dinosaur, as department stores and manufac- turers increasingly go vertical with their own retail establishments. Local retailers need to think beyond brick-and-mortar.
Reason says: bigger is better.

Instinct says: nimble is better for driving growth.

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Domestic growth in the retail market by 2020 is forecasted at 1.7 times that of GDP; 4 times for online commerce; and 7 times for online cross-border. Nearly 95% of the global consumers are outside the US, with 59% of them living in rapid growth markets. Companies need to ensure they partner with carriers that provide an array of services that are guaranteed on time around the world and incorporate easy-to-integrate, affordable, scalable, turn-key online solutions that minimize the complexities of global commerce. For example, UPS offers solutions like UPS i-parcel to ensure that the complexities of commerce are minimized. Online advertising is more pervasive and important than ever. Businesses tailoring to the desires of consumers cannot afford to avoid social media marketing.

What are some of the best ways for a retailer to build its brand and elevate itself from the competition?

The strategy always comes from within. An honest evaluation of the company, product and perception in the community will inform which of the many brand-building opportunities will be most effective. It must be genuine, resonate with the core and aspirational purchaser demographic and be communicated in a way that they can best hear it (and share it with others in their network). Examples include cause marketing, premium products, being emblematic of a luxury lifestyle (for a high price point product) or an edgy/lux lifestyle (for a lower price point product), product placement in relevant media content, co-branding with likeminded products/services, cultivating relationships with influential bloggers and influencers and celebrity or athlete endorsement/investment.

How has social media played a role in this industry?

Social media is a fact of life in the 21st century and almost certainly beyond. For retailers, it is a gift since unlike traditional advertising there is no media cost associated with maintaining a web site or Facebook, Twitter, Snap Chat or other accounts. Not only is the media cost removed from the equation, social media gives retailers an opportunity to engage with customers in a way that traditional media could only dream about. They can start dialogues, implement frequency programs, host special events and connect with customers in a limitless number of ways.

Visit a retail web site and you can get a 360-degree view of the store. Want to zoom in on a product? Just click.

It has enhanced the power and reach of bloggers, influencers, public figures and companies whose products are relevant to the part of the population that shops online. It is only growing to increase as more and more digital natives obtain the levels of disposable income to have their purchases make a meaningful difference.

Social media has revolutionized the consumer goods industry. Consumers buy an increasing amount of goods online, and through mobile apps -- including social media applications. Online advertising is more pervasive and important than ever. Businesses tailoring to the desires of consumers cannot afford to avoid social media marketing.

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How can you define “omnichannel” and discuss how it impacts a retailer's financials?

Omnichannel is a multichannel approach to the buying experience that seeks to provide the end consumer with a seamless shopping experience whether it is a click (web) or brick (store) transactions. Consumers expect to be able to research, review, buy, pick-up, receive and return anywhere with any device. Options such as “ship from store” create margin improvement opportunities while “ship to store” creates the revenue generation since consumer tend to purchase additional items at the time of pick-up. Also critical, is the reduction of stock outs across buyer access points. If items are not available, consumers will seek other options and may not return to do future purchases. Other impact areas include returns and optimizing of your distribution network.

How important is celebrity branding, investment or endorsement to building a brand for consumer goods?

Celebrity endorsements can be extremely effective if they are either spontaneous, based on actual personal experience with a brand, or if they are supported by a marketing budget that is sufficient to truly imprint the value proposition with the target customer. Retailers of course benefit from the product demand that such campaigns can create, but there is no free lunch. They are paying for the campaign in higher wholesale costs and ultimately the product must appeal to the customer with styling and fit.

Combine beauty and business, and you can create a powerful brand. However, celebrity branding is a luxury, not a necessity. In today’s social media driven world, entrepreneurs can develop their own celebrity cache by writing books, becoming experts in their industry and using social media to harness the power of their brands.

This is a very important component to building brand because, if done properly, it can be extremely effective in a short amount of time.
and result in immediate sales. Celebrities and athletes now have large followings of people who aspire to be like them (and therefore use the same products) or who respect their opinions (and therefore will buy something that the celebrity or athlete creates or thinks is good). There is a built-in community of these folks that interact on the celebrity’s Facebook, Instagram and other social media outlets who, in turn, will influence one another. This is why there must be honesty and close alignment between the product and the person that is endorsing it, creating it or whose name/image/likeness is incorporated into the product, packaging or advertising. The exclusivity that you get from the celebrity or athlete in connection with their endorsement means that you have a legitimate barrier to competition. None of the other companies in the marketplace can have a product that is closely associated with such public figure. Even if the products themselves are similar, this is a distinguishing factor that cannot be overcome.

What are some of the best practices for a branding or endorsement campaign promoting a consumer product?

SHAW: One of the best practices is to have a consistent multi-level campaign across numerous channels. Consumers are reactionary and when they are consistently seeing a branding message from different channels, the message is imprinted in their minds. Often companies with successful branding or endorsement campaigns will also create a back-story to help promote the product.

APFELBERG: Always start with an analysis of celebrities that have influence with the core customer demographic. Then do the same with the aspirational demographic as well as the other real stakeholders in the success of your business (e.g., distributors and retailers). Next determine whether a license or an endorsement deal will best suit the company’s strategic plan and budget as well as the desires and schedules of the celebrities that are being considered. Have meaningful conversations where both sides can share goals and expectations for the relationship. Only then do you want to draft and sign documents.

What advertising and sales practices pose the biggest threat for class action suits against retailers and manufacturers of consumer goods?

GEIBELSON: Representations about the price and quality of products as being “on sale” or “up to X% off” or from regular inventory (in outlet stores) have spurred a recent wave of class actions. Performance representations have also become increasingly attractive to plaintiffs. Recurring Revenue sales models such as subscriptions and negative options – where charges continue periodically until canceled – are also an emerging threat. Retailers’ failure to provide necessary disclosures and make cancelling easy and accessible will surely continue to induce class actions.

The execution of omnichannel retailing that allows consumers to browse, shop, and purchase from an integrated set of channels (brick & mortar, catalog, on-line) that are uniquely designed for individual consumers will be the leaders in their perspective retail industries.’

NOEL MASSIE

Guardians of the Brand

Our Branded Consumer Products Group actively partners with middle-market apparel, food & beverage, health & beauty, home furnishing and consumer electronics companies to grow their brands and profitability.

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• Intellectual property & licensing
• Celebrity endorsements
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To be competitive, retailers need to utilize every channel available to connect with their customers and reinforce the brand experience. That includes maintaining active social media channels to create as many touch points with their customers as possible. It also includes pushing out communications to reach customers strategically and frequently, such as the digital newsletters and daily or weekly email promotions.

RON FRIEDMAN

 Seeking more than money. Understandably, it is really difficult to find someone to back a company without a long track record. However, early-stage companies need other things just as much as capital. They need relationships, mentoring, branding, management teams and key employees and education on running a larger business in this particular industry. Try to find backers that can provide some or all of those in addition to cash.

FRIEDMAN: Early stage companies need to look to family and friends for initial startup capital. Once they have established themselves with sales and have demonstrated an ability to manage their businesses, then they can look for outside financing. The best source of funds will come from the factoring community, which has always been able to support go-to-market and growth-stage companies short of capital. The factors will loan money on accounts receivable and inventory to some degree. These companies should be working with an outside accounting firm that can assist with financial reporting, forecasting and introductions to the capital markets.

How effective are acquisitions in the branded consumer products space in creating value?

APPLEBERG: If there is strong alignment between the products of the buyer and the seller, then there can be significant value created. One brand will be viewed through the eyes or in combination with the other. Thus, they both speak to the same demographic (e.g., Apple and Beats by Dre) then it creates positive goodwill and resulting sales. If they do not share the same demographic, then both brands suffer because of confusion in the marketplace over who the company and products “really are” as well as potential feelings of rejection or disappointment by the customers and stakeholders. Nobody wants to see their grandfather wearing the same shirt as they are.

What are some main challenges in the growing Direct to Consumer retail market?

MASSIE: All carriers have faced this difficulty. The carrier goes to your house and leaves the note saying “We Came By With Your Package.” It’s costly for the carriers and diminishes the customer experience. The great news is the carriers realize there is a new era in home delivery.

CONSUMER ROUNDTABLE

APPELBERG: Seek more than money. Understandably, it is really difficult to find someone to back a company without a long track record. However, early-stage companies need other things just as much as capital. They need relationships, mentoring, branding, management teams and key employees and education on running a larger business in this particular industry. Try to find backers that can provide some or all of those in addition to cash.

What advice would you offer to an early-stage manufacturer seeking growth capital?

APPLEBERG: Seek more than money. Understandably, it is really difficult to find someone to back a company without a long track record. However, early-stage companies need other things just as much as capital. They need relationships, mentoring, branding, management teams and key employees and education on running a larger business in this particular industry. Try to find backers that can provide some or all of those in addition to cash.

APPLEBERG: Major issues include brand confusion (as discussed in the prior question), competition for shelf-space and internal resources (e.g., design team, promotional dollars) among the family of products and whether the expected synergies (e.g., increased buying power, more efficient operations) are realistic within the timeframe set forth in the model prepared to analyze the potential acquisition. The single best thing you can do to prepare is to do self-analysis of what you need/want out of an acquisition target in order to accomplish your company’s strategic plan and view each potential seller through that lens. If they do not fit well, then pass on the deal even if it is an exciting opportunity or value. The next best thing is to prepare in advance an integration plan and team and encourage the seller to do the same. The closing is not the level line of the race; it is truly only getting out of the starting blocks.

What should investors look for when considering getting involved in a branded consumer products company?

FRIEDMAN: Management is one of the most important considerations in determining whether to invest in a branded company. If the acquirer is looking for management to stay on and continue to run the business, pick partners you like, respect and can work with. Life is too short to be battling with management; your goals and visions need to match up. Also, look at the brand and determine if it is growing or stagnant. As an investor, you need to know what you bring to the table that can help drive the business to the next level of success.

APPLEBERG: The traditional considerations of whether the company has a sustainable business model and skilled management team are always in play. There is also a requirement to think about what the brand’s value is for its current and likely future relevance and how it can (or cannot) evolve over time. Without a long runway for the brand to have meaning and expand then the likelihood of a meaningful liquidity event is lessened. If the company has co-branding or celebrity license or endorsement deals, consideration needs to be given to how the investor feels about being associated with such people and whether the celebrity will remain enthusiastic about the company or product once the investor comes in. If the presence of an investor makes the celebrity less eager to promote the product or do the extra things that are impactful but may not be required under the contract then the value of that license/endorsement will be significantly diminished.

How important is it to train retail employees on workplace legal matters before they become lawsuit?

SHAW: Very important. In many cases, your retail employees are your eyes and ears into your day-to-day operations. Having trusted employees that can identify potential legal issues before they become hurdles can save you a lot of money. Employment class action lawsuits are rampant in California, but they can often be avoided with proper training and counseling. Retailers in particular are a target for employment and consumer class actions. Retailers need to meet at least year by year with their legal counsel to review and analyze new laws so they can update their employees and plan accordingly.

GEBELSON: There are generally two types of plaintiffs in class action lawsuits: professional plaintiffs, and unhappy customers. There is no protection from the former other than compliance with the law. But there are a whole lot of claims slapped down that never would have been filed if customer service was taught throughout the organization as way to protect the bottom line in addition to its own merit. It’s a simple and self-evident premise that is always too conspicuous, and commonly too expensive in its breach. If customers were more often given respectful explanations of company policy (assuming company policy complies with the law), fewer class actions would be filed.

Some people view merchant services as a commodity. Why is that a mistake?

APPLEBERG: Merchant services are not a commodity. While there are over 1.5 million merchant accounts, there is no shortage of competition, and hence there are many options to consider. Some of the main considerations include the cost, which can vary significantly from one merchant service provider to another. Other considerations include the quality of service, the level of support, and the ease of use of the system.

Gift cards provide a significant source of revenue to retailers. What are the most important issues associated with launching a gift card program (legal, accounting, etc.)?

GEBELSON: Before anyone sells a gift card in California, there is no substitute for reading the California Civil Code starting with Section 1749.5. Except under specified circumstances, gift cards sold in...
California (as opposed to gift certificates given away as part of a loyalty program, for example) cannot have expiration dates or service fees. And most importantly, employees have to be trained that if a gift card is valued at less than $10, they have to give the customer its value in cash on request.

Culture can be very important to a company. Can you talk about what this means and how does a manufacturing company or retailer hold on to their culture as they grow?

SHAW: Company culture is often overlooked when a company begins to experience growth and they are trying to ensure legal compliance. Successful companies understand that they cannot and will not sacrifice their culture. A company’s culture is its DNA, so it is very important to maintain the culture through growth. It can be challenging at times to maintain the company culture, but it is arguably the key element to sustainable growth.

By KULLEN HIRKELAND

Effective collaboration between manufacturers and distributors has never been more important. Customers are increasingly demanding high-quality items, timely delivery and low costs. Successfully aligning these three elements — quality, schedule and cost — is essential. This requires a strong, transparent relationship between the manufacturer and distributor.

Transparency in the real world

For example, when a Southern California distributor of precision tooling wanted to expand its product line, the company knew it needed to either invest in new equipment and training, or acquire a competitor with the desired capabilities. After considering acquisitions and doing extensive competitive market analysis, the distributor ultimately decided to partner with a manufacturer, and become the U.S. distributor for that manufacturer. The manufacturer gained a first-time U.S. presence, and the Southern California distributor gained a new product line. Since the distributor already had a significant sales presence and understood the industry, it was a natural fit.

But what made the relationship truly productive was the level of transparency. The two companies trusted one another with information about competitive intelligence, margins, expectations, inventory, pricing, potential uses of the product, catalog numbers, collective benefits, customer responsiveness, and many other areas outside the purview of a normal distribution relationship. Both parties went in with eyes wide open to the possible risks and long-term competitive challenges. Key to the relationship’s success was the mutual trust and shared commitment to getting the best result for their customers.

Effective collaboration is greatly enhanced by the ability to communicate and collaborate with supply chain partners in real time, rather than by old-school, untimely methods such as spreadsheets and paper documentation. Having online visibility and access to distributors’ documentation, sourcing information and audits gives supply chain partners — and customers — confidence in both the supplier’s business practices and the end product.

Why is transparency important?

Transparency enhances collaboration and makes distributors more valuable to manufacturers

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by lowering the risk of disintermediation, a common worry among distributors. Disintermediation is when manufacturers go directly to the end user, bypassing a traditional distributor. In a recent survey by Modern Distribution Management and Grant Thornton, 76% of participants indicated that this practice was a concern.

Transparency has other advantages. Sharing operational information enables both sides to achieve higher margins, get to market faster, boost the competency and market connection of sales staff, and lower distribution costs. The California distributor already had a strong presence in its market, thereby reducing costs significantly.

That’s not to say that there aren’t potential setbacks, such as exposing your client base or product line to an untrustworthy competitor. Identifying a reliable partner with mutual business interests can be a challenge. Also, over time, one party may choose to move in another direction. The partnership needs a structure and agreement that sets clear terms, including how to dissolve the relationship if one or both parties want out. Ideally, even if the partnership ends, both parties will have gained knowledge and benefits they can leverage going forward. As with any relationship, there will be challenges along the way, but transparency will help resolve issues in an open, collaborative manner.

A mutual benefit
When it’s done right, transparency in the distributor-manufacturer relationship can be a game changer. It can enable distributors to go beyond warehousing and storage to offer a full continuum of services, such as sales, customer service, repairs, replacement parts, support in various languages, etc. These added capabilities make distributors more valuable to manufacturers, and may allow them to take a bigger cut of the profits. Close collaboration — aided by transparency — also enhances distributors’ long-term viability and reduces the risk of disintermediation. The more value and competency distributors deliver to manufacturers, the more conducive it is to mutual information-sharing. Ultimately, transparency enhances distributors’ value proposition.

Kullen Birkeland is the Los Angeles Office Managing Partner for Grant Thornton LLP.

Tips for Transparent Manufacturer-Distributor Relationships
• Take steps upfront to make sure you are working with a trusted collaborator and a coveted business partner.
• Anticipate challenges and include those considerations when you document agreements.
• Inevitably, issues will arise. Continue to monitor these arrangements and address issues early and directly.
• Consult your professional services firm for insights and practical solutions to reach your objectives.

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