THRASIO™

# GETTING YOUR ECOMMERCE BUSINESS READY FOR SALE

Thrasio's ultimate guide to building an extraordinary, high-value company that buyers *will* battle over.

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Chapter 1

# THE RIGHT TIME TO SELL YOUR BUSINESS

## Your best strategy? Get your brand growing up and to the right — and sell on the upside.

Contributing Expert
Gwen Sylvester, Senior Director of Acquisitions

Photo: pikselstock/Adobe Stock

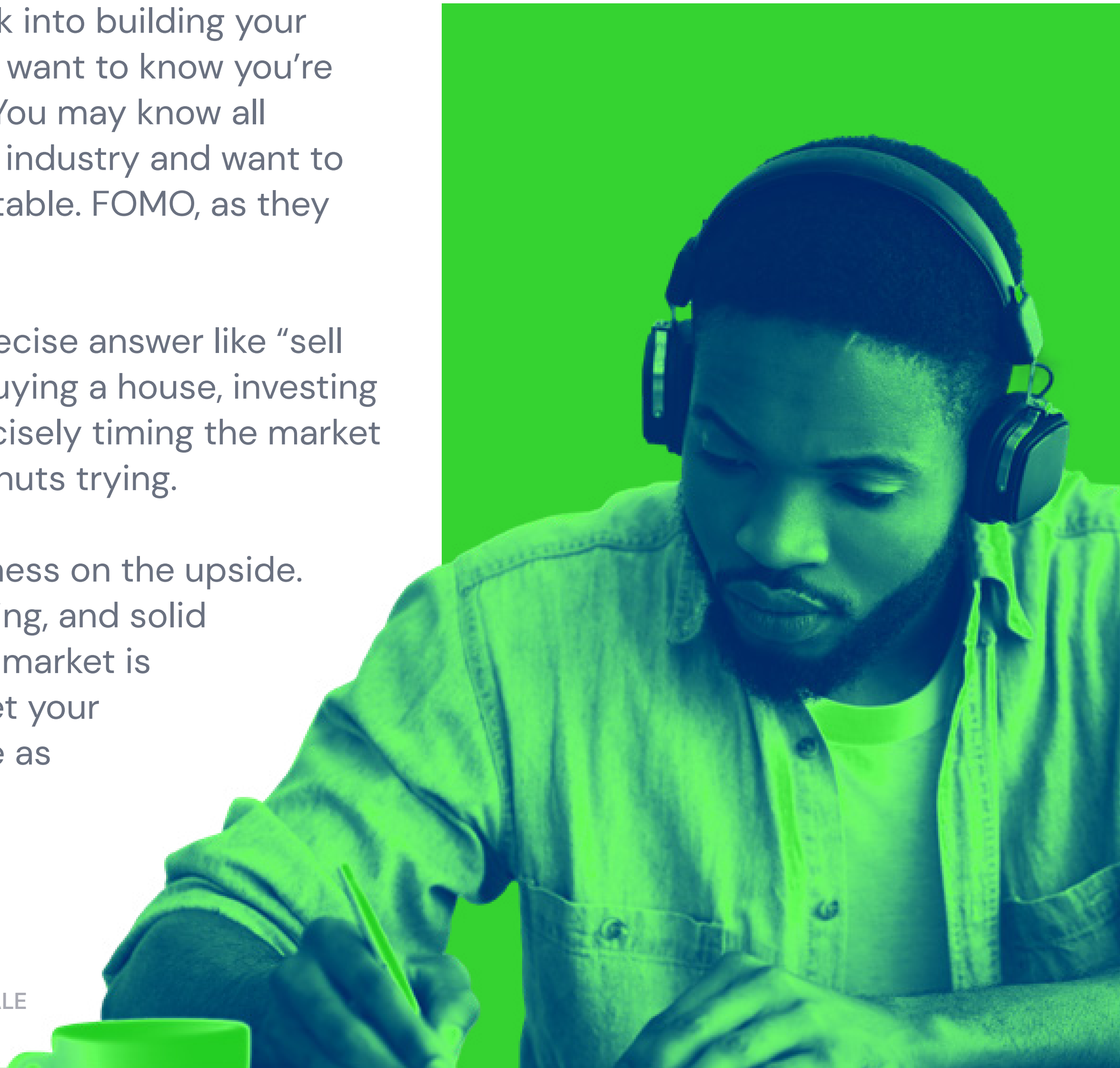
## Selling your business is the second biggest decision you'll make – after the one to start it. In fact, when I talk to entrepreneurs who are thinking about an exit, the number one question I get asked is, "When is the best time to sell my business?"

You put a lot of time, energy, resources, and work into building your brand. And when you're finally ready to exit, you want to know you're selling at the right time to maximize your price. You may know all about the growth of the ecommerce aggregator industry and want to make sure you're not leaving any money on the table. FOMO, as they say, is real.

I wish I had a crystal ball that could provide a precise answer like "sell next Wednesday at 4 PM." But whether you're buying a house, investing in cryptocurrency, OR selling your business, precisely timing the market is difficult if not impossible. You'll drive yourself nuts trying.

Here's what I can say. You want to sell your business on the upside. Buyers want to see growth, smart decision-making, and solid operational foundations. So, no matter what the market is doing, your best strategy is this: take steps to get your business ready for sale and make it as attractive as possible for a buyer.

We wrote this book to help you do just that.



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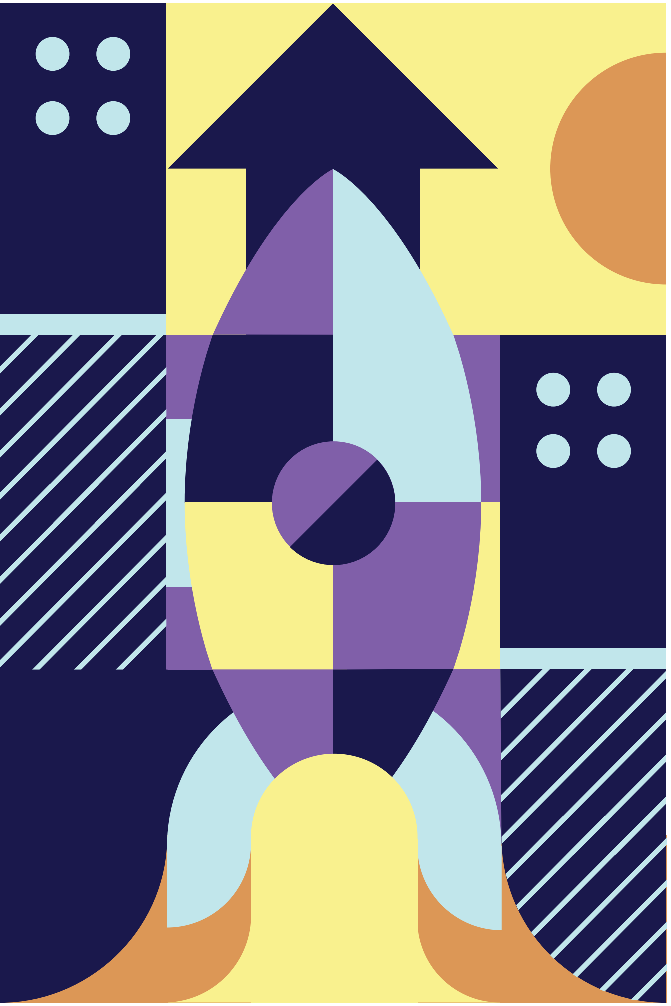
## This book is packed with practical, actionable advice.

Written by Thrasio's in-house experts (the very ones who review businesses during due diligence), it will help you build a stronger, more resilient brand – whether you're thinking about exiting in the next few months, the next couple of years, or not at all.



## So, *what* does it look like to be ready to sell? Here are just a *few* things *we* love to see.

- Top-line and bottom-line growth over the last 6 to 12 months of operations. Ideally, we'd love to see growth over the entire lifetime of your business, but the most recent history is going to give us a very accurate view of how the business is trending.
- Business decisions that resulted in larger contribution margins, such as reducing manufacturing costs or developing a smarter strategy for your marketing spend.
- A business that's focused on 1 or 2 key areas of growth that you're executing on. We don't need you to be doing everything, but we want to see that you're running your core business really well.
- Owners who know their business well, have a clear handle on the challenges and potential opportunities, and have a vision for how the brand would grow in the future if you didn't sell.

If this list sounds a little daunting, we've got you covered. And, if you're methodical about getting your business ready, diligent about vetting the right buyer for you, and clear about your exit goals (all things we cover in this guide), you'll set yourself up for an exciting, lucrative new chapter in your entrepreneurial adventure. Strap in and let's see where this ride takes us!

# 3 Questions to Ask Every Potential Buyer

## What can I do to make my business more attractive to you?

Talk to multiple buyers and brokers, and you'll probably start to hear them ask the same probing questions about certain areas of your business. Pay attention: These are probably your biggest strengths and weaknesses. Try not to get defensive about how you do things today. Think of it as a consultation. These could be your biggest action items for improving your business over a couple of quarters en route to an exit.

## Who would be operating my brand? Can I meet with them?

You want your business to be in good hands, so ask to speak with the members of the buyer's team who will be working on your brand. A buyer should be willing to grant you that opportunity to learn more about their experience and expertise.

## How would your team handle this complicated area of my business?

Selling your business is as much about auditioning buyers as it is about impressing them. Don't be shy about asking them how they'd deal with complexities in your business. A good buyer has seen and heard almost everything and should be able to address your questions with confidence. And build your confidence in their abilities.

## SMART THINKING

### Talk to buyers early – before you're ready to sell

Don't wait until you want to sell to start exploring the market. Even if you aren't thinking about selling soon, reach out to potential buyers or brokers and start talking. Why? Those conversations can give you a wealth of knowledge about what buyers want to see in a business, what they value, and where you can make smart changes. Not only will that help you identify a like-minded partner, but it will help you identify areas of opportunity and growth. Most buyers are happy to talk – after all, it's in their interest to build relationships with entrepreneurs like you.

# STRAIGHT TALK FOR SELLERS

Stay open to change and you'll have a bigger chance at success. For example, I recently met with a great candle company. We love the brand – except that they do their own manufacturing. Candles aren't hard to make, but Thrasio isn't a manufacturer, so we wouldn't buy the brand as is. Now the seller is looking to outsource manufacturing to a great supplier, which also will reduce his cost of goods sold. Then he'll be ready to sell the business to us. And we'll be ready to consider buying it.

## GWEN SYLVESTER

Gwen Sylvester is the senior director of acquisitions at Thrasio. Gwen started her career in finance in a private investment office and then pivoted to corporate development, where she spent 8 years in the early childhood education space. Gwen lives in Portland, Oregon, and is an avid lover of all the beautiful outdoor opportunities the Pacific Northwest provides.

Chapter 2

# BANKING ON BRAND MANAGEMENT

## To increase your business's value, focus on strategies that deliver solid foundations and staying power for your brand.

Contributing Expert
Michael Smith, Senior Director of Brand Management

Photo: Drobot Dean/Adobe Stock

# INTRODUCTION

## A strong brand increases the appeal and value of your business to a potential buyer.

But building a strong brand is about much more than what appears on your bottom line. When we evaluate a company, in addition to seeing financial growth, we like to see growth beyond the P&L – a customer base of hundreds of happy repeat buyers, for example, or a steady increase in keyword conversion share. Factors like this give your business real staying power.

Think about it like this: If your profit margins are good, but your business operations and customer service are a mess, a buyer will spend a lot of time in fix-it mode. Not only is that a huge hurdle to overcome, but it clutters the path to growth and profitability. It will most likely also cause you to have a lower upfront valuation.

That's why, in the months leading up to the search for a buyer, it's a good idea to take steps to get your brand-management house in order. That will make the negotiations go smoothly, increase your valuation, and likely lead to better earnouts over time.

Photo: contrastwerkstatt/Adobe Stock

# Growth-Minded Management: 4 Strategies for Amazon Sellers

You already know Amazon is a fast-moving platform and success depends on staying on top of your game. These tactics will help you manage and scale your brand.

## 1. Focus on high profit-dollar products

If you're used to thinking only about profit margin, you may want to start thinking about profit-dollars as well. Your goal should be to improve conversion rates and sales velocity on the products that provide the most bang for the buck in profit-dollars.

For example, if your brand sells products for wine enthusiasts, the 50% profit margin you make on a simple wine opener priced at $10 is less valuable per unit than the $20 profit you make on a wine decanter priced at $50.

Investing in high profit-dollar products in order to, say, improve your Best Sellers Rank may mean selling at break-even prices or even a loss per unit in the short term. Will these strategies feel risky? Perhaps. But think long term: your quest is for higher sales on products that bring in the most. You might think about running your pay-per-click (PPC) campaigns unprofitably, even if it means your Total Advertising Cost of Sale (TACoS) goes up.

# 2. Improve keyword conversion share

Conversion share is the number of times customers bought your product after searching with a given keyword, divided by the total number of times customers bought any product after searching with that same keyword. You want this number to grow over time. It shows you're capturing a bigger slice of the pie linked to keywords associated with your product.

To improve your keyword performance, start by digging into your Amazon Search Terms report, which is part of the Brand Analytics module. The report is a gold mine of insights about your category and your business. You can learn, for example, which products customers are clicking on after conducting a search for a particular keyword. You can also search for a specific product to find out which keywords drive customers to choose it – handy when checking up on your competition. You can also find out which of your products have dropped from the top 3 clicked ASINs for a given search term.

Improving your conversion share may be as simple as adding keywords to the listing copy. Your listing title is especially important: make sure it's concise, keyword-optimized, and compliant with Amazon's guidelines.

## SMART THINKING

### Better brand management = a better offer

Strong brand management tells potential buyers you're interested in more than a quick buck. It shows you care about and understand the experimentation and optimization needed to set yourself apart from competitors. It proves you can cultivate brand loyalty in a way that translates into higher customer lifetime value (CLTV). When you strengthen your brand, you create a solid, scalable foundation for a buyer to build on.

# 3. And while you're at it, optimize your listings in every way you can

Think like a potential customer – both how they browse and how they buy. Your product listings should be quick to scan and optimized for mobile viewing and purchase. Test your main listing photos with a tool like PickFu to see which images perform best.

And yes, go for the video. A lot of people don't incorporate video because it seems too hard or complex. Think of this: we've made very professional marketing videos with celebrities that have cost tens of thousands of dollars – and in some scenarios, those convert less than something made in 20 minutes on an iPhone. The lesson? It doesn't have to be an insane production to be successful. It just needs to connect with customers.

## Beyond Amazon: Tips for DTC

**Smart business owners know their brand extends beyond their Amazon footprint. Here are a few traits we see that set stellar direct-to-consumer (DTC) sellers apart:**

- A strong website with great SEO that showcases your products
- A strategy to drive more reviews and amplify the voices of happy customers
- A customer experience program that addresses inquiries and resolves problems before they result in negative reviews or other liability
- A robust, privacy-compliant customer or prospect database to send marketing offers and other communications via email or text

# 4. Accelerate review velocity

Reviews are the lifeblood of an Amazon business. You know this. When faced with an array of similar products, customers often default to the one with the most positive reviews. High-quality reviews start with a high-quality product, of course, but after that you'll need to do a little more work to earn your stars.

The work is well worth it. You want to create a moat of positive reviews around your products – an unbridgeable gap between your well-loved products and those of your closest competitors. And to increase your volume of positive reviews, you'll need to increase your volume of sales. This may mean selling at a loss via a temporary price cut, running Amazon Deals, or increasing ad spending to boost traffic. There's another benefit to these strategies: the more good reviews you have, the more freedom you have to raise your prices.

## Check Your Boxes: Shore Up Your Amazon Ops

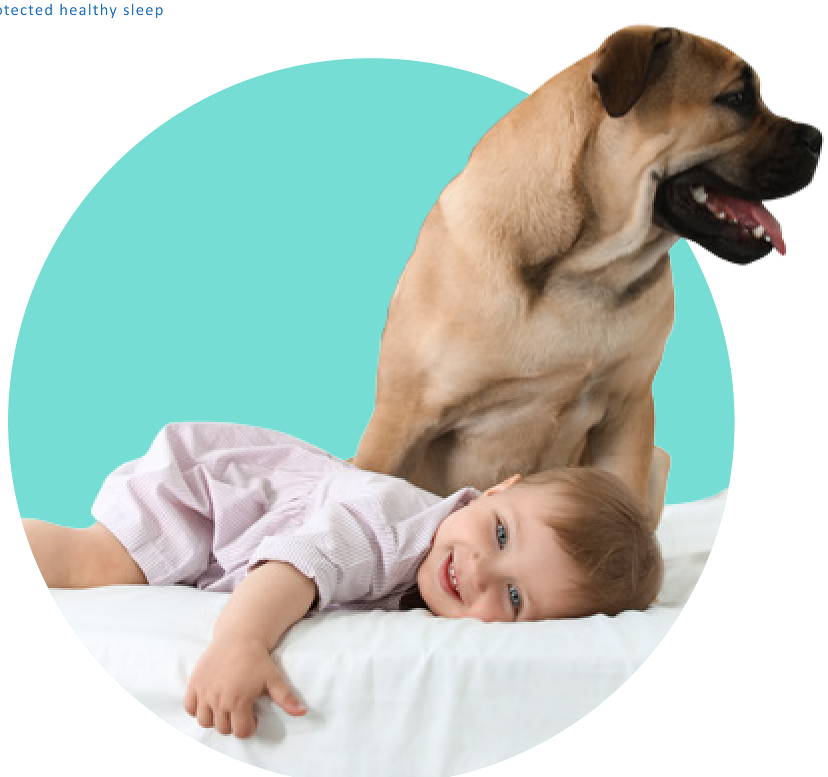
When a buyer does a deep dive into your Amazon operations (and they should), what are they looking for? Here are what we consider must-haves as we enter the Letter of Intent (LOI) process:

- ☐ All fields are complete in Seller Central
- ☐ Your listings have high-quality, relevant images, fantastic copy that captures the product's value, and videos where possible
- ☐ You're using rotating Deals of the Day to get your product in front of the largest number of eyes
- ☐ You have a solid Inventory Performance Index score and sell-through rate, which demonstrates you've got a handle on managing stock levels

# REAL DEALS | SAFEREST

## Smart brand management helped make SafeRest a yes for us

SafeRest
for well protected healthy sleep



"When we bought SafeRest, a mattress protector brand, the company had a massive review moat compared to its competitors. As a buyer, we placed a lot of value on that. The overwhelming number of positive reviews pouring in – combined with very high-quality products – helped make this brand a yes for us. It also gave us confidence that we'd be able to continue the high-growth trajectory this brand was already on."

—Michael Smith

Photo: New Africa/Adobe Stock

# STRAIGHT TALK FOR SELLERS

Running an ecommerce business isn't easy. You've got to know yourself. If you're a highly analytical owner and solely focused on the data, you may need to start thinking like your customer. Do a product search. Buy your products and your competitors'. What are the experiences like? What's the difference? Conversely, if you're totally focused on customer service, you may be missing key pieces of the data that help you make smarter business decisions. It's always a balance.

## MICHAEL SMITH

Senior Director of Brand Management Michael Smith has over 12 years' experience in growing ecommerce companies. He's an expert in marketing automation, SEO, and social marketing – all skills he put to good use for 2 of his own ecommerce businesses, which he grew to over $10 million in sales in less than 5 years.

Chapter 3

# PERFECTING YOUR PROFIT & LOSS STATEMENT

## Your numbers tell a story about your business. Add value by highlighting growth and utilizing add-backs.

Contributing Expert

Judy Park, Senior Associate of Mergers and Acquisitions

Photo: Rido/Adobe Stock

# INTRODUCTION

## You already know the textbook definition of a profit and loss (P&L) statement.

It summarizes the revenue earned and expenses incurred by your business during a specified period. But a P&L statement can also serve as a kind of résumé for your business.

It tells the story of where your company has been, the challenges you've faced, and how you've grown the business you lead today. And as with any résumé, you want to put your best foot forward. By taking the time to make sure it's accurate and complete, you'll have a smoother acquisition process and a more accurate valuation that holds steady during due diligence.

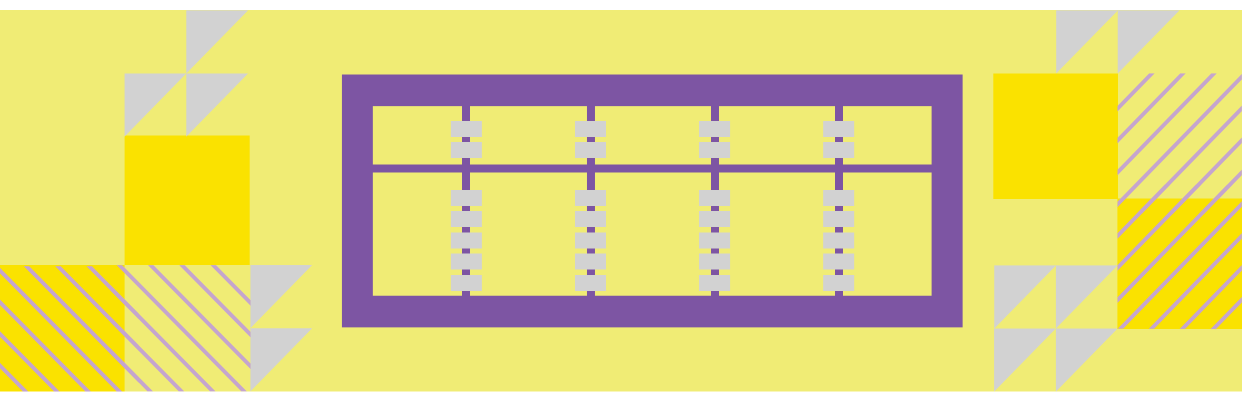
As a leading buyer of ecommerce businesses globally, we've seen our share of P&Ls. (Probably thousands, actually.) Our goal is always to work together with sellers to make sure theirs are as solid as they can be. Here are a few ways you can get your "résumé" in tip-top shape.

Photo: izf/Adobe Stock

# Buoy Your Bottom Line With The Benefit Of Add-Backs

Many aggregators, including Thrasio, will base their valuation of your business on your trailing 12-month (TTM)-adjusted EBITDA – that is, your Earnings Before Interest, Tax, Depreciation, and Amortization during the 12 months before you're ready to sell your business. (Adjusted EBITDA is also called SDE, or Seller Discretionary Earnings.) We'll calculate your TTM-adjusted EBITDA by looking at your P&L and then adjusting for add-backs.

Simply put, add-backs are expenses that don't tend to affect the business's performance and won't be included in future P&Ls of your company after you sell it. In other words, add-backs are vital to understanding the true worth and financial health of your business. You may be more profitable than you think!



## SMART THINKING

### Accounting best practices

If you don't have a P&L using accrual accounting, we suggest working with an accountant to prepare one prior to sale. There are software tools you can use to do much of the work yourself, but having the eagle eye of an accountant is always a good idea and ensures you're bringing your A game during due diligence.

It's also critical that you're transparent about your business's financial history and practices. We understand the learning curve involved in growing a company. We understand mistakes. However, being deliberately misleading in your P&L statement hurts your relationship with a potential buyer. Misrepresenting your business's overall health can hinder – or even derail – the sale (or even much worse). We're here to work with you. Financial transparency will help you exit on the best and most lucrative terms possible.

## 10 Add-backs to Add to Your P&L

1. Courses and training
2. Car or lease payments for vehicles that are non-critical to the business
3. One-time professional fees, such as a legal fee
4. Travel expenses, including food and entertainment
5. Corporate donations
6. One-time extraordinary expenses, for example buying a generator to keep your product refrigerated during a blackout
7. Rent for non-essential office space (if you outfitted workers with home-office equipment during the pandemic, for example)
8. Payroll taxes
9. Expenses related to personal or other businesses
10. Owner salaries above market rate

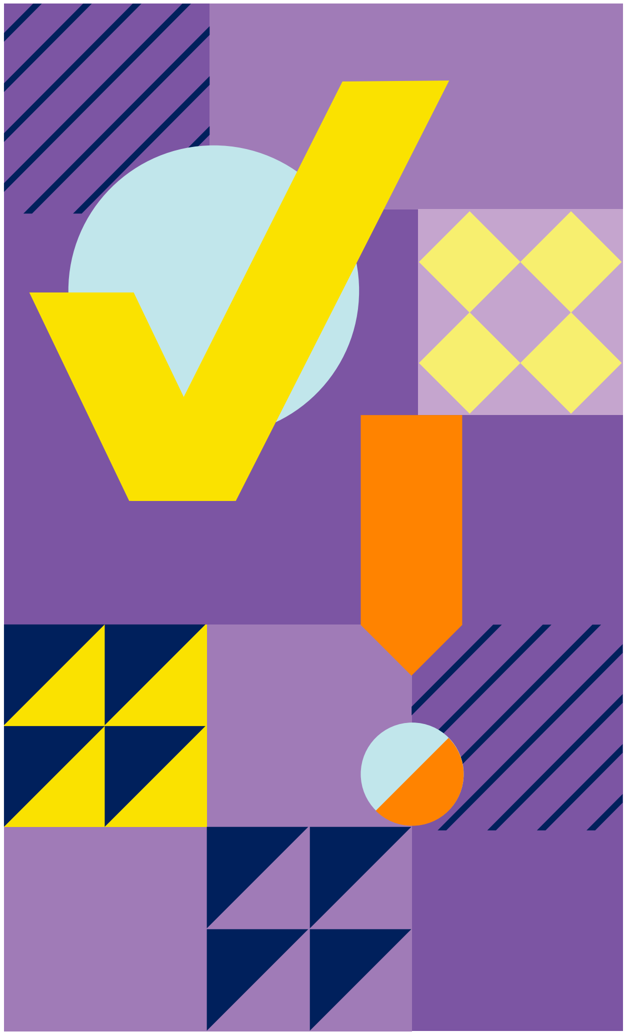
# What add-backs are & what they aren't

We often find that sellers are unclear on what constitutes an add-back. That's understandable – add-backs can be a little confusing. Add-backs are non-essential business expenses. But they're not expenses your buyer can simply cut from the business plan in the future. For example, let's say you've hired a pay-per-click (PPC) manager or outsourced your PPC program to an agency. The expenses for those should be included in your P&L. Even though Thrasio may not retain your PPC manager, those expenses were critical to your business's success and therefore they are not an add-back.

**ADD-BACKS** [ adbaks ] **noun**
Adjustment of net income through addition or deduction of items not affecting working capital; an item thus added or deducted.

On the other hand, let's say you accidentally offered a coupon giving customers 100% off on a product, failed to catch the mistake for 24 hours, and lost $50K in revenue. Not only was it a mistake, but it was a one-time event that didn't contribute to the overall success of your business in the TTM period. This is an add-back!

We find that sellers are often too conservative with their add-backs, a tendency that can throw off our understanding of their EBITDAs and in turn lead to lower valuations. While we always partner with sellers to help them think through possible add-backs to include in their P&Ls, having them ready in advance makes this part of the due diligence process smooth sailing.



## P&L Dos and Don'ts

**We've seen our share of mistakes, and we're listing a few of the most common ones here. Most are simple miscalculations and easily rectified – a good buyer certainly won't hold them against you. But get them right from the get-go and this part of the due diligence process will be that much happier.**

**DO** clearly state whether your business operates on a cash or accrual basis. Even better: we highly recommend working with an accountant to prepare a P&L using accrual accounting prior to sale.

**DON'T** miscalculate your Cost of Goods Sold by excluding critical expenses such as freight or 3PL costs.

**DO** apply the correct Harmonized Tariff Schedule Codes (HTS) and Value-Added Tax (VAT). If you've applied incorrect codes either accidentally or as a way to reduce fees, the time to correct them is well before a sale.

**DO** add-back any personal expenses or expenses that apply to other businesses to your P&L.

**DON'T** use the Business Report by ASIN in your Amazon Seller Central account to build out your P&L. The Payments Report is the one you want. Why? The Business Report includes all orders placed over a defined time period, regardless of settlement status; that means it includes canceled orders. The Payment Report, on the other hand, includes only completed transactions and also includes Amazon fees and returns. It provides the most accurate picture of your actual revenue.

# REAL DEALS | SYRTENTY

## A seller's responsiveness and organization helps guarantee an ultra-fast, ultra-smooth close.

"We recently closed a deal for Syrtenty, a brand that sells replacement pads for Transcutaneous Electrical Nerve Stimulation, or TENS units, which some people use to treat pain. To meet time-sensitive personal financial objectives, the seller needed to close the deal fast – within 30 days. We closed the deal in 25. The seller's organization and responsiveness played a big role in that. He sent thorough documentation and he sent it fast. In the end, the seller was happy and so were we. It was a classic win-win."

—Ethan Zeiger, Mergers & Acquisitions Associate

# STRAIGHT TALK FOR SELLERS

We're here to expand our business by buying incredible businesses we believe to show continual growth. That's why when we go through a company's P&L, we also look at the story behind the numbers. A P&L tells us a lot about how you operate your business and what you value as an owner. We then identify the areas of opportunity. That's important to us as future operators of your business, and it's important in our future relationship with your customers.

## JUDY PARK

Judy Park is a senior associate of mergers and acquisitions at Thrasio. Judy joined Thrasio in early 2019 and since then has reviewed countless P&Ls and closed more than 150 deals in collaboration with the M&A team. Judy lives in Jersey City, New Jersey, with her dog, Bella, and spends countless hours at her potter's wheel creating both functional and abstract pieces of ceramic artwork.

Chapter 4

# CONQUERING COMPLIANCE

## Keep up with the global rules designed to keep the world safe, so your business will be more than ready to take on the world.

Contributing Expert
Jenny Clifford, Product Compliance Manager

Photo: NDABCREATIVITY/Adobe Stock

# INTRODUCTION

## It's our responsibility to make sure every product we sell meets legal and safety standards. Full stop.

That means we conduct our own due diligence to evaluate how your product and marketing efforts comply with all international, federal, and state regulations as well as select voluntary standards for certain categories and marketplaces.

Not surprisingly, compliance can be a document-heavy and technical process. At Thrasio, we certainly aren't looking for a "gotcha" moment, and we don't expect every business owner to know every regulation. Our team has decades of product-safety experience and compliance knowledge as well as relationships with a global network of compliance experts. Our goal is to make the process as painless as possible for you, the seller.

Ultimately, we're trying to make sure everything is in place so we can successfully operate your business from the moment of sale onward – and even expand into new markets as we develop a strategy to grow your business. You can help smooth the compliance due-diligence process (and shore up your own business) by getting a few things ready in advance.

Photo: NDABCREATIVITY/Adobe Stock

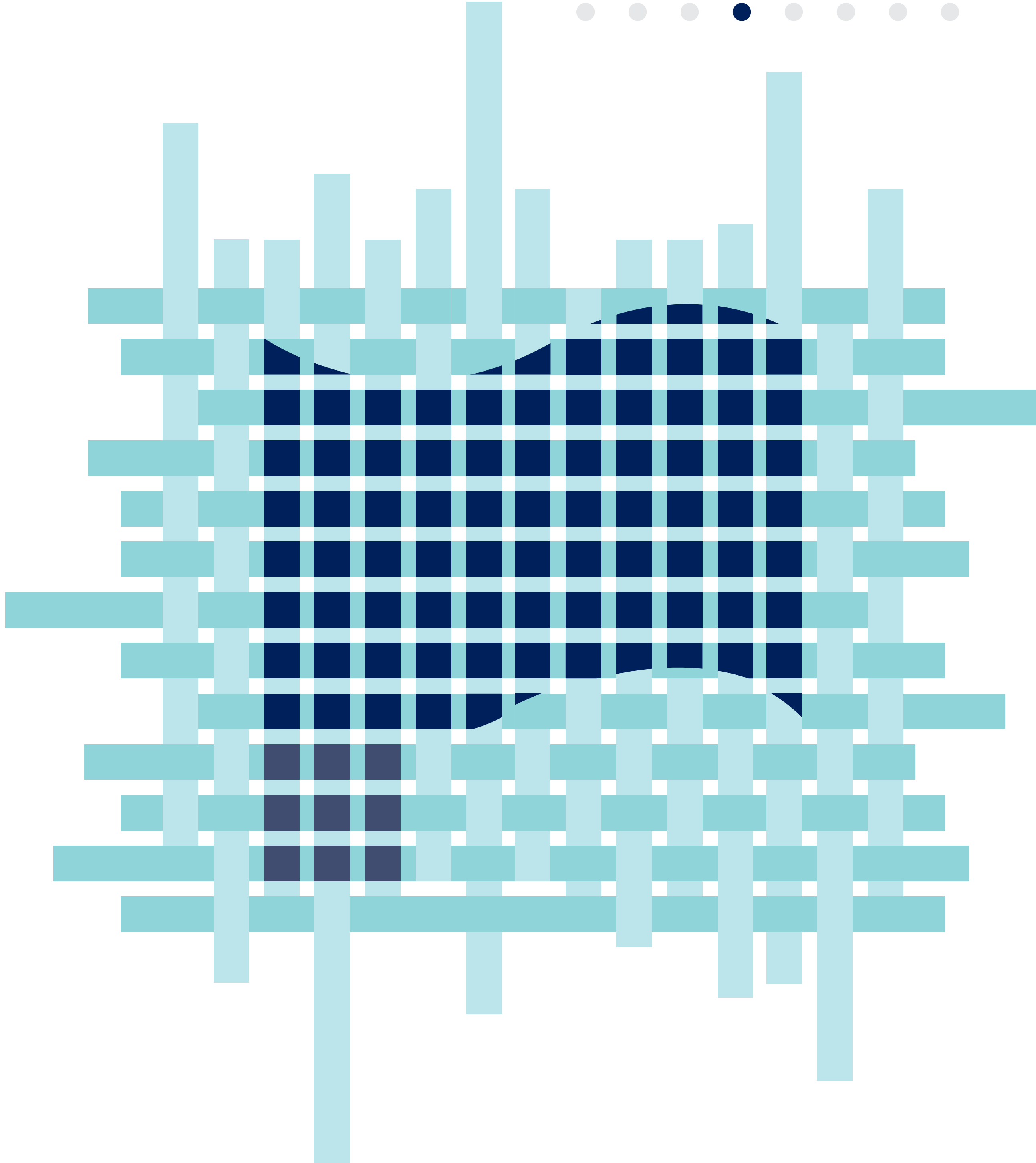
# Know Your Way Around the Compliance Landscape

The regulations your product should meet can change in light of new scientific knowledge, shifts in the industry, or shifting government policy. Materials, ingredients, labels, or components that are acceptable today may not be tomorrow. Product claims in China may not be OK in California. Here are a few best practices you can put in place to effectively manage product compliance for the long term.

# 1. *Weave* compliance into your business practices

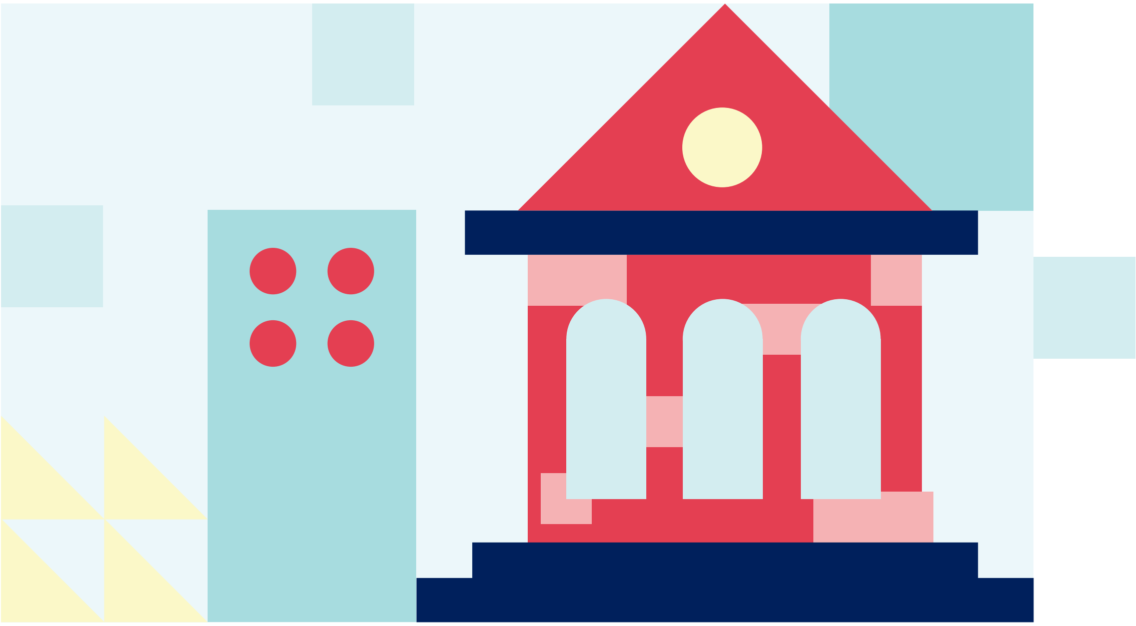
Hiring an experienced compliance professional, whether in-house or as a consultant, ensures that compliance is more than just a box-checking exercise. That's important. A company that integrates compliance practices into its operations is more resilient and better prepared to meet changes head on and enter new global marketplaces with relative ease.

You want to be confident you're ready if your product requires a special registration or consideration to meet, say, Stuffed Article Requirements, pesticide registrations, or the terms of federal- or state-labeling regulations. A compliance pro can also help you meet regulations governing packaging and make certain the language you use in marketing, product description sheets, and instruction manuals is up to snuff.



# 2. Tap into the expertise of trade groups and peers

You can't know everything, but you can keep up with changes that might pertain to your products by joining groups such as ASTM International and the International Consumer Product Health and Safety Organization. Both offer training, conferences, and publications that keep you in the loop on emerging issues. Joining industry groups within your business category is also a smart idea. They'll be laser-focused on rules affecting your company and voluntary compliance standards for your products. Plus, you'll learn from other business owners who have faced similar scenarios.



## SMART THINKING

### Tell us your product story

Compliance usually begins with a conversation. And it's true, our compliance team asks a lot of questions. We want to understand the original intent behind each product you put in the marketplace. Why did you create the product? Who do you want to sell it to? How do you intend for people to use it? The answers are important to us. They'll show us which rules and regulations we should apply to your products. They'll also help us stay faithful to your business vision.

Consider the seemingly simple example of a bath bomb. Depending on a seller's intent and marketing claims, that rose-scented dissolving delight could be classified as either a cosmetic or a medicinal product, and those have vastly different regulatory requirements. Selling globally? Those two classifications have different regulatory requirements in the US and in the UK. And if you're marketing your frothy bomb as a way to make bathtime fun for toddlers (and not just for adults), things can get even more complicated. It's our job to figure all of this out.

# 3. Keep your documentation up to date

Many sellers rely on their suppliers to manage their compliance. If that's you, give yourself plenty of time to gather the information a buyer will need. We suggest asking your manufacturer for copies of testing reports well before you put your business on the market and having those reports ready to share with prospective buyers. Among the documents we ask for are testing reports less than a year old, Safety Data Sheets, Good Manufacturing Practice documents, and Certificates of Analysis. You don't want to go chasing these down at the 11th hour.

## Ace Your Tests

Part of our due diligence responsibility is to identify the testing required to validate that your product is safe and legal for consumers. For some product categories, like electric devices and children's products, the testing protocols are very clear, but they may be less so for others, especially if you're currently selling in multiple markets or will be in the future.

Depending on your company's size and revenue, you may already be required to have a reasonable product testing program in place. However, it's not uncommon for us to require more tests than you've conducted to date. If we need more tests, don't panic. We'll work with you to get them done – effectively and expediently.

# STRAIGHT TALK FOR SELLERS

It's true, we're going to ask complicated, technical questions. And if you don't know the answer, don't worry. We don't expect you to know everything. If you come into the compliance due diligence process with an open mind, we'll be able to form a great partnership. We're going to figure it out. We'll get to the bottom of it together.

## JENNY CLIFFORD

Thrasio Product Compliance Manager Jenny Clifford worked for Walmart for nearly 20 years, developing expertise in product safety, product labeling, and international compliance. Before joining Thrasio, she spent 4 years at Yeti. Jenny loves working with passionate entrepreneurs to understand why they created their products and their visions for the future.

Chapter 5

# PROTECTING YOUR INTELLECTUAL PROPERTY

## Copyrights, patents, and trademarks deliver measurable value to your business – exactly why it's a good idea to manage them well.

Contributing Expert
LaNelle Owens, Assistant General Counsel,
Head of Intellectual Property

Photo: Rido/Adobe Stock

# INTRODUCTION

## More than a million new sellers set up shop on Amazon every year.

In this increasingly crowded marketplace, it's crucial to proactively document, manage, and protect your brand's intellectual property (IP). Taking steps to get your IP house in order has another benefit: it makes your business that much more attractive and valuable to a buyer.

During due diligence, you'll need to disclose information about copyrights, patents, trademarks, trade secrets, and other kinds of intellectual property you own or license. It's equally important to disclose any past or active IP disputes. Ecommerce is the Wild West in a lot of ways, and we've seen our share of infringement claims made against sellers – some valid, many spurious. Being involved in a dispute won't necessarily mean we can't make a deal. Many businesses have had to run both offense and defense on IP claims. We know the landscape and often can help you identify a smoother path forward.

# 5 IP Strategies to Solidify Your Brand Position

## 1. Document your IP protection processes

If you have any IP for your business or on the products you sell – including patents, trademarks or copyrights – you should have a strategy for protecting that IP on Amazon and other marketplaces. Document the processes you have today and make sure to mention them early on in conversations with buyers. When our team hears that you have a system in place to document and remove bad actors infringing on your IP, that's music to our ears. We've done deals with companies whose teams automatically report any infringements to Amazon. The common result: offending listings are taken down. Extra points if you can estimate the number of sellers you've had removed in the past.

## 2. In a dispute? Keep a clear record

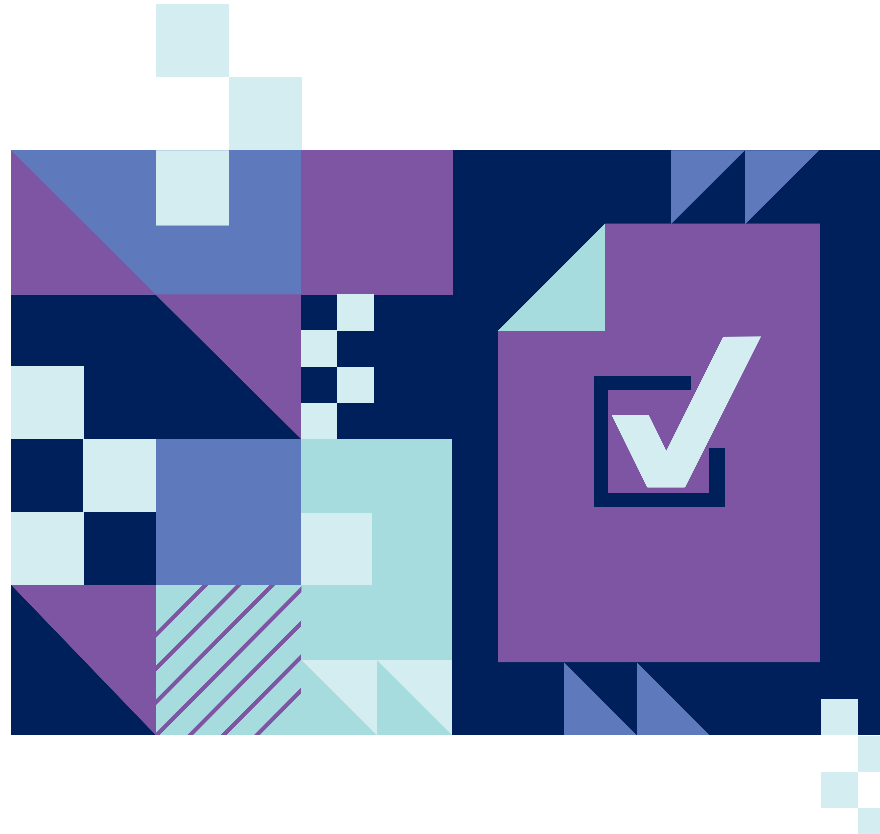
If your business has been accused of infringing on someone else's IP, any buyer will need to quickly grasp the facts. If the claim is active, a buyer will need to calculate what it's going to take to defend or resolve a dispute.

You can help a buyer by maintaining a clear record of your actions in response to the claim. Clearly document every communication. The better your records are, the more swiftly we can devise a strategy. Amazon's Seller Central includes an overview of steps available to you if you receive an IP infringement claim from another seller.

# 3. Fortify your supplier and employee contracts

Suppliers sometimes have their own intellectual property that can play a crucial role in the operation of your business. The supplier might have given you usage rights through a written license or an informal arrangement for use. If this applies in your case, you'll want to have a written license or technology-transfer agreement with the supplier that clearly documents your right to use its IP.

It's also important to have work-for-hire or similar IP assignment agreements in place for any employee or independent contractor, including photographers and graphic artists, who may have had a hand in developing your IP. Since we're on the topic, before you get ready to sell your business, it's time to turn any handshake agreements you have with any third parties into written contracts.



## SMART THINKING

### Be forthright about business blemishes

The sooner you and a potential buyer can have open, collaborative conversations about any IP issues past or present, the quicker the resolution and, generally, the more positive the outcome. Honest and speedy disclosure is equally important to help a buyer know what it will take to solve any outstanding IP issues. Once a deal is closed, we'll want to move fast and take steps to shore up your business. Taking stock of your IP before the sale will likely improve your business performance and go a long way toward achieving your earnout.

## 4. Check up on your licensing agreements

Celebrity images, NBA logos, Star Wars characters. If you have personal endorsements, model releases, or third-party licensing agreements to use logos or images of a protected entity on your products, one of the first things we'll ask is if your agreement includes an assignment or transferability clause. Just as it sounds, this clause gives you the right to transfer your licensing agreements to any future owner. Don't have one in your current contract? It's a good idea to explore how open a licensor would be to one in the event of an acquisition.

Think about it this way: if 90% of your sales comes from sports paraphernalia bearing NBA logos, but a future owner of your business is barred from selling those products or suddenly has to pay crazy-high royalty fees, then you may not be able to find a buyer for your company. Certainly, your valuation will be less than it could be.

## 5. Control your IP, control your brand

If you don't already have your ducks in a row when it comes to IP, consider consulting an IP attorney to make sure your business and your brand are protected and as strong as they can be. Taking actions to shore up your IP can be especially important when you're considering the possibility of selling your business, of course. But IP protections work best when you implement them early in your business-building journey and when you integrate them into your normal business operations. Don't put your IP program off. Get in the habit of protecting the brand you worked so hard to create, and you'll be creating more value along the way.

# STRAIGHT TALK FOR SELLERS

We take a very collaborative approach to IP. In fact, we see our role as delivering the dreams you have for your brand. That's why we'll work together with you to improve any work you've already done in IP – and of course we'll help you navigate any thorny issues. Our goal is yours: to help strengthen your business.

## LANELLE OWENS

Assistant General Counsel and Head of Intellectual Property LaNelle Owens is a registered patent attorney and leads a team focused on domestic and international IP matters, including product development, supply chain, and brand enforcement. Prior to joining Thrasio, LaNelle was senior associate counsel for Walmart, where she advised on global issues related to patent, trademark, domain enforcement, and sourcing matters. She holds a BS in chemistry from the University of Illinois–Urbana/Champaign and a JD from Howard University School of Law. LaNelle is an advocate for families living with autism.

Chapter 6

# SHORE UP YOUR SUPPLY CHAIN

## Make operating your business easier for a buyer from day one by streamlining and simplifying

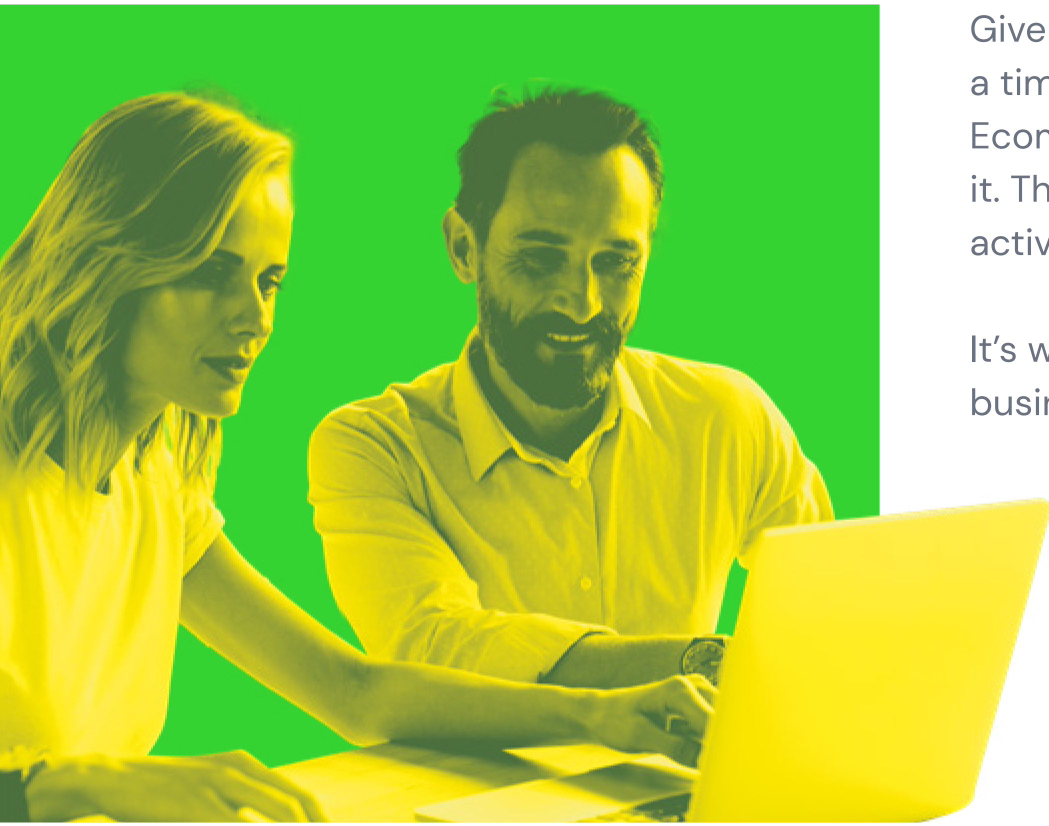
Contributing Expert

Austin O'Malley, Senior Director of Supply Chain Due Diligence and Onboarding

Photo: Vasyl/Adobe Stock

# INTRODUCTION

## To prepare your business for sale, it's a good idea to make sure your supply chain is shipshape.



Given recent global events, that's no easy task. Once upon a time, supply chain was a function that mostly functioned. Ecommerce owners could largely set it and (almost) forget it. That's no longer the case. Supply chain now takes more active management and more of your time.

It's worth the investment to stay on top of it so your business is more appealing to a buyer. And as you give your supply chain health a checkup, keep these two principles in mind: streamlining and simplifying.

Could a buyer step into this business tomorrow and operate it effectively? If not, here are steps you can take to best prepare your supply chain for a higher valuation and a more efficient exit.

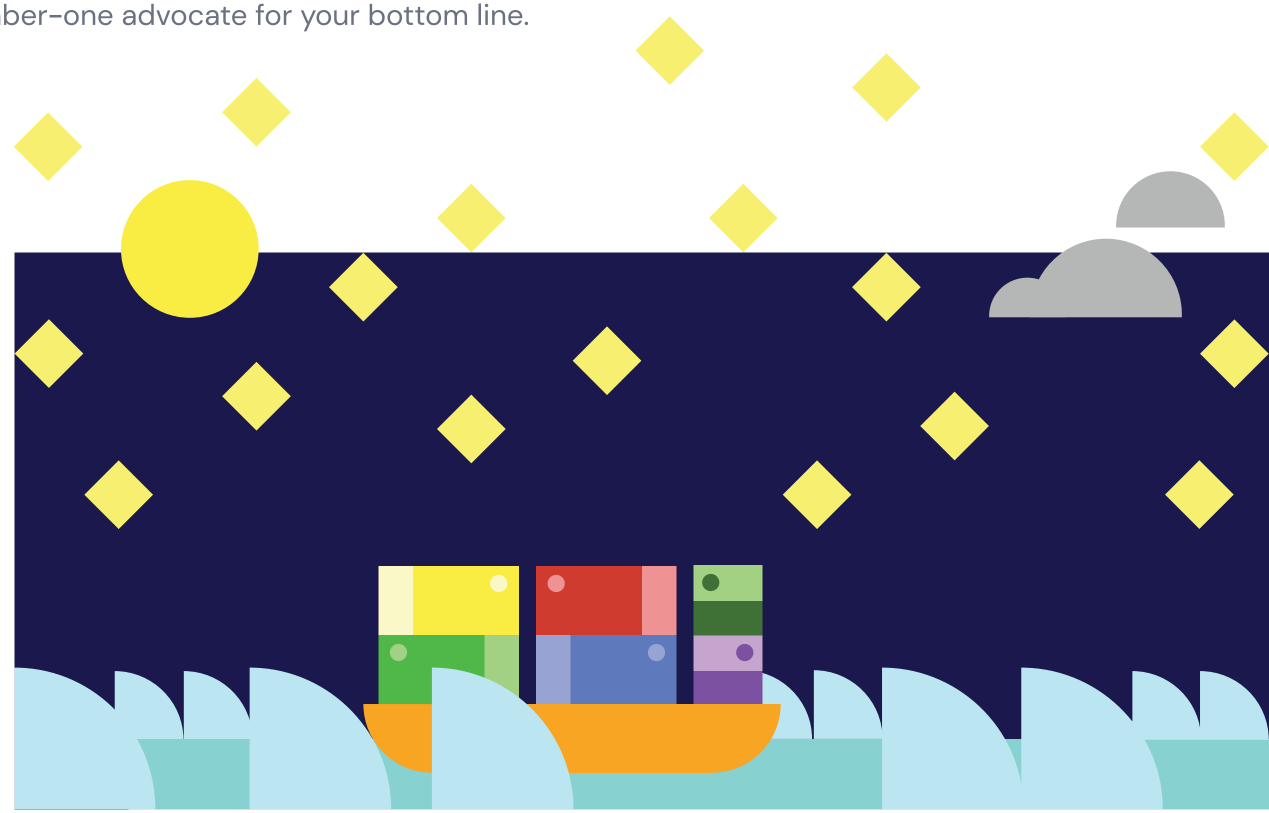
Photo: Drobot Dean/Adobe Stock

# The Road To Resilience: 4 Supply-Chain Strategies

## 1. Know the supplier landscape so you can explore your options

You may have great personal relationships with your suppliers – but as the business owner, you need to be in the driver's seat. After all, you're the number-one advocate for your bottom line.

Don't be afraid to re-evaluate your options in the supplier market. You might reach out to other suppliers and ask for samples. If the quality, ethical practices, and price seem as good as or better than what you're currently receiving, you're doing your business and potential buyers a big service. Adding competent suppliers to your supply chain helps ensure that your products remain competitive.



# 2. Be ready to renegotiate the details

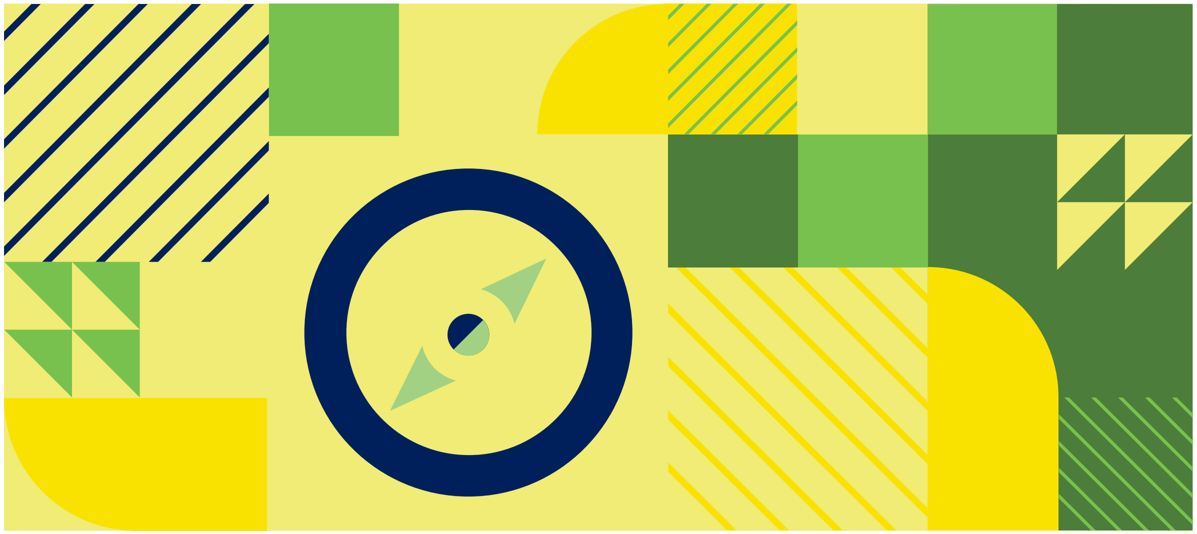
Take a hard look at contract terms and conditions, especially those that may have been put in place early on. Considering the massive disruptions over the last 2 years, you also want to check your supply contracts: do they spell out what happens in times of volatility, when exchange rates or lead times fluctuate? For any buyer, that step means stability and predictability – no small things.

And if you do have formal contracts, such as exclusivity agreements or patents, be sure that your suppliers have agreed to all terms and conditions in writing via a signed document. Written documents are required for most acquisitions.

## SMART THINKING

### Fear not the questionnaires

There will come a point in the diligence process when we'll ask you to fill out a few questionnaires about your supply chain partners. Sometimes sellers are surprised by how much we ask. It's true, we ask a lot. From the nature of your relationship with your supplier to their customs-clearance practices and certifications, the questions cover a breadth of topics. If you don't know the answers to some questions, that's okay. Our goal? Fully assess the supply chain health of your business to make sure we can build strong relationships with your suppliers and build the most resilient and high-performing supply chain possible for your products and your business.



## 3. Plan for worst-case scenarios

Sometimes redundancy is a good thing. It's handy to have extra batteries in the charger or a spare toothbrush in the medicine cabinet. The same holds true for your business. You don't want to let a single point of failure within your supply chain hamstring your entire operation.

COVID-19 has shown us that the more flexibility you can build into your supply chain today, the more prepared you'll be for future disruptions. For example, you might consider working with multiple secondary suppliers or freight forwarders to hedge against events like natural disasters, which can drive up local prices for raw materials and shipping.

## 4. Trim the fat from your supply chain

Take a hard look at your processes, products, and channels through the lens of profitability, and eliminate or shift away from those with the lowest return on your investment.

Selling on a particular channel might generate $200,000 in annual revenue – but when you factor in labor and storage costs, that number may be much lower. Getting ready to sell your business is also the perfect time to look at all of your product offerings and cull the underperformers. For instance, if you have a handful of products that require complex and expensive packaging but bring in only a small percentage of your revenue, consider removing them from your line. You may see your total operating margin increase, proving that your company is efficient and nimble in its operations and good at turning sales into profits.

# What Makes A Good Supplier?

Since your eventual buyer may inherit your supplier relationships, their strength could have a significant effect on your offer. A responsive, reliable supplier makes your business much more attractive to potential buyers. Here's what a good supplier brings to the table.

### AMPLE CAPACITY

Know your suppliers' manufacturing capabilities. Dig deep. Request specific data about monthly output and where your company ranks in spend compared to other customers. Ask if they have any extra capacity. If you were to place an order that is 50% larger than previous monthly orders, can the factory produce with no delays?

### PRODUCT QUALITY

Ecommerce businesses, especially Fulfilled-by-Amazon (FBA) businesses, live and die by customer reviews. A supplier's ability to deliver high-quality materials consistently should be non-negotiable.

### ATTENTION TO DETAIL

A good supplier will be able to show you how its product complies with all relevant regulations for its category – and can produce accurate, complete documentation upon request. A diligent buyer will conduct a thorough compliance audit of your business.

### COMPETITIVE PRICING

Do your research, both when you're initially choosing a supplier and periodically after that, to make sure you're getting a competitive price. If you find a better price, a supplier you have a strong relationship with is more likely to match it to keep your business.

### COMMUNICATION

Responsiveness is business-critical. Can you reach your supplier when you need to? Good suppliers are prompt in returning calls, texts, and emails. They don't leave you hanging in an emergency.

### SOURCING AGENTS

Sourcing agents can provide value if your products require complex supply chain activities, such as sourcing and assemblies from multiple factories. If your products are simple, you can reduce Cost of Goods Sold and increase your margins by managing the relationship with the factory directly.

# REAL DEALS | CHOMCHOM

## A strategic focus on top products makes ChomChom a high roller

ChomChom ROLLER

"Talk about trimming the fat. The owners of ChomChom didn't lose their way trying to add a bunch of products to their portfolio; they focused on one hero SKU and a couple others. That allowed them to fully optimize their supply chain. The one and only supplier knew the owners and the products well, understood the quality expectations, and had the capacity to produce very large runs at the lowest cost with the least number of issues. That was a win for the supplier, the seller, and the customer, who got a great product at a great price. We were able to step in and start running the business right, right out of the gate." —Austin O'Malley

# STRAIGHT TALK FOR SELLERS

You're the paying customer. You want to be in the driver's seat when it comes to conversations with your suppliers about contract terms, product quality, or competitive pricing. When you cultivate active, trusting relationships with your suppliers, it makes your business a lot easier to operate on day 1. Which also makes it easier for a buyer to grow your business right out of the gate.

## AUSTIN O'MALLEY

Austin is the senior director of supply chain due diligence and onboarding. Since joining Thrasio in 2019, Austin and his team have vetted and onboarded more than 1,000 suppliers across more than 150 brands. A Boston native, Austin currently resides in the South Shore with his wife, Laurie, and their 2 children.

Chapter 7

# DECODING DUTIES AND TARIFFS

## When it comes to codes and classifications for your products, it's a good practice to become a real stickler for the rules.

Contributing Expert

Austin O'Malley, Senior Director of Supply Chain Due Diligence and Onboarding

Photo: Austin Distel/Unsplash

# INTRODUCTION

Photo: Rido/Dreamstime

## Except in an airport gift shop, there's usually no such thing as "duty-free."

That's particularly true when it comes to running an ecommerce business that relies on materials from abroad. Customs duties and tariffs are part and parcel of operating your business. During due diligence, it's our job to check that your products are categorized correctly to help ensure the appropriate duties, tariffs, and value-added taxes (VAT) are applied – no shortcuts, ambiguities, or workarounds.

As you begin to think about an exit, there are a number of steps you can take to optimize your approach to managing duties and tariffs. Not only are they good business practices, but they'll make the sale process faster and smoother.

# Get Down into the Details

## 1. Audit your supplier and supply chain

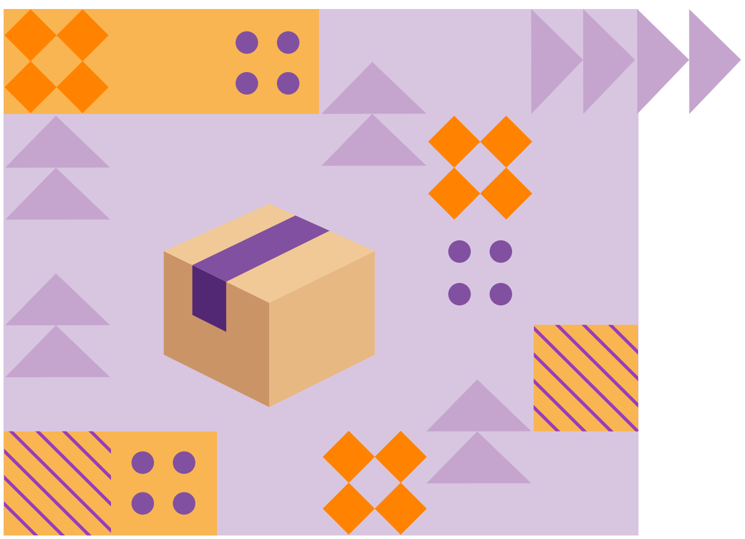
It looks like the Section 301 tariffs on Chinese goods, which people thought the new administration would repeal or revisit, are going to stick around. If you've been importing from China, it might be time to consider pivoting to a country that isn't subject to the same tariff policies. You can also investigate switching to materials that cost less in duties and tariffs. If you're selling stainless-steel saucepans, for example, the metallic composition might make a difference in costs.

## 2. Be aware of major tariffs in your category

Anti-dumping and countervailing tariffs are levied when foreign manufacturers flood the market with underpriced goods, which can squeeze out domestic producers. They're currently applied to products ranging from mattresses from China to phosphate fertilizer from Morocco. If your product or one of its components is subject to these tariffs, it could push up your costs and reduce your profit margin. The International Trade Administration maintains a list of products by country subject to these tariffs.

# 3. Understand that the buck stops with you

Don't depend on your freight forwarder to act in your best interests when it comes to duties, tariffs, and VAT. Even if your freight forwarder is the importer of record (the party responsible for paying these fees), you still may be on the line for incorrect HTS Codes or non-compliant paperwork. If you're not sure which codes apply, you can work with a customs broker or even ask CBP to make a ruling.



## What Can a Customs Broker Do for You?

Interpreting trade policy isn't something most sellers enjoy. Fortunately, specialized help is available. Customs brokers are licensed by US Customs and Border Protection (CBP) to help importers and exporters interpret and meet federal regulations governing imports and exports. Think of a customs broker as your trade-policy tour guide who can walk you through a shifting landscape of regulations and rules. For a fee, customs brokers submit the necessary information and payments to CBP on behalf of their clients. They're there to help you meet your customs obligations and stay on the right side of CBP.

You may have access to a customs broker through your freight forwarder. If you're importing via an express courier like FedEx, they offer customs broker services on your behalf for a flat fee to clear your products upon their arrival in the US. You can also work directly with a customs broker without going through an intermediary. For larger companies or those facing complex customs issues, specialized expertise is often worth the investment. If you're interested in working with a customs broker, CBP maintains a list of licensed customs brokers broken down by port.

# SMART THINKING

## Invest in HTS

Harmonized Tariff Schedule Codes (HTS) can have a huge impact on the bottom line and the overall valuation of your business. Because they're applied individually to each product you sell, a wrong code can wreak havoc on your costs. If you haven't focused much on tariffs in the past, it's never too late to start. Whether you choose to invest your own time or hire outside help, the resources you spend today to ensure accurate codes will reduce your chances of headache down the road.

## 4. Bottom line: misinterpretation costs money

We want to evaluate your business as fairly as possible, so we can structure a deal that works for both sides. That means helping to inform you about the correct duty, tariff, and VAT regulations for your product in every market where it's sold. But fear not: our role isn't to be the customs police. If we see potential sellers using incorrect HTS Codes, misclassifying products, or working with a freight forwarder that's cutting corners, we help you identify these missteps without judgment.

# STRAIGHT TALK FOR SELLERS

Simply doing the right thing is really the most important thing here. Otherwise it can be costly to correct. There are a lot of things about customs you can learn on your own. In these volatile times, having that kind of knowledge helps you become a better business owner. You'll be more prepared to make shifts if you need to. You'll be more prepared to enter new markets.

## AUSTIN O'MALLEY

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# FINAL WORDS FROM ALL OF US AT THRASIO

## We hope you got a lot out of the book.

Our goal was to help you build an ecommerce company with staying power – whether you want to sell in 6 months, 2 years, or not at all. Ecommerce isn't easy. The ecommerce landscape and the world at large are changing at a breakneck speed. We want you to have what you need to be successful.

And remember – you don't have to excel at every aspect of running a business. We all have different strengths and passion, and as ecommerce entrepreneurs, we all have a lot to learn from each other. At Thrasio, we believe we're all in this together.

And when you're ready to sell your business, we hope you'll think of us.

### Thinking about selling your business? Get in touch.

thrasio.com/contact

Photo: Rido/Adobe Stock

Thrasio is the consumer goods company reimagining how the world's most-loved products become accessible to everyone.

**HOW GOODS BECOME GREAT™**