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Wholesale/Distribution -- Durable Goods

SIC: Unavailable**NAICS:** 423**Number of Businesses / Units:**

Unavailable

Industries in the Merchant Wholesalers, Durable Goods subsector sell capital or durable goods to other businesses. Merchant wholesalers generally take title to the goods that they sell; in other words, they buy and sell goods on their own account. Durable goods are new or used items generally with a normal life expectancy of three years or more. Durable goods merchant wholesale trade establishments are engaged in wholesaling products, such as motor vehicles, furniture, construction materials, machinery and equipment (including household-type appliances), metals and minerals (except petroleum), sporting goods, toys and hobby goods, recyclable materials, and parts.

Business-to-business electronic markets, agents, and brokers primarily engaged in wholesaling durable goods, generally on a commission or fee basis, are classified in Subsector 425, Wholesale Electronic Markets and Agents and Brokers.

Rules of Thumb

5 times EBITDA

2 to 2.5 times SDE plus inventory

Expert Ratings

▶ Competition	2	(1=Lot of : 4= Not Much)
▶ Amount of Risk	2	(1=Very : 4= Not Much)
▶ Historical Profit Trend	3	(1=Down : 4= Up)
▶ Location & Facilities	2	(1=Poor : 4= Excellent)
▶ Marketability	3	(1=Low : 4= High)
▶ Industry Trend	3	(1=Declining : 4= Growing)
▶ Ease of Replication	3	(1=Easy : 4= Difficult)

Expert Comments

"There are significant competitive cost barriers to entry into this industry, where size does matter along with quantity and quality of product lines, adequate logistical distribution channels, good supplier pricing and terms, adequate facilities sizing and location. Solid, well-diversified customer base mitigates risk and wards off competitive challenges."

Pricing Tips

"Worth approximately one-half of sales volume; watch out for large, stale inventory."

"% of annual gross sales is a poor guide to follow. EBITDA drives ROI and ability to service debt."

"Add cost of replacing current ownership with professional management to SDE, and then multiply this number by 4 to 6 to get price. Variance is for security of earnings, competition, assets, etc."

Benchmarks

"Cost of goods should be less than 74%, with 70% as ideal; operating expenses of less than 20%; sales/assets ratio of 3.0; W/C ratio of 13% to 15% of revenues; current ratio of 3.0 or greater; A/R turnover ratio of 12.0; inventory turns of 6.0 or greater; sales per employee greater than \$250,000; sales per sq. ft. in excess of \$300,000."

Expenses as a Percentage of Sales

▶ Cost Of Goods	70% to 72%
▶ Payroll/Labor Costs	15% to 20%
▶ Occupancy Costs	03% to 08%
▶ Profit (pretax)	08% to 15%

Industry Trend

"Self-service options will change the way you do business with customers and transform your sales force. Customers will roam online, searching for information and taking over more of the pre-sales and transactional activities typically handled by their wholesaler-distributors. Distributors will not have a lock on information needed by customers to make purchasing and sourcing decisions, since manufacturers and online sources will make such information readily available.

"In response, wholesaler-distributors of all sizes will complement their traditional selling methods with online technologies. Wholesaler-distributors will catch up to larger companies by 2008, as the costs and complexity of today's technologies drop.

"Customer self-service will also significantly erode the perceived value of the wholesale distribution sales force in educating customers about new products. The majority of wholesale distribution executives believe the Internet could actually replace their sales force as a source of product information.

Manufacturers will seriously question the effectiveness of the distributor's sales force going forward. As a result, sales positions in wholesale distribution are forecast to grow at half the rate of overall U.S. job growth over the next five years."

Source: *The Road to Opportunity in Wholesale Distribution* by Adam J. Fein, Ph.D., Pembroke Consulting, Inc., www.pembrokeconsulting.com

Advantages

- ▶ "Barriers to entry—size, product lines"

Disadvantages

- ▶ "Most are growing because of Internet sales."
- ▶ "Large players trying to squeeze out smaller players."

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