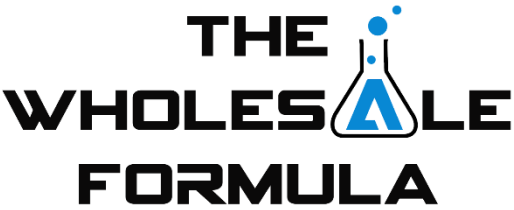


# Addressing Constraints in Your Business

This module is going to be about addressing constraints, with the goal of expanding our business, or growing our product lines. There are several factors for growth in our business. One of the factors is available capital, and I say capital as opposed to cash or cash flow because capital can be in many forms. You can think of capital in terms of investment capital, you can think of capital in terms of your available cash, you can think about it in terms of available credit, there's a lot of different ways to define capital. That's why I left it as 'capital' instead of using a more direct term.

Then we have processing capacity. Processing capacity is our ability to make sure that our products are processed and available for sale in the most efficient and timely manner possible. Then we have sourcing capacity, and this is simply our ability to find new products that we could expand our business with, or products that fit within our product range.

Each one of these different factors combine to limit or provide constraints for our ability to grow our own business, so, we have to address each one individually to make sure that we do have the ability to continue to push ourselves and grow our business.

Addressing capital constraints can be done through several different ways. First, you can build capital naturally. Now this is the route we actually went. We were primarily retail and online arbitrage-based, and our constraint wasn't necessarily our capital, because we had great profit margins and were accruing capital at a very good pace, but our constraint was our ability to get more products in the manner that we were using to source them. So, we accrued a lot of capital, but we simply had nothing to spend it on effectively, which is why we needed to go more into the wholesale side.

There's another way to increase your capital, and that's increased credit limits. Now I'm not suggesting to use credit cards and go into debt and things like that. I'm saying, if you have higher credit limits, what can happen is, you can simply use those credit cards, or lines, to spend and then pay back in the allotted timeframe. So, that can give you the ability to use more cash than you necessarily have on hand at the time, but you only want to do it whenever you're able to predict your returns and understand what kind of cash flow you're going to have coming back.

Another way you can address your capital constraints is to seek bank loans or lines of credit. We actually picked up a line of credit with our local bank, and the way a line of credit

works is not like a traditional bank loan, though a bank loan could certainly do the trick. But a line of credit allows us access to capital as we need it, with a set payback period. So we have a line of credit for a year, and we are able to pull as we need it. So if we need ten thousand dollars or something like that, we can use our line of credit, pull that much money off, and then it simply sets the payback period to the one year, and we're able to pay that back with normal payments. Though what we typically like to do is do payback as we can, with balloon payments just to pay it off quickly. That reduces the amount of interest we're paying.

Now Amazon loans, if you qualify, are another way to address capital constraints. Now the way Amazon loans are structured, they're not as good for retail or online arbitrage because your income and your cash flow is not as predictable. However, when you're using the wholesale system, your cashflow and income becomes much more predictable, and you can simply target your purchases to be able to pay back your Amazon loan effectively. Then, you can request extended terms from your wholesaler. Now this is possible because we actually don't use a lot of extended terms because most of the terms we get offered are net 30. Now, our credit cards currently have net 30 terms essentially, and they give us additional purchasing benefits, like cash back, and other similar things. But if we were offered net 60 or net 90 terms, those might be something we would definitely consider. So if that's possible, try to seek net 60 or net 90 terms with your wholesalers.

Then, we're going to talk about addressing capacity constraints. The terminology that I'm using, 'process capacity', here is to target the amount of time it takes you from purchasing a product to getting it for sale into the Amazon fulfillment centers. There are several different things that you can do to make that process faster and reduce the amount of time you have money sitting in your warehouse. So, this was actually one of the most interesting parts of our growth, was addressing this particular constraint.

First, you could have equipment upgrades, and that was one of the things we did, is we developed our warehouse, a system for our warehouse, to move things from point A to point B much faster. Then we simply bought tools that would help us do that, like hand carts, we have pallet jacks, we have a forklift, things like that, we want to be able to move our product around as quickly as possible and not waste a lot of time doing it.

Then, you have to develop uniform processes. So what we did is we started documenting the way we were processing things, and simply testing those processes to make sure we were doing it as quickly as possible. Now the reason we documented all these things was when we hired all our employees, we were able to sit them down and train them in a manner that would let them know how to process products efficiently; we want our employees to be working as efficiently as we are. So, like I said, the third thing is hiring employees. But you want to develop your processes before you do that.

And lastly, facility upgrades. Whenever we were in our previous warehouse, which was about three thousand square feet, we simply didn't have the room to have a forklift and things

like that, to make our processes quicker. We didn't have loading docks, and bay doors, and things like that. So, that was one of the most important upgrades we made was our facility upgrade because it allows us to process products at the rate we intend on purchasing them, which maximizes our ability to increase our cash flow.

Sourcing capacity is your ability and time to find products that fit within your desired product range. The first thing you're going to have to address is dedicated time. You're going to have to address it because you're going to need to find products that fit within that range. So you're going to need time to do the various types of sourcing, say leaf sourcing, going to trade shows, and the other types of sourcing we've covered in previous modules. So, make sure that you have a dedicated time to be able to find your products.

Then, you're going to need to improve your processes, to be able to do so most efficiently. Now we've addressed a couple of those with talking about the pre-contact spreadsheet, then we did so again with developing correct skews, and ultimately, there are other things, like equipment upgrades, that help you do this. For example, every employee in our building has two monitors. Now we do this because it lets us look at a product on one screen, and simply source it on the other screen. So, that increases our ability to find products quickly.

Then, you could look at outsourcing possibilities. I know that there are lots of VA programs, and you can hire VAs to source your products. But, you're going to want to develop your processes first, to make sure that you're teaching your VAs, or whoever you've outsourced this process to, to make sure that they're being able to do it in a manner that you would do it. Or, a manner that you would find most efficient.

Then, developing references. Now what I mean by this is after you've developed a relationship with several wholesalers, you want to be able to use those people as references. Not just for credit, but for character references; you want to be able to say, whenever you're talking to someone, "Hey, yeah, we do follow the rules, here, talk to these people, we've been dealing with these people for a long time." And that's going to help you get more accounts. And then, ultimately, developing alternate sales platforms. This is not a necessity, but it will help you get certain accounts. A lot of accounts simply don't want you to be able to just sell the product to Amazon. They're gonna want you to sell it through a brick-and-mortar, or maybe your own website, or simply just have some other sales platform because your ability to market a product on Amazon is fairly limited. They want to make sure that their products are being marketed and not simply sold. So, that might be one way that you could increase your sourcing capacity is by developing sourcing platforms.

After we've addressed the other constraints, the thing we're going to look next at is our cash flow, but it's important to tell you to make sure that you've addressed the other constraints within your business before you start looking for expansion opportunities. So, analyzing your cash flow: it's been the theme of this course that it makes your cash flow

incredibly predictable. Your focus should be on what you expect to spend in standard cycle. And by cycle what I mean is, whatever your targeted sell-through range is. If you're trying to purchase eight weeks of inventory, what do you expect to spend on the eight weeks worth of inventory, and ultimately what do you expect to bring back after you sell through that cycle? What you're going to be able to gauge by this is how much cash flow you're going to have available after you've incorporated your returns. And this is going to give you a good idea about how quickly you can expand your business. If you have a thousand-dollar cycle that you're spending, and you're bringing back twelve to thirteen hundred, that means you're going to have thirteen hundred extra dollars you can spend. Now, your ability to spend that money is going to be based on addressing the previous constraints, as well as some of the cash flow constraints.

So these are the factors that's going to potentially change that model. Your percentage of re-investment Like I said, if you have a thousand dollars and you're expecting thirteen hundred coming back, you may not want to re-invest all thirteen hundred. Instead, you may only be wanting to invest 50% of that. So you would have eleven-fifty through a cycle to work with. Then, what is your rate of return? Are you operating on a one-week cycle, are you operating on a two-week cycle? Maybe a month cycle? When do you expect to sell through a cycle of products?

Then, your expected returns, or profits. Now, what are your profit margins, what are your target margins? These are going to be defined by your product range. But it's also going to affect how quickly you're able to expand your business.

When should I expand my product lines? Like I said, you have to address all of the constraint factors, even before you get to cash flow. But ultimately, it should be based on the amount of investible cash or capital you have. But those are going to be defined by the previous slides. You're going to need to assess what type of investment you're looking to make; are you looking to invest all of your profits, or are you using this business for an income, or are you using this business to grow itself? For us, fortunately, our other account was able to pay us for quite some time before we actually started requiring money out of this so we were able to invest %100 of our cash flow right back into new product lines, which helped us grow very quickly. But that may not be the case for you, you may actually need to pull money out of your accounts. But you need to do so predictably, and you don't want to lose sales because you're pulling money out.

So, simply try to gauge what you need to do to grow your business based on your constraints. That's the ultimate way you can decide, "How can I expand my product lines?"