

# THE WHOLESALE FORMULA

## Module 2 – Reverse Sourcing

Welcome back! In this video, I'm going to cover the concept that revolutionized our business and allowed us grow much faster. That concept is Reverse Sourcing and it's one of the key reasons we've succeeded. Let's get started.

In a nutshell, first, we identify successful, branded products that are selling really well on Amazon. Then, we contact the brand owner of that product directly (sometimes called the manufacturer) to set up a wholesale account so we can buy those products direct in bulk quantities to get the best possible price. We then resell those products on Amazon.com at a profit.

Scout. Source. Sell.

If it sounds simple, well, that's because it is.

We aren't creating our own products, or introducing new products to the marketplace. We find branded products that already sell hundreds or thousands of times each month on Amazon, and then we get permission from the owner of that brand to sell their product on Amazon.

I am sure this sounds completely logical and reasonable. Want to know the crazy part? We call this reverse sourcing wholesale because it is actually the complete opposite of the conventional wisdom in the industry.

Whenever we first adopted the wholesale model, we were lost. We didn't know how to find quality products, and were looking in all the wrong places. We spent countless hours and thousands of dollars to learn this simple, but effective concept.

To truly understand Reverse Sourcing, you must first understand traditional sourcing.

Traditionally, retailers like us would source products from distributors. Those distributors purchased those products in bulk from the brand owner.

Makes sense, right? But, the thing is, there are so many problems with this model from the retailer's perspective.

One problem is that, after you first have to find a distributor, you then have to meticulously scour their catalog to find profitable products. And sometimes, you might not even find any. It's like trying to find a needle in a haystack.

Another problem is that you are buying from a middleman. That means they have a markup on everything in their catalog. That's how they make money. They buy goods from brand owners, mark them up, and sell them to retailers like us for a profit.

None of this worked for us. So, we looked for a more efficient method...and we found one; Reverse Sourcing.

Here is what Reverse Sourcing looks like compared to the traditional method. Here you have us, the retailer, and what we do is just cut out that middleman, the distributor. Simple, right? Now, we are buying directly from the brand owner. You're probably saying to yourself, "hey, but the graphic says manufacturer." That brings up an important point. The most confusing term in wholesale is manufacturer. When most people hear "manufacturer," they picture the factory where products are made. We do not purchase from factories, we purchase from the people who own those products; the brand owners. It's actually illegal to purchase from factories. Doing this without the consent of the brand owners is considered to be counterfeiting. This is a common occurrence when buying from Chinese manufacturers. We don't buy from the people who make the products, we buy from the people who own them. We legally source from the highest possible point in the supply chain. So, to reduce this confusion going forward, we have changed our verbiage to reflect the legal and ethical way to purchase products...from the brand owner.

Is that all there is to Reverse Sourcing? You just cut out the middleman? No, that's just one component of Reverse Sourcing. The second component is where Reverse Sourcing gets its name. Traditionally, one would start scouting upstream by talking to distributors first. So, you would think that after eliminating distributors from the chain like we have with our model, that we would simply start scouting by talking with brand owners, but we actually do the opposite. Instead, we start scouting downstream by looking at the products customers are buying on Amazon, and we've gotten really good at it. After all, why would we spend time talking to brand owners before first looking at their products? Also, it makes sense to look on Amazon first, because that's where we're going to be selling the products anyway, right? By looking at the products on Amazon first, we get to find out if there's money to be made before ever speaking to the person we can source them from.

That's why we call it Reverse Sourcing. Are you with me?

Now that you understand Reverse Sourcing and where it gets its name, here are all the benefits that come along with it:

1. You develop a direct relationship with the brand owner; one built on providing value.
2. You can get products at lower prices by cutting out the cost of middlemen.
3. You will have access to specials or deals ran by the company.
4. You can develop exclusivity or limited exclusivity deals with brand owners. This is when the brand owner only awards you as the only seller of a product or one of a limited number of sellers.

5. Manufacturers can offer insight such as short stock, or if they change their distribution plans. This can be huge in helping you ensure you order the correct amount of product; increased supply chain visibility helps you have better control over your inventory.

When you are dealing directly with the brand owner, you develop a powerful relationship, and that relationship has real value beyond just the price of the products.

This concept revolutionized our business. Not only did it lead to a more efficient and streamlined sourcing process, but it also paid huge dividends in allowing us to develop the right relationships. All of these benefits came about because brand owners are human beings, just like everyone else. You are able to connect with them on a personal level, which is a magical thing in business. That wraps it up for this video. Thanks for watching and I'll see you soon!

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