

# INVESTOR'S BUSINESS DAILY

## Startup Brings New Life To Returns

Channel Velocity helps sellers recoup more for return, overstock items

By PETE BARLAS Tuesday, February 7, 2006

Entrepreneur Wes Shepherd was looking for a new business opportunity in late 2002 when he recalled the good results he had selling goods on eBay.

Shepherd used the world's large online auctioneer to sell consumer returns from another company he helped start years earlier. Then he did some research on how much companies lost on returned and unsold goods.

Shepherd put two and two together and founded privately held Channel Velocity, which sells bulk returns for large firms on eBay EBAY and Amazon.com's AMZN online marketplace service.

Channel Velocity has rounded up some large clients, including the U.S. unit of Netherlands-based Philips ElectronicsPHG, computer cable maker Belkin and Japan's CanonCAJ.

One day in December, eBay sent a catered breakfast to Shepherd's office in Chicago — a reward for becoming a leading seller on eBay.

Shepherd recently sat down with IBD to discuss his company.

**IBD: How did you end up in the business of managing online returns?**

**Shepherd:** I started the company in spring 2003. I have an e-commerce background. In 1998, I was an investor and an early employee in SuperBuild.com, which sold home improvement products on the Web. We were the first home improvement Web site. We put about 60,000 products up for sale. We were way ahead of Home Depot or anybody else. We used to get a lot of returns, and we'd sell them on eBay and get our money back on them.

I came back to this idea in 2002, after we had sold SuperBuild.com to a group that renamed it Hardware.com (no relation to a computer products company with the same name).

**IBD: What's the problem with how companies handle returned items?**

**Shepherd:** There are hundreds of millions of dollars worth of returned product. Most of it is sold for pennies on the dollar or destroyed. There are warehouses full of stuff because there isn't an effective way to get the product resold.

**IBD: What usually happens to it?**

**Shepherd:** About 10% of all consumer products end up returned. They end up at flea markets or recycled, sold to Third World countries or refurbished. That's \$100 billion worth of goods a year. Overstock is another 5% to 10% worth of goods.

**IBD: How did you get started?**

**Shepherd:** We (he and co-founders) put in everything we had personally. That was about \$20,000. I burned up my savings. It was a serious bootstrap. We got a distribution center up and running right away and got a few customers right out of the gate.

**IBD: Did you need to raise any more cash?**

**Shepherd:** No. We got a couple of customers up and running and got cash flow immediately. As soon as we started selling product, money was coming in from the eBay sales.

**IBD: Do you take possession of the inventory before selling it on eBay?**

**Shepherd:** We don't buy inventory. I will never do that. We sell the product at the highest possible price to recapture the most value.

**IBD: How do you get paid?**

**Shepherd:** I get a cut of each sale, between 10% and 30%. We also pass eBay fees onto our clients. For example, last night I sold a 50-inch plasma TV for \$2,500 for our customer Philips Electronics. I'll get \$250 of that sale. I'll pass through a \$50 eBay fee and net the client about \$2,200.

**IBD: Is it worth it to them?**

**Shepherd:** Their cost in that plasma TV is about \$2,000. They get a nice recovery on that item, given that most companies recover 50% of cost, at best.

**IBD: Do you sell products one at a time?**

**Shepherd:** Almost always. We do very-high-volume, single-item auctions. I can sell 10 or 20 MP3 players a day. We just stagger the auctions.

**IBD: Why not sell them all at once?**

**Shepherd:** If you put them all out there, they would sell for \$20 each. Other eBay sellers would buy them and wait until they could (sell them one at a time for higher prices).

**IBD: How do you sell products on eBay?**

**Shepherd:** I have 12 stores. Many are brand names of the manufacturers. I also have my own brand names. One is called DealMonger. It's a titanium power seller, which means it's a multimillion-dollar store. Some manufacturers want to sell anonymously (and so they use Shepherd's store).

We have about 1,000 auctions going at the same time. We have very advanced software technology that we developed. We just keep tweaking and monitoring it.

**IBD: How many clients do you have?**

**Shepherd:** We have about 20 vs. five a year ago. We have Philips in the U.S.; Saeco, the world's largest maker of automatic espresso machines; and Milwaukee Electric Tool. Most are manufacturers, but some are retailers. Consumer electronics is our biggest category.

**IBD: Is the revenue growing?**

**Shepherd:** It's in the millions, and we have consistently grown 10% month over month since I founded the company. That's 300% a year.

We're planning a move to Europe this year and looking at Japan in 2007.

**IBD: Will you be looking to raise some capital?**

**Shepherd:** We now have about \$1 million from high net worth individuals. I'm starting to raise capital and am looking for a minimum of \$2 million to \$3 million.

**IBD: What's the goal?**

**Shepherd:** I want to build this into a \$250 million company. The key to scaling for us is to get a major global distribution partner like FedEx or DHL, and then I wouldn't have to build a distribution network. I could direct my clients to send their trucks to UPS warehouses.