



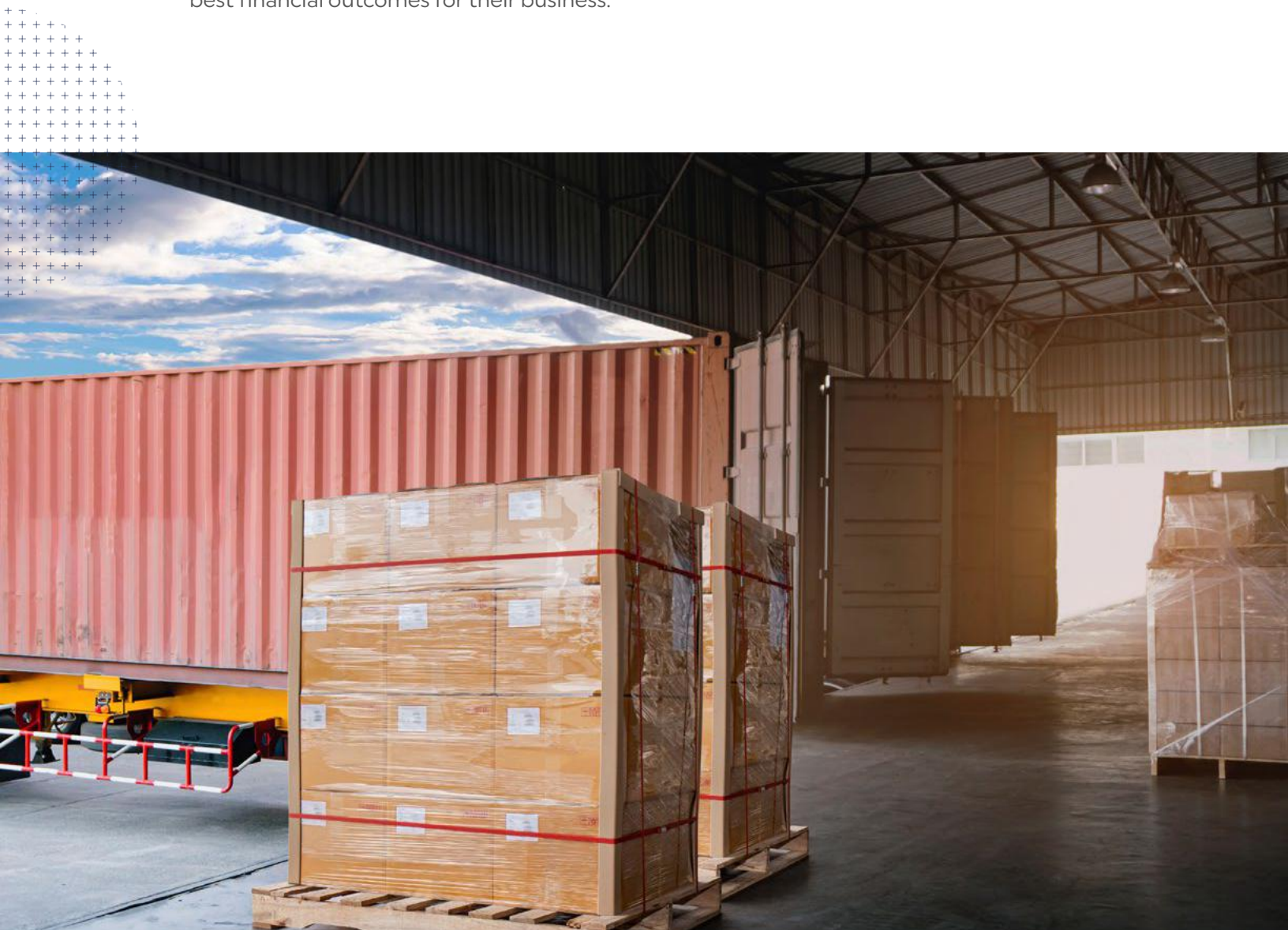
REPORT

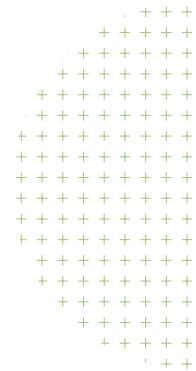
ReCommerce and the Secondary Market: Five Strategies to Overcome Rising Competition and Costs

2021 was a dark year for many industries. However, amid rampant shutdowns and layoffs, people found new ways to create income. Ambitious “solopreneurs” bought wholesale returns and overstock pallets with minimal upfront investment, reselling the goods for profits in secondary market channels. Not every experiment was a success, but wholesalers, exporters, online resellers, pawn shop owners, and backyard refurbishers found ways to supplement income loss and add revenue streams they never imagined.

Today, the demand for secondary market goods remains high. At the same time, wholesale buying has become more complex. Driven by increased competition and rising freight and processing costs, the industry isn't as attractive to newcomers anymore. To remain competitive and recover profits on the secondary market, wholesalers have to adjust.

We sat down with some of our senior sales colleagues to discuss the changing reCommerce landscape. Here, we offer five key strategies that wholesale buyers can employ to achieve the best financial outcomes for their business.





Wholesale Demand Then & Now

Height of the Pandemic

In March of last year, our wholesale buying platform, Direct Liquidation, experienced extraordinary growth. For instance, we saw a 332% increase in new account registrations and a 188% increase in units sold compared to 2020. As a result, our stock was consistently six weeks presold—a trend that started Q1 of the calendar year and remained steady throughout 2021.

The steep rise in consumer demand for these goods was critical to why wholesale buyers became so successful. People were home shopping online (in historic numbers), looking for deals, and turning to lower-cost secondary market options for products ranging from returned lawnmowers to reconditioned home electronics. The refurbished smartphone market alone grew by 15% globally¹.

2022 Price Hikes

Although the secondary market is still growing, wholesale buyers struggle to remain competitive this year. Online sellers, auctioneers, exporters, and discount store owners can only succeed if they turn inventory quickly and profitably. To do that, they must minimize processing expenses to sell products at the most attractive prices. In other words, every dollar they invest counts, so when resellers must pay higher freight, labor, packaging, and warehousing costs—their profit potential wanes significantly.

In 2022, secondary market sellers have contended with extraordinary expense increases.

28%
Freight
increase

6%
Labor
increase

15.7%
Warehouse
rent increase

8–14%
Corrugated
box increase

Freight fees are even more significant for wholesalers who buy and ship small amounts. For example, wholesalers that buy a couple of pallets pay top dollar rates compared to larger competitors that can access full truckload discounts.

In some cases, shipping increases are so steep that the recovery potential is not worth the investment. In the current environment, wholesale purchasing has become less attractive to

¹ Source: <https://www.counterpointresearch.com/refurbished-smartphone-market-2021-infographic/>

new recruits, and more prominent players are shifting strategies. Direct Liquidation's stats illustrate this picture.

50%↓

Decline in single pallet orders

140%↑

Rise in full truck orders

Secondary Market Strategies to Overcome Costs

1. Buy Local, Sell Local

At the height of the pandemic, our wholesale and liquidation platforms received large and small orders from buyers in every part of the country. Buyers weren't as concerned with how far their order had to travel to arrive at their facility because transportation costs were moderate and allowed wholesalers to maintain a steady margin when reselling products.

Today, rising shipping fees mean operators must choose between absorbing or passing the costs on to their customers. Absorbing costs means squeezing that margin and recovering lower profits. However, offloading costs onto end customers may mean pricing oneself out of this deal-oriented market.

One of the best strategies to avoid this scenario is to buy and sell locally—drastically reducing transportation costs and allowing wholesale buyers to sell at competitive rates. For smaller operations, that may mean buying from local overstock and returns providers and selling locally on platforms like Facebook Marketplace and OfferUp. For more extensive operations, that may mean using nearby auction houses as a convenient sales tool to avoid shipping. Our wholesale data shows pallet auctions have been extraordinarily successful, allowing some major players to turn multiple truckloads of inventory each week.

2. Take Advantage of Cost Concessions

Buying and selling locally is an effective strategy that wholesale buyers of any size can utilize. Larger buyers, however, have the added advantage of volume discounts. For example, single truckload orders are cheaper to ship than single pallets. However, the best deals come to those that can afford to fill and ship five to ten truckloads in a single week.

Operators may pay significantly more upfront, but they save hundreds of dollars in shipping costs—sometimes up to 40%—garnering healthier resale margins and increasing market share. This strategy allows those with capital and warehouse space to manage double-digit-transportation-cost increases relatively unscathed.

3. Know Your Audience

During the pandemic, many wholesalers bought mixed general merchandise pallets and sold eligible items to diverse customers nationwide. This strategy still works for various businesses with a broad geographical reach and a large budget. However, rising transportation costs have made the secondary market far more hyperlocal, and customers in specific regions have distinct preferences that change with the season. So regional online sellers and discount storefronts can no longer afford to narrowly focus on wholesale general merchandise that arrives in unpredictable conditions and categories. Secondary market success today requires wholesale buyers to know their audience and regularly shift buying patterns to achieve the best recovery.

For instance, organizations might pivot to TVs if general merchandise pallets are no longer selling at the same velocity. TVs, which have some of the highest recovery potential (up to 83% of retail value), are excellent options. If TVs don't work, sellers might consider other electronics categories that garner profitable margins, like video game consoles and eReaders. If electronics don't work, resellers might experiment with home goods—another fast-turning, high-recovery category. Although these bulky items are expensive to ship, major appliances like laundry machines and freezers can yield over 90% of retail price.

4. Sell to International Buyers

Another trend we've seen is a shift toward buying returned and overstocked goods and selling them internationally. Here's how it works: American wholesalers purchase organized, manifested pallets, rather than mixed pallets (aka "unmanifested") to take advantage of lower shipping rates. Despite the extensive mileage required to transport these goods, exportation provides a guaranteed revenue stream and has been a cost-effective strategy—especially for operators that reside in border states.

Costa Rica is the central wholesale export hub of the moment. Costa Rican companies purchase goods from American wholesalers—then inspect and test every item before selling them locally. Because labor is significantly cheaper there, suppliers can sell these pallets for much less than their American counterparts and still maintain healthy margins.

5. Work with Major US Suppliers

Buying goods from international suppliers is an effective strategy for specific organizations with experience navigating increased export regulations and paperwork. However, those who prefer local options are turning to trusted US suppliers with multiple facilities for the best pricing and product selection. For example, goTRG is one of a handful of returns and overstock suppliers, like B-Stock and Liquidity Services, providing wholesale buyers with brand-name, high-quality goods across categories—and can ship from 14 locations between the US and Canada. Multiple warehouses allow wholesale buyers to purchase from local facilities, taking advantage of more affordable shipping rates and ensuring they receive items without delay.

Another advantage of working with major suppliers is that these organizations have years of retail experience and market data to educate wholesale clients and bolster their chances of success. Global overstock and returns organizations can help wholesale buyers discover top-turning categories, predict how much auction pallets are worth, and identify how much used iPhone 13 Pros can resell for online. This data is invaluable to improving financial outcomes.

The Bottom Line

Secondary market competition was steeper than ever coming into 2022, with buyers of all sizes competing for market share. Today, unprecedented price hikes have meant only those with the most cash and ingenuity can survive. Fortunately, determined resellers have options like buying and selling strategically in hyper-local markets and partnering with major suppliers to learn more about the industry. Plus, all those willing to experiment with various strategies can find comfort in knowing they're in the right business. With the resale market projected to double in the next five years², secondary market sellers have unlimited growth potential.

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² Source: <https://www.forbes.com/sites/catherineerdly/2022/01/17/resale-set-to-be-star-of-retail-in-2022-for-consumers-and-brands/?sh=7a1f185a2689>