UNIQUE BUSINESS MODEL DRASTICALLY REDUCES DISTRIBUTOR'S OVERHEAD COSTS

Aluminum is remarkably versatile. Used in everything from construction and transportation to manufacturing and commerce, it's flexible, lightweight and strong. Plus, it's affordable.

Tony Sonsini, president of Offshore Direct Metals, likes to say that his metal import and distribution company shares many of the same qualities. Appropriately, the Cocoa Beach, Fla.-based company specializes in aluminum products such as castings, coils, billets and extrusions—and business is thriving. Sonsini has increased his customer base ten-fold in just two years.

But the secret to his success is not just an appreciation for his product. It's in the company design. Unlike many importers and distributors, Sonsini's company has almost zero overhead costs.

Finding a niche

Sonsini owes much of his good business sense and knowledge about metals to his father, who owned a screen-enclosure business. Sonsini worked for his father until 2002, when he started his first company, Aluminum Direct.

"I wanted to try sourcing the aluminum framing that my father used for screens, so I started a warehouse distribution company that made daily deliveries of aluminum material to contractors," he says.

Despite early success, he quickly learned the pitfalls of owning a warehouse distribution company.

"The high overhead and low profit margins were not what I anticipated," Sonsini says. "So, I changed my business model [in 2004]. I got rid of the warehouse, got rid of my trucks and started sourcing directly from factories to my customers."

By 2008, his revamped business model was working so well that it attracted venture capitalists, who purchased the company.

Less is more

After selling his first company, Sonsini continued to develop and implement his lean business model. In January 2011, he founded his current company, Offshore Direct Metals, and has avoided high overhead costs. He runs the business with no inventory, no warehouse and no delivery trucks.

He also manages day-to-day operations, only employing two part-time employees.

"I have no overhead," says Sonsini, who passes the savings on to his customers to remain competitive. "Typically, [my prices are] anywhere from 20 to 30 percent less than someone that has to warehouse and do daily deliveries."

Price wins out

While successful, this innovative model does have drawbacks. For example, because Sonsini doesn't hold inventory, his customers are responsible for it—a hard sell in a down economy, when extra inventory means extra investment and risk.

"Most factories won't take an order unless it's a certain size, so I have to convince my customers to buy 1,000 [units] from me instead of 100," he says, stressing that for customers with healthy cash flow, the lower cost per unit justifies the initial expense of placing and storing large orders. "I have to do a lot of math to show them that taking on extra inventory is worthwhile."

Another challenge is payment terms. Although his clients regularly ask for 30-, 60- and 90-day terms, Sonsini requires a 30 percent deposit on all orders, and the balance is due upon delivery.

"Because I'm not giving out credit, I avoid the big problem of someone potentially going out of business and not being able to pay me," Sonsini explains. "That eliminates risk, and I reflect that in my price."

In the end, both Sonsini and his customers benefit from his business model.

"I'm able to get rid of all my overhead, and by doing that, lower my selling price to the customer," he says. "In return, all my customer has to do is order larger quantities [less often]. It makes sense for them, and it means more profit for me."

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