

Persistence Pays: Gentec International Celebrates 20 Years of Growth

by Gordon Brockhouse

Everyone in sales and marketing knows that you often have to ask more than once before you get the deal. Joel Seigel can attest to that. Seigel is President and CEO of Gentec International, a Markham, ON-based distributor of photo, wireless and electronics accessories. On September 13, Gentec will celebrate its 20th anniversary; and right from its foundation, Seigel and his colleagues have appreciated the value of persistence.

Take for example Gentec's appointment last year as Canadian distributor for Klipsch Group, Inc., an arrangement that was three years in the making. It started in 2006, when Indianapolis, IN-based Klipsch bought Audio Products International Corp. Based in Scarborough, ON, API was the owner of the renowned Canadian speaker brands Energy and Mirage. Following the purchase, Klipsch dissolved API's Canadian operations, including sales and marketing, and merged them into its own operations.

At the time, Gentec had a licensing agreement with API that allowed Gentec to use the Energy brand for a line of premium A/V cables; and Seigel wondered whether Gentec could expand on that relationship. "Shortly after Klipsch bought API, we went down to Indianapolis and made a presentation to Klipsch," he relates. "We said that if they were considering distribution for the Canadian market, they should look at us. Basically, they just fluffed us off." Instead of distribution, Klipsch elected to serve Canadian Energy and Mirage dealers through the same satellite sales operation it was using for Klipsch.

The Beat Goes On

Fast-forward two years, and enter a major shift in economic conditions. By late 2008, the economies in both Canada and the U.S. were deep in recession. For Gentec, the recession hit just when the company was expanding its warehouse to 100,000 square feet. For Klipsch, it came when it was trying to digest three new brands (not just Energy and Mirage, but Jamo as well) and deal with a major contraction in the audio business.

"In December 2008, we went back to



Joel Seigel, President and CEO, Gentec International: "We see the speaker business expanding as we expand our distribution base. Our focus now is to develop the electronics side of our business to a similar position of our imaging side, where we're a sought-after source of supply."

Klipsch with a full-blown business proposal," Seigel says. "The recession helped us make our case. Klipsch used distribution in other markets around the world, and thought they should focus on their core competencies. They thought maybe they shouldn't have satellite operations in Canada. Maybe they should have distribution." This time, Klipsch was more receptive to Gentec's pitch, and the two companies signed a distribution agreement in July 2009.

Seigel acknowledges that the speaker business is different from its other areas. For one thing, speakers are physically larger than the other SKUs that Gentec handles in its warehouse. But Gentec is operating at about 70% of capacity in its warehouse. "We were able to take over Klipsch without stressing our infrastructure," Seigel says.

More fundamentally, speakers are a core CE product, not an accessory. "It's a

whole different mindset," Seigel states. But Gentec already had expertise in-house that would help the company enter this new category. Stan Klebanoff, the company's Director of Product Marketing for Electronics, had previously worked as a marketing manager for the Energy brand at API. "We were not under an obligation to absorb Klipsch's Canadian staff," Seigel says. "Stan provided us with insight on who to go after. That helped us enter this business without losing a beat."

The relationship is evolving in some interesting directions. After Klipsch acquired API, it wound down the Canadian firm's R&D operations and took over those functions itself. Now the company is about to introduce a new version of one of Energy's hit products: the Take 5 home theatre system. A new version, the Take Classic II, is due for introduction this fall. Energy's high-end Veritas sub-

brand is being revived.

Seigel believes the Klipsch relationship represents the latest "hockey-stick" moment for Gentec: a venture that creates significant, sustained growth. "We see the speaker business expanding as we expand our distribution base," he elaborates. "Our focus now is to develop the electronics side of our business to a similar position to our imaging side, where we're a sought-after source of supply. In a year or two, we will look at home theatre hardware that complements what we're doing on the speaker side."

The Roots

Many of the themes of the Klipsch relationship play out in other aspects of Gentec's history: not just persistence, but also orderly expansion, prudent financial management, and creative licensing deals.

Gentec was formed, phoenix-like, out



of the ashes of a now-defunct supplier of camera and camcorder accessories. Part of a group of companies that was owned by Stelco, Optex ran into financial difficulties in 1989, following a leveraged buy-out. This was compounded by expansion into the U.S. and unrelated product categories such as radio-controlled toy cars. Essentially, the financial sins of the 1980s caught up with the company. Its core business was solid, says Seigel, who at the time was Optex's senior vice president of marketing.

The president of Optex, Seigel's boss, decided to try to buy the company from Stelco. He told Seigel and some other employees that they'd be able to keep their jobs, but they'd have to work longer hours for less money. Seigel couldn't imagine working harder than he already was. "I was already working six days a week," he recalls. Seigel and another Optex executive, Margaret Adat, decided to put together their own bid for the company. The two obtained financial backing from a silent partner on Bay Street, and negotiated a deal with Stelco.

Before the deal could be finalized, Stelco decided to divest itself of all its ventures that were not steel-related, and basically turned the keys of The Claris Group, of which Optex was a member, over to its banker. The banker then put The Claris Group into receivership. Buying just the Optex portion was no longer an option, as Coopers & Lybrand wanted to sell all operating divisions as a single entity. Interestingly, C&L retained Seigel's old boss as a consultant to assist with asset valuation.

After extensive back-and-forth negotiations, Seigel's group reached an agreement to buy the companies for \$8.9 million, only to see the deal blow up in their faces. "As we were on our way downtown to sign, I got a call from our financial group saying they were no longer going to back us," Seigel relates. "We spent the next two weeks trying to find other backers, but we couldn't close, and the police escorted us out of the building."

Eventually, Seigel and Adat found another financial backer in Hong Kong. This enabled them to form a new company, Gentec International, that would focus on Optex's former core business. The new company was able to buy some of Optex's remaining assets. "Our core suppliers, staff and dealers stuck with us," Seigel says. "Future Shop, London Drugs, Henry's and Black's were with us right from the beginning."

Twenty years later, nine of the original 12 members of Gentec are still with the company, which now has 90 employees. Seigel, and Adat, Gentec's Executive Vice President and CFO, are the two operating partners. Seigel's background is in product and marketing, and Adat is an accountant. But Seigel realized the company needed help on the sales side, and approached Brad Lloyd, who today is Senior Vice President of Sales and

Marketing, to join the new firm. Steve Sam, a long-time veteran of the photographic industry, has been with Gentec from day one, and today is Sales Administration Manager.

New Challenges, New Directions

In the early 1990s, the excesses of the '80s caught up with the economy at large, just as they had with Optex. "All of a sudden we were hit with a recession," Seigel says, "but our survival was never in question. Optex was lousy at operations and finance, but we were *über*-funded, so we always had the staying power to ride out bumps."

The prudent management also enabled Gentec to expand into new markets, but only if they made sense. In 1992, London Drugs asked Gentec to develop a line of electronics accessories. Gentec licensed the Electrohome brand, and created a lineup that grew to include cables, headphones, batteries, power adapters, and CD/DVD cleaners. The same licensing strategy would eventually be used to develop a line of premium audio/video cables under the Energy brand, which helped pave the way for the Klipsch distribution deal.

Seigel is a big proponent of these branding arrangements, as they create instant recognition and comfort for the customer. Gentec's highest-profile brand licensing came in 2001, when the company reached a long-term agreement to sell cases for cameras, cell phones and electronics under the Roots brand. Gentec entered the cell phone accessory business in 1994, when Motorola introduced the first flip phone.

In addition to developing its own accessory lines, Gentec distributes established lines. In 1996 and 1997, two new lines presented opportunities for "hockey-stick" growth. It added a division for Tasco optics (binoculars, telescopes and riflescopes), and six months later, bought the assets of Vivitar Canada Inc. "All of a sudden, we were a major optical supplier," Seigel observes.

Another major addition was Sigma, which Gentec immediately pursued when its previous distributor closed down in 1992. A decade later, when consumer DSLRs hit the market, sales of Sigma lenses boomed along with DSLRs.

There have been reverses too, such as the bankruptcy of Tasco and a decision by Vivitar to terminate its agreement with Gentec. Seigel says Gentec was able to survive those setbacks because of its conservative financial management. "We have always had a very strong financial base," he says. "It's our security blanket. We have always run the business prudently."

That extends to operations. When it moved into its current location on Royal Crest St. in Markham 15 years ago, Gentec implemented a carousel ware-



"We definitely go beyond fulfillment," says Gentec President Joel Seigel. "We see that accessories are properly merchandised, that products are rotated and ordered, and that retail staff are educated. We have to be important to our customers."

house system that would support expansion, with the service levels that the company's customers expected. "This was a unique component for a warehouse in the photo and electronics industry," Seigel says. "We went to Detroit to see it work."

What's Ahead?

Twenty years ago, could Seigel have foreseen the kind of company that Gentec would become? "I had no clue," he bluntly states. As to the future, Seigel expects logical, orderly expansion. He's clear on directions that Gentec *won't* take. The second half of its name notwithstanding, Seigel doesn't plan expansion into the U.S. "On the surface, it looks very enticing," he says. "But I would be very reluctant to move beyond our borders," noting Optex's negative experience, and the negative experiences of other successful Canadian companies that tried to repeat their successes stateside.

What about evolving into a mega-distributor along the lines of an Ingram Micro or Synnex? "These companies certainly have their place, which is fulfillment," Seigel responds. "We're definitely beyond fulfillment. We see that accessories are properly merchandised, that products are rotated and ordered, and that retail staff is educated. We vendor-manage the accessory part of the business for our customers. We have to be important to our customers."

As to his own role in Gentec, Seigel says that's evolving. "When you start a business, you have to do everything. As you expand, you find competent people to take over day-to-day tasks. I'm working just as hard as I ever have, but differently. I've changed my role to doing more strategic work on current and future directions." The Klipsch agreement, and expansion into home theatre products, is an example of this shift, he adds.

While it's highly premature to be doing succession planning, a pleasant development has been the entry of the next generation of Seigels into the business. Mathew Seigel, who obtained his B.Comm from the University of Western Ontario two years ago, is now a Sales Representative for Gentec's Electronics Division, covering the Toronto area and Southwestern Ontario. Mathew worked part-time for Henry's while at university, and continued full-time for a year after graduation. Seigel thinks his second son Jordan, whose business skills are more oriented to product and marketing, may also join the company.

Seigel sees lots of challenges ahead. "There will be further consolidation: fewer retailers and fewer suppliers," he predicts. "That creates more opportunities for us, with the level of service we provide. We've been very lucky. We have great management and staff who are very dedicated, and a loyal customer base. We're just the conduit that makes it all happen." **MN**

