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Segue gets a boost from the recession

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In the old days, when a company had excess inventory or customer returns, the call went out to the junk man to haul the stuff away.

But enterprising sorts have discovered there is money in the secondary market for these virtually new goods - research firm D.F. Blumberg Associates Inc. estimated \$63 billion in revenues in 2008 alone.

So the junk man got an upgrade. The business is now called reverse logistics and it's booming as the economic downturn increased the need for companies to quickly shed inventory.

Steve Vertun and Lyle Peterson, managing directors of **Segue Corp.** in Foothill Ranch, began working in reverse logistics for Shugart Corp. 27 years ago. They found themselves in the right place at the right time when Shugart decided to spin Segue off. The two bought it in 1994.

Segue concentrates on customer returns of consumer electronics and computers, including turn-backs by consumers, excess inventory and obsolete goods. They've been the aftermarket middle man for everything from computer keyboards to electric shavers.

Vertun says the business grew steadily over the years as companies realized there was money to be made in turning around returns and other unneeded inventory. Returns alone can account for 7 percent to 12 percent of a company's annual revenue, Vertun says.

Segue saw the recession coming a year before it hit as companies began unloading excess inventory. The privately-held company does not release financials, but Vertun says business doubled in the last year. It is on pace to handle \$75 million to \$100 million in goods this year.

The company recently moved to a 33,000-square-foot office and warehouse facility in Foothill Ranch that has four times the space it had spread across four buildings in Rancho Santa Margarita.

Growing competition

As reverse logistics has gained recognition, more companies have come into the field. In addition, online auction sites like Ebay and other Internet services like Overstock.com offer manufacturers an alternative for disposing of their goods.

Vertun says Segue has tried to set itself apart by providing a variety of services. Besides taking goods off the hands of companies and selling them into the secondary market, Segue also is the customer returns center for companies like Targus, the Anaheim maker of computer carrying cases and accessories like mice and keyboards.

As part of its reverse logistics process, Segue fully retests each return to the original manufacturer's specifications. The item is then repackaged and resold. Segue offers a shorter 90-day warranty on these aftermarket items as opposed to the one-year guarantee most manufacturers would give on the product when new.

Inventory is turned over within 30 days so there's a different mix of goods every day. A recent visit to the warehouse showed double-stacked pallets of boxes of wireless keyboards. GPS devices filled boxes at the far end of the building.

Workers in one area were taking apart computer mice and testing them. Across the room, other workers removed computer adapters from their cases to be tested and repackaged.

The boxes sport familiar names like Microsoft. Segue also has partnered with other major computer and electronics makers including Hewlett Packard, Radio Shack, Sony and Toshiba.

Being recession-proof

Vertun says business has slowed a bit in recent months as companies have depleted their inventories but Segue already is planning for the next economic phase.

They hope to capitalize on the success of Segue's retesting work, which he says results in less than 1 percent returns, and build a reputation for brand reliability in the products it resells. It is already marketing some products as "Recertified by Segue."

And while bad times have been good for Segue, he says the company also prospers in good times.

"We are sort of recession-proof," he says.

He notes that when the economy booms, product cycles shorten as companies bring out new items. As a result, the companies will need to dispose of more obsolete inventory. Also, with more products going out, there are more returns.

There is also more business coming in as companies outsource more reverse logistics so they can concentrate on their primary product line.

"I think strategic companies will do more and more outsourcing," Vertun says. "I think this is the new trend."

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