

Committed to Delivering Top-Line Growth

An Interview with Alan S. Elkin, Chairman and Chief Executive Officer, and
Eric Larsen, Chief Operating Officer, Active International, Pearl River, New York



Alan S. Elkin



Eric Larsen

EDITORS' NOTE *Founded more than 20 years ago, Active International is recognized as the global leader in corporate trade, providing financial benefits to Fortune 500 companies in virtually every industry. The company acquires under-performing assets – including surplus inventory, real estate, and capital equipment – at up to full original value, in exchange for cash and/or a trade credit, which is used to offset future operating expenses.*

With offices in 17 countries, Active has led the industry in the development of new standards of excellence for the acquisition of assets, the effective re-marketing of those assets, and the provision of an efficient means for their clients to use their trade credits. Since 1984, Active has created over \$1.5 billion in cash savings for its extensive client base.

Executives at the company have initiated a strategic realignment that will build on its successful foundation, expanding its portfolio of services to help clients grow their business by delivering higher value marketing and business solutions. In this interview, Alan Elkin, Chairman and Chief Executive Officer of Active International, and Eric Larsen, Chief Operating Officer, outline their vision for the future.

Your business model has proven to be successful for more than 20 years. Can you explain why?

Elkin: When we began this business 22 years ago, we saw that there was a market that was untapped and a demand that was not being fulfilled when it came to the utilization of under-performing assets. Trade was being used by companies long before Active was in existence; what we did was take that principle and build upon it. My partner Arthur Wagner, who helped start the company, and I recognized the important role advertising and media played in helping to build brands, and we saw the potential that the advertising business held. We also foresaw, correctly, that advertising was going to be increasingly

important, but costly, for companies.

So we built an industry by helping companies that, by the very nature of their business, often end up with some kind of excess inventory or under-performing asset. Active was able to help them use their inventory as a way to pay for goods and services that they'd already budgeted for, and for which they would normally pay cash. Basically, we would buy the asset for its full value, and pay them in the form of a trade credit. This trade credit, combined with cash, would then be used instead of 100 percent cash to purchase a variety of services that have grown over the years, and have ultimately evolved to the services we provide today. I should mention that guidelines for properly accounting for trade transactions were established quite some time ago, and that most financial executives are familiar with them.

Can you explain how you've grown the business and why you're changing now?

Elkin: We've always measured success by our ability to anticipate and fulfill our clients' needs. In the beginning, it might have been the ability to place media in magazines, or newspapers, or on the radio. Now, as you can imagine, we have grown our offerings into much more. We've added, and continue to add, bundled solutions that are relevant to businesses today, from large corporate events and travel to freight and logistics.

While we can take some of the credit for anticipating the types of services and offerings our clients might require, we've also evolved because we've partnered with our clients, asking questions and listening to their answers. We are big believers in using needs-based research to help improve and expand our services.

For example, the recent surge in the use of integrated media has been a key element in the conversations we've been having with our clients. From an advertising perspective, the integration of channels and the lines defining how companies communicate with their customers are blurring. As a result of these conversations, we've built out our

integrated marketing capabilities to encompass search, web design, and display advertising, creating a multimedia platform service suite.

Another example is the manufacturing sector. By bundling a suite of services to help manufacturers compete at the retail level, whether through packaging, fixtures, or instore promotions, we're enabling them to connect with consumers in the ways that consumers want. This is of great benefit to manufacturers, especially as consumers have become more demanding and discerning.

How has the changing global marketplace impacted the services that Active provides to its clients?

Larsen: Both the global marketplace and next-generation technology have had a significant impact on Active's business model. These factors have changed how our clients go to market with their products. For example, companies have largely lost their pricing power, and leadership in product innovations has been reduced to a few months. Our clients are looking for innovative solutions at the local and global level. With our network of operations spanning across 17 countries, we're able to open doors that our clients might not have been able to access previously. Not only have we been able to create value for our clients, we've also been able to expand their distribution channels and provide them with solutions they might not have considered if we didn't have a unique financial mechanism to help fund them.

There are many elements to our business, as with other companies, but the difference is that we link innovation, measurable marketing, and other business services to top-line growth. As a result, we become true partners with our clients, creating programs that are customized to their goals or perspectives.

What does innovation mean to Active?

Larsen: It's our approach to working with clients. Our biggest assets are the people who make up the Active team. Many companies say it, but in our case it's really true, because we don't manufacture a product, we produce ideas. Innovative ideas will only come from thought leaders with industry and business expertise. When you look at the people who are the foundation of our business, there are some who have been here since the beginning, like Arthur Wagner. We have long-standing members of our executive team whose tenure at the company spans 15 years or more. We also continue to bring on board extremely talented people from a wide range of business backgrounds with a broad set of skills, allowing us to go deep into an industry.

Another part of the equation is the breadth of innovative services we've developed. What does that mean? Well, it's different for each company. For some companies, it's the expansion of distribution channels and access to new global markets. For others, it's the integration of new media



A strategy session at Active

into an existing marketing campaign. And for others, it's the strategy and execution of an in-depth program that includes everything from marketing to shipping to packaging. Regardless of how large or small the engagement, we begin by understanding our clients' specific goals and their perspectives, as well as the markets they compete in and serve.

And finally, as we've discussed, we have a disciplined and proven process for delivering financial benefits, but what differentiates Active is that we link innovation, measurable marketing, and other business services to top-line growth. Unlike other companies, we actually invest our own capital into a wide range of channels, developing strategic and long-term relationships with our service providers. Because of these investments and relationships, we're able to deliver greater efficiencies and cost savings to our clients.

Can you give us an example?

Larsen: We recently worked with a major electronics retailer that was undertaking a large-scale store development, improvement, and repositioning initiative. The retailer's goal was to solidify its dominant position in the marketplace and, as a result, it had a portfolio of surplus closed-store leases, some of which could not be terminated at market-level prices. We created a cash lease termination fund in conjunction with an agreement for the retailer to place a percentage of its consumer advertising through Active. On the retailer's behalf, Active negotiated the termination of specific closed-store leases, utilizing cash from the lease termination fund and the retailer's existing leasehold reserve funds. This resulted in the retailer's ability to eliminate lease reserves attributed to closed-store leases from its balance sheet, and allowed it to generate incremental cash for this program from its existing advertising budget. So the solution had a dual benefit. First, it increased the retailer's flexibility to adjust to market changes; and second, it created a sustainable

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solution that had a direct positive impact on the company's bottom line.

Can you further describe how you deliver top-line growth?

Larsen: One of the ways we deliver top-line growth is by really understanding our clients' businesses and the industries in which they compete. As part of our due diligence, we make sure we know as much as we possibly can, whether it's by listening to an analyst call, scanning business publications, or leveraging our own in-house experts. If, for example, we learned that a client was looking to expand its existing brand into a new market, we'd assemble a team internally that was familiar with the company and the industry, and we'd develop a plan that would identify specific ways to help them meet that goal. This might include the naming rights to a high-profile event like the Grammy's. It might include a detailed plan to increase traffic to the client's Web site using paid and organic search combined with online advertising. Or we might suggest a different packaging solution and new distribution channels. Then we add in the financial benefit. The company could pay us a service fee for the creation of this plan, or it could pay us partially with an asset. The bottom line is that the focus would be on how to help the company do what it needed to do – we've moved beyond converting assets to reduce the cost of media.

So is it fair to say that you've become more strategic?

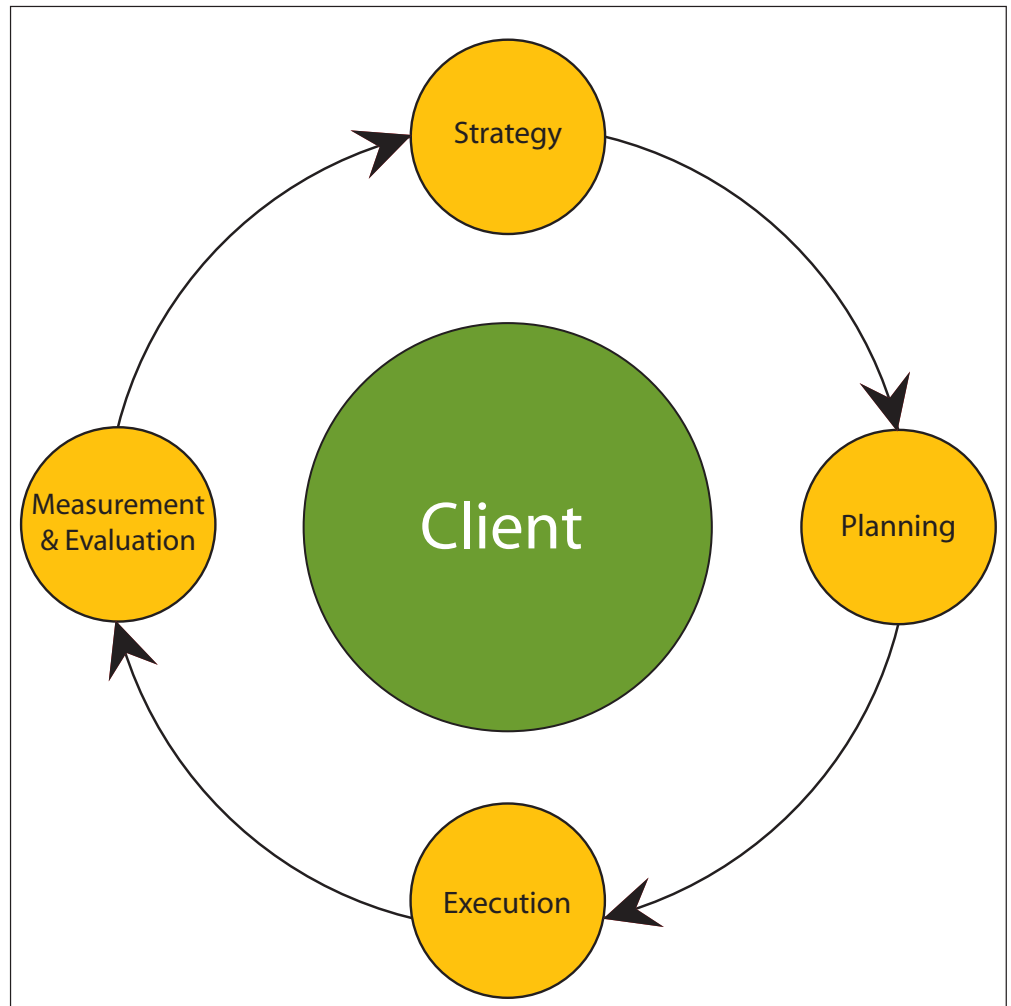
Elkin: I think we've always been strategic; we're just expanding how we define it at Active. The company was founded on the principle of helping our clients with specific problems. What really sets us apart today is that we deliver strategy and the execution behind it.

Are there limits to the types of companies that can work with Active?

Elkin: If we were to list every type of company that we have worked with, it would resemble an encyclopedic version of the industries out there today. The common thread between all of these companies is that they all want to increase their market share. While some of these companies may have more resources than others, they all have a business model that they are continuously looking to improve. This is where we apply our experience to help them to achieve these goals.

How do you make sure you're delivering to such a broad universe of clients?

Larsen: Active's infrastructure is designed to be client-centric. Each client has a relationship manager assigned to them, and that manager is the single point of contact. Of course, other people may interact with the client as we develop or execute a plan, but we try to streamline the communications so



Active's process



Active Headquarters

there's one person who serves as a primary resource. In addition, we regularly conduct client satisfaction research through an independent third party. This has allowed us to receive objective feedback, helping us to fine-tune our offerings and develop additional services directly based on what our clients are telling us. And, of course, we've been in business for 22 years, so we have many multiyear relationships. That definitely speaks to client satisfaction.

Would you consider yourself a leader in your industry?

Elkin: Over the past two decades, we've proven that we have the insight, creativity, discipline, and infrastructure to help clients achieve and maintain their competitive advantage. In terms of our media purchasing ability, we are a recognized global leader. According to *Advertising Age*, we are the seventh-largest purchaser of media in the world. That says something about leadership.

What about your competition?

Larsen: As we continue to expand our array of services, the competitive landscape will also expand. If I could share one thought about competitors, I'd say that because we are independent, we're not impacted by conflicts of interest. We can create solutions that are in the best interest

of the client first and foremost, rather than creating programs that serve the needs of a parent company.

You mentioned that you have offices in 17 countries. Why is a global presence so important?

Larsen: As our client base has grown in size and scale, there's been a corresponding growth of our business as well. Today we have offices in the U.S., Canada, Mexico, Hong Kong, Brazil, Argentina, and throughout Europe, and we are increasingly working with multinational companies. Having a global network means we're able to have people in-country with local expertise, and, at the same time, it allows us to provide a holistic approach to a company's business. The world becomes more integrated every day, and so do we.

Active has changed a lot since its inception more than 20 years ago. What does the future hold for the company?

Larsen: We couldn't be more excited about the future. Companies have a tremendous need to remain relevant to their customers, whether it's the way they reach those customers or the products they sell. Active is a great partner because we use all the resources available to us to think about our clients' business, and then deliver solutions that are meaningful and measurable. ●

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