Wal-Mart Gold

Lesson Five Transcript

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Published by:

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Joe: This is Section 5, how a mass merchandiser things, how their performance is measured, and why should you care.

We'll start with why you should care. If you don't understand how the decisions are made by the retail store as to whether to stock your product or not, the chances of you making a presentation that will get your product into the store is not very good. So, in this course, we will be talking about how do develop products, but before we even talk about how to develop products, we want to talk about who you're developing for and the things you need to understand for that because the way the mass market things, the way the buyer thinks, the way the retailer thinks will affect how you develop a product and how you screen out ideas that may not work quickly and cheaply.

Michael: So, who are the two groups you mention in your letter that I need to sell?

Joe: Well, the one group that's obvious is the consumer who is going to buy your product, but the other one is the buyer. And if you can't sell the buyer, you don't get the chance to sell the consumer. So, most people who create products or especially who are not already in the mass market and familiar with it, may think they have the best thing since sliced bread and it's a great product, there's no way they wouldn't buy it and they're totally ignoring the needs of the buyer. And if you don't pay attention to the needs of the buyer or the needs of the chain regarding profit margins and turnover and so, it doesn't matter how attractive that product may be to the consumer, the store is not going to buy it if it doesn't meet their needs. So, the first thing you need to consider is meeting the needs of the retail chain you're trying to sell to. In terms of doing that, we'll talk about what's important to the buyer. His job is for his category to maximize the profit per year.

Michael: So, how am I going to sell the buyer, Joe?

Joe: You're going to have to understand his job is to maximize the profit in his category that he's responsible for. And the summary of how you're going to sell him is you're going to show him how your product will get him more profit per year than the assortment of products he has now. The thing you have to remember is there are no empty shelves. So, if he's going to buy your product and it's not in the store now, something else has to come out to make room for your product. So, you're going to have to prove to the buyer that your product will produce more profit per square foot than whatever it is that it's going to replace.

The one point I would make about, in general, a presentation made to a mass market buyer, you're going to want to make a presentation that's almost like a case a lawyer makes in court. You're going to want to talk about the market. You're going to want to go through a sequence of steps. You're going to want to prove every statement you make. Buyers are skeptical. Their natural reaction to anything you say is that's a bunch of B.S. I don't believe you. So, the way you do it is you put together your case step by step, you make each point, you give the documented proof for that point, and you really want an overwhelming amount of proof for each point, and then you go down the line that way making your steps, proving each step, and by the time you get to the end, the natural conclusion would be that they'd be nuts not to stock your product.

Michael: How do I sell a consumer then?

Joe: Well, if you're not Procter & Gamble and you don't have a huge amount of money for promotion and advertising, most businesses are not in that mode and the people listening to this sure aren't going to be in that mode, so the way you sell a consumer is going to be your packaging because you're not going to have $50 million to spend on TV. So, the thing you're going to have to realize, and we have a whole section on this coming up about packaging, is that your packaging has to make the sale for you. And somebody who is walking down the aisle in a Wal-Mart is exposed -- I mean how many different products can you see when you're doing that, hundreds. So, somebody's eye is going to glance over your product in a fraction of a second and if your packaging doesn't grab their attention, cause them to pick up the product and look at it a little more carefully, and then cause them to put it in their cart, you lose. So, the packaging is critically important in making sales for you to the consumer if you don't have an ad budget.

Michael: Get me inside of the buyer's head. How is the buyer's performance measured?

Joe: The way his boss measures his performance is the amount of profit or gross profit that that buyer gets per week, per month, per year. Gross profits means the sales dollars less the cost of goods, so if your product costs $10 and it sells for $25, it sells for $25, the cost is $10 that means there is $15 of gross profit that goes to cover overhead and everything else. The buyers are measured on gross profit because they're not trying to put the store's overhead or anything in there at that level. And that is going to be determined by how much margin there is on your product, how fast it turns over -- in other words, how many of them do they sell in a given period of time -- and then how much space does it take.

Michael: Is that based on just your product or is he measured on the entire category?

Joe: He's measured on the whole category. For example, in a package or merchandise somehow that takes four times the space to put on the shelf as a competitive product, if your product sells the same units and makes the same dollar profit as the competitive product, you're one-fourth as attractive to that buyer because you took up four times more space. So, it's not just gross profit or gross profit per unit of time, it is gross profit per unit of time per square foot.

There are five steps to this. First the buyer has to believe you have the financial ability to delivery product. Second they have to know how your product will help their overall category, both in product mix and in profit. They need to believe there's some need in the category not being met in order to take the product in the first place. And then they need a good compelling reason to buy from you and not a competitor of yours. Without all of those things, buyers don't like risk. So, it's a risk to put in a new product or a new vendor to replace something that's there now. That's a risk. So, they have to feel that the potential gain is worth the risk.

There are three complete disasters that a buyer doesn't want to have happen and their main concern are these three things and the first one is empty shelves. An empty shelf can't provide any gross profit. So, if there's any doubt in their mind that if they select you as a vendor they're going to have a possibility of empty shelves, you're not getting in. The second thing is customer complaints and returns, and the reason they care about that, aside from the obvious, who wants to have returns or complaints, is it's not just your product or an unhappy customer returning your product, it's from Wal-Mart's point of view, if that customer then is unhappy with Wal-Mart, they may have lost a customer for everything in that store, not just your product. So, a customer complaint or return is a very, very big problem, which is one of the reasons Wal-Mart just takes things back and has wonderful customer service because it's more important to keep that customer than any individual transaction. And then the third disaster that a buyer wants to avoid is slow moving products that sit on the shelf and they don't move.

Michael: What if my product has no competition whatsoever?

Joe: You would think that that would be the best thing in the world. You have no competition. It's totally unique and new. But from the point of view of a buyer, that's a problem for two reasons. The first is a buyer is responsible, like we said, for the profit in his category. If you have a new product nobody has seen before and there's nothing like it, the buyer doesn't know if that's going to sell or not. And even if it is a really unique product that an explanation would sell, this isn't what's going to happen in the store. It's going to sit in a box on a shelf. It's not going to get explanation. So, from a buyer's point of view, a new product is high risk. And think of it from your point of view. Let's say your job was to manage that department and make the most profit you could, which would you rather put, if you have some space you're going to replace this non-moving product, which would you rather put in there, some product that has established sales history that you know is going to sell that has a track record, or would you want to put in something nobody has seen before that's new and different.

Michael: Obviously I want something that I know is going to sell.

Joe: Yes. So, what most people don't get about retail store is they think retail stores, if you have the latest and greatest, are going to want your product. The truth of it is that's a negative not a positive. The one think you'd better never say to a buyer is if you tell the buyer that there's nothing else like this, this is totally unique, and nobody's ever come up with anything like that, it's probably not true. And the buyer at Wal-Mart, trust me, has seen everything in that category because everybody wants to sell Wal-Mart. You may not know it, but there might be others like yours that have been presented to Wal-Mart, too. That just shows the buyer you don't what you're doing. You don't even know who your direct competitors are. So, that really hurts your credibility.

Aside from being risky, a new product that's unique and different and maybe is patented, you can get a patent by being unique. That doesn't mean it is marketable. You might have found a way to solve a problem that is more expensive or less desirable than other ways that are there now. So, it's not just inventing a new product and all of that. Inventing a new product, you're almost better off not to present it that way.

Michael: Why don't stores want new products?

Joe: Well, they do want new product. I mean they always do have to keep up with what consumers want, but basically it's risk. The thing we've just been talking about. And that applies both to products and to vendors. A new vendor is a risk just like a new product. And a new vendor is a risk in that can they deliver, will the product satisfy the consumer and not get returned, will we have empty shelves, and there's a cost to put the vendor into the computer systems. So, in total, a new product and a new vendor are both risk. So, from the point of view of the buyer, the more risks I'm willing to take, the more potential gain I'd better get. So, if my new product has got a great potential to be a blow away success for that buyer, that's when they'll take that risk. But they have to believe that taking that extra risk is justified by the extra reward.

Michael: Are new vendors expensive for mass merchandisers to set up?

Joe: Yes. And a mass merchandiser my have 50,000 vendors, but I remember when I was last dealing with Target, they had a corporate edict come out to the buyers in each category that they were supposed to reduce the number of vendors, not increase them. It's expensive not to just put them in the computer system, but to ongoingly manage it. So, from the point again of the store, think of it from the store's point of view, want to maximize profit in that category in that space. If you have ten vendors for a two-foot section, you have ten companies to deal with, you have ten different companies whose products are being shipped in and distributed. If you have one company instead who handles all those same products in that same section, now you have one company who you can talk to about the product delivery, the merchandising, and everything for that section. It's not just the cost to put it into the computer system; it's also the buyer's time. The buyer could have 500 to a couple thousand vendors he has to deal with and you'll have your product, which is important to you, but can you imagine being a buyer and having over a thousand companies like you to deal with.

Michael: Joe, is dealing with a new vendor more risk for one of these big stores?

Joe: Yes, in two ways. Is the product going to sell and secondly, is this new vendor going to be able to deliver on time and make sure we don't have empty shelves. The bottom line, if you take more risk, you want more reward. When you make your presentation to the buyer, you're going to have to build your case that they're going to get more reward from buying your product or product line.

Wal-Mart has a screening process _____ the mass market to try not to get total dog products. If it's not going to work, they try to keep you from even meeting with the buyer and wasting their time. But an interesting statistic, there used to be a group called the Wal-Mart innovation network, which did screening of products for Wal-Mart. This group is still around, but they're now called the worldwide innovation network and they still do this. And I've talked to the guy who runs that and he said that 95% of all the products that buyers like, now these are the products the buyers don't like or the ones that are submitted, these are the ones 95% the products buyers like don't get in the store.

Michael: Is this screen network, is that something controlled by Wal-Mart or is that an independent company?

Joe: It's an independent company and when it had the name Wal-Mart in it people were thinking it was part of Wal-Mart, which it's not. In the section of this course where we're talking about evaluating the products and ideas, we'll get into that in detail, but basically they do a screening process on many, many characteristics and if the product passes that, then 95% of them don't in the store and there are two reasons for it.

One is what we've been talking about already, the financial ability of the company to deliver -- the risk to the buyer of empty shelves. So, that's one reason. The buyer may love the product. He may want it in the stores, but your company is a half a million-dollar company and if they give you an order for 3,700 stores, you wouldn't be able to deliver. So, that's the first reason it doesn't get in even if the buyer likes it. And the second is it's a single item and not a product line. Buyers don't want to buy single items.

Michael: So, hopefully you're going to show me in these next sections how to increase the odds of this.

Joe: Right. We're going to talk about how to pass all of the tests so that you're one of the products the buyers like and then how to be one of the 5% that actually gets in the store of those they like. We will go through all of that step by step.

Michael: What about returns? With such a generous return policy, can you talk about why are returns so bad? Why don't the mass merchandisers like that?

Joe: Obviously, financially it's not a good thing to have a return and it's a real pain for them to process. But the main reason is they don't want unhappy customers. So, if you have one product in the stationery department that somebody comes back and returns because it was defective, what Wal-Mart or Target or any other chain is concerned about is Wal-Mart doesn't want to lose the customer to Target. And that aspect of it is overwhelming by a hundred times more important than the dollars of your product or the dollar cost to process the return. A typical customer with Wal-Mart will spend thousands of dollars every month or every at least, a lot of money, and if they lose that over a $10 product, that's a disaster.

Michael: What happens to those actual returns? Does the vendor have to take them back?

Joe: Generally the vendor has to take them back. They may not actually get shipped back. Wal-Mart may just tell how many they have and take it out of your invoice. Back to what I said, the problem isn't just with your product; it's with the customer being a customer of that retailer. So, if you have too many returns, you'll find yourself out because they can't take that risk and whatever money they make on your product is not worth the risk of returns and losing a customer.

Michael: And so, what would you tell a manufacturer who is manufacturing a product and maybe even if they're manufacturing it overseas about quality? That you'd better have a quality product before you even approach Wal-Mart and even if you fool the buyer or Wal-Mart, you're not going to fool the customer. You may be in there and out of there because of shoddy product, right.

Joe: That's right. Quality is critically important and especially in the case of Wal-Mart, quality and also the low price to go with it. So, it's a combination, but without the quality, if you get in Wal-Mart and you get kicked out because of bad quality, you're not getting back in. So, if you want to do business with them, the largest retailer in the world, you need to have your act together and that's why I actually recommend to most businesses is they start off not in Wal-Mart and Target, but they start in smaller retailers, get some experience with sales, get some experience with the product and the quality of the product, and work all the bugs out, find out and get your facts and figures of how fast the product sells so that when you go to buyer and you get in the big chain everything works.

Michael: How does a buyer evaluate my financial ability? Can you talk about how they're looking at me financially?

Joe: This depends a lot on the store. With Wal-Mart with 3,700 stores in the U.S., your financial ability matters. If it's a single store, standalone retailer, it doesn't come up. What we're going to go through is going to tell you how much money you need, as well as to be able to do business with the big chain.

To start out with, to be safe figure 60 days to collect your money and then figure 30 days to make your product, so that's 90 days. So, now figure, in the case with Wal-Mart with 3,700 stores, how many units will you sell per month per store. And when you're figuring that number out, remember that number has to be big enough to justify being in the store in the first place. So, that's going to depend a lot on your product and the price point and all of that. But to take an example, if your product sells for $10 and the store pays $5, and just to make the math easy, let's say you sell 20 per store in a month. So, that means $100 in cost to the store that month for one store and $100 in invoicing for you. Now, if you take that times 3,500 stores, that's then $350,000 per month. Now, going back to where we started, figuring one month to make your product and shipping and two months to collect that means three months that the money -- you've had to produce the product, ship the product, wait for your money for three months, so for $350,000 times three, that's over $1 million. So, that's in a three-month period, so over a year that would mean you were doing $4 million in business with Wal-Mart. But that also means you need roughly $1 million of working capital to be able to produce the product, fulfill the orders to ship it to them, and then to wait until you get your money back. So, does your company have $1 million worth of working capital to deal with a Wal-Mart or a Target on a product like that?

That kind of calculation the buyer will do and he'll have a good feel for how many would be sold and how many stores he might put it in, and then he will look at your financial statement and he'll be able to tell in about 30 seconds whether you have the financial capability or not.

Michael: Well, what if I don't have that kind of money or anyone listening to this doesn't even have close to that amount of money to do business with them?

Joe: One, you can do business with Wal-Mart or Target on a limited basis, not in every story. So, you don't have to be in entire whole chain. But secondly, what I would say is then you're not ready. That is not a bad thing. When I was selling my kid's stickers and stationery products to Target and Wal-Mart, I sold to independent gift stores and stationery stores for two years before I approach the majors. And after two years, I was doing $6 million in sales, so I had the million. But I started out in smaller stores and I built it up with my cash flow. Now, if you have venture capital or outside funding, you can go in there right away because you'll have the money, but I started with nothing. And in starting with nothing, you're not just going to find $1 million, so I had to build my business up by making sales in smaller stores or smaller groups of stores and after a couple of years then I was fine, I was ready.

Michael: Would a buyer ideally like to get you rolled out in all the stores at once if he knew it was a winner or will they work with you? Do they take into consideration maybe I only have a couple million dollars and they'll put you in 500 stores to start?

Joe: Well, there's always test. There's only one exception to that and I'll tell you that in just a second. But almost always they're going to want to test both your ability to deliver on time and your product and the sell through of your product, so they may put it in 50 stores. But the whole idea of testing is just to verify that the consumer will buy and to verify you as a vendor can deliver. The goal is to roll it out. So, the goal isn't to test in 50 stores and stay in only 50 stores. The goal is to test in 50 and rollout to the whole chain. That's ideal. Remember, the buyer is getting paid by the category revenue for all the stores. So, from the buyer's point of view, if you have a two-foot section of products and it's only in 50 stores and you have 3,500 that means if everybody was that way, you'd need 70 vendors just for that two-feet if every 50 stores was a different vendor. And then it's really out of control.

Michael: The buyer has no sympathy for you. His goal is to utilize all his retail assets and if he's got a winner in 50 stores he wants them in all of them and you'd better be able to finance it.

Joe: I wouldn't go to Wal-Mart or Target until you were able to do that and part of what we're going to talk about in a little bit is how to make that presentation. And part of what we want to do in the presentation, like I mentioned, is we want to prove every step of the way, one of the things we want to prove is how well our product sells, which means we have to have excellent sell through information from other stores before we approach the mass market. Remember, they don't want to take a risk.

Now, there is one exception when they don't test. It's an in and out promotion. For example, let's say a Christmas product. If you have -- and this is what I had, I had a Christmas product -- and if you present a Christmas product, which you presented in February, if they're going to buy it or not buy it, they're not going to put it in 50 stores and then next Christmas put it in more. They're going to make a decision yeah or nay. And a good example of when they'll say yes is I was selling a 4-inch by 6-inch sheet of prismatic stickers, so that's 24 square inches of stickers and that was in Wal-Mart selling for $1 retail. And then when I came out with a Christmas product, the raw materials were starting to be made different and less money, I was able to come up with six different sheets of stickers, but instead of just stickers, I did gift tags like you use for Christmas, address labels, and things like that, made of the same material. Now, we know the sparkly material sells for $1 in 4 by 6-inch sheet and now I could give them an 8 by 10 for the same price. So, the buyer says 24 square inches sells at $1, will 80 square inches sell at $1? That's a pretty safe bet. So, they bought my assortment of my six things and they put it in all the stores at once.

Michael: Let's go into some ideas, if I don't have that money, how I can still get in? Do you have some suggestions for that?

Joe: It goes back to the ways you get into the stores, but first off, you could still get in for a test, but I wouldn't want to propose a test until I knew what the results of the test were going to be. So, there again, let's say you don't have any money and you don't want to start a business like I did, remember you can license to somebody who is already in the stores or do a joint venture with somebody who is already in the stores, so you can do this with no money by using the money and the distribution of somebody else. When you're trying to get into Wal-Mart and you have two products and you are a new vendor and a new product, that's going to be a lot tougher than if you go to somebody, another company, that has 500 products in Wal-Mart now and they're going to add your two to their 500, now there's 502 products. Those will just flow through. That's a big non-issue. Wal-Mart is comfortable with the vendor; they're comfortable with everything. It's just a couple more products from that company and easy to get in. You don't make as much money, of course, as if you started your own company, but that's how you can get in with no money.

The other ways are what I already talked about, which is starting your company, building it up by selling to smaller independents or smaller chains and then going to the major chains when you have the financial resources a couple of years later.

In summary now, from Section 5, you should understand why you need to know how a buyer thinks and why that's important because there's a lot of issues we just talked about that if you understand them, make all the difference in whether you can get in the stores or not.

Now, in the next section, we're going to talk about how to create a product, a winning product that will sell and talking about creating this product after we talk about the need to the store because that's one of the ways we're going to evaluate whether we have a good idea or not.

Michael: This is the end of Section 5. Please continue to Section 6.