Wal-Mart Gold

Lesson Nine Transcript

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Joe: Section 9 is about how to setup a joint venture.

Michael: What is a joint venture and why this is going to be important for me to understand?

Joe: A joint venture is basically a deal between two companies or two entities. In a way and really the licensing agreement is a kind of a joint venture. But since we've already talked about licensing, we won't talk about that. We'll talk about the other kinds of joint ventures.

We're going to talk really about two different kinds of joint ventures. One type of joint venture is to get distribution of a product where you're joint venturing for the purpose of -- your joint venture partner has the distribution. And another kind of joint venture is to get manufacturing or manufacturing and distribution.

Let's say we're talking about the one to get distribution and you have the product. In dealing with a manufacturer, you really only have to worry about selling the manufacturer because they're going to manufacturer it, they're going to handle the production, they're going to handle getting it distributed to the stores, they're going to put in their distribution channel; the whole thing. So, if you're going to be working with somebody like that, your royalty percent isn't going to be as high as if you have the product and you have the manufacturing yourself. But it's more realistic for most people if they don't have a business yet that you want to license it to somebody who can both make it and sell it.

As far as finding people, finding the people is pretty much the same as we talked about in licensing. You want to find people who have the distribution you want. You don't want to find somebody who says they can get in Wal-Mart, but they're not there now. It's a lot easier to find someone who is there now and you can go look in the store and find out.

Also, when you think about manufacturing, if you're doing a deal with somebody for manufacturing, you need to make sure they really are manufacturing; they have the manufacturing equipment to make the thing it is your product needs. Lots of companies who sell to retailers don't manufacture. And in my case, two of my three companies I was not manufacturing. I was having other people do it. So, if you're going to license to get manufacturing, license to get manufacturing with someone who does manufacture. When I first started the sticker business, I did a joint venture with the guy I found that had a screen-printing factory. A very small screen-printing factory, but still he was doing it. And so, he would do the manufacturing and in that case, I did the sales because he was only a manufacturer. He didn't have any sales to retail at all. So, that would be an example of where I needed to get my thing made, but I was going to sell it myself. So, that's one way. The other way is when you're going to get the thing made and you also want them to sell it, too. So, either way is viable. The way I did it is I wanted to do the sales myself and use this other guy to make it. So, that worked pretty well.

Another example of this was what I mentioned briefly before about fabs. When the first Gulf War occurred, I had already had some artwork for flags, so that was the thing where I in a 24 hour period of time where I needed to get some support the troops window decals made. So, I took my artwork and went and found a company that had the printing presses who was willing to drop everything and make my product for me. So, that was an example. They made it in 24 hours. I FedEx samples out to 30 or 40 retail chains and made 3 sales. That was a joint venture with a manufacturer.

Another example from back when I was with Kimberly-Clark a long time ago, it was interesting in that Kimberly-Clark and other big companies have a lot of corporate politics going on and the division I was in wasn't allowed to sell things to stores. And the people who were in charge of consumer division who sold things to stores, the VP in charge of that hated the guy who was in charge of the division I was in. And where the problem occurred is I came up with ideas for stores. So, learning to play the game. What I did is I found another company I could sell to who could create the product. I could sell them non-woven fabric on a big roll and they could turn it into things and they could sell the stores. So, I kept inside the rules. I sold it to another manufacturer, not to a retailer, but I created the product, I did the packaging, and my advertising agency did the graphics and then I helped them sell it because as Kimberly-Clark, I can get things placed in stores pretty easy and I endorsed this company saying this is Kimberly-Clark's joint venture partner. And so, I got around the corporate rules and got them in stores. But having to do that, that is why I got out of the companies. It drove me crazy.

Michael: How about an example of where you just want distribution.

Joe: What we talked about so far, we've been talking about when you want manufacturing and distribution or just manufacturing. Now, if you just want distribution, then all you care about is that the company is in the stores you want to be in. And the best example I have of that is a deal that I did 20 years ago back when K-Mart was the number one place you wanted to be. We had our sticker products in pretty much every store there was. We were in all the chains; mass market chains, grocery chain, drug chains, and independent gift and stationery stores. We were in 15,000 or 20,000 stores, but we couldn't get in K-Mart. So, what I did is I talked to a guy whose product was in K-Mart and it was directly competitive to ours. It was stickers. And going against what I just mentioned earlier, which is find somebody who is a non-competitive, but related product, in this case I went to my direct competitor because he was selling something similar to ours but I thought his product wasn't as good as our and they wouldn't sell as well. So, we made a deal that he would put our product in his package. So, it's under his name, goes into K-Mart because he's already there, and we sold it to him as a manufacturer would and then he put in his products and it turned out that our product did sell better than what he had before so we ended up having our products in his packaging and his products went away. He was just selling ours in his package. So, that was an example of a distribution deal.

Michael: How do you split up the money? How does the profit split work?

Joe: Every deal is different and it is negotiated. In the case we just talked about, the way we did it is we priced the product in bulk for him to put in his package. We could charge him about 2-cents per package of stickers more than he currently paid to get them made, so it didn't cost him much more. He had more total sales, so that's to his benefit. And from our side of things, I was able to sell it for more than I normally would sell just bulk product for and get into K-Mart.

So, you pretty much have to figure out the money and the numbers so that it works for both parties or isn't going to be a deal. And the details of that are going to depend on each situation. You could do both at the same time and that's what we did with stickers. We would sell the product to this other company to put in their package, so that was a joint venture. We also sold directly to the stores and in other markets we competed with the same company. So, it's sort of strange that you can sometimes do business with your competitors. But you can also license the manufacturing and distribution with one company, license distribution with another. There's no reason you can't do a whole bunch of different deals. You just can't give the rights to this to two different companies the same thing. Other than that, you can get as creative as you can.

Michael: What are some of the key contract points when you set these joint ventures up?

Joe: Well, there are a number of things that are important, but probably the most important one is how do you get out of them. And how do you get out and how do they get out. And in that situation, who owns what and who has what obligations. For example, if I were doing a joint venture with somebody where I created the copy and the sales copy for a product, I would say that even if we terminate the agreement, as long as they're using my marketing to sell the product, they still pay me even if the agreement is terminated. So, that's the kind of thing that needs to be decided upfront because you can't do on the backend.

That's the end of Section 9 on how to setup joint ventures. There's an awful lot of information available on this. We've just touched the surface and I'll give you referrals to places where you can learn more in this section on the website about this.

The next section is Section 10, talking about starting a business from scratch.

Michael: This is the end of Section 9. Please continue to Section 10.