

# Wal-Mart Gold

## Lesson Seven Transcript





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Joe: This is Section 7, how to evaluate the marketability of an idea.

Michael: Why do I need to evaluate the marketability of my idea? Why do I need to research this? Why don't I just go for it?

Joe: Well, you can and that is what probably most people do, but even if a product is patentable, something like 95% to 97% of all patents that are granted aren't commercially viable, and like we mentioned before, almost 95% of the products that are presented to Wal-Mart they like they don't buy. So, to save you a lot of time, effort, and energy, I think evaluating the marketability of an idea before you even create the product is a smart way to do it.

Michael: Is there a way to do this that doesn't cost a lot of money? I mean can we do this without paying focus groups and research companies big money?

Joe: There are several ways to do it. One thing you can do yourself if the first step is the way you create your ideas in the first place, if you're a typical inventor and you start with the product or your engineering expertise, you're doing it backwards and you're going to have a tough time. If you start by finding the starving crowd where the market that wants what you have, then you're going to have a better chance of success. And in that case, how do you find a starving crowd? Well, you can tell that by the market place. If you go into a store and you see a lot of products in a given category, obviously there is a market demand for that category.

Another way, aside from how to determine a market size that we talked about earlier, is to go to a book called "Standard Rate and Data." This is a reference book you will see in a library. Their web site is [www.srds.com](http://www.srds.com), and what you want is the direct mail list and data book, and what that book is it gives you a good indication of markets because there's 40,000 list in there that people selling a product by mail are renting a list. So, if you look through that book and you see 50 pages of lists in a product category you're looking at, you can go through there and you can add up the number of people on the list times the average sale that they bought and you can come up with a dollar size of the market. So, that's a good way.

But once you've found a crowd, then you want to identify a problem that these people have. Look into researching how to solve the problem, which will generally result and better defining what the problem is, come up with a solution. If you do the process that way, you're starting with the market and you're going to have a much better chance of success.

There's another thing you can do, too, and we're going to talk about this under licensing, but there are evaluation services that will evaluate a product for you and tell you whether they think it's marketable or not. And they'll do that for a reasonably small fee. So, that's another thing you want to look at. I got from an

Internet marketing guy, he said when you come up with an idea, let's just say at the moment you have an idea, but you don't have a product and developing a product makes less money. You might have to make tooling, you might have to do engineering work, you might have to do who knows what, but whatever it is involves money. So, you can do a survey by email and what this guy I got this from recommends is coming up with 12 product ideas in the category, one of which is the one you're thinking of. And then you send this email survey of which of these products is most appealing to you kind of thing, out to people who would be the target customers and see what comes back.

Back to the direct mail list rates and data, they rent email lists as well as physical mailing lists. And you can also poke around the Internet. I have a project that I'm working on with pregnant women and I went out on the Internet and found a half a dozen sites where pregnant women register and so I talked to the site owner to see what they'll charge me to send out some emails to their list. So, you can find them on the Internet or you can find them through direct mail list, rates and data. The list is already on the market.

Then you're going to find out if your product idea, along with the other 11 or other 10 that you put in this survey, if your idea comes in at the bottom, that's not good. But what you've done then is you've tested an idea.

And there's another way I really like that I've been using myself to do that, is to test an idea and to find out two things about that idea. One, what would be the consumer's intent to buy? How likely are they to buy this thing? And then secondly, what price do they think it's worth? And I have a piece of software that asks just two questions. It asks, how likely are you to buy, it gives you multiple-choice thing, and it asks you a few questions about price. What price is too high for you to believe it's worthwhile? What is too low? For example, if I offered to sell you a brand new Ferrari for \$5,000 that would be too low because you'd know it was hot. So, what's too low? What's too high? What's about right? And when people answer those questions with numbers and they give you the intent to buy, they circle one of those, that goes into a piece of software that tells you what percent of people are likely to buy and at what price you should sell it at. And that gives you two price points. One is what price is the best one for the maximum amount of upfront sales. And the second price point is what's the best price to get new customers as opposed to one-time sales. That price will be different because now you've use that number if you have a backend or future products to sell to that person. So you only need 50-60 responses to this survey to put in the software to come up with, so I like to use that myself for ideas.

Michael: Well, how reliable would that be compared to actual consumers voting with their wallet?

Joe: Oh, nowhere as near as good. It's a first step. The first step I would do an email survey with the titles. The second step, I would do the pricing and likelihood to

buy the thing. The third step, if you can feasibly do it is to make a bunch of the products, put them in a store, and see if people will buy them or not. That's the best test. But if what's involved in making the product and put it in a store involves injection molding, tooling, and whole bunch of other stuff that might cost \$100,000, you might want to have some indication you have a winner before you spend that kind of money or try to get it from somebody else. The best, absolute test is somebody giving you their money.

Michael: Now, didn't you do this with your stickers where you tested in the stores?

Joe: Yes, with the stickers, we're selling designs, different pieces of artwork. So, we were the manufacturer. We could make them inexpensively in small quantities so we let the market tell us. Every new design we came up with we put out in 100 of our test stores. We saw who bought it and who didn't, was it a good idea or bad idea, and we would only roll out the good ideas and just discontinue the bad ones. So, that was if your product is not expensive to make, the real test is to put it in the store and see if it sells.

Michael: All right, do you have some ways for me to research my competition and is this an integral part in evaluating my product's idea?

Joe: Oh for sure because if you have this great idea for this product and you haven't paid attention to your competition and your products going to have to sell for \$10 when the competition is out there with a similar thing for \$5, you're not going far. So, assuming that we're talking about retail consumer products, the first thing I'd do is go to a store, or several stores, and ask the department manager, store manager, what do they have that will do what you need. Back to the mousetrap example we had before. Don't ask them which do they think is the best mousetrap that they have. Ask them what do they think is the best way to kill mice and you might come up with this poison thing that the mice go outside and die outside of your house. If you had an idea for a mousetrap and you didn't ask the question right, you wouldn't find out that there's something that's better than the physical trap. So, asking the people in the store what do they have in the store that will best solve the problem is an excellent way of doing it and do that in several kinds of stores that would carry the product.

The next thing that you need to evaluate is what is your product cost and how does it perform versus the competition. You can use that ballpark rule of thumb I gave you before of five times the markup from cost to retail. If you see a competitive product that's in the store for \$5, divide that by 5 or it cost them roughly a \$1 to make. If you make something that does the same job and it's going to cost you \$1.50 to make, you're going to be at a price disadvantage.

So, then the next thing to consider is how does your USP stand up against what's in the stores. And there again, USP is the answer to the question, why should I buy from you and not somebody else? It needs to be clear the reason why.

Michael: All right and what's next after that?

Joe: Doing the pricing. The price survey thing I talked about just a minute ago is one way. I like to price things based on what the market will pay, not by a percent mark up over cost. If you look at determining what the market is, what does the consumer value this thing at, start there, don't just say cost times five because you could be too low that way or you could be too high that way.

So, if you go based on what the market will pay, both from doing that analysis I mentioned and also by talking to buyers and people in the retail stores, if you start with the market value of your product, then divide it by five and see if you can make it for less than that because if you can't, you've got a problem. And I've run across that with inventors who have come to me for help with marketing and they've got this product that they're under the mistaken assumption that, oh if I can make it for \$3, I can sell it to the store for \$4, and they'll sell it for \$5, and it doesn't work like that.

So, you have to start with what is the price the consume will pay for it? And then make sure that you have enough margins there to make money before you go forward.

Michael: Next. What if I'm dealing in a product that has safety and regulatory and legal issues? Do you have any advise on how I could deal with that?

Joe: Yes and a lot of products have that issue. I was making in my company's children's product and also doing children's premiums, like toys in the Happy Meal and so on. And you need to take a look at your own market because you have the same thing with children's pajamas. With anything related with kids there's a whole bunch of laws. You want to make sure that it's not dangerous. If it's a small thing there's an evaluation test you can do to make sure a child can't swallow it. There's a little tube thing and if your product doesn't fit through the tube than it's okay. But you can check with the Consumer Product Safety Commission, which is [www.cpsc.gov](http://www.cpsc.gov), and there's a list of hundreds of regulated products and you can go there and you can see what product categories are regulated and then you can find out what the regulations are. And it's absolutely critical for you to do this because if you go into an area where there are safety or legal issues and you don't know that and you try to develop and sell something ignoring all of that, you could end up in big trouble legally.

If you're a small company just getting going or just getting into retail if something like that happens, you're probably out of business because the retailer isn't going to look well on you if you have a recall. And the cost of that could probably just knock you out of business; your sales would go down, the whole thing.



Michael: Will the buyer question you on that or is that something that they're going to assume you've already taken care of?

Joe: Well, if you're going to sell to a retail store you're going to need product liability insurance, usually \$2 million worth, which if you think of on a national scale, that's like now where near enough. But the buyer will question you and the buyer will make sure that you do have the appropriate insurances, but they're not going to do their own tests. They're not going to do their own testing of your product because that's not what they do, they're retailers. I will say in the premium industry where you're dealing with children, in that case they do, do their own testing. So, you can tell McDonald's whatever you want about the idea you have for a Happy Meal toy, but they're going to do their own testing of it because they're on the hook there, too. And if something goes wrong with it, it's big problems for them, as well.

Michael: Would you recommend that I use an outside, independent evaluation service to determine the marketability of my product, like focus groups?

Joe: Definitely. I wouldn't do focus groups though. I've been there done that. I was with Kimberly-Clark and we did focus groups just like Proctor & Gamble all the darn time. But we're a step back from that. We're talking now about having an idea or prototype, we're not in the market already.

You have a number of choices. If you've ever seen on television, these invention companies where you submit your invention to them and they come back and tell you the marketability and they'll handle the patenting and the getting it out there for you. Essentially, every one of those things are scams because what happens is they'll evaluate your product for free, you get back a canned report that tells you that your product is wonderful, which is no big surprise because they want to sell you the next step, which is you know, \$1,000 for more research or whatever. And by the time you're done, you could spend \$15,000 or \$20,000 with a company like that for a product that had no chance because they're in business to do that work, not to make you money. I saw in one of the magazines I read there was an investigation done on one of these companies and they found out of several thousand companies who they had told their products were wonderful and great and they'd make them rich, only two of them got any commercial sales. So basically they're scams.

The way you want to get an outside evaluation of your product done is by an organization that doesn't have anything else to sell you. So, they don't have a vested interest in whether it's good, bad, or indifferent. They will sell you an evaluation for like \$250 and if your evaluation comes back great it's a wonderful thing, they'll give you suggestions, but they have no other services to sell you to take it from there. So, anytime a company you're dealing with has a vested interest in having a result of their "analysis" come out one way, you have to be

suspicious. And on my website, I'm going to have links to a bunch of these kind of services that are good that charge you a set fee.

Michael: Can you give me any recommendations now?

Joe: A couple of them. One I like is the WIN network, which is the former Wal-Mart Innovation Network, it's now World Wide Innovation Network. See what happens is the phone numbers and the URL's of these companies change. So, that's why I'm going to put them all on the Web. But the WIN is one and another one if you want to do licensing, I'm going to be recommending a guy called Harvey Reese and one of the best ways to find out if your product is licensable is to give it to somebody like him to evaluate. He charges \$175 and he'll give you an evaluation and unlike the invention companies, if he comes back and says you've got a winner, looks really good, and he does have a vested interest because he is going to handle the going forward. But the way you can tell he isn't a scam is you don't have to pay him any money.

Michael: Who is Harvey?

Joe: Harvey is a guy who has licensed hundreds of products to manufacturers to sell to retail stores. He has a book that's called, *How to License Your Million Dollar Idea*, Harvey Reese, which if you're going to be into trying to do licensing you need to buy that book. And he has licensed hundreds and hundreds of products and the methods we're going to talk about in the licensing section, are a lot of that is from what he recommends.

I have another contact in infomercials. And infomercials used to be cheap to test and create, but nowadays the television stations are requiring broadcast quality. And what that means is it's going to cost around a \$250,000 to produce a commercial you can test. So, obviously that's big dollars. The people who are good at doing that tell me that if they have one out of ten successful, that's a great record. So, if it's your \$250,000 and yours is one of the nine that isn't, this is not a good thing. So, one of the contacts I have, they charge you a few hundred dollars to look at your product and there again, like Harvey, if they think it has potential, you'll get a 5% royalty, they will spend the \$250,000 to make the commercial, they will spend the airtime to test it, and if it works they will roll it out. They have two programs. One is a couple hundred dollars, we'll evaluate it, if we roll it out you get a small royalty. The other one is, all right you want half the money, you want a 50/50 split, they'll do that too, but you have to come up with the \$250,000 for the test. So, that pretty much makes the choice pretty easy.

So, in summary, it makes all kinds of sense to evaluate your idea or product and to do it as soon into the process as you can. A lot of products do not work and if you can go through ten ideas quickly and inexpensively to find the one that does, that's certainly better than spending ten years of your life trying to develop something that's \_\_\_\_\_.

In the next section, which is Section 8, we're going to be talking about how do you go about licensing your idea or your product.

Michael: This is then end of Section 7. Please continue to Section 8.