

Wal-Mart Gold

Lesson Three Transcript



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Joe: In Section 3, we're going to talk about how to get started in other distribution channels so that you get the data you need to be able to get into the mass market when you are ready.

Michael: What's the goal of this section? Is the goal of this section to prove some product sales to have some ammunition, some proof before I approach Wal-Mart or any of the buyers that these mass merchandisers, so I can show them hard numbers that this product sells? Is that what we're talking and trying to accomplish in this section?

Joe: Yes, we're trying to do a couple of things. One is to get the data that we need to prove to Wal-Mart or Target that they should take our product as we prove that it will sell. That's one thing we're doing.

The other thing we're doing is, remember in the prior section I talked about financial capability, well one way to get financial capability is to build up your business. So, what I did, with my company, I did not start with a mass market. I didn't have the financial resources to do that. I started selling gift and stationary stores and build up 8,000 or 9,000 independent retail customers where the product was blowing through stores and doing great, built my company up to about \$3million or \$4 million in sales before I started approaching the mass market. So, there are two things that you need to do or that this will help you do; (1) prove it sells and, (2) builds your business and sales up so that you have the financial capability to do business with them.

Now, you may be thinking again, just like in the last section, that this is too much. You're not going to be able to do it. But remember, we had five ways of how you get into these stores. What we're talking about right now is the building of a company way which is the most expensive, highest profit way. But don't forget, you can license an idea or you can use several of the joint venturing capabilities as a way to do this. And that may be for you might be the best way to find another company that is already in some sort of retailer that can test your product.

Michael: So, let's talk about some of the ways. Can you start with some ways that I can test distribution inexpensively?

Joe: Sure. I have a number of different ways you can test something inexpensively. One way would be to go online, sell products on the Internet using traffic from Google AdWords to find out if people will buy it.

Another good way if you have the product far enough along that you have your packaging done is to put the product in some stores, small independent stores, on consignment. If you put it in the store and tell the storeowner you'll just put it there for free and you'll share the money or maybe even let him have all the money when it sells. That's another way to get a test and most independent retailers will cooperate with that especially if you give them the money. And for

those of you who are not familiar with consignment selling, what that means is you put the product in the store, at your expense, and then when the store sells it, you keep track of the sales. There's two ways of going. One way is you split the money with the store and the other way is you give them all the money. And that is part of the negotiation of getting it in there in the first place. What your wanting to find out is if your product will sell and you're wanting to get it on the shelf so that you can find that out.

That's how in the sticker business...one of the ways we got started and found out what would sell. When we talk about product development a little later, I'll tell you how I can make sure I didn't have any new product failures. But what it all comes down to is testing, market testing. And I was able to easily convince the store to put my products in. All I had to do was say, "I'm going to put in this big floor display of stickers. The thing is worth \$1,000. I'm not going to charge you any money. You can pay me after they sell and you get 75% of the sales instead of 50%". So, it's a no risk thing to them.

Then what I was able to find out is what did people buy. And we had a lady at our company and her only job was to stay in touch with these stores. We called them our market test stores. We had about a couple hundred market-test-stores all over the country and we'd put a product in there and she would call at least once a week to every store to find out how many of them sold. And the thing you want to do when you do this consignment selling or testing is you want to make sure there's always product there to sell. If you have a display that holds a dozen of something and you put it in ten stores and at the end of two months half the stores are sold out and the other half aren't, what you really want to know is when did those half sell out. If you didn't check it for 60 days, they might have sold out in a week or they might have sold out in 60 days and that makes a huge difference. You need to know that and if you're testing like we were with stickers, we had many different designs. A single display would hold 128 designs. So, we needed to know which designs did people buy.

We were creating little pieces of artwork here, what did people like? So, the way you do that is you put your display up with 128 designs on it and you make sure you have no out of stocks. You make sure that you're in touch with that store every week or however often you need to be so that none of them get sold out so that you get a true reading as to what people want to buy. If you're sold out of something and some designs sell out in a week, if you don't replenish that and you check 30 days later you're going to say okay it sold in 30 days, but really it sold in a week. Your turnover was four times what you thought it was. So, collecting your data right and handling the inventory in the store while you're doing your testing is important.

Michael: So, all this data should be documented because you're going to use this as ammo when you approach the buyers?

Joe: That's right and even when I'm selling to an independent store I want to do it that way with them, too. Once you get some data together and you want to sell the independent store; you want to take the same approach. You want to tell them hey this stuff sells. We've had it in this store, this store and this store, they sold out in a month, and you want to use that same data with them. For the big chains you want to have preponderance of data. For the little ones, knowing the store down the street sold some is better than nothing and it might be enough to get you in there.

Michael: How can I evaluate if my products got direct mail potential or catalog potential without having to spend any money?

Joe: Sort of like what you did with "are you ready for the mass market?" and if it's appropriate, your product is appropriate and you went and looked, you do the same thing with say you'll start with catalog. Mail order catalogs, there is a directory you can get at a library or buy. It is a directory of all the mail order catalog companies in the United States and this thing is like 800 pages long and has maybe 10,000 or 20,000 catalogs in there. So, it's broken out in categories. So, if you have an automotive product, you go in there and look under all the automotive sections and find the 50 catalogs that sell automotive, get samples of the catalogs and find out what's in there now and do they have your category. If you're making motor oil, the chances are pretty good that people don't sell that by mail and you won't find any oil in an automotive catalog. So, that's the best way to find out is what do they sell now.

The second thing is just like we did for mass market where you look at the retail price and divide it by five. Same thing with the mail order catalog, dividing it by five is a good idea there, too, even though you're only selling it and they're not going through two steps of distribution. It's one step, but there's a tremendously high cost associated with mailing millions of catalogs. So, that step is similar to the two steps in a retail environment. If you can't sell your product to the mail order catalog company at a fifth of the retail price, you might not have an opportunity.

Michael: Can you give me some ideas on how I can sell to independent gift, stationary, and specialty retailers for testing my product?

Joe: Yes. This is a market I've been in, so I'm very familiar with it. And there is a very interesting and seemingly illogical thing that goes on here. In the independent stores, whether it's gift and stationary or toys or whatever independent stores, if the product is not packaged, it doesn't have a UPC code on it, it doesn't have a packaging, it's loose and here's this product loose in a little bin with two dozen more of them loose, those products sell for more money than the same product would if it were packaged and in a Target, which seems weird because you're adding a lot of cost in the packaging and the reason why is because when a

product is loose in bulk and in an independent store, it does not look like something sold in a mass market.

The one thing, like a Hallmark store can't have, or a gift store if they have anything in there that looks like it's sold, the same thing could be bought at Wal-Mart for half of what they sell it for, then no one will buy it. They'll go to Wal-Mart. So, they have a different type of product they sell and a different way they sell it. When we were selling stickers, we had stickers on rolls that were just loose like perforated between like a roll of stamps. And we had displays that would hold a hundred rolls and needless to say this made a mess in the stores because kids were tearing them off, but that's something that we could sell a sticker on a roll like that for more money than we could sell it shrink-wrapped on a hook in a Target. And it cost us less, but it has the image and environment of being a different kind of thing. The customer in the store knows that they couldn't buy a sticker on roll from a Wal-Mart. They don't have stuff like that.

Michael: Right.

Joe: So they know if they like that thing they have to get it here at this store. So, that's the whole idea of the bulk as opposed to packaged. And if you want to sell something to an independent retailer, gift stationary, or specialty retailer of any kind, you don't want to go in there with your package with your UPC code on it, the packaging you would use for a Target or Wal-Mart because as soon as they see that that smells mass market to them and they don't want any part of it.

Michael: So, do you think if I get stats on the loose product, bulk product and I get a success in the gifts and stationary and specialty retailers, that same success would equal a packaged product in the mass merchandisers?

Joe: It would be the first step. You prove that's step one because it's not identical to what the mass market's going to buy. So step one is to sell it loose, in bulk or however the retailer you're dealing with needs it.

Step two is to package it like it would be in a Wal-Mart and then get some sales in a few stores that will take it that way, like a grocery or drug store. There are plenty of stores that will also take and want it to be packaged with a UPC code on it so they can scan it. And then you'll have numbers of the exact same thing packaged the same way that you'll take those statistics to the big chains.

Michael: How can I find out if my product is suitable for say the advertising specialty industry or the premium markets?

Joe: My first company was in those industries and they're good markets, too, and a lot of people might not think of them. Advertising specialties and premiums are two different things. An advertising specialty is basically a product that has an imprint

on it or a company logo. When you think of a pen with an IBM logo or a t-shirt with a log on it.

Premiums as a rule do not have logos, but the definition difference is an advertising specialty is something that's given away for free with no obligation such as a life insurance salesman gives you a pen. A premium is something you have to do something to get. You have to buy the Happy Meal to get the toy. You have to buy the Cracker Jack to get the toy. You have to buy something and then you get it. So, that's what a premium is.

With an advertising specialty or a premium that difference doesn't sound like much, but they have different trade associations. They have different trade shows. They have different distribution networks and different sales people. The way to tell if your product is going to work, there again you can look through on the Web you can go to a number of different websites, which I'll have on my website links to that will have 600,000 products in the industry and the nice thing about the advertising specialty industry is that it's really to research all your competitors. You get to see all their prices and all their terms because that's how this industry works. And they have codes that tell you what the costs are. So, once you understand all that you could see what your competitor is selling a product for, what their pricing is, their terms, and everything. So, this is the easiest industry there is to understand what's going on. The thing that makes it unique is that you need to be able to decorate or print or embroider or however you're going to put on there the logo or the advertising message.

If you make pens, but you don't have anyway to put some company's name on the pen, then you might be able to sell to an ad specialty manufacturer who will do that, but to be in that industry you have to be able to put XYZ company's name on a 144 pens. So, the key to it is it isn't an advertising specialty unless it has an advertising imprint on it and the key to being in that business is that you have to have the ability to imprint small quantity orders very quickly. So, that is a specialty thing. If you can't do that, then you might want to find someone who can. But a lot of the people in the industry now will offer \$100 worth of something with a custom imprint, shipped in 48 hours. So it's a huge industry. There are 65,000 people out there selling this stuff. So, if your product is suitable for that and if you look in the product directories, you'll see there are thousands of categories of products. So, most products do have a market here.

And in the premium side of things, they have a separate premium show and there are several kinds of premiums. When we had our stickers in the premium market, we were a low-end premium. That was when we were selling things for a few cents. I did a special group of stickers for Wendy's for their Happy Meals, but that's all very inexpensive stuff. Premiums also can be color TV's, wide screen TV's, expensive electronics that are \$5,000. Those can also be premiums and those are usually used as sales incentives. You make your budget this quarter and

you win the TV and also they use a lot of travel as premiums. You see companies are having travel. People who qualify get to go to Hawaii or whatever.

Yet one other way you can possibly sell your products is through infomercials and we're all familiar with those; the 30-minute shows on TV where they're trying to get you to buy something. The criterion for that is it used to be it can't be available in stores, but now a days that's not the issue anymore. But what is an issue is it needs to be a demonstratable product. You have to be able to visually show what it does. One product I thought that was pretty cool I saw in an infomercial was a car wax. And you may think a car wax, how do you demonstrate that, that's pretty boring. But what they did is they said this car wax is impenetrable, so they took a Ferrari and they put the car wax on it and then they dumped gasoline on it and lit it on fire. So, they had this \$200,000 car with flames coming off the hood and they put it out and then they wiped it off, wiped off the residue and it looked good as new. So, that's an example of an eye-catching demonstration for the product. And then the other primary thing you need is a huge margin. You need to be able to where we've been talking the five times markup for direct mail catalogs or retail stores, you need ten times for infomercials.

Michael: Wow.

Joe: And that's because the TV time is so expensive. But if your product is appropriate for an infomercial, some of the products that are on there that you see over and over have done \$50 million or \$100 million sales that way. So, if your product is appropriate it, you definitely need to look into this some and we could help you with that, too. But because of the numbers, you don't have to worry about is it in the store, are they going to merchandise it right, how do you get it there? You can do the whole thing in one step on TV. If your product's appropriate and if you hit a homerun, you're talking \$10 million or \$50 million or \$60 million.

Michael: Do you think there are a lot of successful infomercial products that have never even tried to approach the mass merchandisers?

Joe: I think usually if it works on TV, they're going to the mass market and they're going to put "as seen on TV" on the packaging. One stat I've heard on infomercials, talking to Ted Thomas in real estate a few other people who do these a lot, it costs roughly now...20 years ago the rules were different. Now, they want broadcast quality and ballpark it cost a quarter of a million dollars to produce an infomercial and the rule of thumb is one out of ten work.

So, you can see the numbers are sort of interesting, but I do have a source that will be on the website link for you where I found a company who, if they like your idea, they will fund the whole thing. They will create the infomercial to test it, they will run it and they will roll it out. You don't have to do anything. You make 5%. If you want to make more, if you fund a quarter of a million dollars and

you produce the product and you pay the quarter million to produce the commercial, then they'll handle it for you, too, and then you split it 50/50.

Michael: Okay, so again another option for someone who doesn't have money and doesn't have a product that can get started and possibly get in just with an idea.

Joe: That's right. You could have an idea. You could make \$20 million from your idea with using other people's money.

In summary, this Section 3, we've gone over other ways to get started aside from the mass market. In and of themselves can be good markets and you could make a lot of money in them, but there are all ways of developing the proof you need to sell to a Wal-Mart or a Target.

The next section, Section 4, we're going to talk about figuring out how big is your market.

Michael: This is the end of Section 3. Please continue to Section 4.