

# Wal-Mart Gold

## Lesson Two Transcript





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Joe: Right. In Section 2, we're going to talk about how to tell if you're ready to sell to Wal-Mart, Target, or other mass markets.

Michael: Joe, I guess the first thing that I want to know is how do I know if my product is appropriate for mass merchant distribution?

Joe: It's important to know that and to figure that out, and not all products are suitable for mass market. The very simplest way to find out is go into the stores and see. Whatever your category your product would be in, go into some Targets, some Wal-Mart's, Home Depot's, wherever it's appropriate and see if that kind of product is there. One thing that you might find is there are a lot of different kinds of products that aren't sold in the mass market. So, you might have a higher end product, an upscale product that doesn't belong there, or you may have a product in a category they don't sell. So, before you spend a lot of time, money, and energy trying to figure out how to sell something to Wal-Mart, you better make sure that Wal-Mart carries the category in the beginning.

Michael: What if I don't have one of these chains near by? Are there other ways for me to determine what products are selling in the stores?

Joe: If you're overseas somewhere and not in the United States what you probably need to do is get a hold of somebody who is here locally who can do that for you. There are Wal-Mart's all over the world, but what a Wal-Mart has in their stores in China is not going to be necessarily what they have in the U.S. And if you're targeting the U.S. market, you need to know what's in the stores here.

Another thing you can do is you can go onto the Web and go to Wal-Mart, Target, or whomever websites and search through there to see what products they're carrying. And if you're in China, then you can just go to one and if they do have a website for people in China, it will probably be in Chinese, so if you speak English and not Chinese, you're not going to get very far. But the best thing, there's really no substitute for going to the store because even on the Web and even though Wal-Mart and Target have websites, they don't have every product in the store on the website. They have things they're featuring and promoting and so on, but they don't have everything. So, your best bet is to go into the store.

One other point to make, too, is if the product that you have is seasonal. If you go into a store in July don't expect to find Christmas stuff there. If it's a seasonal product, you've got to check it seasonally. And the other thing you can do is you can research the types of products that are sold to that industry as a whole and you can do that by going to the trade associations, periodicals, and other resources both online and in print to see. You can get even from the trade magazines you can get things like what the average gross profit margin is in a category; health and beauty aids may be different than toys and is definitely different than groceries. So, you can learn all of that from just research.

Michael: So, for each category in these mass merchandisers there are trade associations that represent these categories. Would that be fair to say?

Joe Oh yes.

Michael: And what's someone going to find -- a trade association that covers that category -- they're going to find any information they can. They're going to find a ton of information on the category and all the products, very detailed information. Is that correct?

Joe Right. Oh you're going to find -- in some of the ones that I have specific experience with, there's a toy trade association. There is a toy building in New York. There's a toy fair every year. There is a toy manufacturers association and there's a toy rep group. So, before I would call up a mass-market buyer, you don't want to call the buyers at Wal-Mart and Target until you have your act together. But one way you're going to learn a lot quick is talk to a rep who sells to Wal-Mart in the toy department or talk to the trade association or talk to the people at the toy fair. In that case, in the stationary, there's a stationary show, and the school supplies, there's a school supply show and each of these shows has their own trade association, their own magazines, their own manufacturers groups and their own rep groups and all of those become resources for you to research your area.

Michael: Okay. Even going to these shows you could probably learn a lot by seeing what's trying to be sold into these mass merchandisers.

Joe: Oh yes. And one example from my school supply business, you will note that in a Target, in a Wal-Mart, in a grocery store, the big chains are the ones that carry the school supplies -- the two pocket folders, the spiral notebooks, the pens, pencils, and all that. The mass market is the only place that's sold and the reason why is nobody can compete with them. You won't see school supplies, when we were selling school supplies our only market was the mass market because little independent stores don't carry it. So it's the flip of this. How do you make sure that the mass market carries what you want to sell? Also if you're selling to smaller stores to start with, in some categories you can't do it because they don't buy the category in the smaller independent stores. And school supplies is an example of that. The Wal-Mart's, Target's, and the big grocery chains put that stuff out at the school supply season at very low margins. And what you will find is some other retailers, if they wanted to carry the product, they could go to Wal-Mart and buy it at Wal-Mart cheaper than they could buy it from the manufacturer because Wal-Mart buys 27 million of something. So, they stay out of the category.

Michael: Also, I think about going to these shows or researching your trade association. Instead of looking at these members of the association as your competition, look at them as potential joint venture partners just like we discussed in Section 1. You

can benefit by teaming up and using some of these companies to make it to your ultimate goal, getting your product into the mass merchandisers.

Joe Oh that's right. There's a deal to be done with everybody including even competitors. When I was starting my second company and I had no money, because my first one went out of business, which is a story for later, but when I started the second company, I had all this artwork from kid's stickers. Artwork, we probably spent over a million dollars to create, I had the copyrights. So, what I did is I went out and found a company who was in the market I wanted, in the category I wanted, who had a whole bunch of product line, but didn't have stickers. So, I could go to them and say, hey you guys have 375 products, you really need to be in the sticker business because it's a big category and I can put you in that business over night., I have everything that you need. I have all the artwork. I can get them made for you and you can be in the business in 30 days. And I did that deal and that's how I started my second company.

Michael: What if you're not ready for Wal-Mart? What are some ideas that I can do in relation to distribution that could get me ready for Wal-Mart? What advise do you have on that?

Joe One of the main things to do is start in another distribution channel. I believe that when you go make that sales call on Wal-Mart, you're going to get one chance. You really don't want to mess that up. So, before I would recommend anybody to go call on Wal-Mart, I'd want to know for sure my product sold. I'd want to know the sell through rate. I'd want to know everything there is to know about the product in the category. If you have a new product that hasn't sold in the U.S. market or if you have an invention or a new product of any kind and you don't have sales data, you need to get sales data first.

The way I try to think of making a presentation to a retail buyer is that I want to be able to assume that everything that comes out of my mouth that buyer is going to think it's a bunch of BS and that I've got to prove it to him. And if every statement I make, if I don't have rock solid overwhelming proof of that, I'm not ready for that sales call. And the thing most people don't have that proof of is the sell through rate. And what you need to understand about that, unless you are the billion-dollar company and have more money than God for advertising, most of us do not have that. So, your product is going to sell by pretty much impulse. People are going to walk by and see it and buy it because they're not going to be driven there by TV ads.

So, what you have to find out and what you have to prove is that when your product is just sitting in a store and people walk buy, will they buy it because it's the only way they'll buy it is if you do a person sales pitch on them. That isn't going to happen in a big mass-market account. You can do that in a little Hallmark store, an independent store if you can get the owner excited about it and talking about your product to people who come into the store. But that won't fly

with the big chains. So, you need to know if you want to be in a Wal-Mart or Target that your product will sell without any advance promotion.

Michael: What are some criteria for selling to the mass merchants?

Joe A couple of biggies. The biggest one is financial capability. Though you can start with a Wal-Mart or a Target in just a small amount of stores as a test, from their point of view, the whole point of a test is that if it works they expand it. And what it comes down to is do you have the financial capability to do business with them and that comes in, it's just a math problem. If your product is going to sell, say 100 units in a month and the unit is worth \$4, say \$400, then if you're going to put that in the 2,500 Wal-Mart stores, \$400 times 2,500, what's that \$1million? And then let's say you're going to get paid in 60 days. That means you need \$2 million worth of money to manufacture that product, ship it to Wal-Mart, and wait to get paid. And Wal-Mart is going to look at that. That's one of the first things they look at. They look at your D&B rating, they look at your financial statements, and if they can look at that and say, well guess what the problem is? We can give you an order, but you couldn't ship it, or we could do a test, but if we expanded the test, you don't have the financial wherewithal to do business with us. And that's the first thing is finance.

The second thing is you have to be together with your IT stuff. The big chains now do everything with what they call EDI, which is electronically, and it's done over the Internet, it's done with special computers that communicate with the retailer to avoid any paper. There are no paper purchase orders anymore. And what we found out when we were in the school supply business was that Wal-Mart had one system and Target had another, so we had to buy two separate computers, two separate pieces of software, and just that was \$20,000 and we had to get experts to come in and set that up. So, you're dealing with the main impediment for most people is the money and the fact that what if you do get an order, they're not going to want to do business with you if they worry about you can't deliver it because probably one of the absolute worst things that can happen to a retailer is to have an empty shelf. You can't make money from an empty shelf.

Now, you may be thinking as you're listening to this that all of these things are red flags and are going to keep you from being able to do it. But that's not true. Remember at the beginning of the Introduction, I said I did this with no money. All I'm trying to point out here is there are a number of things that you need to pay attention to, which is the purpose of this course, is to take you through those things.

Michael: Okay. Can you give me a brief overview of some of Wal-Mart's requirements?

Joe Number one of Wal-Mart's requirements is something you're never going to think of if you're a manufacturer or an inventor. And you make the presentation to them



and when you talk to them, they're going to expect you to have the knowledge of a retailer. And you're going to say well why should I do that? That's their job. And I'll say, no, it's your job because if you want to convince them why they ought to take your product, you need to talk to them in their own language. You need to understand gross profit margins, or turnover, and all of that. You need to understand from the point of view of the buyer why your product would help him and that means you need to understand the category and all of the products in the category and why your product fills a need that's not being met and why your product will give that buyer a higher gross profit for his entire category because remember, if they buy your product and put it on the shelf something else is going bye-bye. You're replacing something else. The shelves aren't empty sitting there waiting for your product. So, your product better return profit to them higher than what it replaced. So, that's the biggest.

We'll be getting into all the fine points of how to make a presentation to Wal-Mart and what you need to know later. But the main thing that's the surprise for everybody is you have to think like a retailer and you have to learn how to think like a retailer and you build your case as to why they should buy your product thinking like a retailer.

Michael: What you're really saying is I've got one chance to make this sale and the sale can either make me or it can break me. And you're saying don't mess up your chance.

Joe Right. Exactly. The worse thing you can do is go into Wal-Mart unprepared, if you even get into see them and you're unprepared, you may never get another chance. You want to go in there prepared. You're competing with everybody else who wants space in that same category and some of those companies are going to be the billion-dollar companies who have their act together. And we can show you how to do that and will show you how to do that. My point is don't go in there unprepared. Don't mess up your chance. They can be multimillion-dollar customers for you, so treat them like the wonderful thing they can be.

And in the next section, Section 3, we're going to talk about how you get started in other distribution centers until you are ready for the mass market.

Michael: This is the end of Section 2. Please continue to Section 3.