Wal-Mart Gold

Lesson Six Transcript

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Joe: This is Section 6 about how to create a winning product that will sell in the stores and make you a lot of money.

Michael: What are the key criteria for it to be successful?

Joe: First off, you need to be better than the competitive products that are there now. You need to have a clear USP or unique selling proposition, which is essentially being able to say in one sentence why buy from me and not them. So, number one, you've got to be better. There's got to be a reason, both for the consumer to buy your product and prefer it and a reason for the store to. The second thing is you need to be able to manufacture and package that product at a cost that allows it to retail at a competitive price.

Michael: Can you give me an example of what is a USP? What does USP stand for? Give me an example so I have a good understanding of how this works?

Joe: USP means unique selling proposition and what that means is to answer the question why should I buy from and not your competitor very clearly in one sentence. If your explanation for that is a rambling, ten minutes, that's not going to cut it. It has to be clear to the consumer and to the buyer what the reason is for why you should buy this instead of that.

Michael: What was your USP for your prismatic stickers?

Joe: Our prismatic stickers were interesting in a way because the USP was through visual. They were sparkly, reflected light into rainbows, and when you just looked at them side by side with a paper product, this is metallic and shines light into a rainbow, so our USP was just the physical product. You just look at this, you look at that and you say oh my God that looks different. With our prismatic stickers it was a visual USP, not just words. The product itself was -- we were like selling little pieces of artwork. So, if you're selling a piece of artwork, it's a visual thing. It's not a word thing. So, you think about Hallmark paper stickers and then you think about metallic ones that are die cut into shapes of little animals or whatever and then they're printed in screen printing so they're very bright colors and the material they're printed on reflects light into rainbows. So, it's sparkly, it jumps out at you, it's night and day different from paper.

Michael: It's scary to think because Wal-Mart sells at such low prices, am I going to be able to make a product at a cost that's going be able to make money for the store and myself at the same time? Can we talk about pricing?

Joe: You bet. And this is very critical and one of the things that I tell people if I'm helping them develop a product is this is one place you want to start. If you start at the beginning and you determine you can't make it for enough less to make money and have the store meet their competitive needs, then you need to either move onto something else or find a break through the way you can change the cost. Basically when you're doing a first level screening of it and you just want a ballpark idea, figure that the store is going to double. If you sell it to the store for $1, they'll sell it for $2. And then figure that you're going to need to make it for two and a half times your cost, so 40-cents times two and a half is $1. You need a markup of two and a half times or 60% gross profit for you to be able to pay your sales reps and all your other costs you're going to have in the marketing to sell your product to the store. So, what that comes out to is you better be able to make it for one-fifth of that cost of the retail price. If your product sells for $1 in the store, if you can't make it for 20-cents, you've got to take a look at your manufacturing processes and how you're making it or you've got to do something else. Screen it out right away because there's no point if you make something for 33-cents and you want it to retail at $1, guess what, the store is not changing their margin so you're going to have to take less margin and if you take that much less margin, you won't make money.

Michael: What are some of the differences in short-run cost versus long-run cost?

Joe: When you're looking at doing this cost analysis, you want to do your numbers based on large production runs that will be what you'll be producing when you're shipping out to all the Wal-Mart stores, Target stores, or whatever. In a short-run, if you make a short-run of something, say you make 10,000 items of something and they cost you $1 each, but if you're going to make 100,000 or a quarter of a million, now they're down to 50-cents. The number you use is the 50-cents because those short-runs are going to cost more. What we want to know is we want to know that all the numbers work in the volumes that will occur when you are in the stores. So, you don't have to have your short-run cost meet the five time rules. It's your full production runs when you're in the major chains and doing the volume. That's the time you need to make the five times.

Michael: Let me ask you this. If advantage over competition is my cost, how much better do I need to be?

Joe: The answer is a lot and you see this in computers and things. But when I came into Wal-Mart with my stickers the first time, I competed with 3M and these are interesting stores because 3M is a giant and when you kick the giant in the shins and take his place, which we replaced 3M in Wal-Mart in stickers, when that happens what you can expect is the giant elephant will eventually turn around and squash you like a bug. But you probably have a year or two of sales before that happens. And in the case of the stickers, 3M was selling a package of stickers to Wal-Mart for $1 that Wal-Mart sold for $2. So, I went into Wal-Mart with the same size package and similar product for half the price. So, that's the kind of difference you need in price to get their attention. It's not 10% different or 15% different; make it half.

Michael: And were they selling the same prismatic stickers you had?

Joe: Yes, 3M copied us and so they had prismatic, too. So, we were apples to apples at that point. And the way we got in was price. And I'll tell you what happened, the way we got out. Our product sold fine, then what happened is 3M went to Wal-Mart and said well tell you what, you don't want to have to replace those products on the hooks yourself, how about if we provide that service for you for free. If you put us back in, we'll provide that service for you for free. We'll count the stickers on the rack by design. We'll replace twice a week whatever is selling automatically for you without charging you anything and then Wal-Mart said okay and then we went out. We had no way of providing in-store service twice a week to 3,500 stores. 3M had people in the stores already. They're already in the stores doing stuff, so all they have to do is walk over to another department, spend two or three minutes and they're done.

Michael: This could be an issue for someone with a large product line in a large category, correct?

Joe: It would be an issue for any product that needs frequent service. If the product doesn't need frequent service -- if you're something like what we had, lots of designs, lots of different little pieces of artwork, when one design sells out, you want to replace it, so that needs a lot of service. If you're selling something in a box and it doesn't come in 27 colors, you don't have to worry about that.

Michael: You had mentioned to me that you've got a list of three criteria that you go through that someone should consider before they decide on doing this. Can you go over those three criteria?

Joe: When you want to create a product, this is assuming you don't already have the product, but you want to create a product, the first thing you want to solve a problem that needs solving and that people are willing to pay for. And those two pieces are important. If you solve a problem nobody cares about, that's no good. So, you need to solve a problem that needs a solution that people will pay money for.

Secondly, if you don't know the market or the industry, the biggest risk is you'll probably solve a problem that doesn't need solving or maybe that there's not enough of a market for or you'll try to sell something somebody else has done and tried and it didn't sell and it's gone. So, you need to know something about the industry, the market you're going to develop a product for.

Then the one thing that's a easy thing to do that's free is when you have a concept for a product, you can evaluate yourself versus your competition by going to the store and instead of asking the store do they have an item like yours, whatever problem your item solves, ask the store manager or ask the people in that department what else do they have that does the same thing and what is selling best.

A fun example to use is the mousetrap thing. People will not beat a path to your door if you have -- but let's say you have a better mousetrap for some reason. It's the kind of mousetrap that thing comes down and squashes the mouse and you have one now that somehow doesn't squash your fingers half the time. So, you might be going in and talking to the people in the store about different mousetraps. What you should do is you should ask the people in the store, not about mousetraps, but what's the best way you have to kill mice. And what you'll find, and what I found because I actually have done this, is we had a mouse problem is there are poisons and bates that get used and you put these out, the mice eat them, this poison makes them thirsty so they go outside the house looking for water and then they die outside the house. So, now do I want to get a traditional mousetrap that squashes the mouse or would I rather have a little thing of bate I put in hidden areas, the mice find, eat, and go away and die so I don't have to dispose of the corpse. If you ask women about this, I think you'll find a unanimous choice that they don't want to deal with a dead mouse. So, if you ask the wrong questions, you get the wrong answers. So, what you want to know is how does your product or your solution compare to all of the other solutions to solve the same thing, not to just compare it to other things that do it the same way yours does.

Michael: How do I decide what areas or markets I may want to create a product in?

Joe: Well, I would start with something you know about. If you start in an industry or a market you know the needs of and you know they're not being met, what I like to call that is finding the starving crowd. So, the process of developing a product doesn't start with the product. It starts with the market. I like it to be like Gary Halbert talks about. If I'm selling hamburgers, I want to be the only hamburger stand at the ballpark. And then my marketing consists of hamburgers here and then I get swamped. So, that's an obvious example.

But when you want to create a product, you want to find the starving crowd first, create the product second to fill the needs of the starving crowd, which is backwards of how everybody does it. Everybody says, well we create the product, we're engineers, we design, whatever. They start with a product, not with the market and when you do that, the stats show that 95% of new products fail. When you start with the market and you do your testing properly, I'm at 95% success instead of 95% failure.

Michael: What would you say is the best way for me hit a guaranteed homerun?

Joe: The best way is not to invent something. The best way is to find an existing product that sells well. That means you have a hungry crowd, right, if it's selling well and then make it faster, better, or cheaper or preferably all of those. I have two examples of that. One I just talked about a few minutes ago with the stickers where we took a 4 by 6-inch sheet, 24 square inches selling it at $1 retail and then we went up to 8 by 10, 80 square inches for the same $1 retail. So, what we did is we tripled the amount of product for the same price. So, that Wal-Mart bought $600,000 worth of those on the very first order and put them in very story because they knew if a 4 by 6 sells, why wouldn't an 8 by 10 sell for the same price. So, that's a very low risk thing.

Another example is I met a guy up in Canada, who was an injection-molding guy I was doing some consulting with and he does injection molding of rubber. And up in Canada they're nuts about hockey and skating and they have these skate protectors, these rubber things that go over the skate blades. Those were selling like for $8 or $10 a pair, something like that, and they came in different colors. And the ones that were on the market didn't work very well. Sharpened skates are very sharp and you walk around with this rubber thing over your ice skating blade, they don't last long. That sharp blade cuts through them. So, what this guy did, though, is did another example of what I did with the stickers. He was able to get recycled rubber where he was using tires and things like that and recycling them and he would get people to pay him to take away his raw material, the tires. He didn't have to go buy rubber. He was paid to pick up rubber. And then because of the process he used, his product was way more durable. So, instead of lasting a month, they'd last for a year and because his raw material cost was actually a negative number, he was able to come out with skate protectors for $2.50 a pair instead of $10.

Michael: Was he injection molding these things?

Joe: Yes.

Michael: Wow.

Joe: From recycled rubber that was from chopped up tires and other scrap that he got paid to take.

Michael: Were they in big merchandisers?

Joe: Yes. He took over the market. Everybody else went out of business. I mean he was able to sell the product to the retail store for less than the raw material cost of his competitor.

Michael: But he did get in without having to prove the sell through on the product because that had already been in there. He just came and made it better, faster, and cheaper and avoided all these steps that someone with a new product would have to go through.

Joe: Exactly. The better, faster, cheaper thing is how I've developed all my products. It's not always cheaper. Sometimes it's more expensive, but better from the point of view of the consumer. Those skate protector things are only in Canada. They're nuts about ice-skating up there, so this is a Canadian product and a Canadian company. But they were a manufacturer. They had injection molding machines and there's a lot of money tied up in those, so he didn't have a problem with the financial side of it. But it's a perfect example of here's a way to hit a homerun.

Michael: Give me some examples of your products that you applied this to.

Joe: Back at the very beginning, it was like a joint venture initially. I found a guy who was doing screen-printing and I had some products I wanted him to make for me for the advertising specialty industry and we started with that. But then because he could do screen-printing and because he was a little bit in the souvenir business, down in South America and Mexico there were popular souvenir stickers that were going on the backs of campers and they either had pictures of cities or tourist attractions or pictures of girls on them or whatever, but they were very popular down in South America and Mexico. And they were this sparkly prismatic material, which had never been used for anything else that we knew about. So, there were a lot of companies making stickers by this time. There were several hundred companies selling kid's stickers to retailers because it had become a big fad with the sticker books and the collecting and all that. So, we were the 200th company to come in the industry, but we made our stickers out of this shiny stuff because we said hey the souvenirs sell to people, if wonder if these metallic, sparkly things would sell to kids. So, we started out by making about 12 different packages and we put them in some gift stores, like Hallmark stores. And we found out they sold out right away and after a couple of years of doing that and getting 300 sales reps and everything around the country, we were up to about $5 million or $6 million in sales selling these things. So, then that's when we went into the mass market.

We did the exact oppose of the cheaper thing. Hallmark was selling three 4 by 6 sheets of stickers for $1 retail and we started out with one 3 by 4 square inch sheet of stickers for $1. So, that's 12 square inches versus 24. We were selling one-sixth the amount of product for the same money, so our price was six times higher. So, you would normally think you have to be cheaper, but it didn't work that way. We knew the consumer would like it, so when we went to Target the first time -- I started in Target because I could drive there -- that I thought I was going to be selling Target at 75-cents for a package of stickers that would retail at $1.50 and what happened is after three or four trips up there and talking to them, I ended up selling them for 37.5-cents or half of what I thought I was going to sell them at. It didn't matter because I could make them for 10-cents. I was still okay. But they did a test just like other retailers would do and I knew the test should work because we were selling them all over the country in gift stores and Hallmark stores.

So, what happen, the fun thing that happened with Target is when we got our initial purchase order, they made a mistake. They meant to order $5,000 worth of stickers, but they put another zero on it and it was $50,000. So, they called and realized they made a mistake and called to cancel and I said sorry, they're already shipped, which, of course, they hadn't, but we scrambled and got them out. And this was an in and out. This was not a warehouse thing. It was shipping directly to the stores because it was a test. So, now the stores are going to get ten times what they were supposed to get because of this mistake. The result of that is we got more space than we were supposed to have, which was a really good thing because it made our shiny, sparkly things stand out more. And what happened is they sold out right away and Target said cool, they sold out right away. So, they put us in the whole chain and we were considered a high sales item, high volume item, so they then started promoting them in newspaper ads two for a dollar. And then we were off to the races then. The volume went nuts because now they're retailing at 50-cents.

Joe: So, Joe, are you saying that I don't need to be an inventor?

Michael: That's right. Ninety five percent of all inventors that get patents even are not commercially viable. Inventors are trying to invent something totally new, unique, and different, which may or may not sell. What I've done for my whole career in selling products to retail stores is take a look and recognize trends and be the first to apply that in your category. It's much safer and less risk to take an existing proven product and modify it and make it better than it is to create something new. I had heard that the people who invented the microwave oven that from when they invented that thing to when it became commercially popular in stores it took like 15 years. Well, most of us don't have 15 years of money to live on and develop products while we wait. So, that is good thing for big companies to do who have money like that.

You can make modifications like I did. I took a sticker category. It was a hot category. There were hundreds of people doing it and I came up with a different way that was better. It was more popular. Then what I did after that is I said okay the same look worked in stickers, maybe it'll work on school supplies for the same kids. So, I was the first to do that and yes it did work. And then I said in the mail order area, doctors and dentists are buying those old paper things. They haven't seen the sparkly stuff. I wonder if they'd buy it? So, we started a mail order company and lo and behold, they buy it. So, each step is really quite low risk. We're just applying something we saw in one area to another area.

Michael: How often did you ideas work, Joe?

Joe: Ninety nine percent of the time and the reason why is we tested. Because what we were selling is designs and artwork, we have hundreds of designs, we set up a group of test stores and these were Hallmark stores, independent single retailers, not chains, and we made a deal with them to put our products in the stores and gave them a half price deal. And we would call every week and they'd count and tell us how many of each is left so we could replenish them. Any time I'd invent a new product or come up with a new idea for a new design, we'd make enough to put out in our test stores and we'd see if they sold. If nobody bought them, we never introduced the product. If they sold well, then we'd introduce the product. So, what you have there is a way to make sure it works before you even introduce it to the market.

Michael: When you were with the sticker business, were there any fad type products that you tried to jump on the bandwagon and capitalize from, and if so, tell me how that worked?

Joe: What we were able to manufacture, we were screen printers, so if you remember those little baby onboard, the little yellow rectangular things people stuck on their windows and then they went to Grandma and truck and all those funny saying, we didn't come up with that, but because we were printers, we could make those. And so, we made about 128 different designs of the baby onboard with the funny sayings. At this point, we had distribution. We have about 9,000 retail store customers, so we can come up with our product -- it's like what we said before, when you have 500 products in Wal-Mart, getting two more in is not a big deal. Well, when we have a four-foot section of stickers in the store, getting baby onboard signs in, is just another thing to add.

Michael: How soon do you need to be in when the fad starts?

Joe: Second is fine, you don't have to be first. But some things you have to be first. An example, I did after that company, more recently, the first time the Gulf War when Bush, Sr. when into Iraq, I had a gut feeling that this wasn't going to be Viet Nam. This was going to be a popularly supported thing, so I thought I'd better do a support the troops flag that we could stick on cars. I came up with the idea. I had the artwork done and I went and found a printer in Denver who would make them for me in about 48 hours. And when it became evident that there was a war that was starting, I put a FedEx together with actual samples and overnight them to 35 chains. And I was too late for 32, but I wasn't too late for three chains and we sold somewhere around $80,000 to $100,000 worth of flags in 48 hours.

Michael: And so, what happened at the end of the fad? Are you stuck with a bunch of product? Is that a danger in getting involved with a fad like that?

Joe: Yes. But in our case, here we've got something that's selling in the store for $1, we're selling it at 50-cents, and we can make it for 5-cents. So, we can afford to have some left over because we're making ten times our cost when we sell it. But the way I did the flags, I didn't manufacture them because if you want to get into manufacturing and get equipment to do something, you don't have time. With a real fad thing, you're dealing with 24 hours, so you have to find somebody else who has manufacturing capability and also the capacity to do something instantly for you. And any time you're going to react to the news, where people make t-shirts or whatever the product is that relates to something that happened in the news today, the people who are going to be able to capitalize on that are the people who have it on the market tomorrow. So, it's very, very quick. And the lifecycle of that, the flag lifecycle, was one order. After we shipped our one good-sized order out to all of the retailers who bought, the three chains that bought, by the time two weeks went by, there were 300 companies with flags. Everybody who had a printing press had flags. So, it was over basically.

Michael: Can you tell me about promotional products or products that are in stores for a very short time?

Joe: There really are two kinds and promotional items or seasonal items that do not go through the warehouse as a rule. In the big chains, you either go directly to the store or you go in the warehouse and from the warehouse to the stores. Warehouses are used for things that will be in the store all year long and some of the very large companies do direct to the stores because they provide in-store service and stocking on the shelf.

But the two kinds of things that don't go through warehouses, one is obviously seasonal. Christmas products, there'd be no point in leaving it in the warehouse all year long, so it goes directly to the stores. So, Christmas product, Halloween products, back to school, Valentine's Day; all those holidays go in store direct for one time order, short time frame. The other type thing that can go in that same way is what we call an in and out promotion and that means, for example, say you've got a source over in China and they can make this one product that there is a pretty good demand for and we arrange for an order of $250,000 worth of this product at a very special promotional price. It's a third of the normal price. And then we offer that to a Wal-Mart or Target or somebody and say this is a one-time special at way lower than the normal price and they do what they call an in and out promotion. It's a one-time order sent directly to the stores and it's done, none of this setting up warehouses or any of that.

So, those kinds of products, when you're looking at a Hallmark store, I mean they're constant. They have a Hallmark section in a Wal-Mart it's constant. There's always a season. Hallmark has invented seasons if they had to, to make sure there was always a season. There's always a seasonal thing going on and because of that and because of the numbers of greeting cards, the Hallmark salespeople handle the merchandising and the inventory of those because store personnel would never be able to deal with it.

So, there are big opportunities in those. It's easier. When you're dealing with a Wal-Mart, you're saying I have to meet the vendor criteria, my company has to be financially of this size, and all of the millions of things you have to do to quality to be a permanent, ongoing vendor are not an issue with the in and out promotions. Now, you're talking about going to Wal-Mart or Target or any big chain and saying I've got a quarter of a million dollars worth of this thing here, I can ship it today, this is at a special price, do you want it. So, now we're not talking about an ongoing relationship. They're not worried about empty shelves. They're not worried about anything. You've got it sitting there. It's ready to ship the next day. Do they want it or don't they want it? And that pretty much bypasses the entire process and it's easier to get in that way. And if you do something like that where you find some outstanding cool deal that you can offer at a special price that you do a one-time promotion and then it goes into the stores and sells out right away, when you go back to that store wanting to get in the warehouse and have a permanent spot, you have credibility. You've delivered. You've provided a product they made a bunch of money on and you're in a totally different world than some other vendor who has never been in there before.

Michael: I want to get my product into Wal-Mart, but I'm not very creative and I don't have any imagination. Is that all right?

Joe: So, what you want to do is you want to take other people's ideas, take things that are proven sellers -- back to our starving crowd concept -- I mean go into a store and find out in the kind of category that you can make, that your manufacturing capability covers, what's the hottest thing in that store that selling through like crazy and then modify it and do that. But there again, you've got to better, faster, cheaper. You have to be better than what's there now to have the store to have a reason to buy. But my examples with what I've done with stickers and school supplies and all of that, all I've done is taken something I saw work somewhere else and apply it my category. It was the same target market of kids. Kids like sparkly stickers, why wouldn't they sparkly rulers and notebooks. Well, they do. So, I applied something that works in one place to another place. That's not very creative. It takes no imagination. All you're doing is seeing something that's existing out there and working and reapplying it in an area where it hasn't been put yet.

Michael: What are some other ways?

Joe: Another way is to take an idea from someplace else or get the rights to something else that somebody else makes and then you can sell that into the stores. A good example of those is international products. They are a lot of products that are popular in South America or Europe or other places that aren't here yet. So, you might find, if it's popular in selling through there, that might be worth a bet to see if will sell here. So, you can get the rights to distribute that product in this country because the people who are making it somewhere else are not trying to market it here.

Another example is look online. There are a lot of companies that sell stuff on the Internet that don't do anything but the Internet. They're just 100% online companies. Now, that's not like Amazon books sells books. We all know that. But what I'm talking about are products that are sold on the Internet where that product is not sold in the store, it's not sold anywhere else, and if you can find something that's selling well online that is not in the store, consider that. See if it might be a product that would work in a retail store.

Another thing is that if you find a company who is ranked low on a search engine. Say you go search for some topic and then look down to see who's ranked number 1000, that means their website is not going to be seen by anybody and you'd be amazed. You can find products that are available or websites that are available that because the sales are so low or nonexistent, you can get the rights really cheaply. I've run across a few. I talked to one company that had a series of products. They have a whole product line of 10 or 12 different things and I approached them and asked them would you be interested in selling the rights to your products and your website and the whole deal and they said sure. Give us $10,000 and we'll sell the whole thing to you.

Michael: What was it for?

Joe: In this case, it was real estate information products.

Michael: Really?

Joe: Which would not be any good for a retail store, but it was a product line of a half a dozen different real estate information products. It had pretty much the worst website I've ever seen. You could see why it didn't sell anything. The website was -- you'd be hard pressed to place an order if you wanted to. There was no sales copy and they were ranked way at the bottom.

Michael: But the products were pretty good?

Joe: The products looked great. So, that's the kind of thing I'm talking about. That particular product is an information product, which is not going to sell in a store. That's the wrong market for it. But it's a good example. You'd be surprised how cheaply you can buy the rights to something.

A couple of other thoughts. One that's been working really well is stuff from Japan. A lot of the anime stuff and the video game things and the Pókemon things; all these things came from Japan and then they moved over here. So, that's an example of that and if you want to go poke around in foreign countries for opportunities like that, your trips are business expenses. So, it's a fun thing to do even if you don't find the products.

Another good thing is to make a deal on a product that's sold in one distribution channel and not another. Aside from the Internet, the other example might be mail order or maybe it's gift stores. Not selling in the mass market, but selling in gift stores and it's a hot trendy item in gift stores. Look for things that are working well in one place and not another because the company that's selling to the gift stores has no clue how to sell Target or Wal-Mart or the company that's selling only by direct mail doesn't know anything about a retail store. So, if you see something working in one place, you can take it to another place and that's pretty low risk.

Michael: Buy the rights.

Joe: Yes. I mean it usually isn't going to cost much to buy the rights to an existing successful product and distribution channel. You want to buy the rights to another distribution channel that they're not doing and don't plan to do, it's not going to cost you much.

So, that concludes Section 6 about how to create a winning product and the easies, low risk ways to do that. And Section 7, which is next, we're going to talk about how do you evaluate the marketability of an idea. So, say you have an idea. How do you know if it's going to work or not and how can you tell without spending too much money or any money?

Michael: This is the end of Section 6. Please continue to Section 7.