Wal-Mart Gold

Seminar Transcripts

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Introduction

Every product inventor, developer and manufacturer dreams of landing his or her product into retail giants like Home Depot, Wal-Mart and Target Stores. You have truly hit the big time when one of these stores takes on and succeeds in selling your product.

But most believe this is a pipe dream only available for someone luckier then them. But this isn't the case for my friend Joe. Joe has done it and you can learn how to do it too. So who is Joe?

Joe has had many years of experience in the product development and marketing of consumer products to mass merchants like Wal-Mart & Target as well as with selling to independent retailers in many different distribution channels.

25 years ago Joe learned the inside workings of one of the world's largest consumer products companies as a product manager for Kimberly-Clark (the manufacturer of Kleenex, Huggies diapers and other familiar products). After leaving Kimberly-Clark, Joe founded his first company to manufacture and sell children's products to retailers.

Over the last 25 years Joe has founded and grown 4 companies. Two of them sold over $45 Million of products that he invented to chains like Wal-Mart, Target and other retailers. He developed and sold 3 complete product lines consisting of hundreds of products to both Wal-Mart & Target and one year received the "Best New Vendor" award from Target's Stationery and School Supply Department.

Within the children's products company he set up a kid's club promotion that got 900 stores and 900,000 kids to participate. This promotion resulted in an additional $145 Million is sales for the participating stores in just one year. Joe also built and sold a mail order catalog company and a promotional products company. He also has extensive experience in other distribution channels besides retail.

This book contains the transcripts of Joe's audio seminar entitled <u>Wal-Mart Gold</u>. This is the most comprehensive information ever compiled about how you can get your product into Wal-Mart, other mass-market retailers, and even non-mass market retailers such as grocery and gift stores.

Just by glancing down the Table of Contents and you will see that Joe covers every aspect of creating and marketing a product to ultimate success. He not only discusses his personal experiences, but presents facts that he has learned throughout his many years of being an insider in the sometimes secretive world of mass-market retailing.

1. Five Simple Ways to Get In Wal-Mart…Even If You Have No Money

Michael: So, what are we going to cover in this training on how to get your product into the mass merchandisers? Can we go over some of the topics that the listeners can expect to learn about?

Joe: Sure. There's a bunch of them and we've got them sort of in the order that makes sense. The first thing after the introduction is how to tell if you're ready to sell to the mass merchants.

The next thing is how to get started in other distribution channels or with other kinds of retailers if you're not ready for the big change yet.

The next section after that is how to tell how big your market is, and then a very important one is how does the mass merchant buyer think, how their performance is measured, and why do you need to know this.

Then the next Section 6 is how to create a winning product.

Section 7 is how to evaluate the market ability of an idea or product.

Section 8 is how to do the licensing. How to sell your idea or product to a company who will distribute it for you.

Section 9 is how to set up a joint venture.

Section 10 is some points on how to start a business if you're going to start from scratch and build a manufacturing company.

Section 11 is packaging, of which there are many issues that you need to know about the packaging.

Section 12 is merchandising. Merchandising meaning how the product is displayed in the stores.

Section 13 is advertising, promotion, and publicity.

Section 14 is selling non-mass market buyers.

Section 15 is preparing for sales calls. What you need to do before you make that sales call.

Section 16 is how to find sales reps.

Section 17 is how you work with a sales rep.

Section 18 is trade shows and what you need to know about those.

Section 19 is financial requirements. What do you need to do to be in the game financially?

Section 20 is how I can help you.

Michael: The people listening to this seminar here or this information product, they really want to know from the beginning, is it possible to actually get a product into Wal-Mart these days even if I'm a little guy?

Joe: Yes.

Michael: How do you know that?

Joe I've done it twice and the two times that I did it both times I started the business that I did it with, with no money. So, you can definitely do it without any money just as long as you have a product that will sell and that they want and that you know the other things we're going to talk about in this course. But it definitely can be done.

I started out before I started my first company; I worked at Kimberly Clark, which is a consumer products company and I was there as a product manager for three years and I saw how big companies do it and big companies spend a lot of time, money, and effort on research and development, but they also have a lot of clout.

Michael: Give me a little picture of who Kimberly Clark is. Are they located in the United States and what products, how big of a consumer products company were they so that I got an idea.

Joe: Oh okay. They are in Wisconsin and they're a competitor to Proctor & Gamble. So, they're many billions. They make Huggies Diapers. They make Kleenex and dozens of other brands. So, they're in pretty much every retail store there is just like Proctor & Gamble is. So, they're a huge company. What I was doing there is I was a product manager, which means you're in charge of marketing a product and at a big company like Kimberly Park, in the case of the consumer products like Huggies Diapers, a product manager doesn't have a lot authority because you're talking about a billion dollar brand they're going to want to have top management is going to get involved.

I had a much smaller category. But one of the things I learned there is when I wanted to do a test market of a product idea I came up with and I wanted to put it a hundred grocery stores, if you're a little guy and just starting on your own, that's going to be a challenge. With Kimberly Clark, I could call a buyer at the time for Jewel Foods in Chicago and tell them I had a product that I'd like to test in their stores and they just said, okay fine, what is it, when do you want to start because I'm one of their biggest suppliers. So, when you find out how things work in the big company, when you're doing it on your own, you don't have those advantages. If you're the little guy and you call up, you probably won't even get through to the buyer or the person that you have to talk to. So, it is definitely easier when you're a big guy, but you can do it as a little guy, too, and you just have to understand the methods by which you do it and they're very different than how you handle it in a big company.

Michael: So, how am I going to do it? I'm not, you know, most of the people listening to this training are not billion dollar companies like Kimberly Clark. Are you going to show me some strategies of how I can get in and work like the big companies even though I'm small guy?

Joe That's the whole point because I have broken it down into five different ways that you can get into stores and one thing, though, we're going to be talking a lot about Wal-Mart and Target and the big mass merchants, there are other kinds of stores you might want to be in, too, and you might want to be in them first. But an over of the five ways, which we will spend some time on each one of these. The first way is licensing where you license your product or your idea to a company that is already in those stores. So, for example, if you have something that's in the Kimberly Clark or Proctor & Gamble type of product line, it's a possibility that you could license it to them and then they could get it in the stores easily because they're already there.

Michael: And that's where they pay you a percentage or money for the rights to put them in that store?

Joe: Yes. You typically would get a royalty as a percent of sales and maybe an upfront fee. But you have to have something that's unique that they haven't thought of that there's a good reason for. But that's way number one, least risk, least investment, and least cost on your part because you're taking advantage of somebody else's manufacturing, distribution, and customer relationship.

Method 2 is joint ventures.

Michael: What's a joint venture?

Joe That's where you do a deal with another company and I have an example I can tell you from about 20 years ago back when K-Mart was the big dog, not Wal-Mart, and at the time I had a company selling children's stickers and we were in almost every independent and mass market chain there was, except for K-Mart. And I wanted to be in K-Mart but I couldn't get in there. So, the way I did it is I did a joint venture with my competitor who was there. He was already in K-Mart and I said to him I think our product will sell better than your product. How about I sell you my product and you put it in your package? So, he said, all right we'll test that. So, he tested it. My product did in fact sell better than his, so he ended up selling all my stuff in his packaging because he was already there.

Michael: Was he already in the mass merchandisers?

Joe He was in K-Mart already.

Michael: And you weren't?

Joe And I wasn't.

Michael: And you wanted to be?

Joe I wanted to be and I couldn't get in. He was selling children's stickers, which would normally be in the stationary or toy department. He was selling it to the audio department, which was majorly weird. So, who knows what was going on there, but because I couldn't get in, I decided the best way would be a joint venture with someone who was in there already and the best one would be somebody who was a competitor who makes the identical product that I did. And the only way that I was able to pull that off is that I had a better product. And he could put my product in his package and sell more units and make more money even though he paid me for the product.

Michael: So you partnered. You had a better product. He was in K-Mart and you brought the two together to make it work mutually beneficial for both of you.

Joe That's right. So, I handled manufacturing of my product and the quality control, but he handled the marketing and distribution. So, that's another way to get into a big chain. In the five ways we're going to talk about, each way is less risk and less cost and less money to you.

Michael: Okay.

Joe So, licensing being the least amount of money, but the least risk in cost. The joint venture, I just described, I made more money there than I would have had I licensed it.

Michael: But you had more cost with the manufacturing?

Joe But I had more cost, but my bottom line profit was more. But I had more risk, more investment and all that because I was making something not just licensing it.

Michael: Okay. Even that we're going to over these in more detail what's the third one?

Joe The third one is also joint ventures and in that case it's joint venturing -- in #2, I was joint venturing with a product I already made with someone else for distribution. , In joint venture idea #3 is when you joint venture step back. In other words, you joint venture with a manufacturer who can then make it and finance it. So, you're one step further back in the process. I started one of my companies that way by setting up a joint venture with another company that had the manufacturing capabilities that I needed and we started it out that way and we ended up as it got successful and we were at the $1 million or $2 million in sales, we broke that out from the other company and set it up as a separate marketing company that we each owned half of.

Michael: You want to give me a short example of what that was as an example?

Joe The company that I was dealing with was a small screen-printer and I had product ideas for making the children's stickers and souvenir's and things of that sort that needed to be screen-printed. So, he was manufacturing doing screen-printing as custom work per order. If somebody wants something printed they go to him, he gives them price and he prints it. What I wanted to do was print something and then sell it to a retail store not just see if I could print a bumper sticker for 10-cents and sell it for 12-cents. I wanted to print it for 10-cents and sell it for 50-cents to a retailer. There's a lot more margin there, but you have to understand what the consumer wants. So, that's how I started one of my companies. That's how we got started. I took advantage. I didn't know anything about how to do the printing. I wasn't from the printing industry at that point. Down the road a bit we ended up having our marketing company that we joint ventured in got so large it bought out the manufacturing company and we ended up as partners in the whole thing. But that's how it got started as a joint venture with a manufacturer.

Number 4, the next thing was to start a company to market an idea and then outsource everything. What I did here, this was my second company, I wanted to make holographic school supplies; portfolios, 3-ring binders, spiral notebooks, pens, pencils, rulers, and you can imagine by all that kind of product the company that makes a 3-ring binder is different than the company that makes a spiral notebook is different from the company that makes a pencil and is different from the company that makes a pen. All these are different companies. So, I have my concept for a four-foot section of product that all has a similar look and I need to have a half a dozen manufacturers to make this stuff for me. So, I do the marketing company. I outsource the manufacturing to six other companies who make this stuff for me. I put it in inventory and sell it to the retail stores. So, basically what we are amounting to there is you're starting a marketing company, not a manufacturing company.

And number 5, which is where I ended up with my first company, is basically you're starting the manufacturing company. You're buying the equipment to make something, you're marketing it, you're inventorying it, you're selling it to the stores, you're doing everything, and that is, of all five of these, that's the one that costs the most money. We had $3 million dollars worth of printing equipment we had to buy and warehouses and all that. So, by the time you're in to that, you're setting up a business that's a manufacturer that has to be substantial enough in both its financing and its manufacturing capabilities to deliver large orders to big chains. And on top of that, you better have something they want to buy. So, that's the most risky. That's the method that takes the most capital, but then also it has the most margin. We made a 60% gross profit on our products even selling them to Wal-Mart and K-Mart and Target.

Michael: So, out of these five ways, the thing I believe most people think of when they think about getting their product into Wal-Mart, Target, K-Mart or any mass merchandiser, Home Depot, I think peoples' mindset is focused on that they're going to have to be like number 5; have to do everything, have to have money for manufacturing, know how to do the selling, know how to do the whole thing. But the four other ways you've just outlined make it possible for you actually to not have to do any of this and not have to use really any of your own capital. With some creative thinking in these steps here, it is possible for someone with no product and no customers and no capital to get their product into these large mass merchandisers, would you agree?

Joe That's right.

Michael: So, this is going to take a different kind of thinking that most people are used to. So, I want you to give the listeners out there some instruction on how they should be thinking as they listen through this seminar. , Should they have an open mind? Any advise on that before we really get into the program?

Joe I guess one thing I would say is you can have nothing but an idea. You don't even need a product. If you have an idea that makes sense or that could be an invention that maybe all you need. So, you can do this with zero money as long as you have an idea. And the thing that's important and that inventors, as a rule have no clue about and don't understand, is what matters is not the invention or the idea. What matters is the marketability of it. There needs to be a market for it and it needs to be something that is significantly better or different and different in a better way than what is on the market now. And what inventors typically do is, they may be engineers or have technical skills, so they invent something that uses their technical skills and they might have invented something that is a new unique thing and that it's patentable and is a way to accomplish something that can be accomplished for one-tenth the price already. So, the smart way to invent things is to start with the market and find a category that there's an existing proven demand for and then invent something that is better, different, and cheaper than what's there.

Michael: Let's move on, can we get into what are the differences in what I can make with each one of these approaches, these five approaches we've talked about?

Joe: It will range from licensing will be…it sort of works risk/reward. The licensing you might make as little as 1% of sales, maybe you'll make as much as 5% or 6% of sales, and the thing you need to know there is the sales are the sales of the company you're licensing to. If you're licensing to Proctor & Gamble and they sell to a store something that the P&G sells for a $1, the store will sell for $2, your 1%, 2%, or 3% is on the $1, not on the $2. So, you're licensing royalty is based on the selling price of the company you're licensing, not the retail price. So, that's the smallest percentage would be on licensing.

In the joint venture where like the way I got into K-Mart by manufacturing is giving a big discount to somebody who is there now. In that case, they sold the product for 45-cents. I sold them the product that went in their package and I made about 5-cents. So 5-cents as to 45-cents, that's like one-ninth, so maybe roughly 10% instead of 1% or 2%. So, because I'm doing more, I'm making more.

Then other, both on when I was a marketing company only like Nike where I didn't make anything, but I outsourced it to a half a dozen other companies, and in that case, I was able to make about 50%. So, a product that I would sell to Target or Wal-Mart for a$1, I was able to make for 50-cents. And then when I actually was the manufacturer and not just the marketing company, I got another 10 points in that case and we made 60% instead of 50%. So, each way, the more you do the more you make and the more it costs you to make it.

Michael: Now, which of these five ways can I do with no money whatsoever?

Joe I actually did all of them with no money. Obviously the licensing would be easier. But I actually started the company that grew into a manufacturing company that we sold over $1 million a month of products to retailers and my partner and I basically did that with its own cash flow. I didn't have any money, so we started from nothing and we build it up and we were able to build it up into a nice company with no money.

In order to do that, whatever you're selling better have a good margin because if you're going to try to build a company with its own cash flow you need number 1, you need financing and we had lines of credit that we were able to secure for millions of dollars and we also had high margins.

Michael: Well, what if I'm in a situation where I am going to need money?

Joe Well, we'll get into that later. I think we should do a whole section on financing. There are a lot of ways to get money and each way to get money has advantages and disadvantages. At the low end, you can do a second mortgage or use a credit card. A lot of people start like that. For more money, you can do the other end of the spectrum is getting venture capital, which I've done that, as well. But for venture capital if you need less than a couple of million dollars they probably won't talk to you, and in the middle or lines of credit with banks or private investors. And I've used private investors and I've used banks, I've used asset banks, asset based lines of credit. There are many different ways to get money and in a way what I'd say it's sort of like in real estate. They say if you have a really, really good deal, deals find money. Money isn't that much of a problem.

Michael: So, you're saying there's probably more money out there than there are good deals?

Joe: Right.

Michael: So, if you've got a good deal, a hot product, a good market with a proven track record, you can get the money

Joe I wouldn't worry. You're going to have to learn some things if you don't know how to raise money. You're going to have to learn some things about that and understand the pluses and minuses of the different ways of getting funding. You will be able to get it if you have a product that the end consumer will buy.

One of the things is where are you right now in this process? Do you have an idea? Do you have an invention that is or isn't patented yet? Do you have an actual product that's in manufacturing or do you have a whole product line? Those are quite different things. You can start licensing with just ideas or inventions. You can't start actually delivering a product until you have a full product.

And one thing everybody needs to understand about retail chains, especially the mass-market chains, is they're looking for product lines, not items. It's expensive for them to set up a new vendor in their computer systems. If you go in there with one single item, you're not going to get a very good reception.

When I went into some of the big chains with my school supplies or my stickers, I had a four-foot section. In other words, go into a Wal-Mart and take four foot of area, floor to the top of the racks there and I could fill that whole thing with different products. So, I could go in and talk to them about whole merchandising section of products or a product line.

Michael: So, what you're saying, if I'm a company that has one product, I am not going to have a very good chance of getting that one product into any of these mass merchandisers?

Joe That's correct and there is an exception. The exception is, or two exceptions are (1) if you have a licensed character. I can remember when we licensed, a long time ago we licensed Star Wars for some products and since we were the only company with the license for that and that was a hot movie, then you could get in.

Michael: Okay.

Joe Another example is if you have a single product, but it's expensive, like $100 retail or something. In that case, you might be able to get in with a single product, as well.

Michael: Give me the psychology, why is it the mass merchandisers don't want to take on single products other than the exceptions you're talking about.

Joe Well, there's quite a cost to having a vendor in their computer system. Wal-Mart probably has, they might have as many as 15,000 vendors. So, that's an awful lot of suppliers and they could easily have a couple 100,000 products. The idea of having that many vendors in the system is unworkable. I can recall when I was talking to a Target buyer a few years ago, he was telling me that they had a corporate edict to reduce the number of vendors because of all the cost associated with having many vendors. So, they had a corporate policy to try to reduce. If they could buy product A and product B from one company instead of two, they'd do that because of the savings of administrative and IT savings.

Michael: So, if I'm going to get my product into one of the mass merchandisers, I'm going to have to make a sale. But I need to know if I'm going to make the sale and I want to do it the best way possible, I've got to understand who is my customer. Who is my customer?

Joe That's the thing most companies or most people trying to do this miss. You either have two or three levels of customers. If you're licensing your first customer is the manufacturer and you need to meet their needs. The second one is the buyer at the retail store, and the third is the consumer who buys the product. And if you have a product that that end consumer will buy, but your product and your offering doesn't work for the buyer at the store or the manufacturer, if you're licensing, you will not make a sale. You have to sell all the levels in the distribution channel for it to work. And people get hung up on "oh people will love this product, they'll buy it." Well, that may be, but if you can't give the retail store the margin they need, or if you're licensing, if the manufacturing doesn't get the margin they need, you're dead in the water.

Michael: Okay. So, I've got to be thinking my manufacturer, the buyer, and the end consumer, these are my customers.

Joe: Right. And I'll give you an easy rule of thumb to use. Saying now that you're either making it or causing it to be made, the thing you want to look at when you look in a retail store to see your competition, look at the price something sells for and divide that by five. If something is selling for a $1, if you can't get the thing made for 20-cents move on to something else. And the reason for that is figure the retailer buys it for half of what they sell it for, just as a ballpark estimate, and that if you as a manufacturer want a 60% gross profit so that you have the room in there to pay sales reps, pay marketing, and advertising and all of that, that is another two and a half times; so two and a half times two is five. If you don't have a five-time margin, you're dead. And if a five-time margin just gets you to have a similar product at a similar price to what's there now, then you have no compelling reason for the retailer to put your product in. There is no advantage to that.

Michael Who is my competition?

Joe: Your competition if you're making, let's say you're making combs, your competition is obviously other comb companies or other comb products, which is what everybody sees. What you don't see is your competition is every other product in that category in the store.

Michael: Give me an example of a category that I could relate to.

Joe: One would be health and beauty aids. One that I was in a lot was stationary. And I was also in school supplies and I was also in toys. Each one of those is a separate category. So, the area I was in most was school supplies and stationary. So, I'm selling a holographic portfolio, say. All right, there are no other holographic portfolios. So, if I think like many people would think, I've got a unique product nobody else has it, it doesn't have a competitor, and I would be totally wrong. There are other portfolios in the stores at different price points, but what I'm competing with them is for shelf space, and I'm competing with everything else in the stationary department like Hallmark cards. What that buyer wants to do…it's his job is to maximize the gross profit in his responsibility area for his category. So, your competition is everything else in that category, not just the physical item that you've got.

Michael: So, how do I plan which is the best way to go, Joe?

Joe: Well, that's going to depend on you really. What is it that you want? What are your personal interests? If you're a manufacturer, you're already making something you want to get it sold. If you're inventor, you may want to stick to inventing and not have to learn all the things that are in this course. Some of this you might rather have someone do for you. So, it has to do with what your interest is, what resources do you have or have available to you, and what your experience is. It makes a lot of sense that if you have experience as an inventor, but no experience with marketing, it makes sense for you to do inventing and let other people do the marketing. If you're a manufacturer and you know how to make something, but you really don't know the U.S. market or you've been manufacturing for other people who sell, you may want to continue to manufacture and do what you're good at and do a joint venture with somebody else who can sell it for you. So, it really comes down to where are you at right now.

Michael: What if I want to start a business, but have never done it before?

Joe: Well, that's what I did. I've done it four times now; I started businesses. The most important characteristic you need there is tenacity. You're going to make a lot of mistakes. I made lots of mistakes. You're going to make a lot of mistakes. You've got to have the attitude you're not going to give up and you're going to get it done. It's the most difficult way of getting a product made and distributed is to start the company, manufacture it yourself, sell it yourself because you're now responsible for every step along the way.

On the other hand, having your own company is sort of fun and can definitely be profitable and that's where the biggest homeruns happen. If you start a manufacturing company and you build a product up and it's profitable and consumers want it and before you know it, you could be in the hundreds of millions of dollars and sell your company for a huge amount of money. Very large many million-dollar pay off is pretty much occurs when you sell a business. You're not going to get the $50 million pay off from licensing.

Michael: If I'm an international manufacturer and I reside outside of the United States, are there any advantages for me that give me a competitive advantage of getting my product in?

Joe: Oh sure. If you're over in China or in Mexico or somewhere where the labor costs are low, you have a cost advantage. You're able to manufacture things for a lot less money than domestic U.S. suppliers are. So, you then, of course, have several choices. You can learn how to sell the retailer yourself or you can partner with somebody else, but your biggest advantage, as an off shore supplier, is going to be the cost of manufacturing.

In conclusion for Section 1, the Introduction, the main thing you need to have gotten out of this section is that it is possible for anybody to get a product, create it, and into mass market. There are many ways of doing it and we'll cover a lot of those details, but it is possible for pretty much anybody to do at any level of resources.

The next section we're going to cover is how do you tell if you're ready to sell to Wal-Mart, Target, or other mass merchants.

2. How to Tell If You're Ready For Wal-Mart

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.

3. How to Prepare For Wal-Mart

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 by 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 logo 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 informercial 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 informercials.

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 informercial 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 abut figuring out how big is your market.

4. How to Research Your Market and Competition

Joe: This is Section 4, which is talking about how big is your market and why do you need to know that. We've already talked about an introduction to the mass market. We've talked about how to tell if you're ready for mass market or if you should start in a smaller place first and then how to do that.

So, now as far as how large the market is for your product, you need to know this for a couple of reasons. One, for your marketing and product development, you should know how big your market is, what's happening in your market, and so on. But secondly and almost more importantly than that, you need to have your act together when you talk to the buyers.

Michael: Why is that?

Joe: Well, because the buyers know a lot about individual products, but if you don't come across as being the expert in your product line, then you lose credibility and one of the things the buyers are going to need is they're going to have believe the stuff you say and you're going to have to be able to document stuff and if you can't do that, you've got a big problem.

The next section we're going to talk about after this section is how a mass merchant buyer thinks and how their performance is measured and why should you care.

Michael: So, a lot of people may think that when they go to Wal-Mart and they present to the buyers, it's the buyer's job to understand that market, but really it's your responsibility to do your research and go in there.

Joe: It is the buyer's job to know his category, but hopefully the buyer may have 3,000, 4,000, 5,000 products in his category and if you're presenting a single product or group of products, hopefully you will know more than the buyer does about that particular product or two and you will be a source of information to the buyer. If the buyer knows more than you do about your own product, that's a really, really bad thing. So, to start with, as far as the market itself, there are a lot of ways to find out information on the market. This is pretty much one of the easiest kinds of research to do. You can go to your trade magazines in your industry, whatever kind of product you have, look in that industry for the trade magazines. Almost all of these magazines have annual issues where they do a survey of the industry and talk about all of that kind of thing and give you statistics. There's also trade associations and a lot of industries I've been involved with, the trade associations even sponsor and pay for market studies each year. You can go on the Internet and you can find market research reports available for all kinds of industries, both from the government, as well as from private companies.

The thing that I want to point out, though, is you probably are thinking of your market too narrowly. So, if you're selling a product into the health and beauty aids department or category, you're thinking of or you have a certain kind of shampoo or something and you're thinking of other shampoos, what you need to do is go into some stores and you need to look at that category because you have indirect competitors too, which is everybody else in that category even if they don't make the same thing you make and you need to understand that because from the buyer's point of view, he's responsible for a category in that store not just your product. So, you have indirect competition, which is everything else in the category.

Michael: Okay, so I've got to look at my indirect competitors as much or if not more than my direct competitors because my buyer is handling a category not just shampoo.

Joe: That's right and if you're going to try to build a case as to why the store should buy your product and you compare it to the shampoos, you're missing the boat there. You really want to be able to make a case for why, in that department, there's a need for your product and why your product will return more profit to the store than something else in that same section. And we'll get in to this more in the next section, but basically you have to understand the way the retailer thinks and the way they measure things because they're the ones who are going to make the decision to carry your product or not and if you're too product focused in to narrow an area, you're going to miss understanding what you need to understand and your presentation to a buyer won't be complete enough.

Michael: Is there a resource that you can think of off the top of your head where I can get a lot of these reports, like a website that you can mention that would have some of this information?

Joe: Well, it's going to really depend on what your product is because people who are listening to this would possibly have products in any category that would go into a Wal-Mart, which can be all the way from food items, all the way to stationary, or electronics. Everything that is sold in a Wal-Mart, it's a huge amount of products, and each industry, you really have to start with your industry.

Michael: Is this data, detailed analysis, on products and product categories available for me?

Joe: Yes and it's pretty much most of it's going to be available for free and the two sources I like the best, I like trade magazines and trade associations. And there is a directory of trade associations and there is a directory of trade magazines where you can look up all the ones in your industry and you can actually call and talk to the editors of a magazine or the top people of a trade association and one 20 minute conversation with somebody like that get enlightening you quite a bit if you haven't already done that.

Michael: What about trends and fads? Is that something we're going to need to identify if my product falls into?

Joe: Yes, we're going to be talking about that later too, but what you need to know now is if you have something that's a trendy item or a hot item trying to figure out the market size and everything is probably not going to be too productive. It will be hard to do. How would you figure out how big the market is for pet rocks before you come out with a pet rock? But the way you market and the way you present is something that's a hot item or a fad is going to be totally different. Its strategies are completely different than the way you approach something that's going to be kept in inventory. They're called in and out promotions.

And what it's going to come down to is you will hear, once you get into talking with mass merchants, the lead times on buying. When they're buying for school supplies to be in the stores at the end of August, the school supply show was in January, but all the major chains had made their decision in November. So, you're looking at almost a nine to ten month lead-time. But when you get into something like a fad and I've done several of these, the retail chains say you have to give me nine months of lead time before I can put this in the store and then you come up with some sort of fad thing that's a hot item and you'll be surprised, you can get it in the stores in 24 hours. But the whole strategy for that is totally different and we'll go over that later.

Michael: Is there an advantage to having a huge market or am I okay with a not so huge market?

Joe: You don't have to have a huge market. The main thing you're going to want to have is to be able to build a case to the buyer that your product is filling a missing need in your category, in the category the buyer is responsible for, and that if he buys that product from you, his overall performance in his category in terms of profit will be higher than if he doesn't.

Michael: Okay.

Joe: And that's the thing. And we're going right into the next section here, which is how does a mass merchandiser buyer think and how their performance is measure and why do you care?

So, in conclusion for Section 4, you need to know how big your market is. You need to know how big it is for both your individual product and your indirect competitor, and you will be able to find this information, usually for free from trade magazines, trade associations, market research studies, and online on the Internet.

The next section we're going to talk about, Section 5, is how the mass market buyer thinks, how their performance is measured, and why should you care.

5. How to Read a Wal-Mart Buyer's Mind

Joe: This is Section 5, how a mass merchandiser things, how their performance is measured, and why should you care.

We'll start with why you should care. If you don't understand how the decisions are made by the retail store as to whether to stock your product or not, the chances of you making a presentation that will get your product into the store is not very good. So, in this course, we will be talking about how do develop products, but before we even talk about how to develop products, we want to talk about who you're developing for and the things you need to understand for that because the way the mass market things, the way the buyer thinks, the way the retailer thinks will affect how you develop a product and how you screen out ideas that may not work quickly and cheaply.

Michael: So, who are the two groups you mention in your letter that I need to sell?

Joe: Well, the one group that's obvious is the consumer who is going to buy your product, but the other one is the buyer. And if you can't sell the buyer, you don't get the chance to sell the consumer. So, most people who create products or especially who are not already in the mass market and familiar with it, may think they have the best thing since sliced bread and it's a great product, there's no way they wouldn't buy it and they're totally ignoring the needs of the buyer. And if you don't pay attention to the needs of the buyer or the needs of the chain regarding profit margins and turnover and so, it doesn't matter how attractive that product may be to the consumer, the store is not going to buy it if it doesn't meet their needs. So, the first thing you need to consider is meeting the needs of the retail chain you're trying to sell to. In terms of doing that, we'll talk about what's important to the buyer. His job is for his category to maximize the profit per year.

Michael: So, how am I going to sell the buyer, Joe?

Joe: You're going to have to understand his job is to maximize the profit in his category that he's responsible for. And the summary of how you're going to sell him is you're going to show him how your product will get him more profit per year than the assortment of products he has now. The thing you have to remember is there are no empty shelves. So, if he's going to buy your product and it's not in the store now, something else has to come out to make room for your product. So, you're going to have to prove to the buyer that your product will produce more profit per square foot than whatever it is that it's going to replace.

The one point I would make about, in general, a presentation made to a mass market buyer, you're going to want to make a presentation that's almost like a case a lawyer makes in court. You're going to want to talk about the market. You're going to want to go through a sequence of steps. You're going to want to prove every statement you make. Buyers are skeptical. Their natural reaction to anything you say is that's a bunch of B.S. I don't believe you. So, the way you do it is you put together your case step by step, you make each point, you give the documented proof for that point, and you really want an overwhelming amount of proof for each point, and then you go down the line that way making your steps, proving each step, and by the time you get to the end, the natural conclusion would be that they'd be nuts not to stock your product.

Michael: How do I sell a consumer then?

Joe: Well, if you're not Procter & Gamble and you don't have a huge amount of money for promotion and advertising, most businesses are not in that mode and the people listening to this sure aren't going to be in that mode, so the way you sell a consumer is going to be your packaging because you're not going to have $50 million to spend on TV. So, the thing you're going to have to realize, and we have a whole section on this coming up about packaging, is that your packaging has to make the sale for you. And somebody who is walking down the aisle in a Wal-Mart is exposed -- I mean how many different products can you see when you're doing that, hundreds. So, somebody's eye is going to glance over your product in a fraction of a second and if your packaging doesn't grab their attention, cause them to pick up the product and look at it a little more carefully, and then cause them to put it in their cart, you lose. So, the packaging is critically important in making sales for you to the consumer if you don't have an ad budget.

Michael: Get me inside of the buyer's head. How is the buyer's performance measured?

Joe: The way his boss measures his performance is the amount of profit or gross profit that that buyer gets per week, per month, per year. Gross profits means the sales dollars less the cost of goods, so if your product costs $10 and it sells for $25, it sells for $25, the cost is $10 that means there is $15 of gross profit that goes to cover overhead and everything else. The buyers are measured on gross profit because they're not trying to put the store's overhead or anything in there at that level. And that is going to be determined by how much margin there is on your product, how fast it turns over -- in other words, how many of them do they sell in a given period of time -- and then how much space does it take.

Michael: Is that based on just your product or is he measured on the entire category?

Joe: He's measured on the whole category. For example, in a package or merchandise somehow that takes four times the space to put on the shelf as a competitive product, if your product sells the same units and makes the same dollar profit as the competitive product, you're one-fourth as attractive to that buyer because you took up four times more space. So, it's not just gross profit or gross profit per unit of time, it is gross profit per unit of time per square foot.

There are five steps to this. First the buyer has to believe you have the financial ability to delivery product. Second they have to know how your product will help their overall category, both in product mix and in profit. They need to believe there's some need in the category not being met in order to take the product in the first place. And then they need a good compelling reason to buy from you and not a competitor of yours. Without all of those things, buyers don't like risk. So, it's a risk to put in a new product or a new vendor to replace something that's there now. That's a risk. So, they have to feel that the potential gain is worth the risk.

There are three complete disasters that a buyer doesn't want to have happen and their main concern are these three things and the first one is empty shelves. An empty shelf can't provide any gross profit. So, if there's any doubt in their mind that if they select you as a vendor they're going to have a possibility of empty shelves, you're not getting in. The second thing is customer complaints and returns, and the reason they care about that, aside from the obvious, who wants to have returns or complaints, is it's not just your product or an unhappy customer returning your product, it's from Wal-Mart's point of view, if that customer then is unhappy with Wal-Mart, they may have lost a customer for everything in that store, not just your product. So, a customer complaint or return is a very, very big problem, which is one of the reasons Wal-Mart just takes things back and has wonderful customer service because it's more important to keep that customer than any individual transaction. And then the third disaster that a buyer wants to avoid is slow moving products that sit on the shelf and they don't move.

Michael: What if my product has no competition whatsoever?

Joe: You would think that that would be the best thing in the world. You have no competition. It's totally unique and new. But from the point of view of a buyer, that's a problem for two reasons. The first is a buyer is responsible, like we said, for the profit in his category. If you have a new product nobody has seen before and there's nothing like it, the buyer doesn't know if that's going to sell or not. And even if it is a really unique product that an explanation would sell, this isn't what's going to happen in the store. It's going to sit in a box on a shelf. It's not going to get explanation. So, from a buyer's point of view, a new product is high risk. And think of it from your point of view. Let's say your job was to manage that department and make the most profit you could, which would you rather put, if you have some space you're going to replace this nonmoving product, which would you rather put in there, some product that has established sales history that you know is going to sell that has a track record, or would you want to put in something nobody has seen before that's new and different.

Michael: Obviously I want something that I know is going to sell.

Joe: Yes. So, what most people don't get about retail store is they think retail stores, if you have the latest and greatest, are going to want your product. The truth of it is that's a negative not a positive. The one think you'd better never say to a buyer is if you tell the buyer that there's nothing else like this, this is totally unique, and nobody's ever come up with anything like that, it's probably not true. And the buyer at Wal-Mart, trust me, has seen everything in that category because everybody wants to sell Wal-Mart. You may not know it, but there might be others like yours that have been presented to Wal-Mart, too. That just shows the buyer you don't what you're doing. You don't even know who your direct competitors are. So, that really hurts your credibility.

Aside from being risky, a new product that's unique and different and maybe is patented, you can get a patent by being unique. That doesn't mean it is marketable. You might have found a way to solve a problem that is more expensive or less desirable than other ways that are there now. So, it's not just inventing a new product and all of that. Inventing a new product, you're almost better off not to present it that way.

Michael: Why don't stores want new products?

Joe: Well, they do want new product. I mean they always do have to keep up with what consumers want, but basically it's risk. The thing we've just been talking about. And that applies both to products and to vendors. A new vendor is a risk just like a new product. And a new vendor is a risk in that can they deliver, will the product satisfy the consumer and not get returned, will we have empty shelves, and there's a cost to put the vendor into the computer systems. So, in total, a new product and a new vendor are both risk. So, from the point of view of the buyer, the more risks I'm willing to take, the more potential gain I'd better get. So, if my new product has got a great potential to be a blow away success for that buyer, that's when they'll take that risk. But they have to believe that taking that extra risk is justified by the extra reward.

Michael: Are new vendors expensive for mass merchandisers to set up?

Joe: Yes. And a mass merchandiser my have 50,000 vendors, but I remember when I was last dealing with Target, they had a corporate edict come out to the buyers in each category that they were supposed to reduce the number of vendors, not increase them. It's expensive not to just put them in the computer system, but to ongoingly manage it. So, from the point again of the store, think of it from the store's point of view, want to maximize profit in that category in that space. If you have ten vendors for a two-foot section, you have ten companies to deal with, you have ten different companies whose products are being shipped in and distributed. If you have one company instead who handles all those same products in that same section, now you have one company who you can talk to about the product delivery, the merchandising, and everything for that section. It's not just the cost to put it into the computer system; it's also the buyer's time. The buyer could have 500 to a couple thousand vendors he has to deal with and you'll have your product, which is important to you, but can you imagine being a buyer and having over a thousand companies like you to deal with.

Michael: Joe, is dealing with a new vendor more risk for one of these big stores?

Joe: Yes, in two ways. Is the product going to sell and secondly, is this new vendor going to be able to deliver on time and make sure we don't have empty shelves. The bottom line, if you take more risk, you want more reward. When you make your presentation to the buyer, you're going to have to build your case that they're going to get more reward from buying your product or product line.

Wal-Mart has a screening process _____ the mass market to try not to get total dog products. If it's not going to work, they try to keep you from even meeting with the buyer and wasting their time. But an interesting statistic, there used to be a group called the Wal-Mart innovation network, which did screening of products for Wal-Mart. This group is still around, but they're now called the worldwide innovation network and they still do this. And I've talked to the guy who runs that and he said that 95% of all the products that buyers like, now these are the products the buyers don't like or the ones that are submitted, these are the ones 95% the products buyers like don't get in the store.

Michael: Is this screen network, is that something controlled by Wal-Mart or is that an independent company?

Joe: It's an independent company and when it had the name Wal-Mart in it people were thinking it was part of Wal-Mart, which it's not. In the section of this course where we're talking about evaluating the products and ideas, we'll get into that in detail, but basically they do a screening process on many, many characteristics and if the product passes that, then 95% of them don't in the store and there are two reasons for it.

One is what we've been talking about already, the financial ability of the company to deliver -- the risk to the buyer of empty shelves. So, that's one reason. The buyer may love the product. He may want it in the stores, but your company is a half a million-dollar company and if they give you an order for 3,700 stores, you wouldn't be able to deliver. So, that's the first reason it doesn't get in even if the buyer likes it. And the second is it's a single item and not a product line. Buyers don't want to buy single items.

Michael: So, hopefully you're going to show me in these next sections how to increase the odds of this.

Joe: Right. We're going to talk about how to pass all of the tests so that you're one of the products the buyers like and then how to be one of the 5% that actually gets in the store of those they like. We will go through all of that step by step.

Michael: What about returns? With such a generous return policy, can you talk about why are returns so bad? Why don't the mass merchandisers like that?

Joe: Obviously, financially it's not a good thing to have a return and it's a real pain for them to process. But the main reason is they don't want unhappy customers. So, if you have one product in the stationery department that somebody comes back and returns because it was defective, what Wal-Mart or Target or any other chain is concerned about is Wal-Mart doesn't want to lose the customer to Target. And that aspect of it is overwhelming by a hundred times more important than the dollars of your product or the dollar cost to process the return. A typical customer with Wal-Mart will spend thousands of dollars every month or every at least, a lot of money, and if they lose that over a $10 product, that's a disaster.

Michael: What happens to those actual returns? Does the vendor have to take them back?

Joe: Generally the vendor has to take them back. They may not actually get shipped back. Wal-Mart may just tell how many they have and take it out of your invoice. Back to what I said, the problem isn't just with your product; it's with the customer being a customer of that retailer. So, if you have too many returns, you'll find yourself out because they can't take that risk and whatever money they make on your product is not worth the risk of returns and losing a customer.

Michael: And so, what would you tell a manufacturer who is manufacturing a product and maybe even if they're manufacturing it overseas about quality? That you'd better have a quality product before you even approach Wal-Mart and even if you fool the buyer or Wal-Mart, you're not going to fool the customer. You may be in there and out of there because of shoddy product, right.

Joe: That's right. Quality is critically important and especially in the case of Wal-

Mart, quality and also the low price to go with it. So, it's a combination, but without the quality, if you get in Wal-Mart and you get kicked out because of bad quality, you're not getting back in. So, if you want to do business with them, the largest retailer in the world, you need to have your act together and that's why I actually recommend to most businesses is they start off not in Wal-Mart and Target, but they start in smaller retailers, get some experience with sales, get some experience with the product and the quality of the product, and work all the bugs out, find out and get your facts and figures of how fast the product sells so that when you go to buyer and you get in the big chain everything works.

Michael: How does a buyer evaluate my financial ability? Can you talk about how they're looking at me financially?

Joe: This depends a lot on the store. With Wal-Mart with 3,700 stores in the U.S., your financial ability matters. If it's a single store, standalone retailer, it doesn't come up. What we're going to go through is going to tell you how much money you need, as well as to be able to do business with the big chain.

To start out with, to be safe figure 60 days to collect your money and then figure 30 days to make your product, so that's 90 days. So, now figure, in the case with Wal-Mart with 3,700 stores, how many units will you sell per month per store. And when you're figuring that number out, remember that number has to be big enough to justify being in the store in the first place. So, that's going to depend a lot on your product and the price point and all of that. But to take an example, if your product sells for $10 and the store pays $5, and just to make the math easy, let's say you sell 20 per store in a month. So, that means $100 in cost to the store that month for one store and $100 in invoicing for you. Now, if you take that times 3,500 stores, that's then $350,000 per month. Now, going back to where we started, figuring one month to make your product and shipping and two months to collect that means three months that the money -- you've had to produce the product, ship the product, wait for your money for three months, so for $350,000 times three, that's over $1 million. So, that's in a three-month period, so over a year that would mean you were doing $4 million in business with Wal-Mart. But that also means you need roughly $1 million of working capital to be able to produce the product, fulfill the orders to ship it to them, and then to wait until you get your money back. So, does your company have $1 million worth of working capital to deal with a Wal-Mart or a Target on a product like that?

That kind of calculation the buyer will do and he'll have a good feel for how many would be sold and how many stores he might put it in, and then he will look at your financial statement and he'll be able to tell in about 30 seconds whether you have the financial capability or not.

Michael: Well, what if I don't have that kind of money or anyone listening to this doesn't even have close to that amount of money to do business with them?

Joe: One, you can do business with Wal-Mart or Target on a limited basis, not in every story. So, you don't have to be in entire whole chain. But secondly, what I would say is then you're not ready. That is not a bad thing. When I was selling my kid's stickers and stationery products to Target and Wal-Mart, I sold to independent gift stores and stationery stores for two years before I approach the majors. And after two years, I was doing $6 million in sales, so I had the million. But I started out in smaller stores and I built it up with my cash flow. Now, if you have venture capital or outside funding, you can go in there right away because you'll have the money, but I started with nothing. And in starting with nothing, you're not just going to find $1 million, so I had to build my business up by making sales in smaller stores or smaller groups of stores and after a couple of years then I was fine, I was ready.

Michael: Would a buyer ideally like to get you rolled out in all the stores at once if he knew it was a winner or will they work with you? Do they take into consideration maybe I only have a couple million dollars and they'll put you in 500 stores to start?

Joe: Well, there's always test. There's only one exception to that and I'll tell you that in just a second. But almost always they're going to want to test both your ability to deliver on time and your product and the sell through of your product, so they may put it in 50 stores. But the whole idea of testing is just to verify that the consumer will buy and to verify you as a vendor can deliver. The goal is to roll it out. So, the goal isn't to test in 50 stores and stay in only 50 stores. The goal is to test in 50 and rollout to the whole chain. That's ideal. Remember, the buyer is getting paid by the category revenue for all the stores. So, from the buyer's point of view, if you have a two-foot section of products and it's only in 50 stores and you have 3,500 that means if everybody was that way, you'd need 70 vendors just for that two-feet if every 50 stores was a different vendor. And then it's really out of control.

Michael: The buyer has no sympathy for you. His goal is to utilize all his retail assets and if he's got a winner in 50 stores he wants them in all of them and you'd better be able to finance it.

Joe: I wouldn't go to Wal-Mart or Target until you were able to do that and part of what we're going to talk about in a little bit is how to make that presentation. And part of what we want to do in the presentation, like I mentioned, is we want to prove every step of the way, one of the things we want to prove is how well our product sells, which means we have to have excellent sell through information from other stores before we approach the mass market. Remember, they don't want to take a risk.

Now, there is one exception when they don't test. It's an in and out promotion. For example, let's say a Christmas product. If you have -- and this is what I had, I had a Christmas product -- and if you present a Christmas product, which you presented in February, if they're going to buy it or not buy it, they're not going to put it in 50 stores and then next Christmas put it in more. They're going to make a decision yeah or nay. And a good example of when they'll say yes is I was selling a 4-inch by 6-inch sheet of prismatic stickers, so that's 24 square inches of stickers and that was in Wal-Mart selling for $1 retail. And then when I came out with a Christmas product, the raw materials were starting to be made different and less money, I was able to come up with six different sheets of stickers, but instead of just stickers, I did gift tags like you use for Christmas, address labels, and things like that, made of the same material. Now, we know the sparkly material sells for $1 in 4 by 6-inch sheet and now I could give them an 8 by 10 for the same price. So, the buyer says 24 square inches sells at $1, will 80 square inches sell at $1? That's a pretty safe bet. So, they bought my assortment of my six things and they put it in all the stores at once.

Michael: Let's go into some ideas, if I don't have that money, how I can still get in? Do you have some suggestions for that?

Joe: It goes back to the ways you get into the stores, but first off, you could still get in for a test, but I wouldn't want to propose a test until I knew what the results of the test were going to be. So, there again, let's say you don't have any money and you don't want to start a business like I did, remember you can license to somebody who is already in the stores or do a joint venture with somebody who is already in the stores, so you can do this with no money by using the money and the distribution of somebody else. When you're trying to get into Wal-Mart and you have two products and you are a new vendor and a new product, that's going to be a lot tougher than if you go to somebody, another company, that has 500 products in Wal-Mart now and they're going to add your two to their 500, now there's 502 products. Those will just flow through. That's a big non-issue. Wal-Mart is comfortable with the vendor; they're comfortable with everything. It's just a couple more products from that company and easy to get in. You don't make as much money, of course, as if you started your own company, but that's how you can get in with no money.

The other ways are what I already talked about, which is starting your company, building it up by selling to smaller independents or smaller chains and then going to the major chains when you have the financial resources a couple of years later.

In summary now, from Section 5, you should understand why you need to know how a buyer thinks and why that's important because there's a lot of issues we just talked about that if you understand them, make all the difference in whether you can get in the stores or not.

Now, in the next section, we're going to talk about how to create a product, a winning product that will sell and talking about creating this product after we talk about the need to the store because that's one of the ways we're going to evaluate whether we have a good idea or not.

6. How to Create a Product That Makes Money in Wal-Mart

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, 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?

7. How to Know If Your Product Will Sell Before You Create It

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, 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 f 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, 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 interested 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.

8. How to Use Other People's Money to Get in Wal-Mart

Joe: This is Section 8, how to license or sell your idea or product. What we're going to talk about first is why you should consider licensing. We mentioned earlier when we talked about the five different ways to get your product in the store that this is the one where you make the least amount of money, but the thing that makes it so appealing is it has the least cost to you. You develop or come up with your idea or product and then you're essentially done as far as investing. You're using other people's money, other people's time, and other people's contacts to get the product on the market. You're going to license something and if you have something that, for example, Procter & Gamble would use, we actually have a contact for you for that of how to present something to Procter & Gamble and you can imagine if they license something and you get paid a few percent royalty, how many dollars you're going to make that way versus trying to come up with starting your own company.

Michael: Can you tell me some of the different kinds of licensing?

Joe: Yes. There are a number of different kinds. One would be most of what we've been talking about so far, which is licensing a product that you've invented or come up with. You can also license a process to do something and they have special kinds of patents just for that called process patents. And then you can license artwork or characters like Walt Disney will license Mickey Mouse or you can license Garfield, all of the characters you know of. The companies that own the rights to those will license those. You can license the rights to put Garfield on a pen and I've done that. We licenses Star Wars back when Star Wars was popular to put on stickers and we paid them a royalty. And then you can do the other side. You can be the licensee or you can be the licensor. And in terms of character licensing, artwork licensing, I've been on both sides of that one. I've been the one doing the licensing for my own artwork and I've been the one licensing for artwork I wanted to put on my products.

Michael: Well, give me some ideas or some steps that I should do before contacting a company or a licensing agent.

Joe: First off, in either one, whether you're contacting a company or an agent, you want to have your act together. It's not anywhere as bad as making a sales call on Wal-Mart, but if you want to keep your credibility with both businesses and agents, you want to do some homework first. So, don't go and talk to somebody about something if you haven't done your research to make sure the idea is original. You've got to do some patent research and there are free places to do that. But you need to make sure that it hasn't been done before.

Another thing you can do that is free is take it to somebody who is an expert in that field, who has no vested interest in your idea one way or the other and ask them what they think it. If they say it sucks, I'd move on to something else because an expert in an industry if they think your idea is no good, you're playing a long hard game trying to prove that person wrong because they know more than you do. That's sort of like trying to swim upstream. I'd rather swim downstream.

And so, a couple of criteria for idea or product to be licensable, first off, it needs to be thoroughly designed. In other words, you can't have an idea for something that would do some task, but have not idea how it would work. You need to know it would work. So, first it has to be designed well. You have to prove it can work. Third, it needs to be exclusively available to every license to do. And fourth, and the one that people normally don't think of, is it needs to represent new sales to the company it's being licensed to. If you think about it for a moment, why would a company pay you a royalty on a product if when they manufacture and distribute that product the sales of that just take the place of something else they already have. They're just trading dollars and paying you royalty that wouldn't have to pay if they just sold what they currently have. So, it's important that whatever product you come up with when you're talking to the people you're going to license it to, that it be additional sales for that company and not replacing products they've already got.

Michael: Well, should I do this myself and handle all the licensing and learn it myself maybe by buying Harvey's book, or should I use an agent? What have you done that's worked best for you?

Joe: I would say it depends on the industry and your experience in it. But first off, don't use any invention submission company that advertises on TV. I mentioned that before, but I want to say that again.

The advantages and disadvantages of going with an agent, the advantage is they have contacts. They know how to present a product to a company. Harvey has done 150 to 200 of those presentations. He knows what he's doing. He knows how to do it and he has the contacts. If he needs to talk to the president of Mattel, he can get in there where you might find that hard to do. However, he gets a piece of the action if you do that. Typically, in Harvey's case, he either gets 50% or 40% to 50% of the first $100,000 of royalties in a year and then he gets 20% or 30% of the additional above $100,000 in a given year. In particular, Harvey charges $175 to evaluate your idea and if he takes it on, this isn't like the invention submission companies, if he takes it on, he will build a prototype. He will spend money on artwork to create a presentation. He will do everything that needs to be done to make the thing happen. He might put in $5,000, $10,000, or $20,000 of his own money if he believes in the idea and you will be expected to put up nothing. So, that's the advantage of it. The biggest advantage of the licensing agent is he knows what he's doing and he has the contacts.

The disadvantage is he gets some of the money. What I guess I'd say there is I've done it myself, but the reason I did it myself is already knew the people I was going to license to and I'd been in the industry for 15 years, so I was already well established and I knew the players and I didn't need an agent. But if I come up with an idea for a product that was outside a field that I'd been in, I would one hundred percent of the time use an agent.

Michael: Well, if you were going to do it yourself, tell me some of the steps that you used doing it yourself.

Joe: First off, when you do it yourself there are a few things that might be counterintuitive. First off, you're going to need to meet in person with the person who makes the decision to license from you. You don't send letters, you don't send faxes, you don't make presentations to marketing product managers or gatekeepers. You only want to talk to the decision maker and the other thing you don't do that inventers invariably do is build a website. And the reason for that is yes you can do it cheap and it doesn't cost much and you can expose your product, but from the point of view of the person you're licensing to, what it looks like is that you're shopping into the world, nobody's biting, you can't get anybody interested, you put up a website, nothings happening. What you want to have the image be is you want to contact in person the person who can make the decision that the company you're targeting, you want that person to believe that he is the first person who has seen this and that nobody else has seen it yet. He's getting first shot. Now, if you have a website, that's pretty clear that everybody in the world who browses around has seen this thing and it's sort of like tainted because it gives the feeling of well nobody wants this thing, why should I take it. So, if it's secret, it's not out on the market, and it's not on the Web, then you can make the case that they're the first person to see and now that has value.

Do your due diligence on the companies who might use your product. Determine what category your product belongs in, in the store, and then go see which companies are already in that category and which companies are in the category with a product or product line that's related to yours, but not competitive. You're not going to get real far if your approach is just to replace what they already have and now they get to pay a royalty where before they didn't have to. So, once you've determined the companies who have the distribution you want and who have products in the right category, but are not competitive, then now you've got your target list and you're going to want to talk to normally the president of the company and you're going to want to do it in person. One of the things that I got out of Harvey's book, he said out of a couple hundred products he's licensed, he has never once been successful with licensing anything unless he had an in-person meeting with the person who could make the decision.

Most inventors are going to want everybody who sees or comes anywhere near their product to sign non-disclosure, non-compete agreements. The bottom line is, big companies won't do that. I've seen numbers anywhere between 85% and 95% of all large companies will refuse to sign those and, in fact, they have one you have to sign that protects them and that basically says they can do whatever they want with it and you have no right. They have all the rights. And if you want to license them, you have to sign their agreement and they won't sign yours.

Michael: Why do you think they do that?

Joe: They want to protect themselves because a big company like a Procter & Gamble or someone, they might have 150 products in the market in the stores, but they might have 5,000 of them in development and you might have come up with something that they're already working on. And they want to make sure that there is no legal fight about who thought of it first or any of that. If they're already working on it, they're not going to pay you anything. And they're the one you're trying to make the sale to, so they are going to want to protect themselves. And the bottom line, also, is as a rule the companies are not going to rip you off because you could sue them if they rip you off. They have what they call deep pockets. In other words, you can sue them and if you win, they have money to pay. So, as a rule, the companies are not going to rip you off and you really don't want to eliminate 85% to 95% of your potential licensees by requiring them to sign your non-disclosure agreements.

Michael: In Harvey's book, does he mention that most of these companies are pretty straight?

Joe: He has had no problem with that. He's never had a problem with anybody trying to steal an idea. And after doing several hundred products, having the whole market available to you is the way to go.

Michael: Well, give me some criteria, stuff that's non-negotiable, non-negotiable points that you learned from Harvey's book.

Joe: In doing your negotiations, after you have met with the company and they have an interest, there are ten things that are negotiable and there are ten things that are not.

The ones that are not negotiable is that your royalty needs to be based on sales, not on profits. And the reason for that is if the royalty is based on profits, they can make sure there's never any profits in the accounting.

Michael: Do you think this is done standard in licensing across the board?

Joe: That's normal and customary. It's very unusual for it to be on anything else other than sales. The top line sales are the easiest thing to measure, it's hard to mess with, it's easy to track. That's how you do it.

And the second thing is sales of the sales. You're not subtracting out their salesmen's commissions or marketing overheads or any of these other things. It's just top line sales and what the percent is.

Third thing, you want the rights to examine the books. And in that case, some of the agreements -- not that I got from Harvey, but from some other people -- you can put clauses in there that say if we have someone examine the books and we've been underpaid more than 10%, that means that you have to pay the fees that it cost us to do it. And if the difference is less than 10%, then I have to pay the fees for doing the audit; or you can do 5% or some number. The downside to doing that, of course, is that if you tell them it's 10% then they know they can cheat 10%. So, that is a plus and a minus.

The fourth thing, you need to define the product well enough and include any changes, modifications, or variations that may be created down the road. You don't want to have it so that the first time a modification is made to the product now you don't get royalties anymore. You want no end to the royalty payments and you want to make sure that if the product gets modified through time that you still get paid.

Michael: So, the no end to the royalty payments, it's in _____, as long as they're using it.

Joe: Yes. As long as they're selling it, yes. Examples of things like that is Monopoly. Monopoly has been around 50 years or longer and there are a million versions of it now, not only the original one, but they had that covered, royalties are still paid.

The next thing is you want to have the right to prove the product before it's sold. Companies are going to typically want to make changes. They may make changes in your product to make manufacturing more efficient. They may make changes for many reasons, but you want to have the right to approve that before it gets on the market.

Number seven; you want an advance, a non-refundable advance. That's also normal and customary. It's done pretty much. I've never seen where you don't do that.

Michael: How much?

Joe: Well, the amount will vary all over the map. When we licensed the Star Wars artwork just to put on stickers, they wanted $25,000 as an upfront advance.

Now these advances, by the way, what that means is that's an advance on royalties. So, say you get a $25,000 advance or say you get a $5,000 advance, whatever it is, then the first $5,000 that they owe you as your royalty percentage, goes against that. So, if you got, say $10,000, the first $10,000 of royalties you earned have already been paid to you by that advance and then they pay after that. So, that's what that's all about.

Michael: Okay.

Joe: Then you want to have a date that for sure it's on the market and if it's not, you can go elsewhere. What can happen to you if you're not careful is a company who has something similar, but not quite the same, they want to just keep your product off the market because they view it as it might hurt their sales. So, if they tie it up in an agreement with you and they never put it on the market, they've protected themselves. So, you want to have a time, whether it's six months, a year, or something that if they don't put it on the market by then, you can go license it to somebody else.

And then everybody, all the companies always has product liability insurance. Anybody selling to retailers has to have that. What you want to make sure they do is they put your name on the policy as an insured.

And then the last thing is even though you own the rights to this, whether you have a patent or not, you own the rights, you're licensing it, you do not want to have any obligation that you have to take legal action against somebody because you might have something that maybe you made $20,000 of income on and now somebody is knocked it off and you have to take legal action. You might spend $50,000 in legal fees. So, you don't want to be obligated to do that.

Michael: What are some negotiable points?

Joe: Well, first off is the royalty percent. That's a big one.

Second is territory and by territory I mean geography. If you're licensing it to somebody who sells in the United States only, you don't want to give them worldwide rights. And also, I'd say channel of trade is also territory. If you're licensing to a company that sells to grocery stores and maybe the mass market like Wal-Mart, but doesn't go anywhere else, don't give them the license for premiums or ad specialties or don't give them the license for gift and stationery stores, don't give them the license for TV or direct mail. Each way of selling can be licensed. So, you want to have your agreement specify which way they're licensing because you can license in all of those areas, so don't give it away to somebody unless they have proven experience in that particular territory.

Next thing, number three, is the payment schedule, how they're going to pay you. Always go for monthly payments and you'll probably never get it. Usually the normal thing is quarterly. But if you ask for monthly that gives you something you can give back to them so they win on that.

The term of the agreement, the minimum guarantee. What minimum guarantee means is though there may be an upfront royalty, there's also usually a minimum guaranteed payment. In the case of the Star Wars thing when we licensed, we paid an upfront $25,000, we had to guarantee a minimum payment of $100,000. And what that meant is if we didn't sell enough products to generate $100,000 in royalties, we still owed the $100,000. So, you want to do that when you're the licensor. You want to have a minimum guarantee that you're going to get paid whether or not they sell it.

The next one is one I would never have thought of, but I saw it in Harvey's stuff, which is get defined how much of your time is covered for doing what and not doing what. You don't want to end up being a product development person working full time for this company you licensed to for free. So, you want to define what you will do at no charge to help the project and what you won't. And the main thing to be careful of there is you don't want to find yourself in an unpaid job.

Number seven, the size of the non-refundable advance that we talked about before and how long to bring it to market that we talked about before, are both things that get negotiated.

And then the last two are legal. If there's legal work still needed to be done to complete the patent, who pays those fees, and then also who pays the legal fees in any lawsuit. Obviously, you as licensor are going to try to have the company doing the licensing pay all these fees, but that's a negotiable thing.

Michael: Have you done any character licensing yourself?

Joe: Yes. I've been on both sides, both as licensee and licensor. Licensee on Star Wars like I mentioned before. Licensor, there was a character out there a number of years ago called Moodies, which were cute little guys -- one was happy, one was sad, like that -- and we had met with the people who owned it and they decided that we would be licensing the Moodies and we would put out a whole product line of stationery products with them on it and help them get the thing launched, which we did. Went to Toy Fair, which is a place where you launched toy related products. So, we've been on both sides, both on the licensee and licensor.

And one thing just to note that premium use is excluded from licenses normally. That's when you sell something to McDonald's or Wendy's to go in a Happy Meal. That's what the premiums are. They're free gifts that people get for free if they buy something. And the premiums are always negotiated one deal at a time. McDonald's is a different deal than Wendy's.

Michael: Have you done any other kinds of licensing besides the character licensing?

Joe: Yes. I've done artwork licensing, which is similar to character, but it's not a character that people know. Character licensing, you're paying because people know what Star Wars is. Artwork licensing, what I did when I made stickers, we had thousands and thousands of designs of stickers. And when I was starting my second company after the first one blew up, I did have the rights to the artwork. So, I did just what I've been telling people to do. I went out and looked for a company who was in the market I was targeting who had the distribution I wanted who had a bunch of related products, but didn't have stickers. And I found a company like that that had 500 products, but no stickers and they were in the right market. So, licensed to them the artwork for all my stickers for like $100,000 and I then handled all their manufacturing of stickers for them and the cash flow from that is how I started my second company.

That's the end of Section 8 on how do to licensing. There will be a number of links at the website for resources related to that. There are probably about 50 or 100 resources I can refer you to.

And now, in the next section, Section 9, we're going to talk about how to set up a joint venture.

9. How to Set Up a Million Dollar Joint Venture

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.

10. How to Start or Buy a Business with <u>None</u> of Your Own Money Down

Joe: So, now we're to Section 10, which is how to start or buy a business.

Michael: Okay, is this harder than the JV section that we went over?

Joe: Yes it is. And this is the way that you can make the most potential money because if you either start or buy a business, build it up, then you can sell it for incredible amounts of money, but it is the hardest way to do it and the things that we're going to go over here I'm not going to try to give you everything you need to know on how to start a business. You can find 3-day courses on that topic. My idea was just to give you the highlights that I've learned and things I used from having done this four or five times myself.

The first thing is let's talk about starting a business first, is to decide whether you're going to be a manufacturing company or a marketing company. I've done both and I can tell you the manufacturing company I had had up to 300 employees and millions of dollars of equipment and was basically for me a big hassle to run. The marketing company, I only had nine employees and we got almost to the same level in sales and our margins were not that much worse.

For a lot of reasons I prefer being the marketing company. But there is one downside to that. Manufacturing companies are easy to finance. Banks and equipment leasing people will throw money at you to lease equipment, buy real estate, buy a building, and all that. If you have a marketing company, you don't have any physical assets. So, when we get to the financing section later, we'll talk more about this, but basically it's a lot harder to finance.

And the other thing to consider is buying a business and the thing that most people don't know is it is actually possible to buy a business with none of your own money down. And the best kind of business to buy, the ideal best kind is not one that's for sale, which has some logic behind it. If somebody has their business for sale there's usually a pretty good reason and they may not tell you that reason. It probably means that there's something wrong with it in some way, shape or form. But if you learn how to buy a business that's not for sale, then you're being proactive, you're finding the business that is in the industry you want, and is doing what you want, and then you're the only one talking to the owner about buying it.

If you're selling a business, you're going to use business brokers or other professionals to help you sell it and your goal in selling is to have a half a dozen people bidding to bid the price up to buy your business. So, that's best from the seller's point of view, but from the buyer's point of view, you want to be the only buyer.

Michael: From your experience, is it true that most of the businesses on the market that you'll see in the classified ads in the papers or listed by the brokers, usually most of these are dogs by the time its gotten there?

Joe: Yes, most of those are going to be not good, and like I said, there's a reason for they're for sale. I looked at one. There was a toy company out here in Colorado. They were asking a pretty good size chunk of money for the business. They wanted $500,000 to $1,000,000 for it and after I got a hold of their financial statements because I know how to analyze financial statements, it looked to me like they're going to be out of business in six months or sooner. So, I took a big pass on that. But on other businesses that I've looked at that are promoted to be sold, beware.

Michael: Have you spent the years looking at businesses for sale on the market?

Joe: I've done some of that. I've done some looking for businesses not for sale. I had a mail order company where I sold children's stickers to doctors, dentists, hospitals throughout the US and Canada, and when I sold that company to a very large competitor, then I was doing consulting for that competitor as part of the agreement, and one thing we did is we went out and looked for other companies to buy and I would go in there and analyze them for them. It helped them determine whether we wanted to buy this company or not and how much it was worth. So, in that case we were going out and finding companies. We were not looking for companies for sale.

Michael: Did you buy any?

Joe: They ended up buying one. The one they wanted to buy, it was pretty funny because it was another mail order company and it looked like it might be a good acquisition. But when we got into the analysis of it, we found out that the section of the company that my client planned on discontinuing was the only section that made money. And the part of the business they wanted was losing money hand over fist, so we didn't go through with that one. They did do another one later, though.

Michael: Well, let's get into what are some of the most important aspects of doing this buying or starting a business?

Joe: From the point of view, one of the critical things, if you're going to start a business or buy one, is your normally are going to need financing; you need some money. There are five critical things that an investor, a venture capitalist, an angel investor, anybody like that are going to look at. And the first one is you need a team. This is not an individual thing. This is not just you going and buying a business and you're going to run it by yourself kind of thing. You need a team of people. And that is interesting in that's the most important part if you're going for venture capital. The thing they look at first is the people. Second, you need the financial resources, obviously, which what we're talking about. The third part is what is the management ability of your team members? Have they done what they're going to be doing in your business before?

I've put together some presentations for venture capital people where in some cases we've had a management team where everybody on the team had done what we need to do in this business three or four times before. So, you can see that from an investor's point of view, here we're talking about starting a business and you've got four people on the team who have started and build businesses over $10 million and everyone is doing the niche of that that they've had the most experience already doing. So, you can see that somebody who is looking at investing would get a lot of comfort from that.

The next piece is the dedication and the enthusiasm of the entrepreneur. That the person who is founding the thing, the person who is spearheading it needs to have real fire and enthusiasm behind that. If they don't have that, that's a real red flag to any investors.

And actually last on the list is the product and the salability of the product. And the reason for that is what the venture people say, venture capital people say. Even if you have a good management team, even if you find out your product has got a flaw in it or is faulty or something is wrong with it, with that go do management team, you will be able to adjust and adjust the company around and do something else successfully. And if you don't have that management team, if that product dies or there's something wrong with the product, the company is bye-bye. So, I've been told that by venture capital people that that's why the team is the most important.

Michael: So, in this section on the four things from an investor's point of view, we're talking about raising money through venture capitalist. How much of the company, if we do get a venture capitalist to help us finance it, are they going to want?

Joe: Typically, and this is why I don't like venture capitalist, they'll want control of it. Typically what a venture capitalist does is they'll give you money, but you end up giving them control of the company. In other words, more than half of the stock and you will have incentives to get some of your stock back and to get your control back based on performing. So, they want to be able to do that so if you mess up, they have control of the company and they can liquidate it or do what they want with it.

On the other hand, if you use angel investors, which are pretty much more individuals as opposed to companies, that isn't usually the case. So, I've actually used all of those. I've used angel investors, I've used venture capitalists, and I definitely do not recommend the venture capital route. The only situation where it really makes sense is if you have some sort of break through technology and it's going to take a tremendous amount of money, $20 million or $30 million, and it's going to be five years before you have a product ready to sell, then you're pretty much a venture capital deal.

Michael: Now, you've mentioned products salability as last. Why is the product last? Isn't that essential?

Joe: Yes, it's essential to having a company and something to sell, but with the right management team, if the product's no good, they may tweak it or adjust it or modify it and end up with something that is good, whereas with the wrong management team, bad products with a bad team means bye-bye company. So, the skill of the people, the great management team, you may end up in a whole totally different business because you have the horsepower management wise to be able to figure all that out.

Michael: What about a business plan? What is a business plan and do I need one and why?

Joe: If you want money, you need a business plan. To operate your company, the kind of business plan you need to operate your company, you still need plans, action plans, and goals and all that, which I use to run any business I've ever had, but the business plan you use to get money is basically a sales document. You're basically saying here's how much money I need, here is what I need it for, and here's how I'm going to pay you back. And if you don't deal with those three things in your business plan to raise money, you won't get money. And it's like I mentioned earlier talking to a retail store buyer, you want to go through and prove every point. And especially if you're looking for somebody to give you $5 million, they're going to do what they call due diligence, which is they're going to check every fact and everything you say. And what you want to do is provide very hard evidence of the size of the market and provide hard evidence your product will sell. Every step along the way to proving your case to them why investing in your business is not as risky as it may seem. And basically investing is all about risk reward tradeoffs.

Michael: Now, how do I do a business plan? Should I take a chance to do one myself or should I get a book from the library or should I hire an expert to do it for me?

Joe: That will depend on what your experience is. For me, I can do one myself because I've done so many of them. If you've never done one before, you can get business plan software or books on business plans. But actually I have a friend of mine who is a venture capital or he sits on the board of a venture capital company and an angel network down in Arizona. His big claim that he's making -- he has some contacts on Wall Street in New York, investment bankers who put huge amounts of money into businesses and that's the sort of the way you approach them is different then the way you approach venture capital and the way you do your documentation is different. It's not a traditional business plan because the only way you get anywhere with an investment banker is through introductions. And it's a very interesting thing. He says all the business plan software out there and business plan books out there are all doing it the wrong way. And what we're going to end up doing is putting together an information product about how to do it right because one of his key contacts is somebody who s invested up to something line $400 million or $500 million into businesses and they have a different way of doing it.

But for now for the purposes of this program, doing it the traditional way at least for your own self so you make sure you consider everything. Consider if you're manufacturing, you've got a bunch of things to consider there. You've got administrative things to consider. You have all these different aspects of the business and you need to take a look at where you want o be in five years, define what the business will look like in five years and then work backward to now. So, I'm saying that for sure you want to the type of business plan that will help you manage the growth of your company. When it comes to raising money, there are some other alternatives that required documents done differently.

Michael: Now, can someone without any business experience really handle this?

Joe: Sure you can if you have the right team. If you don't have any experience -- say you're an inventor and you have experience in inventing the product, but you have no experience starting and running a business. That means you need to be the one in charge of R & D. When I got into my first joint venture with the guy who was doing screen-printing, his knowledge was technical knowledge and after we got our business a little bigger, we hired a VP of manufacturing, we hired a VP of personnel, we hired a VP of marketing and sales, and he turned out to be the VP of R&D. So, what you have to do is be willing to let go if in that case his expertise was R&D and so he did that and he was okay with doing that. He didn't feel like he had to be president.

The whole point is you need to know your strengths and weaknesses and what you need to do then is you need to get other people who have the expertise you don't, and that, in the case of most inventors and people who come up with products, that means you're going to have somebody else as president of the company, it won't be you. And that's one of the things that investors look at. If you think you can run the company and you've never run a company before, you're going to have a problem. If you get someone on your team to be president of the company who has experience doing it, you'll have a better chance of success and a better chance of raising money. Along that line I've started companies four or five times; three of them that were selling into the mass-market retail. And even though I've done it multiple times, my first one grew too fast. I got too big too soon and we ended up going out of business because we were way overextended financially. So, I got my real world MBA there as opposed to the MBA I got in school. So, I learned how to do it better the next time.

So, ideally what you want to do is learn from other people's mistakes so you don't have to make them. And the thing I learned there is I was the marketing guy, marketing and sales, and my partner was the manufacturing guy and we had a thing going between us. I said I can sell more stuff than he could ever make and he said I could make more stuff than you can ever sell. So, he went nuts buying million dollar pieces of equipment and I set up distribution and got national chains buying and we went nuts. I was trying to sell more than he could make. He was trying to make more than I could sell. But we didn't have anybody in charge of the money. Bad idea. So, that's what killed us. We didn't have any financial staying power and when the market took a dip for three or four months, it was enough to knock us out of business. Hey, it's not just marketing, not just making the stuff; somebody has to be on top of the financial part of it, which is actually critical.

Michael: Who do you recommend does it? Do you bring on and hire a CPA?

Joe: In that company, I had three CPAs, and the mistake I made is I took the CPA I had when we were a four-person business who was doing our taxes for us and we made him our VP of finance and that was a big mistake. He had no qualifications whatsoever to be a VP of finance, but I didn't know that at the time. And we had a couple of other CPA's in the accounting department too. So, CPAs are not VPs of finance. The VP of finance's main job is to make sure the business is funded. So, that means dealing with investors and things like that. And a CPA has the expertise to tell you what happened after it happened. That's what accounting is all about. Well, you need somebody who is looking forward, not backward and that's what the VP of finance has to do. He says we are going to in the future need this, this, and this. That means we need to arrange this funding. That means you cannot take this million-dollar order because if you do we won't be able to make payroll or whatever. So, you need someone looking forward, not looking back. You need CPAs too and you need accounting too because you do need to have accurate financial statements to run the business. But don't expect a CPA to help you be a VP of finance and look forward, they look backward.

Michael: What are some of the common pitfalls for successful businesses?

Joe: Well, the biggest one and the biggest way that you can start a business and end up with an 80-hour a week job is when you don't have systems. And there's a book called, *E-myth*, that if you haven't read that you should read that because that's what that's all about. But basically you need to have systems for every part of your business. And what that does is that allows you to grow the business. It allows other people to do things following the system and because an individual entrepreneur who starts a company might be doing everything himself at the beginning and the more he tries to do everything himself, as the thing grows it becomes impossible to do everything yourself with any kind of capability. And that can be the end of the business for a lot of entrepreneurial businesses. So if you set up systems then each of those systems can be expanded and other people can run each one.

Another good book I'd recommend is, *Rich Dad, Poor Dad*, and that series of books because Kiyosaki, in that book, has a definition of a real business, which I really like, and that definition is that you have a real business when you can go away for a year and come back to it, it's stronger than when you left. And that means you have systems because without systems when you come back it's gone.

Michael: All right. Give me your recommendations if I want to buy or start a business.

Joe: I have four criteria that I look at if I'm going to start a business around a product or buy a business. The first one is I want something that I can build up and sell and that is without me being there. So, what that means is a doctor, an accountant, lawyer or somebody like that who is a professional, they can have a business, but if they build up there expertise and all of that, if they want to sell a business and walk away, the expertise just walked away. So, the only way you're going to have a business that you can build up and sell is when you can make yourself not needed. You have systems, you have management, you have all of that and you own that business, but it needs to be, one, you can do that.

The second criteria I have, which I learned the hard way, is I like businesses that sell consumable products so that when you get a customer they're reordering. The sticker business was that way. But I had an Internet business selling a business opportunity in the promotional products industry for $1,000 and I sold 1,300 of those, but I didn't have any backend, so every sale had to be a new customer. That's a very difficult business to grow. If you want to double your sales next year, that means you have to get twice as many new customers next year. If you have a business that has ongoing reorders, if you want to double your sales next year, you just need to get as many customers as you already have. You don't have to replace all those other ones. So, businesses that sell consumable products that get used up are great because then when you get a customer that customer keeps buying, and that applies whether it's a mail order business or whether it's selling to retail, either way.

The third criterion is I'm looking for the hungry crowds. I want a business that supplying products or services to the hungry crowds. I want to be the only hamburger stand in the stadium, and they have a choice of me or don't eat. And that all I have to do to sell a hot dog or a hamburger is say that I have them and then stand back because they're swamping me. So, I like my business and my products are selling to be going to the hungry crowd and that's what I had with my sticker business. We were in the middle of a trend where everybody who produced anything that looked half way decent could sell it really easily and we had the hungry crowd.

And the fourth thing is something that changes, but that is being on trend and by on trend I mean in the trends in society that are happening. Don't swim against the stream, don't swim upstream, swim downstream. And one of the people who is good to pay attention to there is a woman named Faith Popcorn and she's written three books. One is *Popcorn Report*, one is *Clicking*, and one is *EVEolution*. And what these books are about are what are the trends that are happening now. And it's her contention that if your businesses -- out of the 15 or 16 trends that she identifies each year, if your business is on target with at least 4 of those, her contention is you'll have a hard time failing because you're going with the stream, you're going with the trends, and the demand is going up in those areas and if you conforming to as many of those things as you can, this is going to mean that your business is going to be successful.

One thing I'll tell you, the way to find her latest things, she does predictions for each year on trends. Go onto Google and put in Faith Popcorn 2006 predictions, and when you do that, you'll find the web site that has her 2006 predictions, which is such a long URL, I would not try to read it to you. And then you can do the same thing for 2005 or 2007. You'll be able to find that, but some of the things, I'll go over a couple of them that are in her 2005-2006 predictions because they're sort of interesting. One of them is she calls Big Mother and this is a trend where technology is going to help Moms keep track of the kids. They have classroom cams for little kids in schools. They have the RFID tags in backpacks. In case you didn't know about it, an RFID tag is a little chip that is being used by Wal-Mart and other retailers so they can track where a shipment is.

Michael: Wow, they're using those in backpacks now?

Joe: Yes. That what she says is coming.

Michael: I believe it.

Joe: RFID tags in backpacks, and then also GPS chips in watches. And she says, or to the extreme, even embedded in the kid's body.

Another one, which she calls persona propaganda, and this is coming out of Google, it's the whole thing about how you can find out anything about anybody and the ability to manage what information about you that's out there. So, that whole issue, which you see a lot of on the My Space thing and all of these that are in the news now, is one. Another one, which she calls cocooning. And what that is, is the tendency of people to want to be at home surrounded by comfortable things, and so on, and that's the terrorists things and all that, create feelings of unease and insecurity. So, the cocooning of being at home and watching a DVD instead of going to a movie or that whole aspect of being at home is another one of those trends. And not to go into this topic too much, but she has 15 or 16 of these each year. And you can see if the trends are for RFID tags in backpacks, and some of this stuff hasn't happened yet, but she's predicting it will. And if I were making backpacks, I think that's an awesome idea. I would really be thinking about the first one to do that because it's on trend with Moms wanting to know where their kids are. So anyway, go to Google, put in Faith Popcorn 2006 predictions, and you'll get more of this to read than you'll ever want. But if you can adjust your business so that you're on trend, you have a much higher chance of success and that's the point I'm making.

Michael: Can you give me any particular types of businesses that I should avoid like the plague?

Joe: Types of businesses or types of products, the first one is any kind of business with a product or product you're thinking of starting a business around that requires consumer education. The best example that I can think of this is the microwave. And I don't remember who came out with it, whether it was General Electric or some big company, but it took 10 or 15 years for the consumer education to all happen before microwaves became commonplace. Now, unless you're a multi-billion dollar company, you don't have the financial wherewithal to be able to take that time. You don't have the ability to educate a consumer when something is being sold in the store on a shelf. You're not having any education with it. If you get involved with a product that needs consumer education, you can't sell it in a retail store. That's the bottom line. So, since we're talking about selling things to retail stores, that's a tilt.

The second tilt is any product or business where you can't identify your target market or you can't reach them. You may have created the ideal product for some niche group of people, but there is no list or there is no way to reach those people. So, if that's the case, for one it's a niche, so it probably doesn't go in a Wal-Mart, if it's a small niche, and if you can't reach the people, you're going to have a hard time selling it any other way too. So, that's another kind of business I don't want have anything to do with.

And the third kind is a real broad thing. Any business or product that doesn't have a clear-cut advantage over its competition, it's just "me too" thing, I'd pass on that too. So, if you don't have a clear-cut reason why the consumer should buy your product instead of somebody else's and you can provide documentation, proof, and have a clear-cut reason, if you don't have that and you're just doing a "me too" you're the 27th company that makes this identical thing, you're going to probably lose out to some other company that has more money than you because in that kind of situation it ends up being price competition and the one that wins is the biggest company that can buy the stuff the cheapest and have a lower cost, and if you're talking about starting a business, that won't be you.

Michael: How about financial issues? Can you give me some critical criteria of things I need to be thinking about related to money before I buy or start my business?

Joe: Sure, there are a few critical things. First off, get money before you need it. It's much easier to get when you don't need it. You always here that banks only loan money to people that don't need the money. There's a lot of truth in that. If you don't get money before you need it and you wait until the last minute and you're desperate, big problems. You're going to pay 10, 20 times as much for that money. In fact, one favorite trick of the venture capitalist when they are negotiating with a company that provides the money, say it's an operating company, but it needs money to expand and needs a lot of it, typical trick they play is they string you along. They say, yea we're going to fund you next month; you'll get the money in three weeks and then they see you're in bigger and bigger trouble and they stretch you out another month so you'll get in more trouble and what they'll do then is they'll get more stock for their money then because you're even more desperate. It's a pretty nasty trick, but that's what a lot of venture capital firms do that on purpose. So, you don't want to go there.

So, number one, get more money than you think you need. I've heard the rule of thumb that it's going to cost you twice as much as you think and take twice as long as you expect to do whatever you're going to do in your new business. So, get three or four times as much money as you think you need or have it available to you. And I had that happen to me, the issue of being in a desperate situation. With my second company that sold the school supplies to Wal-Mart, we were waiting for a warehouse slot. Now, a warehouse slot is allocation of a spot in the warehouse for your product and we were waiting for the warehouse slot to come through to get our order. We had been approved and we were going to get something between an $800,000 and $900,000 order and we were waiting and waiting and waiting for our warehouse slot and this was for stickers, not for school supplies.

Michael: Is this from Wal-Mart?

Joe: Wal-Mart. And we're talking a year round product, school supplies are an in and out seasonal thing so they don't go to through the warehouse, but the stickers go through the warehouse, and we were approved by the buyer. He said everything is good; you're going to get in as soon as we get the warehouse slot allocated. And the other thing Wal-Mart said, which is typical, they said once we give you the go ahead, we want you to ship in a week. Okay, if you want me to ship $800,000 of the stickers in a week, that means I better have them made already because I'm not going to be able to make them that quick. So, what that meant is I had all the products made and sitting in my warehouse, and we had to wait nine months for our warehouse slot. And what that meant, as you can imagine, the suppliers who made the stuff for me, wanted to be paid. They weren't real thrilled about waiting three or four months much less nine. So, I had to get money in a hurry and I was desperate and I went to private financers, but I ended up losing control of my company.

Michael: Where did you find these private financiers?

Joe: I found them from a friend of a friend, contact from our bank. Networking basically, and I was able to get little over a million dollars that way through contacts. But I ended up losing 60% of the company and from there on it was all down hill once they had control.

Michael: Can you paint me a picture of what happened, once they got control, why it went down?

Joe: The main thing is the people who are putting up the money were coming out of industrial businesses that change every 30 years. Once they have their money involved, they want a say in what you're doing, which in a way is understandable. But we were in a fad and fashion business. School supplies, holographic portfolios, I mean these things are going to be hot for 18 months and then dead. And people who are in ball bearings and things like that can't relate to that. They think of a good product will sell for 30 years and then maybe you make adjustments on it and it sells for 10 more. They couldn't deal with the thought of every year you've got to have new stuff and because of that they wouldn't' allocate me the money to develop new products. They just said, hey have your salesmen sell harder, go sell what you got. I mean it got ludicrous to a point. I had the buyer at Target tell us that he wasn't going to buy our stuff next year because it had run its course and I had decided I though I wanted to put Major League Baseball and NFL football and what I wanted to do was make portfolios basically out of baseball cards and football cards so that when they're done with them they can snap them apart and they would have the cards. And the buyer at Target said he would buy that. He said, that is a cool idea. I like that, I'll buy it. I go back to my investors and I tell them the buyer at Target says this other stuff is dead he's not going to buy it. He likes my new idea, he will buy it, I need $50,000 for a licensing for Major League Baseball and the NFL and they said no, go sell them what you got. So, I ended up I just left.

Michael: Okay.

Joe: At that point I left the company and a couple of years later it wound down to nothing. I saw the writing on the wall. If a buyer of a major chain tells me he's not going to buy something, I believe him. And if he tells me he'll buy something else, I believe him there too.

Michael: What kind of financing is available if I'm considering buying or starting?

Joe: There are a number of kinds of financing available. We'll talk more about it. We have a special section on nothing but financing, but typically you've got venture capitalists, which are usually for big bucks, lots of strings. You've got angel investors, which are private individualists with money, which is much better, and then you have your own personal resources or your friends and family. I would suggest not using family because if anything goes wrong then you really have personal issues along with the business issues.

So, in the next section, Section 11, which is going to deal with packaging.

11. Million Dollar Packaging Secrets That Can Make You Rich

Joe: So, now we're to Section 11, which is packaging.

Michael: Why is packaging of my product so important?

Joe: Well, because you're selling to a retail store, that packaging is critically important. It's one of the most important things because the packaging of your product is what's going to make the sale. You don't have a salesperson standing there in the aisle at Wal-Mart dragging people over and telling them why they should buy this. It has to be done by the packaging and it has to grab the attention of somebody walking down the aisle and who is exposed to hundreds of thousands of things they can see at any given time. It has to grab their attention, get that person to look at your package, pick it up, and then it has to make the sale. So, the packaging could be even more important than the product itself.

Michael: I know the subject of packaging can be a whole other seminar in itself. Can you talk about some of the different packaging for different distribution channels?

Joe: Sure and that's something that if you're going to be selling into multiple distribution channels, you really need to pay attention to. If you're going to sell anything into Wal-Mart or other mass market retailers, there's a bunch of criteria you have to follow, but basically you'll need a UPC code on there so they can be scanned at the scanner, and you need to conform to the requirements of the mass market.

On the other hand, for gift for independent stores, in that case a package with a UPC code on is death. If they see that, they won't want to buy it. So, in that case you might sell the product loose or on a little wire display where they are hanging there or in other ways that would be totally unworkable in a Wal-Mart or a Target. And the reason for that is that they want to distinguish themselves from Wal-Mart and Target. They don't want products in their store to look like anything that you can get at Wal-Mart because if you can you'll buy it at Wal-Mart. So, the packaging for a gift independent stationery kind of store is totally different.

Then yet again, mass market, say Sam's Club or Cosco, the warehouse stores, in those cases they have you bundle stuff into big bundles. Like if you're selling scotch tape and you're 3M and you have one package of Scotch Tape sitting on a shelf somewhere, in Cosco they'll shrink wrap 24 of those Scotch Tape dispensers into one bulk thing and they sell all 24 of them as an item. So, if you're fortunate enough to get in those warehouse stores, you're going to end up with multiples of your product shrink wrapped or bundled together to be sold as a unit.

The fourth thing, anytime you're selling with direct mail or mail order catalogs or TV infomercials, you don't even need packaging. The only purpose of the packaging then is to protect the product because you're not going to see the packaging in a direct mail or a TV infomercial. You see the product itself and being used or you get sold on why you should buy it through direct marketing of some sort, but they don't ever sell it to you by the package. The sale is made by the infomercial person, or the sales letter, or whatever, so in that case you just need it for protection.

Michael: What are some of the jobs my packaging must accomplish?

Joe: In the case of retail stores or mass market, because that's the focus of what we're talking about, there are seven things your packaging must do, and if you fall on any of these, you've got a big problem. You're dead.

Number one, we've already been talking about, which is to make the sale. It has to grab the attention of that consumer and you yanked them out of the isle and make the sale of the product.

Secondly, it has to protect the product. The product has to be able to be shipped and get to the store and get merchandised in the store and have the product protected. Remember, we don't want rejects or returns, so we've got to have the packaging done properly to protect the product.

The third thing is legal requirements. And the one most people are real familiar are the labeling criteria for food. All packaged foods have all these percent fat, percent protein and all the ingredients listed and everything. But there can be legal requirements for other things too. If it's a toy product, child safety laws apply. So, whatever your product is, you want to make sure that you're meeting the legal requirements.

Number four, requirements by the retailer. This includes the UPC code, but it also includes making sure that it will fit in the merchandising displays or the shelves in the store and it has anti-pilfer. If you have a really little product, they may want it shrink wrapped on a large backer so that it is harder to steel or shop lift. So, retail requirements are number four.

Number five is on-pack or in-pack promotions. This is not so much a requirement of the retailer, but you should do for your own self and your own business because promotions done properly on the fact that you're in the package can help you sell a lot more product, and in one case I'll tell you about in a little bit, it can even launch a new business for you.

Number six, any kind of instruction manual or instructions on how to use the product. If it's not totally obvious, if there are some instructions that are needed, whether they're on the package or in a manual inside, you have to attend to that.

Number seven, we've talked about a little bit already, which is the special packaging that the distribution channel might require for somebody like Coscos or Sam's Club, the bulk pack.

And then the last thing I was just mentioning, what you can do to start a new business. If you do on-pact promotions, if you do an on-pack promotion wrong, you can get kicked out of the store. If you do it right, they'll love you and you can start a new company with it. And I did that with my stickers. We started out, I was going to do a promotion where if you bought one package for $1 in the Wal-Mart stores, you could cut out the UPC code and send it in and we'd give you a $1 off an assortment of stickers. You could send in five UPC codes and get $5 off an $8 assortment. So, what that means is that from the point of view of the Wal-Mart buyer, he looked at that and said well if anybody wants a mail in offer, they're gong to buy five packages of stickers because they get all their money back, so I love that. He wanted me to put it on the front of the package and make it more prominent than I'd even planned on.

However, had I tried to sell the exact same product that was in the store, they wouldn't have let me do it or they would've kicked me out because they would've viewed that as competition for them. And they don't want to help my company sell to the consumer direct so they don't have to go to Wal-Mart. The product I had as a mail-in offer was a bulk assortment of stickers, which is something that was never available in any store. So, it was totally different. So, they loved that. So, it's a touchy thing, you've got to do it right. But what I ended up doing because people would mail-in their dollars or their UPC codes and then what we would do is we would mail out their stickers they just bought along with another catalog and that turned into a mail order business. Doing business directly with the consumer.

Michael: And Wal-Mart helped you create it.

Joe: Wal-Mart and Target and everywhere else our packages were.

Michael: That's brilliant. How am I going to make my package sell?

Joe: Remember, we said that you needed to grab the consumer's attention. The best way to do this, and this is what Proctor & Gamble does, is you go into the stores where your products are going to be and you look at what's there. If you look at detergents and they're all bright orange or bright blue or whatever, come up with a look or color or a style that stands out. One of the things we did with the stickers at one point in the early days is everything else was really, really blasts of color, so we did black and white packaging, which jumped right out at you because everything else was like full color. So, I can't tell you what to do for your product, but I can tell you do is how to figure it out and that is go look where your product will be merchandised and either with the packaging or the color or both come up with a unique look. It could be a unique type of box. Everybody else may have one kind of a box; you could come up with a different kind of box that's a different shape or something. So, you need to stand out and you when you're looking at needing to stand out, you need to stand out, compare it to what's going to be next to you in the store. It needs to be clear that your product is different, it grabs attention, and it also needs to be clear what your product does.

I had a client who had a package for a store for a product that would fix cracks in porcelain in bathtubs or sinks and their logo was like a little wizard guy with a wand and that was on the front of their package. And you can say okay, I walked down the aisle and I see a little wizard there, what the hell is that? It didn't tell what your product does. The only way you could tell what the product does was to pick that up, turn it around, and read the small print. So, we obviously had to change the packaging. So, that's an example of a trap you could get into is putting your company name or your company logo real big on the package. The consumer doesn't care about that. The consumer cares about what is it, why should I buy it, and what will it do for me?

Michael: Are there services and companies out there who are experts at packaging that I could hire or do consulting with?

Joe: Yes there are and you can find under packaging consultants in Google or you can look in a big green book called the Thomas Register, it's a directory of manufacturers. One project I had was a skate bike, which was an unusual product. It was like a unicycle, but it had at the very bottom anther bar came out with skateboard wheels in front to make it easier to ride. Now, since this product, nobody had ever seen before, it didn't exist, we have an issue of communicating what it is because we were selling it in a box, not like a bicycle where it's already assembled. And I used a package design firm in that case, but they can be expensive. We paid $25,000 to get the package design done. But we ended up with something that when you glanced at that package from 25 feet away, you could see what it was because they had basically a photograph of the product on the outside of the box and you could see it assembled and what it was and there were pictures of kids riding it and the whole thing. It was instantly obvious. But package design can be expensive.

When I was with Kimberly Clark, with Kleenex, I mean they spend hundreds of thousands of dollars. There's a study of a quarter million dollars to determine whether the blue box should go by the pink box and should it be on the third shelf or second shelf? And if the way they are merchandised in the store can make a 1% difference in sales and if you're sales are a billion, 1% is what, $10 million per year?

Michael: Yes.

Joe: So, for the big guys they can afford to spend big bucks on little things. For us little guys, we've got to just do what we can do.

Michael: Let's talk about breakage. How do I know if my product is tough enough to withstand all the distribution of these mass merchandisers so it doesn't get knocked around and broken?

Joe: It will get knocked around. I can recall one time when I went to a trade show, I watched the UPS guy unload the truck. He took it from the truck and he was throwing the boxes on the loading dock. So, what I came up with is something that has served me well, it's real simple. Take you product in the package, climb up on the chair over a concrete driveway or concrete sidewalk and drop it 10 feet. And you need to do this with the individual product and with the product in a case pack. If your case pack is 24 units in a case, do it with a case. Do it with the individual product. If your product is on a backer card, like a blister pack or something, hold it by where the hanger hole is where it hangs on the hook and then slam it on the side of a desk as hard as you can unattached because if it is packaged that way and it's not done properly, the blister will come off them. Any kind of thing where you have printing on the outside of plastic or anything, the test for that is to take scotch tape or rub it on there really firmly, but hold on to an end of it and pull it off. And if when you pull it off any ink that sticks to the tape, you know you've got an ink adhesion problem.

Michael: How about legal requirements for my packaging? Is that going to vary depending on what my product is and what is some stuff I should consider?

Joe: Definitely will vary. The one people are familiar with like we mentioned before would be food and the requiring there. But even on things like clothes or apparel, you have care instruction rules on apparel. How do you wash it, for example? Child safety laws for children's products or toys. So, you can't possibly think of every industry, but whatever your product is, you need to check out your particular requirements for your industry. And you can do that at the Consumer Product Safety Commission website, which is, I think www.cpsc.org, or just type in Consumer Product Safety Commission into Google and you'll find it. That will give you what the laws are. What they have there is they have the regulations by industry and there will be like a hundred different industries and you can click on one, whichever yours is. If you're in the toy business, click on toys and it will show you all the regulations related to toys. So, that's one way to check out the law it you're not familiar with it.

Michael: Each mass merchandiser or retailer has different packaging requirements. Can you discuss some of the things I'm going to need to be aware of as far as the retailers' packaging requirements?

Joe: Sure. Aside from the UPC codes so that they scan properly, one of the other things you need to do is you have to make sure that they're going to fit on the shelves. I've seen people put things in a package that was round or something like that. And if it's round or some sort of unusual packaging and if the normal packaging on the shelf is boxes and the product can be stacked, you can't stack a round product. So, what you've just done is you've made sure the retailer can't put as much of it on each square foot of shelf space and you're going to have to have a higher return on investment for them to justify carrying your product. So, you just shot yourself in the foot. If your product is something that needs to be stacked in the store, make sure it stacks.

If your product is hanging from a hook, this is a funny one I've seen people mess up on. If it's on a backer card with a blister pack or shrink wrapped or anything and it's not centered, the weight of the product is not right in the center of the card, what you have to do is you have to make sure that the hole that it's going to hang from is put through the backer card is in the right place to make it hang right. And I've seen that mistake happen where everything was hanging crooked because they put the hole in the middle, but the weight wasn't evenly distributed.

Michael: You had mentioned UPC code. Can you tell me what exactly is a UPC code and give me some ideas of why I'll need one of these?

Joe: First off, it's a requirement of the mass-market retailers and the grocery, drug retailers that you won't be in the store without one. It stands for Universal Product Code. The way you get one is through the uniform code council. Their web site is www.UC-councel.org and you go there and you can apply for one there. But there are a few things that you need to know about UPC codes that you might not find easy to learn.

The first thing is, if you ever looked at one, you'll see there's two sections of numbers at the bottom. Those first five digits they assign you. That's your manufacturer number. The next five digits you assign. So, what that means is you're going to decide what those numbers are going to be and then you're going to order the film masters or the artwork from companies who are in that business. And the artwork is going to vary depending on how you're going to print it. A screen-printed UPC code, they're going to give you artwork where the lines are a little thinner than they need to be because the printing process expands the width. If it's offset printed it will be different. So, when you order them, you have to tell them what printing process you're going to use for them to give you the correct artwork.

One other point to make before I forget about the digits, when you're going to assign the last five digits, you need to put some thought into that because when any computer is going to sort to do a sales report by product or by UPC code number, it's going to sort those things. So, when you think about your five-digit number, I would your products in groups. You might have 1000 and then 1100 represents one group of products, 1200's are another group, and then you have 1101, 1102 and so on. So, what you want to think about when you're assigning the numbers to your products is to think about how they'll sort on a computer that sorts in numerical order and make sure your products sort in the groups that they are. That will make it easier for the retailer and for you.

Though you can print a UPC code in any color you want, I would recommend that you make sure that it's black and white; the black bars on a white background. Even if you have a full color package, I'd block out a white rectangle and print the black over that. That's not a requirement, but the one thing that I really want to always make sure of is that the thing is scanned properly. And the best scanning is with the black on white.

Another thing to be careful of, they give you the information in that you're going to get manual when you get your UPC code. It's about 200 pages long telling you how to use it. It's all technical stuff, but the thing you need to know at 100% size or the size the UPC code artwork comes in, it's about an inch high or an inch and a quarter high. Unless you have to, don't shrink that because though you're allowed to shrink it down to 75% of that, the more you shrink it the tighter the tolerances get for it to be able to be scanned. In your printing process or printing your packaging, there's less room for error. So, what I do there is anytime I'm making a product, I get a bunch of them printed at 20 or 30, and then I take them over to a grocery store or take them over to Target and I want to make sure they scan on the scanners that are really in the stores. And I've had it happen where I went over to the store with my samples already printed and ready to go and I ran it through the scanner and it didn't work. So, that's a little test you can do yourself for no money. It's critical because retailers tend to get upset with you if your product doesn't scan. People have to type it in manually and that's just another sign you don't know what you're doing. It's not a good thing.

In that book you get, by the way, it tells you where the UPC code is supposed to be put on any given kind of package. Where does it go on a little card? Where does it go on a box? There are set locations that it belongs in that are the standards, so you need to follow what the manual says.

Michael: What about if I have a product that has instructions or there's a manual that comes with it. What are some of the regulations and things that I'm going to need to keep in mind on that?

Joe: First off, the best way to do instructions or manuals are write what you think you need to write that describes how to use your product and then give it to somebody who's never seen it before or give it to a teenager or somebody. Somebody who has no clue about it and make sure they understand it. All the time I see actual instruction manuals that are either such in small type I need a magnifying glass to read them or they're written by engineers and there's no way in the world you can figure out what they say. So, if you have a technical product, have somebody read those instructions that have no technical ability whatsoever and make sure they're understandable.

Secondly, we had a problem at Kimberly-Clark because of -- I was making non-woven fabric into tablecloths where the tablecloths could be washed and you can buy this tablecloth for $2 and wash it 20 times. So, that was going to be sold in grocery stores. And here's atypical example that can happen. When you're in the lab, scientists in laboratories control things. They said that these non-woven fabric tablecloths could be washed. You need to dry them in the dryer under air dry, not under heat because they're made of polypropylene and polypropylene if it's hot enough will melt. So, in a lab they run all their tests, they do all their testing they like to do for months and months and the net result is everything is cool, go ahead with it. Well, as soon as we get it out in the stores, the real world rears its ugly head, and when women put these things in their washer and dryer at home, the washer may be a little hot or the dryer even on air maybe hotter than you think, and what we had happen because of real world variations in temperatures, a lot of these tablecloths were melting and creating a big blob of plastic in the dryer and we had to replace the people's dryers. So, this is just an example of it's not really about writing instructions, but it's an interesting thing that can happen whenever you're doing your testing, if it's not real world testing and it's laboratory testing.

There are a number of different kinds of packaging you need to be aware of and depending on the kind of product you have, one or more of these may be appropriate. I'll run through the different kinds.

By the way, if you're product is ugly or is not attractive you're going to want a colorful box or colorful packaging. In the case of the stickers, if the artwork and the graphic of the stickers are what you're selling, then you want to have that show. So, what we did is that we shrink-wrapped them with a clear film so you could see the product because the product itself was attractive and it was making the sale.

So, the first kind is we talked a little bit about already, which is blister pack.

That's a card that has a little clear plastic rectangular blister stuck on the card with the products inside. And that's one of the ones when I was referring to if you're packaging a product this way, you want to hold it by the edge and slam it against a desk on its edge because that's the test for blisters because the blister will pop right off there if it wasn't done right.

The next kind is clamshells, which I'm sure everybody has seen. Those are the kind where it's absolutely impossible to open. They're basically sealed all the way around and it's a clear plastic material is sealed all around and you need multiple pairs of scissors and much frustration to open the package.

Another kind is called skin pack and this is also on a backer card. And this is where you have things in weird shapes and what they do is put a thin film over them and then there are tiny holes in that backer card which they create a vacuum under and it sucks that film down and around the product. So, it's actually touching the product and conforming to the product. That's called a skin pack.

Then of course, you can use the poly bag or shrink-wrapped. The tablecloths or things of that sort are going to be either put in a clear poly bag or shrink-wrapped. And usually a lot of those will have a paper cardboard insert that tells what they are.

Then the next one everyone's familiar with is just a plain old box and boxes can have the cellophane or the clear windows in them or without a window and they can be different shapes. They can be triangular. They can be rectangular, all kinds.

Another kind you don't see too much, but you can just use paper bags. I've seen that done. You can put a header card, which is stapled onto a bag for a small product.

Then you can shrink-wrap like we did our stickers, which you take the backer card, you put the product on top of it, and then the film shrinks around the whole thing and holds it on there tightly.

Another one that you see a lot is plastic boxes or tubes. Plastic tube would be like you see shower rod hangers come in those. The time to use clear the plastic box or tube is when the product itself is attractive and you want to show the product through the box.

Michael: Can the packaging help me get into one of these retailers? Do they give me feedback on what packaging they want for my particular product? Have you gotten feedback from any of your buyer's about that that led you to packaging decisions?

Joe: Some of that, but that's pretty much up to you more so than them. The retailer as a rule doesn't try to get involved in your product designing. But we had an example that was actually critical to our success with the stickers that may apply to you and other areas, so I'll tell you about what happened.

One of our first distribution channels for stickers was Hallmark stores and other card and gift stores. Well, basically what that amounts to then is our product is going to have to hang on Hallmark's hooks. So, what we did is we designed our product to have the same size backer card as a Hallmark sticker and same size and shape of a hole to hang it on so that it would fit right on Hallmark's displays. If we hadn't done that, the Hallmark stores wouldn't have bought our product because then they wouldn't be able to display it. They would've needed some other kind of display. So, it was critical to have a sale that our product just fit the merchandising that was already there. So, depending on what your product is and what industry you're in, consider that. If you have competitors who were out there with some sort of special merchandising, you want to make sure your product will fit on their displays.

Michael: Is there anything else I need to consider or be aware of related to packaging?

Joe: The thing we mentioned a minute before about getting the hole in the right place if it's a product hanging on a backer card so that it will hang straight. And the other thing would be any printing that's on your packaging. You want to check the ink adhesion. If the package is plastic, the scotch tape test worked that I described a little bit ago. Another test is to use an eraser on a pencil and try to rub off the ink. What will happened, if you're ink adhesion or packaging isn't done right, the abrasion in the distribution channel is going to make your package look poor by the time it gets to the store. So, you definitely don't want to have that happen.

So that's pretty much the end of the packaging section. There are a lot of things to consider, but they can be absolutely critical in determining how well your product will sell or if it even gets the chance to sell.

In the next section, we'll be talking about, is equally important, Section 12, which is merchandising.

12. How to Merchandize Your Products for Maximum Sales

Joe: Now we're to Section 12, which is merchandising.

Michael: Can you explain what merchandising means and why is this so important?

Joe: Sure. Merchandising means how your product is displayed in the stores. There are differences between different kinds of stores and whether it's a chain, whether it's a Wal-Mart, whether it's a grocery store, an independent store, or a Hallmark store. Primarily one of the biggest differences in the big chains, whether they be grocery, drug, mass market, or whatever, normally you're going to be using the fixtures and displays that are in the store now. So, you need to make sure that your product fits in the displays, on the hooks, or wherever it's going to be where you want it to go. I mean it sounds like a pretty simple obvious thing, but sometimes that gets missed and that creates big problems.

Interestingly enough, in the little independent stores, it's very common for you to have to provide your own merchandising. So, when we were doing this with the stickers and some of the other products we had, we had to ship a little display along with the product and even with a header card to talk about what the product was and to get people's attention.

So, a very big difference, create your own merchandising display, shipping them to the stores in independents, and using ones that are there for the chains. And in the big chains, they use something called a planogram to plan out what goes where.

Michael: What is a planogram?

Joe: A planogram is basically like a blueprint. The mass market, even though you may not realize it, a Target store or a Wal-Mart store, if you ever noticed that they're all the same that if you go into one Wal-Mart or another Wal-Mart, they're laid out the same. What they do is they identify what goes where with such precision that they make an actual blueprint kind of thing that says this is where this goes, this is what that goes, and that planogram goes to the retailer, to the store people so they know what to put where. That way it makes sure that all of the products are merchandised the same way in every store, it makes it easier for the consumer to find them, and makes it so the retailer knows how much space is allocated to something and when they're tracking their sell through rates that their able to track depending on the location of the products, as well as the amount of space given to it.

When we were working with Target initially, Target has a planogram room at

Target's headquarters. They have a room where they have their displays and everything and you can go down there with your products and you can lay them out on the displays and then when they're done, they can take a photograph of that and send it out to the stores as to how it's supposed to look. You don't get to that point until you've already been accepted into the chain, but you can get involved with the planogram and which things go where. In the case of Target, we were allocated two feet of space on the shelves at one time and four feet another time. So, if we have four feet of space from the top of the display down to the floor, it was up to us to figure out how do we best arrange our products on those five shelves four feet wide to maximize sales.

So, it's getting back to what we talked about quite a while back. You need to actually think like a retailer and you need to be aware of things like that. Most people who have a product, it would never occur to them that they would have to be concerned about how it's arranged on the shelf. They think that's the retailer's job. Well, actually it really isn't. It's really your job if you want to maximize…

Michael: Did Wal-Mart have a whole room the size of a typical Wal-Mart store, like a model store for planograms only?

Joe: I never got involved with it at Wal-Mart. We did it with Target. Wal-Mart did it on their own. We didn't have any input into it. So, that may be different if you have more space in a Wal-Mart, but the space we had in Target was usually about double what we had in Wal-Mart, so we didn't get involved with Wal-Mart.

But it matters a lot where your product is. And back when I was with Kimberly-Clark, like I said, they spent hundreds of thousands of dollars researching where the Huggies go, which Kleenex box goes with what other Kleenex box, and what colors they make the boxes so that they look good next to each other on the shelves. And that's the kind of research done by the billion dollar companies because if pays off many times over. I have a really fun story to tell you about one of the salespeople who worked for me at Kimberly-Clark had come to us from Procter & Gamble where he was selling coffee. He was in charge of Folger's I believe it was. And in big companies like that, a sales guy is in charge of only a single brand and a small territory. Just goes to show you how big these companies are. But what this guy did is he liked to fish, he liked to hunt, and we were in Wisconsin and he didn't like to work very much, so he got smart. And what he did is because of where a product is located on the shelves makes all the difference in the world on how it sells, like you want to be at eye level, not on the floor. What he did, his name was John, and he figured out on his route of the stores he was responsible for, he figure out what day his competitors went to the stories because it was his job to make sure the products were merchandised right in the stores. In these big companies, they have people who do that. So, he found out when his competitors were going around with their route and he made sure he came by the day after. So, his competitor would put all the stuff in the place to maximize their sales and John would come by the next day and change it for his. So, it was an ideal for him for six days and for his competitors only for one day. I thought that was really smart. He ended up being the top Folger's salesman for Procter & Gamble out of 500 salespeople.

Michael: And he would just move all, just move it to a different position.

Joe: It was all done through the merchandise placement and he figured out his competitors' times they were in the stores and he came right after them and made it to his advantage so that it stayed there the whole week. And then what he did is he went fishing. John only worked three days a week. And he had chutzpa to put that on his call report and his boss kept telling him, John you can't put gone fishing two days out of every week. John would say, but that's what I did, I went fishing. In any case, he was the best salesman in the whole company because he did a real simple thing. He just figured out when his competitor was there and he rearranged products the day after. So, every week he maximized his sales by that one simple thing and the whole point of the story is look how much merchandising can make a difference.

Michael: How about any other areas of the store where you're going to generate more sales?

Joe: Yeah, in fact, I got this from Procter & Gamble. If the sales of an item on the shelf, if you call that a one unit, the level of sales is a one, if you have that same product on the shelf promoted -- P&G is talking about coupons and ads in papers -- that becomes three times as much sales without the promotion. If it's on an end cap, which is at the end of an aisle, that four-foot section at the end, they're called end caps, if you have your product on the end cap that will give you three to five times the sales of being inline. And if you have it on an end cap with a promotion or a sale, that's nine times. So, if your product would sell ten units in a week on the shelf, if it's on an end cap with a promotion it will probably sell 90 units. So, I thought that was very interesting that Procter & Gamble had figured it out, what the ratios all were and ever since I found that out, 25 years ago, I kept that in my head for, number one, trying to get on the end caps.

Michael: Who ultimately decides who gets on the end caps?

Joe: The retailer decides that and they decide it based on sales. And what happened with us when we had our school supplies in Target, the holographic school supplies, our stuff was selling well enough that they put us on the end cap. So, we had a four-foot end cap in all the Target stores with our holographic and the sales just went nuts. But you get there -- you can't decide you're there. You're put there by the retailer because your product is selling better. And the number one year for the holographic school supplies, our company got an award from Target as the best new vendor that year in that department, in the school supplies and stationery department. We were the best new vendor because we made them the most profit of anything in the whole category.

Michael: How about the checkout stands were people go through the checkout lines? Would I want my product there?

Joe: Oh, yeah. Where we were talking about end caps can be three to five times or maybe nine times better than inline, a checkout is off the charts. The very best spot you can possibly be is in the checkout, especially if you have an impulse item. But to be in the checkouts, you need to have something that really sells fast and it needs to be an impulse item. It needs to be things almost lots and lots of people want, which is why you see batteries and chewing gum and candy and all of the National Enquire magazines, and things like that at the checkout. Those things sell in large quantity.

Michael: Film, razors. I was looking at it when I was standing in line and some of that stuff is priced very high -- $9, $10, and up.

Joe: Sure. That is the lust item. You want to be at the checkouts. Everybody wants to be there. It's not so easy to get. But I've got a couple of interesting stories about that. In one time, we created some merchandising space out of thin air and these were in grocery chains. This was a grocery chain and this grocery chain had between each checkout was a semicircle display that held magazines, which is real common. But this one was designed as a semicircle and there were panels for the magazines. So, what we did is we proposed to the store -- we went into one of the stores and did our measurements and everything -- because you've got a magazine that are 8-inches or 9-inches wide, with the display thing maybe a foot wide. If you think about it, you've got straight lines on a curve because you've got a semicircle display. So, what that meant is there were gaps between the straight pieces. So, what we did is we designed racks to fit in between each section of magazines. So, what we did is we made a metal rack that would fit in between each row of magazine that was made out of metal, painted the same color as the rest of the display, and would bolt on. And it just so happened that that little rack held a whole bunch of our stickers. And so, we ended up with four vertical racks of stickers at every checkout. There are 24 product facings in every single store. Normally we would never have gotten that position, but we found merchandising space that wasn't there before and provided them the displays, so we got the positioning and we sold a ton of stickers that way.

Michael: You create your own display and did all the work for them to make it easy.

Joe: Right. A total do-it-for-them thing. We did it all. We installed it all. We did it all for them. So, when you're thinking about your product, think about is there anyway you can create new merchandising space for the retailer that they're not using now because if you can come up with something, there's a good chance they'll let you do it because it's not taking the place of something else.

Another example of checkouts -- another time you can get in checkout is when you've got a hot item and it's small. And conveniently, stickers are small. And back -- this was quite a few years ago, but if anybody remembers the Teenage Mutant Ninja Turtles were about a $200 million license. That thing went nuts. And we were handling the stickers. And when those things were that hot, we were able to get the Teenage Mutant Ninja Turtle stickers at the checkout because every little kid wanted them. So, that's another way to get at the checkout. We had the license, so nobody else could make them, just us. We had an exclusive license. And being by the checkout, the retailer knew they'd just blow out, so they put them there.

Michael: Wow, that's great.

Joe: And one other product, another one at the checkout, that's when we did -- in the first Gulf War where we did the support the troops window decals, it was a static stick vinyl so it didn't have adhesive and it would go on the car windows, and those were about an 6-inch by 9-inch package with a hole. Actually, we didn't package them. We just die cut them out and punched a hole in the top and those went by all the checkouts, as well because the war had started and everybody was buying the support the troops decals. There, again, another hot item. That's what goes at checkouts; things that the retailer knows are going to just turnover very quickly and sell a lot.

Michael: Are there other merchandising methods you used in these mass accounts?

Joe: Yeah, there are a couple other things. Aside from the normal fixtures that are already in the stores, there's a thing called a j-hook and a thing called a clip-strip. You see those more often in the grocery chains. Each shelf has a place on the edge of the shelf where they have the price labels. That channel there, you can put a little plastic hook in there and hang stuff on it. And you see this in grocery stores and they used to just have the plastic rods, but nowadays for safety they have another plastic piece that comes around it so the plastic thing can't poke anybody. That's called a j-hook. A clip-strip is something that is a vertical strip that has maybe a dozen little tabs on it that you can hang things on. And you see these in grocery stores and mostly grocery and drugstores where you hand a dozen of your product on it and it hangs from the shelf or at the end of an aisle somewhere.

Back when I was with Kimberly-Clark, grocery stores were using a lot of cardboard displays that were used for in and out promotions, but I haven't seen them much in the stores anymore. Those are pretty much passé now. But it used to be something you did for promotions. You ship it out in a cardboard display that would stand up by it self.

Michael: How are independent retailers and gift stores different from the mass merchandisers and how would that affect packaging options?

Joe: A couple of big differences. The one we talked about a little before is a lot of times product is sold loose in bulk. They might have a box or a display of some sort that has 100 to 144 of some item just loose there. That indicates to the consumer that this thing is not a product from a Wal-Mart because it doesn't have a UPC code on it. So, that's the gift store independent retailer merchandising that a big chain couldn't deal with.

Another thing is floor displays or counter displays that are made from wire or from Lucite; these are supplied by the manufacturers. We used to do these. We had cardboard displays, we had Lucite displays, we had wire displays that would hold stickers, little notebooks, and other things so that when the retailer gets them, the independent store, they'd open the box, they have the display right there with the header card right there and they set it out and put the product in it. So, we've controlled the merchandising completely because we've displayed the product. We have the header card and the whole thing. We've even done other displays that are even more creative that are larger and made out of wood. We've done some where the header cards were lit up; all kinds of innovative things you can do when you're in charge of the merchandising yourself because you're going to provide it to the store.

Another thing that independent stores could do, when we were selling stickers, that a mass market could never do is, sell stickers on rolls. We have a roll that has 250 of them on there, perforated, like stamps, in between each one. And we made displays that hold these and you could put 100 different rolls of stickers on one display and you can imagine that would be a major mess and it was a major mess for the gift stores, but they still did it.

The interesting irony about this whole thing is when you have product in bulk in independent stores or gift and stationery stores, it's cheaper to make because you don't have to package it, but it sells for more. So, in a way, that's sort of a nice thing. If you're the manufacturer, you get more for it when it's bulk than you get when it's packaged, but it costs you money to package it.

Michael: Joe, what's the most successful or creative thing you did with merchandising in the gift stores?

Joe: We did one thing that really worked well. Remember how I mentioned before how we designed our package of stickers to fit on Hallmark's display? Well, we went even further than that. That was the first thing we did, but then we came out with -- we wanted to have little wire racks that rotated or revolved inline. Hallmark sticker displays were freestanding floor displays and we wanted to have inline spinners that would hold stickers. Well, Hallmark didn't have any kind of merchandiser like that, so what we did is, our Vice President of Sales owned five Hallmark stores, and so we went into his stores and we designed -- sort of like what we did with the grocery stores, but on a bigger scale -- we designed a four-foot section of the metal fixturing that would bolt into the Hallmark existing fixturing that had our rotating spinner racks on them. So, we made our own Hallmark merchandising. Painted it the same color. Made it out of the same material where it could bolt in the store. And that was a tremendous success. We probably had it in 600 or 700, maybe 1,000 stores that wanted that because it was a way to merchandise our product. We provided the merchandising for them and it looked very nice. It looked inline and perfect with Hallmark stuff.

Michael: The stores will give you rules to follow, but you just created new rules by creating totally new displays. That would have never happened if it wasn't for your ingenuity and creativity.

Joe: That concludes Section 12. The lessons to be learned here is with your product, see if you can think outside the box and come up with creative solutions that will help you sell more. Some of the examples I've given about what we did with Hallmark and what we did in the grocery stores to create merchandising space out of thin air, think about that kind of thing for your product. See what you can come up with. It'll sell a lot more product that way.

The next section, Section 13 is on advertising, promotion, and publicity.

13. How to Get Tens of Thousands of Dollars in Advertising for Pocket Change

Joe: This is Section 13 where we talk about advertising, promotion, and publicity.

Michael: Most of the listeners will probably not have tons of money for advertising and promotion. Can you give them some things that will be able to do even with a limited budget?

Joe: Certainly and that would be normal that you're not going to be able to afford consumer type advertising unless you're a huge company. You'd have to rise above the clutter of everybody else and the people who do consumer advertising have way too much money.

What you can do, though, is you can get a retailer to promote your product. Once you're in a store, if you're product is selling well, I had that happen with Target when we first got in there with our stickers. They saw the sell through was so good that they decided to feature it in an ad and they ran ads at a two for one, so they sold them at half price and it worked extremely well. We did not have to pay anything for the ads. Target did that all on their own because they saw it was a hot selling item and they wanted to promote some more to help get people in the stores.

Michael: Will a lot of these merchandisers approach you and start with trying to get you to pay for advertising to be in their mailers and their newspaper ads and things of this nature? Is this something we can expect?

Joe: It depends on your channel of trade. That's a lot more common in the grocery industry than it is in mass market. But in the mass market, when you're dealing with the Wal-Marts or Targets at the beginning, they know that if you're a small company, they know you don't have the money for that. So, I don't think that's much -- we never had that be much of an issue with the chains. In the grocery market, it's all different. That's a totally different deal and you do get asked for slotting allowances to be in the store and a whole bunch of other things. But since we're basically talking about mass market here, we don't need to get into that.

But the other thing you to be concerned about is possibly trade advertising. And this isn't for the mass market either because you could count on your fingers how many of those mass market retailers you care about, but in other industries, say the gift and stationery industry or the toy industry where there are fragmented thousands of retailers, you might want to run some ads in trade magazines just to let the retailers know you exist.

And then the other thing, publicity, of course, is free assuming you write your own publicity releases and distribute them. And publicity, as a rule, is better than advertising anyway. It has more credibility. And also, you can do promotions and those don't have to cost you money either if you set them up right.

And lastly, trade shows are a good way to get the equivalent of hundreds of sales made in just a few days, assuming you go to the right shows and you prepare properly, that can be good. We'll talk specifically about each of these things in a little bit.

Michael: Are there any exceptions to being able to afford consumer advertising?

Joe: Yes. The primary one is somebody else is doing it for you because of a license. For example, if you license Harry Potter or you license Mickey Mouse; if you have a license of a famous character on your product, the consumer awareness achieved by the movies, the books, the whatever has got that licensed character well known and that benefits you just like you'd spend money advertising. And that's one of the reasons the better the license character you licensing, the more the license cost because you're paying for that. So, that's the one exception where you take advantage. The reason you're paying for a license is because of the popularity of the product you're licensing, the character.

Michael: Let's go back to trade advertising. How about trade advertising? What do you mean by trade advertising?

Joe: Well, each industry has their own magazines, trade associations, and everything in their trade shows. So, within that industry, you'll want to find the right magazines for that industry and there are several directories you can look in. Most libraries will have the directory magazines. Gale Publications puts one out. Standard Rate and Data puts one out. And these directories have a list of all the magazines in the country and they're all categorized. So, if you want to look at an industry, you'll find there are a lot more magazines in that industry than you knew about. But that's okay because what you're going to want to do is contact the advertising department of each magazine and get what they call their media kits. What a media kit is, it's a rate card that tells you the prices, it's a sample copy of the magazine, and it's all of their sales material trying to get you to advertise with them instead of a competitor. And what's sort of interesting with that is that from the media kits, the magazine will talk about their market share versus a competitors and by looking at these things, you can see who their competitors are and you knew who the players are that way. So, that can be very helpful.

Michael: Since I'm trying to save money on advertising and you know a little bit about rate cards and rate price, should I be willing to pay the rate price with the trade publication right off from the bat or is that something I can negotiate?

Joe: It's definitely something you can negotiate, but the way you negotiate it is the way you want to setup your own in-house ad agency, which in a way sounds sort of funny, but all you have to do to be an ad agency is say you are one. In most cases, I've never even needed separate stationery. I just tell the media that I have an in-house agency and they want my 15% discount, the normal commission for an advertising agency on media is 15% on trade magazines. So, you could save yourself that 15% just by asking for it.

Michael: Other than that, were you ever able to get better discounts off the rate card price?

Joe: Yes. There is another way where you get really big discounts. You can either go through a process that I learned from Ted Nicholas, who is a famous direct marketer of how you get your huge discounts, or you can go through a service that does that. And me being somewhat lazy, I use a service and the service is buying remnant space, remainder space, and so on. So, what that does, it gets you as much as 85% to 95% off, and that can be a huge deal. I mean at the moment, I'm running an ad in a magazine called News Max that normally would be about $21,000 for a full-page ad and I got it for $1,800.

Michael: Wow. Is it a last minute deal?

Joe: It's not so much last minute; it's more of available space. And odds are, they'll find a way. I told them I wanted to be in the September issue and they put me in there.

In the case of something like a newspaper or even USA Today, which in national newspaper, they even have a remnant place, but the way it works in there is that they have national advertisers like United Airlines, and in that case, they'll guarantee you circulation, but it may not be the whole country in one day. So, there you are getting true remnant space, but they'll also guarantee you, say 2 million in circulation and then you're 50%, 60%, 70% off the list price. Going through brokers to do this is the easy way, but you can do it yourself, too.

Michael: That's some good advice. How about publicity? That's free isn't it?

Joe: Yes, assuming you do it yourself. And you can hire people to do publicity releases and distribution for you, but you can also do it yourself. And I think it makes sense for most people to do it themselves. We need to talk a bit about this because there are a few rules you need to follow if you want publicity release to be published.

What most people tend to do when they don't know too much about it, their publicity release looks like an ad and that's a _____. The way you need to think about a publicity release is something that the media is going to put up and publish. You need to think of what's in it for them and what's in it for the reader and you need to have, so to speak, a hook on your publicity release that makes it newsworthy. So, you really are doing a news release. You don't want any hype in it. You don't want sales in it. You don't want to use all capital letters. You don't want exclamation points. You don't want to say this is the best product in the world or anything like that. You want to answer the typical questions who, what, where, when, and why the media asks about on a given story. You do best if you can tie your press release into current events, into something that's going on in the world that will then make the media more interested in it. It is also is very helpful if you are a little bit controversial. That can help. But basically the thing you have to understand is you're not writing an ad and that news releases are different than ads.

Michael: How do I do a press release properly?

Joe: The first thing you want to do is have a headline that gets people's attention. You don't want all caps and the purpose of the headline is to get people to read the next paragraph. So, you have a headline that gets attention and then the first paragraph you give the basic who are you, what is it, and all that, but also the basic guts of what you're doing. Many people when they write something might want to keep the best for last and build up to it, but in the case of a press release, depending on the space the media has, they cut from the bottom. So, you should be able to have your release, the bottom half of it, cut off and you still make all your points. They call it like a pyramid structure. So, you want to make all your best points and give the best information right at the beginning and then expand on it throughout and then give a summary at the end.

There is also a format to follow, both for email press releases and print press releases, but the thing you need to know there is you don't want to send a press release out to the world. You're better off to target the media it's going to. Know what kind of releases they use. Send it to the right person and have it be relevant to that person. There's a book called, Bacon's Publicity Checker, that you might be able to find at a library or you can get it from, I think it's www.bacons.com, and what that is it's all the newspapers and magazines in the country, also radio, TV. It tells you who the contact is. It tells you how they take press releases. Do they take color photos? Do they take black and white photos? Do they take new product releases? Do they take personnel change releases? What kinds of releases do they take and in what why do they take them and whom do you send it to. If you pay attention to that, you have a much better chance of getting your release published. Don't send a new product press release to a media that never accepts them.

Michael: Were you able to send out press releases to some of the contacts in Bacon's and to get successful free publicity?

Joe: Yes, I've done that many times and it can work really well. The key is to make it news, not promotional. If it looks like an advertisement, you've got to rewrite the thing.

Michael: How do you send it, by mail or by fax or what?

Joe: In Bacon's it will tell you that. It will tell you how they accept releases. Do they want them mailed, faxed, or emailed?

Nowadays, a lot of releases are accepted by email, and there are, going by email -- well actually for print first. When they're in to print, you double-space it and at the end you put the three little number signs at the bottom along with the contact information. So, there's a format to follow. On email press releases, it's really easy to blast the world, of course, spam the media so to speak, but you really don't want to do that. But there are a number of services that will distribute press releases by email to the media of outlets who want it that way. And Bacon's does that. There's a company called www.prweb.com that does it and Web Wire. In fact, if you go to Google and put in press release distribution as the search term, you'll find hundreds of them. Some of them are very expensive. Some of them are free. I find that pretty interesting, but the PR Web on looks pretty good to me and they're one of the free ones. Bacon's is not free and you can't see the prices at their website, which is not a good sign in terms of price. When you pay for releases, one of the services they can provide you is they can let you know who picked it up, so where has the release been published and all of that. They can track all of that. Typically the free releases, you're not going to get that kind of service.

But there are a couple more no-nos here. We talked about all upper case. Because your press releases are going to editors, you need to proofread the thing. If you've got spelling or typo mistakes in there, this isn't good because editors pick up on stuff like that. So, have somebody else proofread it. I've always found that I can't proofread my own stuff at all. So, have other people proofread it for you. Make sure everything is correct. Make sure there is no hype. And in terms of email, each distribution service may have some different criteria. The PRWeb people tell you only do hard returns or carriage returns at the end of a paragraph, not at the end of a line. Let it word wrap. And don't put any HTML in it because if you do, a lot of the services aren't going accept it, so you want to do just basic text. You can do it in Microsoft Word and cut and paste it into the services.

Michael: What's another effective way for promoting yourself that's very low cost or free?

Joe: One I've used that I think is probably even better than press releases is article syndication. And what I mean by that is you write informational articles. And I've done that. I've written articles on search engine optimization, web marketing, direct response marketing; a whole bunch of topics like that and especially when you're doing this online. If you write an article and you pay attention to not more than 750 words or so, short articles, and then you use it, you can use distribution services like www.submityourarticle.com and of course there are others. What they will do is if your articles gets picked up, when you're first setting this thing up with these services, you select all the different ones you want and what I've had happen -- I just tested this just to see how well it would work, and I distributed four articles and I got about 1,800 or 1,900 times it got picked up. And what that means in terms of marketing on the Internet is I have 1,800 to 1,900 one-way links to my website from other sites.

Michael: Did you use www.submityourarticle.com to distribute it?

Joe: There are others, too, but www.submityourarticle.com is the one I use. It's like $29 a month and they'll distribute three or four articles per month. It's the max, but I had trouble writing that many anyway. They submit the articles to all kinds of media outlets, web blogs; all kinds of stuff. With my four, I had just short of 2,000 links and I did that like six months ago. I still occasionally get another notice telling me another media place picked up an article and printed it or published it on their website. So, if you want to establish yourself in your industry as an authority, one of the best things to do is write articles. That, obviously, helps your search engine ranking and that brings traffic to your website, as well.

Back when I had my sticker company, the stickers got to be a hot product. They were a trendy fashion thing. Thanks to doing publicity releases and some advertising, we got on the cover of several national magazines. Now, that is really some that makes a big difference when you're on the cover of a magazine. But even outside of the stickers and when it was a hot item, I've written articles about the promotional products industry and believe it or not, I actually got paid to write a series of five articles for one magazine. In another magazine, I got an article and they liked my article so much they put the picture that went with it on the front cover of their magazine. So, in trade magazines, you'll find it's a lot easier. The editors are looking for stuff for their magazines. So, if you can write something half way decent that's of interest to the readers, you can very frequently get it published. I've had maybe as many as 100 articles published. The main work is writing the darn thing.

Then what you want to do, as soon as you get, if you get on the cover of a trade magazine or you get articles in trade magazines, you want to get reprints of those and then you use them in your marketing materials. You can include them along with your brochures on your products and that provides a bunch of credibility because then you've got the tested endorsement of the media who has published your articles.

Along with the online article syndication, there are also services you can get, you can do yourself, but it's probably too much work. It's easier to have someone else do it where they can submit articles to blogs and then as the blog gets the article, they do what's called pinging the search engines, which lets the search engine know there's something new. And that process can be automated. So, that is another way of helping your online article distribution get noticed.

Michael: Are there any services that as long as you write the article, you could submit them to these blogs submission online companies?

Joe: There are a bunch of them, yes, just like the article distribution. That's another thing to put in Google. I'll have some on my website, in the Resource Section, but if you put blog and ping into Google, you'll find probably more of them than you could ever use.

Michael: How about a couple of example of promotions that have worked very well for you.

Joe: I've got a couple good examples. One in the gift and stationery industry, we had a lot of Hallmark stores and independent gift stores and back at that time there were a couple hundred companies making stickers. The five major companies all had sticker clubs for the kids. And in those clubs they had 45,000 or 50,000 kids. We were hearing pretty much that the retailers didn't like this because they felt that the manufacturer was trying to around the retailer, which was not true, but that's what they felt. So, after I saw those, I decided to make our own sticker club, but do it a little differently.

The way I did it is I set it up to be a traffic building promotion for the retail store. They had their name on it along with ours. We did a limited edition sticker of the month, a sticker newsletter. We provided posters for the window of the store. We provide a little display that had the sticker of the month. We had membership cards. The store, we would sell them the stickers each month for 5-cents on a roll. Of course, there were a lot of them. They bought the supplies, but basically it cost them less than $1 per kid to have a kid in the club and they charged $1 for the kid's membership. So, it was a self-liquidating promotion. The retailer didn't have any money in it. They got it done for free. And because our promotion was designed to bring Mom into the store because the kid wants the limited edition sticker of the month, which is, of course, just limited to how many we could sell. Each one was, of course, dated and the whole deal.

The net result of that was after about a year, we had 900,000 kids in the sticker club. We figured out that the average traffic sales increase for our club members was 20%. So, if a Hallmark stores was normally doing $1 million, it would $1.2 million. So, the net affect of that for the 900 stores we had was about $145 million of extra sales. Needless to say, everybody wanted in our club and we had to allocate it. No more than two in any shopping center, no two too close to each, and it went nuts because the retailers saw -- I mean would you like 20% more sales for free. Now, naturally we did have a requirement. Once we saw how well this was going, we made sure that any retailer that would have our club stocked our stickers.

Michael: That's a great example. Do you have another story like that?

Joe: Yes, that one was for the independent retailer. We also did one with Wal-Mart and Target. And here, it was more of an unpack thing. With a mass-market retailer, they can have the same concerns if they think you're using your package to sell product and go around them. They're not going to like that either. So, you can put a promotion on your package and it can tick off the retailer and get you kicked out of the store if you do it wrong. If you do it right, what we did with Wal-Mart and Target is we had a promotion on the package where the kids could cut out the UPC code and send it in. Save $1 for every UPC code they sent in on this package of sticker that you couldn't buy in a store. So, it wasn't competitive. And the buyers could see that oh gosh if somebody wants to buy this, they can buy five packages of stickers for $5 and get their $5 back. So, the Wal-Mart buyer wanted us to flag it on the front of the package. I just had it on the back. That promotion launched a mail order business. The response from the consumer to that when we sent out their stickers they bought and a catalog and everything, that turned into a consumer mail order business.

This is the end of Section 13. You see in this section that there are plenty of things you can do that don't cost you any money and it can have huge results.

So, now the next section will be Section 14, which will be talking about selling to retailers not in the mass market and how you set up distribution using reps.

14. How to Make a Fortune Selling to Non-Mass Market Retailers

Joe: This is Section 14, selling to non-mass market retailers and how to setup national distribution using reps.

Michael: Can you explain some of the different types of sales reps for different distribution channels?

Joe: Sure. Pretty much each distribution channel has its own reps. For example, if you were selling grocery stores, in a grocery store you have the food section and the non-food section and they have different reps and wholesalers selling to food and non-food in the grocery store. In the gift and stationery industry, you have gift reps, so each channel of trade has a different group of reps for that channel of trade. It can be difficult. How do you find reps? How do you setup a rep network? Once you get into a given channel of trade and you look to see how many reps there are available, you're going to see there are hundreds of them and how are you going to know who is any good because these people are sales people, so they all say they're the best.

Michael: How are you going to find them once you get into a channel? How are you going to see a list of reps?

Joe: You can get the list of reps from trade magazines and look at the trade association trade publications and everything for each channel of trade and you'll find plenty of sources for reps. The issue isn't finding them, the issue is picking them. Between trade associations and trade magazines, it's usually not very difficult to find. A lot of the reps even have -- of course, nowadays, they have websites and you can find website in a lot of industries that are designed to connect the manufacturers and the reps. So, along that line, it's not that hard.

But the problem is, is to find the right reps. And I have a couple of techniques that I've used that work pretty well for that. The first thing, if you look at the retailers in your channel and look at some of the better ones, one thing you can try, which works sometimes and not sometimes, is to ask the buyer which of the reps that call on them do they think are the best. Now, technically they're not supposed to tell you that, but sometimes you can find out. There's nothing better than to be using the reps that the buyer likes the best. That's going to certainly help you get into that group of stores.

Another thing you can do, most manufacturers' catalogs will have on the catalog it self who their reps are. They're thinking from the point of view of a store sees a catalog, they know who to contact to order, but it's great market research. You could say here's this company and here are their 15 rep firms they use to cover the country and here's their name and address right on the back of the catalog. So, how easy is that. The rep won't take your line if you're competitive with something they already have, but find some companies that are in your market that are established dominant companies and start with their catalog and try to use the same reps they do.

A few things also about reps. When you come to the point where you're going to make an agreement with them, there are a few points I want make sure everybody gets about agreements with reps. A rep will normally try to get more than they should, and I don't mean commission percent, I mean territory. They'll probably ask you for all channels of trade, for example. And I've never done that. I've setup reps in the grocery industry, I've had reps for the drug industry, reps for the gift and stationery industry, and maybe also for the promotional products, ad specialty premium industry, and a different rep for hardware. So, each channel of trade can be a different rep and don't let a rep tell you they handle every channel of trade because nobody does. If you're doing a rep in the gift and stationery industry and they say they handle grocery, then you want to see what grocery accounts they have because odds are they don't.

Michael: Why wouldn't you want to give them the whole thing?

Joe: If you want to get sales, you want to have reps who have relationships with the buyers of the stores you want to get in. And reps specialize by channel of trade. Gift reps specialize in the gift industry, grocery ones in grocery. So, because each specializes in their own area, you can have as many as ten different reps in the same geographical area all never bumping into each other because they're in different channels of trade.

The other side of this thing is the geographical territory. There again, you want to take a look at what they actually cover. In the gift and stationery industry that I've had a lot of experience in, there are about 13 territories that cover the country. So, if somebody wants more than one of those, odds are they probably don't do a very good job. That'll change by industry. Each industry has their own, so to speak, territories.

But an agreement with a rep, aside from specifying the commission, which is obvious, it needs to specify -- on the case of commissions, you should not have to pay commissions on returns or any returned good or bad debts. You also don't want to pay commissions on sales outside the channel of trade. Most reps are going to want an exclusive on their territory, which means if you get an order from someone in that channel of trade in their territory, they still get a commission even though they didn't cause the sale. That's okay because they're managing that for you. The biggest thing to have after all of this is you want to make sure that you have a clause in there that you can terminate them on 30 day notice for any reason. So, if they're not performing, you can get rid of them. You don't want to have to have it be by cause because then you could get into a fight about and so on. If you just put it in there that either party can terminate on 30 days notice, that's best.

Michael: When you set it up, do you give them a quota that they have to meet, performance wise?

Joe: You can do quotas, but it's probably not going to work very well if you're a new company. If you're a new company or a new product, the rep probably would not accept you if you try to put quotas on them. What you're going to want to do, another thing about reps, reps frequently don't sell anything, which seems to be a contradiction in terms. These are sales reps. That's what they do. They're supposed to sell. Well, here's the reality of it. They don't. What they do is they take orders and I'll explain that from the point of view of the rep.

Let's say the rep has an account that's a major account, 50 stores or something and he has a relationship with that buyer and that buyer is buying 15 of his different lines. You come along. You have a new product. Now, he doesn't want to go into that buyer and push your line because what if it doesn't sell. That will hurt his relationship with that buy and could hurt his relationship with the other 15 companies he has in that retailer. So, the point of view of a rep is if the buyer asks what's new, they'll show your product, here's what new, but they won't have an opinion on it if it's any good or not. So, it's not their fault if it doesn't sell. This is not what you envision a salesperson would be doing, but this is the real world.

What happened with us in the sticker market is we did a lot of advertising and promotion and press releases to the retailers, especially when we had sell through information that we could document, we had the retailers asking reps if they carried our products. And when that happens, if you have the 300-rep network we had, those 300 people can take an incredible amount of orders if all their customers are asking about your line. So, what you've done is you've created pull through from the retailer themselves asking the reps, so the sales happen then.

The other way a rep will actually sell for you is if he puts your product in a half a dozen of his accounts because the accounts ask for it or because they showed them something new and he said I'll try it. And if the results are it sold really well for all six of those, they'll start mentioning it then because now his risk is less. He sees that it sells in his own accounts. He has seen that his own accounts have had good luck with it, so now he doesn't feel that it's a risky thing to mention your product upfront to another one of his accounts.

So, what that all means is if you're a new product and new to the market and don't have any track record, what you want to do with any given rep is see if you can make sure you can get into a few accounts, even if you have to help them get in there, and then prove the sell through so that that rep can see the sell through and then he'll be okay with bringing it up to their other customers.

Michael: When can you not use a rep?

Joe: The main time you can't use a rep is in mass market. Wal-Mart, Target, and the big mass-market chains don't want to be talking to reps. There was lawsuits about this a number of years ago because there was a restrain of trade thing, but even though you can legally do it, the retailer realizes the rep gets paid a commission. They want the lowest price. They don't want to pay commission to a rep. And so, when you're dealing with a Wal-Mart or Target, they want to talk to the principle of the company who can make a decision about price right on the spot and they don't want anyone in the middle taking a piece. They want you to be able to give them the best price.

On other thing about how to get reps that worked really well for me. When we were in the gift and stationery market, like I said, 13 to 14 rep organizations covers the country, but that means in those organizations you have about 300 individual people who are carrying your line out in the field. When I first got into the market, I didn't know anything about it. I vaguely knew what a rep was, but I didn't have a clue. So, I signed up a couple of reps. I had one in Ohio and one other somewhere else, but the guy in Ohio also had five stores, Hallmark stores. It turned out he started doing really well. And so, when I found a rep who was doing well with my line, I actually got this particular individual who had five stores, over a period of time, I eventually got him to be my VP of Sales. But at the beginning what I did is I had an arrangement with him. He, like a lot of reps, had been in the industry for 30 years. He knew everybody. He's on a first name basis with -- it's always a small group of people, really, when you get down to it. So, I set it up with him where he'd get a small override with the intent of him running that market for me, that channel and distribution. And he was able to get on the phone on a weekend and setup, just by calling his buds around the country, within three days we had a national rep network because he called up all his friends and got them to take our line. So, it was pretty much overnight we had the best reps in all the territories. So, that's a technique you can use. If you get one rep who is really excited about your line and doing well with it, you can have that person for a small fee organize and manage all the rest of the reps. I had that guy managing the other reps. I didn't do it. He did.

Michael: What did you pay him to manage that and handle all that?

Joe: Well, in the gift industry, a typical commission is 15% to 20%. So, we paid our reps 20% because we wanted to have motivation for them to sell and we'd give this guy an extra 2% override. So, it wasn't a big deal. In the particular product line we had, we had great margins, so the 20% commission to the reps and the 2% override was fine.

Michael: How about supporting your reps? What are some things you would recommend you do to support your reps and keep them happy?

Joe: This is a real critical point because if one of your reps calls with a question and you don't get back to them, they're not going to present your line anymore. You've got to give them support. And if you're in multiple distribution channels, which everybody is going to want to be, you need to have somebody who is in charge of rep communications in each market and some of the markets and the way the reps operate can be so different that one person, if they don't know, for example, in the promotional products industry, that whole industry is totally different than this gift/stationery or retail store industry that you need separate people. What you need to be able to do is you need to be able to have in-house people who can answer any rep's question, get back to them immediately if not answer them on the phone, and provide them with all the sales support materials they need, like literature and samples and so on and order forms and everything else. It's critically important at the beginning of a new relationship that you have professional materials to give them and you can give them that follow up because almost every rep organization will have a lot of questions at the beginning. And if they can't get answers, they'll just forget about you.

Michael: What should I give my reps? What kind of tools are they going to need to represent my product?

Joe: You're going to have some variability by industry here, but in the gift and stationery industry, pretty much in any industry, you're going to need to have literature with product photos and if you're providing displays or merchandising aids, you want to show those, and you want to answer all the questions they'll have such as how does it ship, what does it weigh, what are the dimensions and all of that. They have a thing called case cube, which is how many cubic inches is it so they can allocate warehouse space for bigger chains. They all have set industry specifications. In the grocery market, it's really quite different, so you want to get samples of some of what other people are doing. But they have things called survey forms that have a vertical part on the side that tears off, which is sometimes how the stores order at an individual store level.

So, that's the basic product information. Then you need order forms, which tell about what all the choices are, the displays, the merchandisers, how many of each product is sold in assortments, is it sold separately. You want three-part order form where the rep gets a copy, the retailer gets a copy, and you get a copy. That's the basic; the order form and your product sheets showing your pricing and all the specs of your product along with picture of it.

What I like to add to that, I like to add to that any publicity releases or magazine or articles about the product. And I also like to add statistics and proven sell through information because retail buyers see products from everyone under the sun. You want to give them a reason to pick you over who they have now and instead of just asking them to believe you, you need to provide them with facts. And if you can provide them with sell through information showing them how much profit per square foot per month they can make with your product, showing them how that's better than the average product in your category, now you're giving them a reason to give you a test. If you don't do that and you're just hoping that you can do it with your charm or your charisma, it may not work.

Michael: Would you say the 80/20 rule works along the lines of having reps? If you have 10 reps, 2 of them are going to product 80% of the volume and 8 are going to product 20%?

Joe: For sure. Definitely. I had one rep for the stickers that was in New England, which is a tiny territory and usually there isn't much of anything there, but this particular guy. He had multiple people in his organization. But this particular guy called on a bunch of major chains that were out there, which is not typical for gift reps. But he got us in a bunch of chains and that one guy accounted for maybe 25% of our sales out of 300 reps. I mean he was like far and above everybody else. So, that does happen. But the 80/20 rule is definitely there and the ones at the bottom of the barrel, you need to always be weeding them out and get rid of them and try to get somebody better.

Michael: How often should I be paying my reps their commissions? What's standard or is it different within different industries?

Joe: It's pretty typically everywhere. You pay them once a month. That's another thing, you want to make sure you do promptly. Nothing can disenchant a rep more than not getting paid. You want to get them paid right away. Our policy with a new rep is we send them their first commission check like FedEx or something so they get it really quickly. On occasion we've done something that if somebody got a huge order, we might send them a check right then. Now, granted this can mess up your accounting and bookkeeping and everything, but anything you can do to increase and incentify the reps, the better. In another business I've had where we weren't selling to retail stores in the promotional products industry, there we paid commissions when we got the sales. If somebody sent us an order and there was enough commission, we'd send them a check the next day because that made a huge difference in their motivation. There's a limit to how much of that you can do. As you get bigger, it gets impractical to try to do that.

Michael: When selling independents, should I be using my reps for collecting overdue receivables or should I keep that all in-house?

Joe: You should be using your reps and it'll take care of itself. If you setup your rep agreements properly -- and this is a real important thing -- if you don't have past due accounts subtracted from their commissions, then they have no incentive to collect and they have no incentive to not sell a bad account. So, what we did is we said if an account gets 90 days past due, your commission is bye-bye even if we collect it later because we had to deal with late pay. So, within the thing you're going to do, if you're going to make your reps do collections for you, which I think is a great idea because they're the ones whose commissions matter, then what you want to make sure you do is you make sure you give a report that lets them know who's late so they can do something about it in time to collect.

In summary for Section 14, there are a lot of things you can do to get reps, but it's important to use some of the techniques we talked about to get the best ones you can right upfront and to structure those agreements properly.

The next section, Section 15, we're going to be talking about preparing for the sales call on a mass-merchant buyer.

15. Preparing For Sales Calls to Wal-Mart Buyers

Joe: Now we're to Section 15, which is about preparing for sales call on mass-merchant buyers.

Michael: What do I need to do to get ready to make a sales call on a major chain buyer and how would that differ for a smaller chain or independent store?

Joe: The small stores don't have anywhere near the requirements the big chains do, so if you're prepared to call on a mass-merchant buyer, you're good for any of the smaller ones. You'll have more than you need.

The first issue is to get an appointment and I've done that two ways. One, we've done it our self where we've contacted the buyer directly from the company. I've also used manufacturer's reps to do it. And the way you do that is you have the rep or the corporate representative who sets up the appointment for you make it clear that the person they're setting up the appointment for is the president of the company. So, you're using them to setup the appointment, but it's not the rep that's going to make the sales call because they really don't want to talk to the rep. So, the first thing you need to do is, in the case of Wal-Mart, for example, you need to go through all of their requirements before you even contact them. At www.walmartstores.com you can download all of their requirements for being a vendor. And until you can meet all of those requirements and until you have all of the answers to all of their questions, I wouldn't even call for the appointment. Wal-Mart, in particular, tries to get you to submit online the information about your product and your company to request an appointment. I would not do that. I would do everything they ask me to in terms of qualifying, be able to answer all of their questions, but then I'd do it on the phone. I don't want to be screened out without having a chance to talk to the buyer. If you do feel you have to submit something electronically, I would submit enough information to get them interested, but not enough information for them to make a decision without talking to you.

Back to how you find out who the buyer is, after you've found out the background and the requirements the retailer has and you're covered, you've got everything answered, you can just call their corporate offices and ask for the buyer's name for your category and they'll give it to you. I mean the buyer's job is to buy, so finding out that isn't a problem.

Trying to get the appointment is next problem and a lot of times even if you do get the buyer on the phone, they will want you to send them something first; information, a sample, or whatever. And that's fine. If you go ahead and send in samples and information, just don't include the pricing. That means they will have to talk to you again because they can't make any decisions without pricing. So, then you want to have that discussion in person. And in the case of a rep doing it, the rep makes the appointment, you go maybe with the rep, maybe you don't. By you I mean the president of the company, the person who is authorized to make price decisions. On the smaller accounts, the reps do it and the rep can make the sales call and do the whole thing on their own. But the big accounts, you need to do yourself.

Michael: Let's say I want to do it myself, then what?

Joe: Then what you're going to have to do is have your materials together like we mentioned in the last section. You're going to need samples of your product. Yes, you can have a sales sheet with a photograph, but you need real samples, too. And if you're going to try to get away with a mockup, with big chains, that isn't going to work. You have to have a mockup they can't tell from production. It's a very scary thought for a mass account buyer to see something that's not in production. They won't want to mess with you. So, you need a real production sample. And then you need all of the materials they ask for, which are quite a few -- forms and information. And for the sales presentation, aside from the picture and the product, you want your price list with your terms. And I found a real interesting thing on the terms. If you just say your terms are net 30, yes you'll get paid in 30 or 45 days maybe, but they'll tell you they want net 60 or net 90. What I found worked with Wal-Mart, we did 2% 10, net 30, which means that they get 2% off if they pay in 10 days and it's due in 30. And Wal-Mart always took the discount. So, we always got paid in 10 days, which was wonderful. If you've got a $900,000 order and you get paid in 10 days, that's just what you need.

On another case, though, with Target, the Target buyer when I was setting up our account with him said, you can give us a cash discount, you can do whatever you want, but we're going to pay you in 90 days and take the discount anyway. So, he said if you do 2% 10, net 30 or 2% 10, net 60, we'll take the 2% and pay you in 90 days and you're not going to have a lot to say about it if you want to stay in Targets. So, his recommendation to me was don't give us a cash discount.

Michael: And you can find that out by doing a little research what the payment policy is.

Joe: Yes, but what I got from the buyer -- their policy is always to ask for cash discounts. But if you don't know how they operate, the buyer was really nice to me. He didn't have to tell me that and it saved us some money. So, you want to develop as much of a rapport with the buyer as you can. The hardest chain to do that with is Wal-Mart. They're very difficult in that regard, but Target is much easier and the other chains are much easier.

Back to our sales presentation, we have the information on your company. You want to show them that you have the capacity to delivery, of course your financial statements, you Dun & Bradstreet rating, how long you've been in business; all of that. That's on the list of their requirements. If you want to really be covered, if you get the Wal-Mart requirements, then what you've got to do is you ought to follow all their requirements because they have the strictest requirements. If you're going to make a sales call on Target, just make sure you can answer all the same questions and have all that same information for the Target buyer, too. So, you're covered with anybody else if you get your act together for the toughest account, then you can use the same information for all the other ones.

Now, part of what I want to do that is not in their listed requirements is I want to be able to prove everything. I want to show them, and one of the things they want to know is, why should we put your product in our category, our shelves are full now. We'd have to take somebody else out. And I don't the why should you put me in answer to that question be because we have a hot new product you'll do great with. I want to be able to say, well, you're missing a section of the category that's represented by this product we have for you and based on our sell through information from other retailers, this is the gross profit per square foot per month you can expect to get, which should be higher than the gross profit per square foot per month you're getting from a lot of your other products. So, you want to give proof. Every statement you make about why they should buy from you needs to be backed up with evidence as to why so you don't have to expect them to believe you because from the point of view of a retailer, you're a salesperson and salespersons, even if they're the president of the company, tend to say whatever they have to say to get the order. So, you want to give them as much documentation and proof as you possibly can to prove everything you're saying. That process is what a lot of people don't do. They go in there just with their product and they price it based on the cost, not based on the market. So, if you do this properly and go through a presentation where you prove and prove every step of the way with facts, then the buyers will be pleasantly surprised by that and you'll get a good reaction.

Well, there are a few more things. All retail chains are going to require that you have product liability insurance naming them as an insured and you'll need to have coverage of $2 million or $3 million. That's routine. You shouldn't have a problem getting that unless your product kills people. Also, the big chains require you to be setup for EDI, which is electronic data interchange and this requires special equipment. And believe it or not, this is not just the Internet. There are special computers and special software that you need to hookup with Wal-Mart. It was a number of years ago that I did this, but we were hooked up with Wal-Mart on a special system that was only for Wal-Mart and we were hooked up with Target on a special system that was just for Target; different hardware, different software. The chains want to be able to transmit purchase orders, invoices, everything back and forth without paper. They want it electronic and as long as you want to do business with them, you'll conform to their EDI technology that they use. What I had to do is hire somebody to come in who is a computer person who could set all that up. Just to give you an idea, this is 20 years ago or 15 years ago, it cost about $20,000 to get all of the hardware and software and the setup to get it working with both. But that's just pocket change compared to how much sales you're going to do. You also want a Dun & Bradstreet on your company, which will probably be there already if you've been in business a while. If not, you'll have to get that setup.

Michael: What is a Dun & Bradstreet?

Joe: A Dun & Bradstreet is a very large company that handles credit. They give financial statements and credit rating to every company. That's another requirement along with your financial statements that the chains will have.

Michael: Is there anything specific that I need to know just for Wal-Mart?

Joe: Yes there is. There are a whole bunch of forms you need to know for Wal-Mart. You can download their complete packet at www.walmartstores.com under the Vendor Section. There are quite a few pages of things you need to know and the thing that you have to do that's unusual from the point of view of a manufacturer is if you want to sell them, you're going to have to think like a retailer.

Michael: Can you give me some examples of some of the type of things that Wal-Mart would want to know?

Joe: First off, they want to know who your customer is, and by that they mean what's their age, what's their average income, how big of a family do they have, where do they live, and so on; things that may not have ever occurred to you. They're going to want to know that.

They're going to want to know where the demand is going to come from for your product five years from now, and they're going to want to know how will your product help position Wal-Mart to take advantage of this future demand. And on top of that, be able to tell them how your product will help Wal-Mart gain market share with your product and at the same time control the cost of doing business to maximize their sales.

They'll want to know who your direct competition is and why should they buy from you, why and how are you better and prove it.

Who is your indirect competition? We talked about that before. Your indirect competition is everybody else in the category. So, if you ever say to a buyer in a big chain you have no competition, they basically know you are clueless because you do because anything else in the category is competition.

What added value does your product have over your competition that can be passed on to the consumer?

How will your product impact other related products in our stores, preferably positively. But this is an example of thinking like a retailer. You're average manufacturer is thinking about making something. It would not even cross their mind to consider how the product they're making might influence positively or negatively on another product they don't make that's in the same store. That's a very important question to a retailer and like I said, you're going to have to think like a retailer to get in Wal-Mart because you're going to have to prove to them why they should buy it.

Michael: Can you help someone who gets to this point where they need to fill this out and make this presentation? Is this a service that you do or others could provide and would you recommend it to a manufacturer who may not have an idea how to handle these questions?

Joe: Certainly. I can help somebody do this and I can help you pretty much along the way with anything we've talked about in this whole course. But especially important is right before you're going to make a presentation -- you really just get one chance. If you mess it up, you're done. So, it's critically important that you get somebody to help you, whether it's me or somebody else -- someone who knows what they're doing about how to present to retail stores and to mass market in particular.

This is one of the things we forgot to mention is the packaging. Back in the packaging section we talked about how important packaging is and all of the important things the packaging does. You're going to want to be able to talk to Wal-Mart about how the packaging enhanced the category of your product, not just yours, but the ones around it.

Michael: Is there anything else unique to just Wal-Mart?

Joe: Yes. They're doing another new thing where they have a trade fair where you can buy a booth and present your products to the buyers. They have some booths available in each product category and this they do down in Bentonville, Arkansas at their headquarters. Last I heard it was in early May. If you're outside the U.S., Wal-Mart holds the equivalent of that trade fair buying events, they have those in China, they have them in Singapore. They have them probably in 15 or 20 different countries around the world, so you don't have to travel to the United States if you're in China. You can make a presentation to Wal-Mart in China at the trade fair that Wal-Mart holds for

Chinese manufacturers. But the key thing with this is you want to make sure -- just because you can get in to make a presentation at these trade fair, consider it the same as making a sales call on the buyer because that's what it is. Have all your ducks in a row and be prepared with all the answers to all the questions they're going to have for you.

Michael: Is there anything else once I'm an approved vendor?

Joe: Once you're approved, you're going to get a whole other blizzard of forms, the vendor forms that put your product into their computer system with the UPC codes, the case cube, the weights, and all that information. Though they're somewhat of a pain, it's never a problem because if you're filling these out, you're in.

Michael: You mentioned in your sales letter something very important and it's about getting the buyer on your side. Can you give me some ideas of how I can do that?

Joe: Sure. First off, you need to understand that some chains are leaders and others are followers. Some have different positions in the market. For example, in mass-market, Target is a style and fashion leader, Wal-Mart is a follower. It's very difficult to get any kind of extraordinary relationship with a buyer at Wal-Mart anyway, but in terms of style and fashion and trends, you wouldn't want to ask Wal-Mart anyway because they don't know. You want to ask Target because Target deals with that. In the case of Target, when I was last meeting with the senior buyer there, he told me they spend $100,000 a year on color research, what the new colors and trends are going to be. So, it's interesting a retailer would be doing that.

But what happened with me is after I'd gotten my first products into Target and the products were selling well, I started asking the buyer questions. I got them to share with me their color research as to what the coming colors were and in putting together a new product line -- we were going to do endangered species animals on portfolios that were holographic -- I worked with the buyer on that. I would be sending him sketches of concepts and asking for his input and he says no that sucks, this is better. In the solid color product line that we had, the holographic solid colors, we would make up samples in different colors and we'd get feedback from the buyer as to what combination of colors he thought would merchandise best and how he thought it would work best and which designs he liked and which he didn't. The buyer is going to know better than we ever are his own customers. I got the buyer at Target involved with my product development, so when you do that, there's no way that he's not going to buy it. I mean it's half his. In fact, he made more decisions on it than I did, which is wonderful. But in order to get to that place with the buyer, once you have something in their stores selling already, then you can find that cooperation. It depends on the chain and on the individual. The buyer's goal is the same as yours. You both want to sell a lot of product and have it do well for the store, so you do have the same goal and it's great if you can get the buyer on your side.

In particular, there's been a trend over the last quite a few years to reduce the number of vendors. A new vendor is a risk. It's extra cost, more work for the buyer. Buyers may have to deal with 500 vendors already. So, you really have to show why it's worth it from their point of view and make sure you do all your homework in advance.

One other example, it was a while back, back before I had my first company when I was a product manager at Kimberly-Clark. Way back then the department I was in, we were trying to get our non-woven mattress pads into Sears and that was back even long enough ago that there was a Sears catalog still. What we did in that case, like I said before about how you want to prove your point, you want facts and everything, and we did that. We had all our facts about how our product physically works better than anything else and all the other facts and figures and document proof of why, but then we put together quite an impressive presentation. We basically spent with our ad agency $50,000 to put together this whole full-blown presentation, including the page in the catalog for the product all done. The thing we did is we gave that to the Sears buyer. We did not say Kimberly-Clark on it. We set it up for the buyer that the buyer could use this to show his management and their management would think he did it. So, make the buyer the hero.

Michael: You told the buyer he could take credit for it.

Joe: We set it up that way from the beginning. That's your market study on mattress pad and your analysis of all the different kinds and what you think we ought to stock and all that done for you and with no preference to our company in terms of our logo or name all over the thing. So, we did some work for the buyer to help in his job.

Michael: That's brilliant. You've got to make the buyer's job easy and make him look good.

Joe: Right.

Michael: He's got a boss, too.

Joe: Exactly. It's like the done-for-you marketing that is working so well nowadays that 20 years ago worked, too. Nobody else was doing it.

Michael: What about the smaller stores, independents?

Joe: Big difference, big difference. They won't have all the requirements the mass-market has. But if you can go in with the same facts and figures and proof that your product sell, you'll blow them away because most vendors who call on the small stores don't have that kind of information. First off, by being prepared for a mass account buyer, you're in great shape for the smaller ones. You won't need complicated EDI, financial information, warehouse slot information -- none of that.

There is a peculiarity with some of the buyers that does need to be talked about that's very different than mass market, and that is a buyer in, say the gift and stationery industry where I came from, they'll buy a product if it's new and different. They'll buy it with no indication of sales at all. If it's new and different they'll say hey that's new and different. I like that. Cool. I'll buy some. So, totally non-scientific, and then they don't necessarily have good information on how it sells. But the weirdest thing, the absolute weirdest thing I ever ran across in the independent market is they buy a display of some new product of yours and it blows out. It just sells out four or five times faster than anything else they've ever put in the store and then they don't reorder, which makes no sense. I mean the thing sold so well, why wouldn't you buy more? Oh, we tried it. It went great. Now, what else do you have? So, you have a hill to climb there you don't have with a mass market. With a Target or a Wal-Mart, if something sells great, they'll know how many dollars worth of it they sold per day per store. But for the little gift shop, they may know it sold quick, but they may not connect the fact that it sold fast that they should buy another one of the same thing. They're looking for what's new next.

Michael: With your independents, you're going to have to be more proactive in getting the order or your sales reps are because they've got so much going on they probably just can't keep up or they forget to call or whatever. Would you say it's more your job to remind and your rep's job to remind to get those orders with the smaller stores and independents?

Joe: Definitely. You have to be on top of that where orders from a mass account will be automatically generated by computer to maximize sell through and minimize inventory. With the little account it doesn't work like that. They're nowhere near that organized. You're best off, even if the rep isn't going to necessarily be making their rounds often enough -- if the rep sees the store every month or every six weeks, if your product sells out in two weeks, that's not often enough. When we had customer service people in our sticker company and the stores that were doing well, we'd call them. We'd call them up on the phone and say it's been two weeks since you ordered, you're probably getting low, can you look at the display and see. They'd go look and say yes you're right we are low, so we'd send them a refill. And we'd do that directly from us to the store with our customer service people because the reps weren’t making frequent enough calls.

This concludes Section 15, preparing for calls on the mass merchant buyers and how the little guys are quite different. You should have a good feel now for how to get ready for making these presentations.

The next section will be Section 16 where we’ll talk about trade shows.

16. How to Sell Your Products at Trade Shows

Joe: Section 16, trade shows.

Michael: Can we talk about some different channels of trade?

Joe: Sure. You're going to find each channel of trade has their own trade shows. And in the case of the mass market, there are even trade shows for different categories within the mass market. One example, we were in the back-to-school show. Well, back-to-school is just for school supply and stationery departments show for coming of the school year, just that one thing. They have other shows for apparel, they have shows for grocery, they have shows for pretty much every category of products and every distribution channel. Once you start getting into looking at your market where you're getting the trade magazines, looking at the trade associations, and so on, the trade shows fall out of that. Normally the trade shows are put on by the trade associations in each area, so as you look into the trade associations, you'll find the trade shows and you can find them in a directory of associations, which there is a big reference book called that, that your library should have if you're in a big city. You can find out who the trade associations are and then you contact them. Every trade association I've ever seen has always had a calendar of the year show. And depending on your industry, you might have dozen of shows in a year or you might just have one.

In the gift industry, each major city has a gift show and they might have as many as four times a year. So, our reps handled the booths because we were at about 200 shows a year. We could never do that ourselves. In the mass market, in the school supply area, there was just one back-to-school show. And the thing that you wouldn't know, even if you went to one of these shows, is you need to understand the buying cycle of the retailer. The bigger they are, the longer the lead times. And even though the back-to-school show is back in February, the back-to-school season is the end of August, the beginning of September, but the buyers of the mass market chains have made their decisions as to what they're buying back in January or December. So, in a way, it seems weird. Why would you have a trade show after the decisions are made? Well, for the big chains, they've made the decisions, for the smaller ones, they haven't. But the big chains will still come by your booth, like both Target and Wal-Mart would do this. They'd come by the booth to look at the colors or patterns of the new designs. They'd look at the merchandising. They'd see how it looks on the shelf and so on. So, though they had made the decision to buy this particular line, they may still be having some choices about I want more of the teal and less of the yellow, or something in terms of colors and things. So, they might finalize the product mix and look at some of the merchandising, be able to see your complete product line and everything altogether, but the decision is made already. So, if you're trying to get in Target or Wal-Mart and you're trying to do it at that show, you're too late.

Michael: How about any advice on designing the booth? How should it look?

Joe: A couple of things there. I like to do booths actually differently than most booths are. I like to make them look like the store. So, what we've done -- when we had back-to-school show or any shows in the mass market, I'd get in fixtures that looked like the fixtures in the store and set it up in the booth so that I could merchandise the product on the fixtures so it would like just like it looks in the store. We even did this in the gift industry at the stationery show. At one point, we had an 80-foot booth and what we did is we got 80 feet of Hallmark fixtures from Hallmark stores and put it in our booth so when you walked into our booth, it looked like you were in a Hallmark stores. We were the only one that did anything like that and it really surprised people because you could show them, if you buy this, this is how it's going to look like in your store. Here's how it is going to be. So, it's back to making it as easy as possible for the buyer to make their decisions and to visualize doing business with you. Do as much of the work for them as you can. And we did mention earlier, planograms. When you setup planograms for the big accounts, you can also merchandise in the same way in your booth at the trade show so they can see it, again, for real.

Also, in the mass market trade shows, you're going to want to have the owners of the company and the top management in the booth because you're going to be talking, the buyers are going to come by, and you're going to want to continue that relationship you have as company owner, company president to buyer. In the smaller independent in the gift and stationery industry or any other industry where there's thousands of retailers that are buying, then you can use your reps to help staff the booth. And like I mentioned, in the gift shows where we had 200 shows in a year, we did more than have the reps staff the booth. At a lot of those shows, the reps were the booth and in some shows like that, you'll find that the rep has a booth and in the rep's booth are samples of products of all the lines that they represent. So, that's another way shows are done.

They can be permanent showrooms. The reps do that in the gift industry. It's done in the apparel and furniture industries. They have a building in Denver here. It's the Merchandise Mart Building and that's open all year and reps have showrooms in there. They have shows there at set times, but they have permanent showrooms. That's what those are called.

And then there are other kinds of shows, too, that are for the consumer. What we've been talking about so far are for the trade. The shows are for the retailer to come to, but there are also consumer shows such as the home shows. And that's a whole other channel of trade. If you have something that would sell to the women or housewife or homeowners, you can go exhibit at home shows and they get a tremendous of traffic. There might be 60,000, 70,000 people in a weekend go through there and if you want to do a market test of something or see if your pricing is right or see what the reaction of the consumer is, go to a home show if that's appropriate for your product and pitch your product at the show. Some business have found they get most of their business that way from Home Shows and there are probably around 100 of them national in a year. They're all over the place. Every city has home shows and they promote them rather well and they get a huge amount of traffic. Some businesses make that their distribution channel, believe it or not. I think it's just a great way to do a market test of a product.

Michael: What about trade shows? How do I find out the right ones for me to exhibit at?

Joe: Start with the trade magazine and your trade association and see how many you have a choice of. In the gift and stationery industry there are so many gift shows that what you want to do there is you want to find out which are the big shows. You can find that out from talking with your reps or people like that, which shows are the main ones you need to be at and which ones the reps handle. In some industries like the promotional products industry, they're competing shows. The Advertising Specialty Institute has ones that compete with the Promotional Products Association. And you're going to find differing opinions as to which you should be and that's probably one of the only industries that has competing ones. Most industries have worked out -- like the grocery show, the house wares show is a huge show in Chicago for non-food products going into the grocery/drug market. And there's not a competitive show to the house ware show. So, most of the big shows are going to be obvious, is that the major show of the year for that industry. You can also talk to -- and it's surprisingly easy to get a hold of the editor of a trade magazine or the people who are in management at a trade association. Those people can be an invaluable source of information about the industry for you, especially if you're coming into a new channel of trade you're not familiar with. Find some people in the industry and just asking them some question like that. If you have a doubt about which show to go to, ask them and they'll know.

In some industries like the gift and stationery shows, where we have the reps doing the show, at some of the larger ones, which like the Chicago or New York or Atlanta gift shows, we've ended up having a corporate booth and our reps had a booth too. So, we've had our products in our corporate booth. We've had the products in the rep's booth, and we might even have our products in a distributor's booth. So, we've had a show where our products have been in three different places in the same show.

Michael: Do you have any tips about doing the actual shows?

Joe: First off, take your best salespeople and don't sit in chairs. Make sure you're standing up and welcome people into the booth. And the thing I like to do the most, though, is have some sort of promotion that gets people to come to the booth. Don't think about getting people to the booth after you've setup your booth and people are walking down the aisle. Think of it a month before and start your promotions to the people who will be coming to the show in advance. Give them a reason to come to your booth. Things like free gifts or free drawings are fine. Food is always good. Food is a great thing. But the thing I like to do best, I mean everybody will stop for food if you're making popcorn or something, you can smell it two aisles away. You'll get people because of that because everybody wants food. But the best promotion in my mind is a promotion that attracts potential buyers. Food attracts everybody. You really don't want 50 people in your booth of whom there are two prospective buyers and you don't know which two they area. And that's what happens when you do that type of a promotion.

The kind of promotion I like is a promotion that has a free gift or a prize or something that you're giving away, but that is only appealing to the target market you're trying to talk to. As an example, I have a handyman franchise of 130 franchisees that I help with their marketing and I set a thing up for them at their trade show where they go to a home show. Everybody in the world is going through there. We set it up so that they had a drawing for a free handyman for a day. So, what that meant is only homeowners or only people who had a use for a handyman would enter the contest. Your typically teenager wouldn't have any need for that or other people who are not prospects wouldn't care. So, what we're able to do then is we were able to create a situation where only our prospects entered the drawing. And we had them fill out their contact information, name, address, phone number, and email so we could market to them afterwards depending on whether your show is an order writing show or not. Some shows are order writing shows. You take orders on the spot. Some are not. The back-to-school show, for example, we talked about before is not. A home show is. So, be prepared either way, whichever kind of show it is, be prepared for that.

A tremendous thing that I did -- this doesn't apply to mass market, but for the handyman client, what typically happens with the trade shows is you get back to your office, you've got all these names and they're sitting there in box and nobody does anything with them. So, if you do this properly, you promote in advance to your target market people to get them to your booth and then you do the best you can with them in the booth, but then after the show, you follow up. And we did a thing that had a really good affect. We had this drawing for the free handyman for a day. Well, we setup mail merge letters afterwards to everybody who entered with a second prize. So, everybody won second prize.

They, of course, didn't know that. They thought they were the only one who won second prize, but everybody won second prize. So, that was the follow up, which in this case, second prize was a nice discount on the services. So, that's an example of using, first off, preparing in advance for the show, having a promotion to get them to the booth, having a follow up after the show, and a reason for them to do business with you because now you've identified them as prospects. You need to market to them on an ongoing basis from now on, not just put the leads in a shoebox somewhere.

Michael: How did that promotion work with the second prize? Were you able to convert a lot?

Joe: It worked very well and the first time I did that with one of the franchisee, it worked so well, he wanted to go back and do it from the prior show. And even though we were five months late mailing out the second prize letter, it still worked. It had a tremendous return on investment.

So, in conclusion on trade shows, you set up your booth right, promote in advance, and follow up afterwards, and understand the buying cycles of the people you're dealing with, and you'll have a great success with trade shows.

The next section is going to be Section 17 where we're going to talk about financing and financial requirements.

17. How to Finance Your Business Without Paying Any Interest

Joe: Section 17, financial requirements to be in the game.

Michael: I know we've talked a lot about some ways of getting in this game without a lot of money, but let's talk about some of the details and the realities of financing and getting in the game. Can we go over some things that are important for me to know about?

Joe: Two different ways of talking about financial requirements. One is the financing of your business to get up and going if you're starting a business, and the second is operating once you are going.

One of the very kinds of financing that can work very well for once you're up in business and you need to grow, if you're being successful with mass merchants and you haven't been there before, you might see that you're growing 300% or 400% a year. Any time you're going that fast, you're probably not going to be able to finance yourself with your own cash flow. So, some of the kinds of financing to look into, one is called asset based financing that can be done by a lot of banks. They usually have separate divisions that do this. We had this with our company. What that is, is you are able to borrow based on your accounts receivable and your inventory. The typical arrangement is you can borrow 50% of the value of your inventory, 80% of the value of your receivables, and that changes every day. And then you have a line of credit and your availability of your credit depends on your receivables and inventory each day. So, that kind of financing, if you need to grow fast, works well because it can finance you on a fast growth curve.

In addition to that, if you're actually manufacturing, you're going to have building, equipment, and so on and that's probably the easiest thing to finance if you have some hard physical asset, you can either get a leasing company or a bank to finance that. Real estate is reasonably easy to finance, as well.

The hardest kind of financing is what I had in my second company when we were in the school supply business. We were a marketing company and that's one of the things we've talked about in this course is being a marketing company so you don't have to invest millions in manufacturing. But if you are one, then you have no hard assets. So, the financing is now a little trickier. You don't have equipment or buildings or things to borrow money on. And in that case, you need to set up your financing in advance.

Three of the main kinds of financing that people look at, one is venture capital, one is angel investors, and one is just private contacts you might know.

With the venture capital people, the thing to be aware of there is number one; they're not going to be interested in you unless you need a couple million dollars. They're going to want to have five or ten times return on their money in five years and they're going to want control of your company until you prove that you can do it. So, having lost one of my companies to venture capitalist because we were in need of more money than they were ready to give us, they ended up getting all the control of the company. I'm sort of skeptical about venture capital financing. It's really for those kinds of companies that are going to go up to a hundred million quickly, big, big.

Angel financing is probably a lot bigger than venture capital. It doesn't get the press, but there are angel capital networks in every city and there are also venture capital networks you can find online. But the angel people are individual investors who have money who are looking to invest in something in the field that they know something about. And they can be very good and if you don't have personal contact, business contacts yourself where you can raise money, which most people probably don't have, the angel investors are a good place to go. And another reason they're a good place to go is you don't have need $2million. Angel investors can invest in $100,000. So, if you're at the smaller capital needs, you can be fine with them.

Another way to get there, it all depends on how much money you need, really. If you need $50,000 or $100,000, you might even be able to second mortgages or credit cards. I've known people who started businesses with just a credit card, but that's small amounts of money. If you need millions, then it's a whole different thing.

There is yet another category of sources of money that most people don't know about, but it's where most of the money actually comes from and those are investment banks. And in the case with investment banks, these are the people on Wall Street and they could be dealing with huge amounts of money, but you can get a private company financed by them. And the reason you won't see them on a website or you won't see directories of them or anything, pretty much the only way to get financed by investment bankers is through a personal introduction. So, that's sort of a closed network of people with huge amount of money to invest. I have a friend who is on the board of directors of a venture capital network in New Mexico and he has some investment banking contacts in New York. So, if that's the kind of financing that would be appropriate, we do have some contacts there that we could check with to see if they would be interested in the kind of product you have.

Another way to get there, and in a way is easier than all of that, everything we've talked about so far is partnering with somebody else. If you're a marketing company and you, of course, then have to buy your products somewhere; the company that is manufacturing might be very interested in partnering with you to the extent of where they would help finance you. Especially since one of the things you need money for is to buy your product. If you're arranging with the people who make your product to benefit from that, they're effectively maybe going to give you six-month terms instead of 30-day terms and you eliminate some of the needs for financing that way.

The other benefit to the manufacturer who you're working as a marketing company, manufacturers make manufacturing margins, which aren't all that hot. If they can participate with you in what you're doing at the next level up selling to the retailer, they're getting an additional piece of margin they wouldn't otherwise have by participating with you in your company. And from my point of view, I'd even be willing to have them have a small piece of the company and share in the profits in exchange for financing it. That kind of financing is a lot different than some third party who doesn't know you, is investing in your business, and hoping you can run a company properly. These people are the people who do know your business, they're making your product, they're intimately involved, and it can make some sense if there's interest on their part.

So, in conclusion, there are quite a few different ways to finance your business to get the money you need to be in the game.

The next section is Section 18, where we're going to have tips for international manufacturers and entrepreneurs.

18. How International Businesses Can Sell to Wal-Marts in the U.S.

Joe: This is Section 18, tips for international manufacturers and exporters who would like to sell the U.S. market.

Michael: How many different ways are there to get into the U.S. market and what are the advantages of each?

Joe: There are five different ways, I can see as to how you can get into this market, so I'll go over each one.

First off, and one of the easier ones, is to supply a U.S. company that's already established in Wal-Mart, Target and so on. Now, the margin you're going to make doing that is not as high as if you directly sell to Wal-Mart, of course, but the good news is you'll be able to do it a lot easier and a company who is already established at Wal-Mart has already met all their requirements and has a presence in the U.S. and all of that, everything is done. All you have to do is provide a product then that gets added to their product line that's already in place and especially if the product you have can fit in the group of products that some other company is already selling. It could just be an addition to a product line and getting it in Wal-Mart is going to be as easy as just putting the company's name on the package that will be selling it. So that's way number one and that's the simplest.

Way number two, is to supply a U.S. company who is not established in Wal-Mart or Target yet. You'll be able to negotiate a better deal here because you'll be able to set up something like a joint venture really. No guarantee it's going to work, but if you are able, as a manufacturer, to provide a benefit to the U.S. partner on the manufacturing and on the terms of payment, and the U.S. firm becomes the domestic qualified supplier to Wal-Mart, that's going to help you get in there a lot quicker with a lot less difficulties than if try to set up your own U.S. operation and meet all of Wal-Mart's requirements.

Number three, is to do exactly that, which is to qualify to be a domestic U.S. supplier by establishing an office and a warehouse here and meeting all of Wal-Mart's requirements for domestic suppliers. That one will be the hardest one.

Number four, if you can't meet the domestic U.S. criteria, which wouldn't be a surprise, you can apply to be a direct importer to Wal-Mart at their international office in China from wherever in the world you are. The good news there is their requirements for what they call a direct importer are not as strict as the requirements for domestic U.S. supplier. So, that one is probably your highest profit choice and also going to be probably the easiest one, aside from just supplying a company who is there already.

Number five, is really a different thing than just selling a product to Wal-Mart. I think it's probably the best opportunity for a lot of manufacturers. When you look at all of Wal-Mart's requirements, there's a big long list of things you have to do even if you are a direct importer. So, another thing you can do is you can look into a Wal-Mart or a Target store and you can go through that store and see what every product that's in that store is something you could make. Where you could either make all or part of it and then you can approach the manufacturer who's name is on the package and now what you're doing is you might be able to supply 20 companies that are already selling to Wal-Mart by manufacturing their product for them. And remember, like I mentioned earlier when I was talking about the school supplies that I sold to Wal-Mart and Target, I outsourced all of that. I didn't manufacture anything. You won't be able to tell from looking at the package if the company manufactures the product or not, but if you get in touch with every company whose product is something you can make who is in Wal-Mart, you can bet a lot of them are going to be interested. Even if they do manufacture, you might be able to function in a way to get additional supply or reduce their cost.

Michael: Can I supply Wal-Mart stores in my own country first?

Joe: Certainly. In fact, that is a good way to get started. You can get started on a smaller scale that way and you can deal locally. You're still going to through their China office, which is their international office, but Wal-Mart does have a bunch of stores in other countries. I'll go through those briefly with you so you see if you're in any of these countries that you do have local stores. They have 12 stores in Argentina. They have 294 stores in Brazil, 278 stores in Canada, 63 stores in China, and this is one of the areas they'll be growing a lot in. They have 133 in Costa Rica. They have 59 stores in El Salvador, 85 in Germany, 122 in Guatemala, 37 in Honduras, 391 in Japan, 828 in Mexico, 36 in Nicaragua, 54 in Puerto Rico, 16 in South Korea, and 323 in the UK. The totals 2,731 stores and they are expanding aggressively internationally, so those numbers will all be going up.

Michael: How about buying offices?

Joe: Wal-Mart has buying offices in even more countries than they have stores. They have 1,600 employees who they call associates who source products from 70 different countries, working from 27 offices in 22 different countries outside the U.S. No matter which country you're in, you start by calling that import department I mentioned. Their headquarters is in Sichuan China and that phone number is 86-755-822-18800.

Before you call, though, two things. First off go to the international section of www.walmartstores.com and verify that phone number hasn't changed. And secondly, print off what they call the supplier profile and the supplier questionnaire forms. Just like with the domestic suppliers, you have to have your act together first before you approach them.

I'll go through the list of countries the buying offices are located in. There again, you start with the headquarters in China, but their offices are in Bangladesh, Brazil, Chile, China, Guatemala, Honduras, India, Indonesia, Italy, Mexico, Nicaragua, Pakistan, the Philippines, Singapore, South Korea, Spain, Sri Lanka, Taiwan, Thailand, Turkey, the UK, and the United Arab Emirates.

Michael: What are some of the things they ask for on these forms that I might find surprising or unusual?

Joe: Well, there are a bunch of things. You might find some of these things they want to know intrusive or that you think should be private, but if you think you're going to be an arm's length supplier to Wal-Mart where the only issue is you shipping them products and them paying for it, without you sharing the details of your company and it's operations, that won't work for Wal-Mart. So you won't do business with them.

Here are some of the things they're going to want to know. First off, they want to know what business you are. Are you a manufacturer, a trader, a distributor, or some combination of that? A lot of people who supply Wal-Mart are functioning as a manufacturer even if they outsource it. But if you outsource something or some category of thing, they're going to want to know that upfront.

They want to know how many factories you have and do you own them or do you joint venture or are you an OEM manufacturer? They will want to know your sales for the last four years, both your total sales and your sales to each of your different, biggest customers by name. So, most companies would say well, how can they even ask such a thing? Well, they want to know who you are doing business with, how much business you're doing with them, how much your capacity is, they want to know what percent of your capacity you're operating at, and they even want to know that by month.

Many businesses are seasonal, so they're going to want you to fill out a monthly percent of capacity that you're operating at and available capacity by month and they're also going to want to know how many employees you have each month of the year, as well, especially for businesses that are seasonal. You may think this is a bit much, but Wal-Mart can buy so much product. One of their big concerns is that you have enough capacity to deal with them and this is one of the ways they verify that. They don't want to be 80%, 90% of your manufacturing because that just is a danger signal from their point of view, as well as yours.

They are also going to want to see all your financial statements, and then the last thing or probably one of the biggest things is they're going to come and inspect your factory periodically, as often possibly once every quarter to make sure you meet their production and ethical standards. If you get a sub par ranking on this inspection, you'll have some time to correct it, but if you don't correct it and get your ranking up, you won't be a supplier to Wal-Mart anymore.

Michael: What are the factory inspections actually looking for when they visit the plant?

Joe: Well, they will evaluate you on eight criteria. And one overall one that isn't listed as a separate one is they want to make sure there's no illegal child labor practices going on; that no children are employed below the legal working age in that country and that can vary from country to country.

But the first thing on the list is management involvement. And by that, they mean management involvement with their account and are they going to be dealing with, on an ongoing basis, top management, not just a clerk somewhere.

Number two, what is your investment in technology? They want to make sure that you're staying ahead of the curve there and keeping up to date with manufacturing methods and distribution methods so that you are able to supply them being at the front of the technology, not lagging. This can be a huge advantage to you because with Wal-Mart having stores all over the world, buying offices all over the world, and with them going in and inspecting factories all over the world with their 1,600 people who do that, they know what's what and they'll know probably more or their people doing the inspections and everything will know more about what's happening in your field than you will just because they're going to be inspecting some of the best manufacturers there are in your category because only the best ones are going to get to deal with Wal-Mart.

Number three, is an interesting one. They want to evaluate your willingness to accept changes, recommended changes from them regarding quality, delivery, and cost. It sort of flows out of number two. If they see things that are going on in other manufacturing outlets around the world that would help your operation and improve the quality and reduce the cost and if you're not willing to accept their recommendations, they consider that a very bad thing if you're not willing to change based on recommendations they make to improve things. Its getting Wal-Mart and getting involved in your business at a level had you not dealt with them before. It’s unusual for a retailer to get so involved in your manufacturing end and how you run your company, but they want it the other way too. We talked earlier about how they want, if you’re selling them, they want you to understand retail and merchandising and packaging, and so they want you to understand a lot of the details of their operation, as well as they understand yours. They talk about partnerships and not a legal partnership, but in operations and the way you work with them that you can see that’s where it’s headed.

Number four, is they want good communications between sales and production. I know in the factory I had we weren’t all that good at that. And that’s a real challenge for any factory for the people in marketing and sales to communicate effectively with the people in production. So, they measure that.

Number five, is your staff turnover. The higher your turnover, obviously, more people you have to train and that’s a sign of things are not all well if people are leaving or you’re having to fire them a lot.

Number six, back to the financial statements. What’s your financial status? If you’re in trouble financially, in trouble cash flow, and losing money, they want to know that because that’s an early warning sign to them that you might not be able to supply them. So, that’s critical for them.

Number seven, they want to check out how you’re organized and how customer oriented your business is. Are you operating your business and your product developing, your quality control with the customer in mind or just to reduce manufactured cost and not considering the customer? They want to make sure you are customer oriented.

And the last thing relates to that, which is quality assurance or quality control. That ties right back into customer oriented. How are you doing in quality control? Remember, earlier in this course, we talked about one of the biggest mistakes or biggest no-no’s a supplier can do is to have products get returned because that can hurt Wal-Mart. Wal-Mart can lose a customer that way, not just to have to refund a single product. So, along with empty shelves, poor quality is one of the worst things that can happen. So, they want to make sure that you’re on top of quality control and that you’ve organized your company and it’s not just words that you’re really operating to make sure the quality is there. And that can be a problem with some international manufacturing operations, so it’s a hot button for them.

Essentially what all this comes down to is they want a say in how you run your company. And if you accept their suggestions and guidance, you’ll be in a position to do a lot of business with them.

So, in summary for this section, Section 18, there are a lot of opportunities for international manufacturers or exporters who want to sell in Wal-Mart. You can sell in your own country or you can use any of the five methods we talked about, about how to sell U.S. domestic stores. All in all, as long as you're willing to play by their rules, there's an opportunity for you to get a huge amount of business.

The next section we'll talk about is how can I help you do all of this.

19. It's Your Move -- How We Can Help You

Joe: This is Section 19, how can I help you.

Michael: How can you help me? What kind of services do you provide that can help me shortcut this process?

Joe: Well, I can help in all of the categories and things we've been talking about in this program. What I see, though, in talking with people is that everybody can usually be grouped into two groups.

One group is the people who are just starting. They may have an idea for a product or a concept or just beginning to develop a product. For that group of people, I have separate coaching and consulting services for them at that stage in the process.

The other thing I see is manufacturers, like offshore manufacturers or other manufacturers who already have a product and maybe it's already in full product and they're already making a lot of it and what they want is distribution and they want to get into Wal-Mart and they want to get into other distribution channels and sell more. So, I can help them, too, and I have a coaching and consulting program for people in businesses at that point.

You can see those two are quite different. One is just developing the concept or doing product development and the other one is more concerned with selling what they're already making. Because I personally developed all of the products that I've sold to retailers and I also setup the distribution, I can help you with either one of these things.

Some of the things for each of these two groups:

For the people who are just getting started, some of their issues and things they'll need help with that I can do are: how to evaluate marketability of an idea before you even have a product; how to find those hungry crowds and start with the hungry crowd and not the product, how to do that.

Once you have a concept or an idea, how to evaluate the consumer acceptance of it. What price should you sell at? What is the consumer's intent to buy? We can find out a lot of information on that before you even product anything and spend a lot of money. If you're manufacturing something that has five or six figure cost to get it into production, it certainly makes sense to go through these processes first to find out what the consumer reaction and acceptance is going to be and what they'll pay for it to make sure that there's enough room in there for you to make money. It's important when you're evaluating price to evaluate price based on what the consumer will pay, not what your cost is times something.

Then the next thing is how to make sure you design products that will sell in this market. The U.S. market is not the same as markets in other countries, each country is different, and if you're not in the U.S., you're going to need some guidance as to how to make sure the products you design will sell here. If you are here already, the same thing applies. Let's make sure that the products you design are going to sell.

And then lastly, for people just getting started, help with the product development process all the way from the concept through to a finished product that's selling in stores.

Michael: Now, what if I already have a product, how can you help me that way?

Joe: For those businesses that already have products, that's what a lot of this course has been about, but first off understanding the process to get in Wal-Mart, Target, and other retailers. You're going to get one shot at this. If you really mess it up, they're not going to talk to you a second time. So, let's make sure you do it right the first time.

How to explore and sell your products through other distribution channels here in the US. I've identified 67 other distribution channels aside from the mass-market. In fact, I can't imagine that it would be possible that you wouldn't also be able to sell your product in at least several of those and those can be a great way to get started if you're not ready to go into Wal-Mart and Target right now.

The next thing, how to determine which distribution channels are appropriate for your product and how to plan in which order you should approach these distribution channels. What do you do first, second, third. What's the best way to approach that?

Then how to really evaluate your competition, not just your direct competition or people who make the exact same thing you do, but the indirect competition, which is where people need help, which is everything else in that category in the stores. That is not how people or manufacturers or companies as a rule normally think. So, if you're making two-pocket folders and stationery, you don't think of a competitor being crayons. But they're in the department and they are indirect competitors. So, help with that.

Help with evaluating the merchandising that happens in your category and how you can assist the retailer in merchandising your product to maximize the sell through.

And then the packaging that meets the seven requirements we discussed in the packaging section. Any of those you mess up on can kill your product. Many manufacturers think of packaging as an afterthought. But when you realize that in most cases the packaging is going to make the sale, it's critically important. Then, if necessary, how to redesign a product you already have to meet the market requirements or Wal-Mart's requirements.

And then, as we get down to actually making a presentation, how to put together and make that presentation to Wal-Mart, how to fill out their forms and qualify as a supplier at whatever level you're able to, and also help and advice on how to find a joint venture partner.

For either of these groups, I offer a free 30-minute initial consultation to discuss your product, how best to proceed, and what the best way I can help you is.

And like I mentioned, there are basically three ways I can help either of these categories, of either the people getting started or the people with a product: (1) group coaching program, which obviously is the least expensive; (2) individual one-on-one consulting; and (3) if appropriate, we might even setup a joint venture of some sort.

To find out which way is going to be most appropriate for you and your product, call the number that's printed on the CDs that came with this program.
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