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PRESENTS



WAL-MART
INTERVIEW SERIES

How To Get Your Product Into Wal-Mart
Interview By Michael Senoff

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Published by:

Michael Senoff
JS&M Sales & Marketing Inc.
4735 Claremont Sq. #361
San Diego, CA 92117
858-234-7851 Office
858-274-2579 Fax
Michael@michaelsenoff.com
<http://www.hardtofindseminars.com/MarketingConsulting.html>

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How To Get Your Product Into Wal-Mart Interview By Michael Senoff

Hi, this is Michael Senoff with Michael Senoff's www.hardtfindseminars.com. Wal-Mart is the world's largest retailer and I've secured an exclusive interview with one of the foremost experts on Wal-Mart. His name is Michael. Michael is an international speaker, author, and writer. He's worked in Bentonville, Arkansas for Wal-Mart as the director of people for the headquarters office where he worked daily with Sam Walton. Previously to Wal-Mart, he worked for PepsiCo's Frito-Lay division in the sales organization and headquarters staff assignments. He has experience as a turnaround specialist who's participated in several business turnarounds. He has appeared on CCN, CNBC, FN, CBS, National Radio, Bloomberg's TV. He is considered the authority on Wal-Mart. The giant retailer's own public relation department has referred Bird Dog to interviewers who are interested in gaining insight into this massive company. He recently completed his second book entitled, *The Ten Rules Of Sam Walton: Success Secrets From Remarkable Results*.

This two hour interview is going to give you an edge over your competition to show you ways to understand Wal-Mart, to give you a competitive advantage on pricing strategies and marketing strategies in selling your product into Wal-Mart. I hope you enjoy it. We've got a lot to listen to. Let's get going. To contact Michael call 1-888-503-0819 or if calling from outside of the US call 858-274-7851

MichaelB: The Saturday morning meeting was always kicked off with a Wal-Mart cheer and Sam Walton himself would lead the Wal-Mart cheer...and you have to picture this...you've got 500 people on Saturday morning, 7 o'clock, who are all enthusiastically cheering at the top of their lungs their company cheer. And I don't know how many other companies could pull that off.

MichaelS: Was it a long company cheer?

MichaelB: The Wal-Mart cheer is give me a W, give me an A, give me an L, give me a squiggly, give me an M, A, R, T. What's that spell? Wal-Mart. What's that spell? Wal-Mart. Who's number one? And 500 people would call back the customer.

MichaelS: Wow.

[Music]

MichaelS: Hi, this is Michael Senoff with Michael Senoff's www.hardtfindseminars.com. Wal-Mart is the world's largest retailer and I've secured an exclusive interview with one of the foremost experts on Wal-Mart. His name is Michael. Michael is an international speaker, author, and writer. He's worked in Bentonville, Arkansas for Wal-Mart as the director of people for the headquarters office where he worked daily with Sam Walton. Previously to Wal-Mart, he worked for PepsiCo's Frito-Lay division in the sales organization and headquarters staff assignments. He has experience as a turnaround specialist who's participated in several business turnarounds. He has appeared on CCN, CNBC, FN, CBS, National Radio, Bloomberg's TV. He is considered the authority on Wal-Mart. The giant retailer's own public relation department has referred Bird Dog to interviewers who are interested in gaining insight into this massive company. He recently completed his second book entitled, *The Ten Rules Of Sam Walton: Success Secrets From Remarkable Results*.

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MichaelS: Hey Michael, it's Mike Senoff here.

MichaelB: Hi, how are you?

MichaelS: Good. How are you doing?

MichaelB: Terrific.

MichaelS: Here's what I did. I drew a picture on a white piece of paper that's sitting in front of me. It's a face and it's kind of got like Chinese looking eyes and he's got tears running down his face and it says, help me sell my product to Wal-Mart. Now, I want to keep looking at that picture as I talk because I want to keep that manufacturer or that inventor or that distributor in other countries other than the U.S. in mind because I know it is their dream to get their products or their services or their widgets into large, mass retailers. Wal-Mart would be an ideal on probably in many peoples' mind, probably a

dream of all these people to get their product into Wal-Mart. If they could supply Wal-Mart, the world's largest retailer, they could become rich.

Now, I know you may not know all the specifics about how to do that, but if they could have some intelligence, some inside information from an insider like yourself, it may give them some tips and some things to think about whether they even want to attempt this, whether it's possible. So, during our interview today, I'd like to get some of that intelligence from you because you are an insider with Wal-Mart in many aspects. So, I figured what better person to talk to than you. So, why don't you tell me where you're from and what's your background and how did you end up working with Wal-Mart. Michael?

MichaelB: Well, when I was living in Texas, I was working for PepsiCo, one of Wal-Mart's suppliers and I was working for the Frito-Lay division. I was actually working out of Plano, Texas, which is in the north Dallas suburbs and I got a call one day that Wal-Mart was looking for director of people for their home office in the Ozark Mountains up in Bentonville, Arkansas.

MichaelS: What's a director of people?

MichaelB: Well, people is what Wal-Mart refers to their human resources department as. HR is people at Wal-Mart and Sam didn't like the term human resources. He preferred to refer to people as people. And so, I was working at Frito-Lay at the time in the headquarters as a group manager of human resources working with finance and IT professionals in Plano, Texas.

MichaelS: For anyone who doesn't understand what human resources is, just in a nutshell, what is the human resources department of a large company like that? What's their responsibility?

MichaelB: Well, in a big company like Wal-Mart, human resources is really everything related to people; its compensation, its benefits, its training and development, its recruiting, orientation, college relations, human resource information systems, all of the personnel files and everything that is the history of an employee working for a company. It could be pre-employment screening programs, including drug-screening programs, hiring of temporary services, the temporary laborers. In some companies, human resources encompasses payroll. So, it's all of the areas that affect the people of an organization.

MichaelS: So, that's a pretty huge position and you had heard that Wal-Mart in the corporate office was looking for a director of that?

MichaelB: That's right. And so, what I decided to do...I was really happy in the north Dallas suburbs...I went up to interview for the job and to be honest with you I went up with the idea that I was more flattered by the chance to interview with Wal-Mart than I was actually serious about taking the job if it was offered.

MichaelS: Did you prepare for the interview somewhat?

MichaelB: Yes, I did. I did some research on the company and Frito-Lay, one of the largest suppliers to Wal-Mart period, one of the most successful suppliers to Wal-Mart and I guess the measurement of success inventory turn. Snack foods, potato chips in particular, have a very what we call high velocity products. They blow off the shelves. Everybody buys snack food regularly. And so, what was happening was they loved the idea of getting somebody from a supplier like Frito-Lay to work in the Wal-Mart headquarters because they really wanted to pick my brain and learn about PepsiCo.

MichaelS: So, you flew down there and were there other people waiting in line for the interview while you were there?

MichaelB: The interview was actually on a Saturday morning, so I flew in on Friday night because the Wal-Mart executives all work on Saturdays. At 7 o'clock they picked me up at the Quality Inn, the hotel there in Bentonville, and I went into the office and interviewed with several of the key executives; the chief merchandising officer, the chief people officer, which is human resources, the chief operating officer, and the head of real estate of all things. And at the end of my interview with the COO, Sam Walton came walking into the interview and had already read my resume and was prepared to interview me.

MichaelS: How old were you at that time?

MichaelB: I guess I was 38 years old.

MichaelS: So, Sam came walking in. Was that the first time you had ever laid eyes on him?

MichaelB: The first time I'd ever laid eyes on him.

MichaelS: How old was he at the time?

MichaelB: He had to be at time about 70.

MichaelS: Were you freaking out when he came in?

MichaelB: Oh yes. It was the most amazing thing. I'll tell you the story. I was sitting facing the COO and you're in the middle of an interview question and all of a sudden I noticed he looked over my shoulder into the doorway, so naturally I followed his glance back and standing in the door was this old man on Saturday morning wearing coveralls. And for just a moment I thought it was the janitor coming in to pick up the trash. I knew a split second later this is Sam Walton. He walks in. The COO introduces me using this eloquent Southern accent. He says, Mr. Sam, this is Mike Bergdahl, and. Sam looked at me with the strangest look on his face and he says, bird dog, b-i-r-d d-a-w-g, bird dog, and I didn't know whether that was a good thing or a bad thing to be referred to as bird dog by Sam Walton. But as it turns out, Sam was a prolific bird hunter and owned a pack of hunting dogs. So, in that moment, I was instantaneously endeared to the most successful merchant in the history of the world.

MichaelS: Did he ask you some questions when he came in?

MichaelB: Yes, he did, and one question in particular really caught me by surprise and really is indicative of his style of interviewing because Sam used interviews as an opportunity to learn. And he said, "Bird dog Frito-Lay, now there's a company I have the greatest respect for. What do you think is the key to their store door delivery systems?" And I'll never forget, at that moment he gave me a question that I knew the answer to and I proceeded to tell him all the inside secrets of Frito-Lay's store door delivery system; information that he could use to leverage Frito-Lay in negotiations.

MichaelS: Did you feel kind of weird about doing that?

MichaelB: At the time when he asked the question, it seemed to me, the way it was positioned, it was a harmless question. Little did I know that I was actually divulging trade secrets potentially of Frito-Lay.

MichaelS: How long did answer last with him?

MichaelB: I told him as much as I could tell him about the keys to the success of the store door delivery system and everything I could tell him about the different channels of sales that Frito-Lay uses because they have five different sales channels. A lot of people don't know

that and I don't think Sam Walton new that. And so, I was able to explain to him the different sales organizations they have in Frito-Lay and I probably spent 15 minutes telling him all about Frito-Lay's organization and how it worked. And I'm sure somewhere in there, he was looking for opportunities to potentially negotiation lower prices or ways to coach Frito-Lay to lower their expenses, which in turn lowers the prices on their products.

MichaelS: So, what did he say to you after that?

MichaelB: The interview was interesting. He talked about my business life, but he also talked about my family and the things that were important to me. And the way I remember the interview, I did most of the talking. He had a note pad on the desk and he took notes, and he was known for that. He was a tremendous active listener. And so, he would take down things that I had said and he had a tremendous memory. And I think that part of that memory was the fact the he took good notes and he referred back to them in the future. And later on when I met him in the hallway after I came to the company, I swear to you, he remembered me in a company that had as many employees as Wal-Mart has and as large a headquarters, he remember me the first time he saw me, which I thought was incredible having come from PepsiCo where you'd see people in the hallways all the time and you didn't know who they were.

MichaelS: So, you finished the interview and he left and did you continue on with the other people?

MichaelB: Well, it turned out that the interview with Sam Walton was the last one. And what had happened, like many companies, they had screened me and had I not passed the mustard, if you will, they would have knocked me out. I never would have met Sam Walton that day. But they pre-qualified me and they then let Mr. Walton know that I was a qualified candidate. And honestly, I think they used him like a trump card to close the deal because once you met Sam Walton, you were so enamored with the man and his personality and his leadership and the legacy of Sam Walton that you wanted to work around him. So, when I left town that day, I remember thinking I hope I get the offer now. And when I had come up earlier in the day, I was thinking I'm up here, I'm flattered by the chance to interview, I'm not sure I want to move to the middle of the Ozark Mountains. I got back to Dallas, told my wife that it was a tremendous opportunity and that I would be working directly with Sam Walton and we were just hoping that we would get the job offer, which we did and we accepted and moved up to Northwest Arkansas.

MichaelS: How long was it after you met him that the job was offered to you?

MichaelB: It was within the next week. It was very quickly.

MichaelS: So, now you have this new job and you're the director of people for the entire Wal-Mart organization.

MichaelB: Well, I had the headquarters, which was Northwest Arkansas and it was 4,000 what they called associates. They didn't call their employees, employees. They called the employee associates or business partners. I ran the support team for the headquarters as the director of people and I supported all the headquarters functions that supported the stores. So, I had a variety of departments. I had college relations, drug screening, government programs, training and development, compensation, benefits, data entry for the human resource information system. I had the staffing functions for the headquarters, but all of the functions to support the 4,000 in the headquarters.

MichaelS: So, when you started the job there, what kind of differences did you see working for the Wal-Mart organization compared to when you were with Frito-Lay? Was a shock to you and was this where you're eyes really started to open at how they operated as a company?

MichaelB: Yes, it was really a culture shock. When I came into the organization, I was the only person that was in my department that had been hired from outside the company from another organization. Everybody else was homegrown. Many of them had come out of store positions. They'd been promoted into the home office from working in stores because they valued store experience. Most of the people on the headquarters staff at that time were, for example, non-degreed. And to compare and contrast PepsiCo with Wal-Mart, at PepsiCo if you had an open position, you were interviewing candidates that had five to seven years of pre-requisite experience and what we said they had sparks coming out of their you know what. At Wal-Mart, they promoted people basically that had a good attitude and high degree of interest without pre-requisite experience. Many of the people that worked in that headquarters were hired off the farms in Northwest Arkansas, from as far away as Okalahoma, Missouri, Kansas, and in Northwest Arkansas and they went to work there with a tremendous work ethic and great attitude. And so, Sam Walton hired for attitude and taught people the skills they needed to do their jobs. I never believed that that would work. If you'd asked me that question when I was at PepsiCo, I would say no, you've got to have all this experience to

be successful in any role. Well, the fact is, you don't, and Wal-Mart proves it every day and you pay a premium for someone with five to seven years of experience and at Wal-Mart when you promote somebody, what they call "picking them green." They'd promote somebody without pre-requisite experience, they had a term called "picking them green." And when you pick them green, you don't pay a premium as a form of wages. And so, the cost of labor at Wal-Mart's headquarters was much lower than what I saw when I was working at PepsiCo.

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Where do you think Sam Walton's philosophy on this keeping cost to the bare minimum came from? Did it start with him as a kid about saving money or how was he so focused and how did that spread to the entire Wal-Mart USP, low prices? What was the genesis of all that, do you know?

MichaelB: As I said, when I first met him he was 70 years old, so he had grown up and lived through the Depression years. And I think that those times really shaped who he was in a leadership position at Wal-Mart. He understood how difficult it was to make money and one of the ways to save money is not to spend it and that's what he would do. He was cheap as the day is long and he was self-professed. He would tell people with pride that cheap is chic at Wal-Mart and all the associates were tight with a buck. The associates I worked around, as if they were writing the check out of their personal bank accounts. They didn't care what the market price was for any given product. What they wanted was the Wal-Mart price, which was always much lower than the advertised market price for goods and products and services.

MichaelS: You mentioned that the green people that you were working with, even in all the management in that organization, how was it working with them? Did you view yourself as a different type of person to the people you were working with or did you get along well?

MichaelB: The people that worked there are team players. And what you have to be careful of working for Wal-Mart is egotistical prima-donna type personalities are destined to fail at Wal-Mart. Wal-Mart values team success more than individual success. So, what you find yourself doing is you find yourself becoming a better team player when you work for Wal-Mart than you've ever been before. They also value,

what they termed at PepsiCo, that people have form and they have substance. And at PepsiCo, you could get ahead on form with limited substance. At Wal-Mart, you were evaluated on substance. You had to deliver. You couldn't talk a good game, you had to play a good game, and you had to make contributions each and every day as a member of a team. And leaders who had the ability to give credit to the team for success of the team did better than those that tried to take credit for themselves. So, there was a bit of a culture shock because it's completely contrary to what at PepsiCo, you had lone-wolf mentality where everybody was out seeking recognition for themselves and move their own career ahead.

In Bentonville, Arkansas, Sam's first Ben Franklin Store was opened in the square. And years later when you had opened a number of Wal-Mart Stores, he bought that and turned it into the Wal-Mart Museum. Once the company became successful, there were visitors that would come to the Bentonville home office for Wal-Mart and visit because it was sort of a homey company and a friendly company and Sam Walton treated his customers like neighbors or friends. People would just stop by to visit at the home office. So, what he did is he created an alternative for visitors that were coming to Bentonville to visit Wal-Mart. He created this museum, which gave them a place that they could go so they wouldn't have to turn them away at the home office. Visitors would arrive in the square at Bentonville and the façade on the store is the old Ben Franklin Store that he had, but inside it's a museum. And the museum includes his office, the way it was the day that he died. It has his old pickup truck and it's got lots of memorabilia from the early days of Wal-Mart and some from Ben Franklin. They get a lot of visitors to the Wal-Mart Museum. In the Wal-Mart Museum they have a glass case and in the glass case are examples of product return that Sam Walton accepted in the early days of the company. And in the case, for example, is an old thermos bottle. And this thermos bottle was returned to one of his stores by a customer and they gave the customer a refund based on what the customer told them the thermos was worth. But as it turned out, this particular thermos was no longer manufactured and had been sold by another retailer and gone out of production before the first Wal-Mart stores was ever opened. So, Sam took a return for a product that he never sold. In the case also is an old golf club that had been literally wrapped around a tree. It was bent in half and in the case it says the customer brought the golf club and Sam promptly gave him a refund.

MichaelS: Did he ever talk about his philosophy on refunds even though it's evident and does that philosophy stand even today?

MichaelB: Well, Sam's philosophy on refunds was this. He was the first to put his customers service desk in the front of his retail stores. If you think back and you remember, all of the customer service desks for retailers were located as far back in the corner of the store as they could possibly be located so the customers going to the registers couldn't see disgruntled customers being handled back in the customer service areas. So, what Sam Walton said was I want my customers coming through the registers to see how a disgruntled customer is handled when they make a product return. And Mr. Sam had a saying. He would ask the customers, "What would you like us to do?" And then whatever they said, if they wanted their money back or they wanted a new product, he would just do it. And that's what he would teach all of the Wal-Mart associates. Ask the customer the question, what would you like us to do, and whatever they say, just do it. And that was his response to 100% satisfied customers.

There's a story of a customer that brought a coffeemaker back to the Wal-Mart store to return it and when they looked it up in what they call their item file, they couldn't find it. It turned out that this astute department manager looked in a flyer that they had seen from K-Mart and this particular coffeemaker was featured in a K-Mart flyer. They told the customer that this was not a Wal-Mart item, that it had been purchased at a K-Mart and the customer was about to leave the store and they said wait a second. We are going to go ahead and refund you the money for this coffeemaker in hopes that in the future when you buy a coffeemaker, you'll buy it at Wal-Mart.

MichaelS: That's great customer service.

MichaelB: Absolutely.

MichaelS: Tell me about your Saturday meetings? This was probably something new to you, correct.

MichaelB: When I first went to work for Wal-Mart, they said are you willing to work on Saturdays. And I said of course I am. I've worked Saturdays and evenings and whatever I had to work to get jobs done throughout my career, but I never had to work mandatory Saturdays, 52 weeks a year. The meeting started at 7 o'clock in the morning on Saturday morning and when I would get there, I would get to the meeting at say ten minutes to seven. And by ten minutes to seven, I had to park ten rows back in the parking lot because

everyone else had arrived at 6:30 or 6:00 or 5:30 in the morning. It was unbelievable.

MichaelS: Right.

MichaelB: On Saturday morning, I'm having to walk through the parking lot passed row after row after row of cars of people who had arrived earlier.

MichaelS: Where were the meeting held, in an auditorium?

MichaelB: They were held in the auditorium. At the home office headquarters there's a large auditorium that held 500 of the top leaders of the organization and today they have closed circuit television that goes out to the departments on Saturday mornings so that people can sit at their desks because the company is so much larger. And the Saturday morning meeting was always kicked off with a Wal-Mart cheer and Sam Walton himself would lead the Wal-Mart cheer...and you have to picture this...you've got 500 people on Saturday morning, 7 o'clock, who are all enthusiastically cheering at the top of their lungs their company cheer. And I don't know how many other companies could pull that off.

MichaelS: Was it a long company cheer?

MichaelB: The Wal-Mart cheer is give me a W, give me an A, give me an L, give me a squiggly, give me an M, A, R, T. What's that spell? Wal-Mart. What's that spell? Wal-Mart. Who's number one? And 500 people would call back the customer.

MichaelS: Wow.

MichaelB: And that's the cheer and everybody was focused on the customer.

MichaelS: Is that still happening today every Saturday morning?

MichaelB: Still happens every Saturday morning today.

MichaelS: It's broadcast through closed circuit TV all over the country, all over the world?

MichaelB: Now that you say that, it's broadcast through the home offices.

MichaelS: Oh, I see.

- MichaelB: But I would tell you this, Wal-Mart has satellite capability and they have satellite capability to broadcast to all their stores across the country.
- MichaelS: So, how about the Wal-Mart cheer in San Diego? Are all the employees at a Saturday meeting?
- MichaelB: No. In fact, they would intentionally not have them in the Saturday morning meeting; it's more of a leadership meeting. But the reason for the Saturday meeting is in a nutshell is this, Wal-Mart is a centralized organization where all of the store operations VPs live and work out of Bentonville. But what they do, the divisionals go out on Monday morning and they fly out to their particular region of the country and they don't come back until Thursday night. So, they're in the market for that Monday, Tuesday, Wednesday, Thursday every week of the year and then they come back Thursday night and then on Friday morning they go into day-long meetings to talk about what they saw in the marketplace that particular week. So, they talk about what the competitors are up to. They look at merchandizing strategies of competitors. They look at problems out in the marketplace and get very specific about...it could be a particular metropolitan area...it could be Denver, Colorado, and they'd go into specific discussions on specific stores where they're having problems. But what they do after this day of discussions of strategies and tactics, which is Friday, they then on Saturday morning talk about the findings from that week specifically with the top 500 leaders of the organization and they talk about the strategies that they're going to implement in the coming week to address what they found.
- MichaelS: So, it seems like these vice presidents who went out were an extension of exactly what Sam did when he had his chain of Ben Franklin Stores, out there, going into competitors, taking notes because I remember listening to the story about Sam on the audio tapes. Is that what he was trying to do with these vice presidents, to get them out doing the same thing he did to build it successful in the early days; looking for opportunities, looking for unexploited opportunities in merchandizing and products and all of that. Is that correct?
- MichaelB: Absolutely. What Sam would tell all of us to do is go out and talk to the associates and talk to the customers.
- MichaelS: Now, who were the associates?

MichaelB: The associates are the employees of the company because if there was a particular department or product...you could have one of two extremes. You could have a product that is blowing off the shelves in one particular store. You could go talk to the associates and find out why is this particular product selling so well in this particular store in this particular market. And by finding out the reasoning behind that, you could then potentially implement a similar strategy across all the stores on Friday morning and say we're selling this product at five times the rate of normal sales in the organization. Here's what we're doing. If we were to merchandise a product the same way across the country, we could increase sales in a similar manner. On the other hand, you could have a product that's not selling at all and you could ask the associates what's going on with that product, why isn't it selling because the people closest to the customer understand the products better than anybody else. On the other hand, they'll also talk to customers and ask customers what products would you like to see in the store that aren't here currently. What products do you like that are in the store right now that you want us to continue carrying? And so, what the people at Wal-Mart do better than almost anybody else is they put their finger on the pulse of the people in the organization, the customers, and the products.

MichaelS: What they're doing is they're doing their research. They're doing the cheapest form of research and that's talking directly to the customers and the people who know exactly what's going on.

MichaelB: And they do it 52 weeks a year.

MichaelS: Now, let's at Frito-Lay. Did they do that kind of research or were they paying for high-end consulting and doing impact studies, expensive type of ineffective research?

MichaelB: Well, I think the consumer packaged goods company like Frito-Lay with five different channels of sales...they had accounts sales, which were supermarkets; they had route sales, which were convenient stores; they had institutional sales, which were hospitals and military bases; they had the club market, which was the Sam's Clubs and the wholesale club type market; and the last market was the vending machine market or the machines where you put money in and you get vend product. And so, they had five different sales forces, so to begin with and answer your question, what Wal-Mart did is they simplified their business, what Frito-Lay did is they had a tendency to overly complicate their business. Instead of having a centralized organization like Wal-Mart did, PepsiCo had a decentralized organization and they were into micro marketing. So,

what they would do is they would go into Alabama and try to compete with Golden Flake potato chips on a local basis where Golden Flake, so to speak, owned that market. They would try to come up with competitive strategies to compete in Alabama against Golden Flake specifically. And they'd come up with products that they would manufacture to cater to regional tastes of Golden Flake in Alabama. And so, the Frito-Lay business, in my opinion, was overly complicated. However, having said that, Frito-Lay owned a 50% share of stomach in the snack food industry. So, it was a big business, but it was much more complicated than the business of Wal-Mart and Sam Walton valued simplification.

Picture this. It's Saturday morning, it's 7 o'clock, and at Wal-Mart they're about to hold their famous Saturday morning meeting. So, you arrive the first thing in the morning and go over to the coffee bar, which is really an honor bar where they coffee and donuts. You get your coffee and you get your donut and there's a little box in front of the coffee machine where you put your money to pay for your coffee and donuts on Saturday morning. So, there is no free coffee and donuts at Wal-Mart. And that's how far the company would go to save a buck and will guarantee you if you counted the money in that honor box at the end of the morning, you would find that there at least a dollar amount equal to all the purchases and there's probably more money there than what products were purchased. That's the integrity and the honesty of the Wal-Mart culture and that's how far they would go to save money.

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- MichaelS: How about when you worked there, were there any corporate events that they put on or picnics that were just real cheap?
- MichaelB: Oh, yes. It wasn't unusual for different celebrities on retainer and where does Garth Brooks sell more of his tapes than any other store in the world is Wal-Mart.
- MichaelS: Right.
- MichaelB: He's happy to take the trip to Wal-Mart for free or at the expense of his record label to visit with the Wal-Mart executives and the associates. But we used to have company picnics during the shareholders meeting that were the good, old-fashioned hamburger/hot dog picnics and we would have Wall Street types

that would show up and they would go to picnics...it might have been the only picnic that they would go to for the whole year...and all of the Wal-Mart picnics were dry picnics. You would have lemonade or you might have a Coke or a Pepsi, but there was no alcohol or beer served at any of the corporate functions. Alcohol at Wal-Mart was a taboo. During the shareholders meeting for Wal-Mart there were company picnics all over Northwest Arkansas and various groups would sponsor these picnics that were the traditionally in-the-park, at the picnic table with hot dogs and hamburgers.

MichaelS: So, we started this with the vice presidents going out and then we were getting back to the actual meeting that you were in on Saturday mornings. So, you have all the regional vice presidents and what was discussed in the meeting. What was the format of that Saturday morning meeting?

MichaelB: Well, they would actually have reports from the divisional vice presidents based on what they had seen in the market that previous week and what they had discussed on day on Friday. And they would each take somewhere in the neighborhood of three to five minutes to present what was going on in the marketplace. The goal was to get everybody that was in the room, the top 500 leaders, up to speed on what was going on in the market. Why did they do that? Sam Walton expected everyone who worked for Wal-Mart to think like a merchant. I worked in the people division, but I was expected to have my finger on the pulse of product and customers. And in addition to reports from the divisional VPs, at the end of the store operation part of the meeting, Sam Walton would have merchandise buyers come in next and each of the merchandise buyers for Wal-Mart would present products to the top 500 people of the organization.

MichaelS: Are these products that they're looking at and considering carrying or would they be presenting them for approval from the people in the audience or what was the purpose of that?

MichaelB: Well, they were products that were being considered for the stores and, yes, they were asking the people in the audience to evaluate the products that they were presenting.

MichaelS: Based on what they had seen out there in the field.

MichaelB: Right. This is fascinating. Let's picture a buyer at Wal-Mart because a Super Center might have 125,000 distinctly different products. So, a particular buyer might buy hundreds if not thousands of

products for the store. And on this particular Saturday morning they have to bring one product in that they're going to present and there's a line of buyers and as one finishing presenting, another starts.

MichaelS: How many do you think there were in a meeting?

MichaelB: Well, it wouldn't be all the buyers, but he might bring 15, 18, 20 buyers in and they would each present a product to the people in attendance. And so, picture the buyer that has a new fangled toaster. He brings this toaster in and he's on the stage with Mr. Sam.

MichaelS: Sam's up there the whole time?

MichaelB: The whole time.

MichaelS: Wow.

MichaelB: And he's standing in the middle of the stage...by the way, I called him Mr. Sam because everybody called him Mr. Sam out of respect for Sam Walton.

MichaelS: How was he dressed on that Saturday morning?

MichaelB: He could be in blue jeans and a flannel shirt. He could have his duck boots on for hunting. He could be in camouflage.

MichaelS: Did you ever see him dressed up in a coat and tie?

MichaelB: Yes, I saw him that way, also. More often than not, through the week he was in a coat and tie. But typically it wasn't a suit. It would be a blazer and slacks.

MichaelS: What was his dress code for you and everyone else there?

MichaelB: In Wal-Mart it's this sort of khakis, a shirt, and tie. On the Sam's Club side, if you walked into Sam's Club wearing a tie, they'd cut it off your neck.

MichaelS: Oh really.

MichaelB: Yes. There was a wall in Sam's Club that had ties of clueless people who walked in there with a tie on and they had them all stapled up on a piece of plywood.

MichaelS: That's funny.

MichaelB: And that's the difference in culture.

MichaelS: Let's get back to the buyer presenting a toaster.

MichaelB: Picture this. There are 500 people watching this happen. So, Mr. Sam says, "What have you got there?" And the buyer says, "I have a toaster." He says, "How many units are you proposing? What's the price point? When will it be in the stores? What's the margin?" And the buyer is proceeding to tell everyone in attendance all about this product. And then Mr. Sam would take that toaster...and picture this...he'd hold it up over his head and walk across the stage and call out, "what do you think, what do you think. And on some items like this toaster you might get a thumbs up or you could get a thumbs down. And if you got thumbs down on that toaster, he'd take it back, hand to the buyer and say, "Sounds like you need to get you another product."

MichaelS: So, any thumbs down, he rejected.

MichaelB: He rejected.

MichaelS: Were the people in the audience pretty forthright and honest?

MichaelB: Absolutely. If they like it, they were just as excited as could be. There's no game playing. If they liked the product, they would say so. If they didn't like it, they were jeer.

MichaelS: Would they say why?

MichaelB: They might, but with the time constraints we had, the buyer had their chance to make the sale and if they didn't make the sale, that was enough. The perception that it wasn't good enough was enough. So, he would tell them to go back and get another product and that's what they would do.

MichaelS: Do you think something like that is still going on in different forms?

MichaelB: I do. And think about what was the point of this exercise? It wasn't to teach the buyer how to buy...

MichaelS: It was to train the vice presidents how to be merchandisers.

MichaelB: And the top 500...the people from accounting, the people from HR, the people from real estate, the people from marketing...to teach us

all about the connection between products and consumers. And so, he was teaching us to be merchants.

MichaelS: So, what did you learn? Did you learn a great deal about being a merchant in those meetings?

MichaelB: Oh, absolutely. It gave you a feeling of connection with the stores, a connection that you didn't have at PepsiCo. When you were sitting in the headquarters of Frito-Lay in Plano, Texas, you just didn't have that connection with the customer who was purchasing the potato chips at retail and you didn't have a good sense for what the route sales people were thinking about the products that were coming into the distribution centers. We had a real connection with the stores and we were told to travel to the stores, work in the stores, talk to the associates, and really understand our customers. The exercise you saw on that Saturday morning was designed to teach everyone else to be a merchant. They're buying hundreds if not thousands of other products all the time that there's no committee approval. They buy them...what they used to say at Wal-Mart is, you eat what you kill. The buyers who bought those products were responsible for seeing that they were merchandised and would sell through.

The buyers at Wal-Mart have the biggest buying responsibilities of any buyers in the world simply because of the number of stores, which are somewhere in the neighborhood of 6,700 stores around the world today. If someone was coming in to make that sale of a barbecue grill to a buyer in Bentonville, the first thing that you would see as we walked in the morning, by the way, you'd see this vendor in the parking lot with his socket set building the grill out in the parking lot to bring into the building to show to the buyer. The Wal-Mart buying team does not go to the showroom wherever that company is located to look at their barbecue grills. You want to show a barbecue grill, you construct it out in the parking lot and you drag it into the building to show the buyer. I saw salespeople who were selling swing sets, building swing sets out in the parking lot and the buyer would come out to the parking lot to see the swing set constructed and they'd talk about it right on the spot there where it was constructed. I say the apparel manufacturers coming in with apparel from New York, the New York apparel merchants, and we'd hear them on airplanes sitting behind us complaining about having to come to Bentonville to make the sales because ever other buying team in the world goes to New York to make their purchases. Not Wal-Mart.

MichaelS: So, anyone who wants to sell to the Wal-Mart organization must come out to Bentonville, even today?

MichaelB: That's a fact.

MichaelS: What about international? Do they have to fly here or are there offices that they can present to?

MichaelB: The international countries have buying offices in those countries where the set up is similar.

MichaelS: Michael, you're the author of two books, *The Ten Rules of Sam Walton* and *What I Learned From Sam Walton*. How do you feel that ten rules Sam Walton followed while building Wal-Mart allowed his company to overtake such retail giants like K-Mart, Sears, Woolworth's, Service Merchandise, and Montgomery Ward?

MichaelB: If you look at the ten rules and contrary to what you see in the news media today, six of Sam's ten rules were about how to treat the people in your own organization. And in answer to your question, I think that probably more so than anything, the associates of Wal-Mart deserve and are given much of the credit for the success of Wal-Mart over the years and to this day. And Sam Walton developed people, he gave them responsibility beyond their expectations, and he believed in people and they exceeded his expectations. I think the army of Wal-Mart associates, and they're somewhere in the neighborhood of 1.7 million Wal-Mart associates today, are the key to the success of the organization because retail is a people intensive operation. And, yes, Wal-Mart has incredible technology. Yes, they have incredible logistics, but nothing gets done without the people and that's what Sam figured out long ago. And through its profit sharing programs and taking care of the folks in the organization, they did whatever it took to satisfy those customers. And to boil it all down, the key to the success of the organization is the people.

MichaelS: What are a couple of the rules that someone's going to see in your book, *The Ten Rules*?

MichaelB: Well, rule number one is commit to achieving success and always be passionate. And that rule was designed for...if you look at it from the standpoint of a leader to be committed to be successful. And it doesn't matter whether you're working for Wal-Mart or if you're trying to head up a group of Boy Scouts. A leader has to be committed and they have to be passionate if they expect people to follow them. So, if there was one person who was passionate, it was Sam Walton. He would eat, live, and breathe Wal-Mart. He thought about merchandising products 24/7, 365. What Sam

Walton thought about is what he became the most success merchant in the history of the world and that was because of the sheer commitment and passion.

Some of the other rules...he believed in sharing success with those who have helped you to succeed. And what he did at the time the company went public back in 1970 is he put a profit sharing program in place so that the associates of Wal-Mart right down to every hourly employee could participate in the success of the organization. And there are stories all over Wal-Mart of truck drivers and distribution center employees and store employees who are millionaires many times over from participation in stock programs like the employee stock purchase program and the profit sharing program. They made millions because the Wal-Mart stock has split 11 times and so share success with those who helped you.

MichaelS: What's another rule?

MichaelB: I think one of the really important ones is controlling expenses and saving your way to prosperity. Yes, Wal-Mart does a great job of buying products for the stores at the lowest possible prices, but the other hidden piece of their success is their ability to control expenses. People are really tight with the buck at Wal-Mart. They do not waste money. They spend money the same they would spend money if they were buying things for their own home. They do so many things to control expenses. Some of them are a little bit outrageous. The executives who travel...the president of the company, when he travels with the CFO of the company, they share a hotel room in a Budget Hotel. And how many Fortune 500 companies would you see people doing that. When Sam was alive, he didn't believe in having a corporate jet. He owned a fleet of propeller driven aircraft, one that he flew himself, and when the executives of the company, the vice presidents of the company, needed to out to the stores, they would go out on these propeller driven planes from Bentonville all the way to Florida, or from Bentonville all the way out to Phoenix. The thing was, he believed that it sends a message. On one hand you're saying that we want to keep costs down, and then if you have a bunch of big wigs flying around in corporate jets, it sends the wrong message.

MichaelS: Well, it also sends a message to the public. I mean you've got a huge company promoting low prices and he's living what he's practicing. He's practicing what he's preaching. He's not the bigwig wasting money. That's just an inconsistent message, even to the public and the media, too.

MichaelB: When Sam Walton flew a commercial flight, he always flew coach. Picture a billionaire flying coach. You've heard the story of Sam Walton who drove an old pickup truck and he did. He lived in the same house that he lived in when he started the business, a home that any of us could have afforded. He didn't believe in having a showy lifestyle and he wasn't real comfortable with being a millionaire.

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And the family members at Wal-Mart are worth somewhere in the neighborhood of \$100 billion today.

MichaelS: How many kids did he have?

MichaelB: He had four kids and his wife and they're the ones that inherited it. They got about \$20 billion each.

MichaelS: Are the sons involved in the business?

MichaelB: Yes, they are. Of course, Rob is the Chairman of the Board of the company and so he's involved in the operation, but not day-to-day. Rob doesn't live in Bentonville any longer. He lives, I believe in Colorado, but he's Chairman of the Board. Other family members are on the Board, also. But I wouldn't say that there's anybody involved in the direct day-to-day operation of the company.

MichaelS: Did Rob write the foreword for your book?

MichaelB: Yes, that was very exciting. Getting his endorsement in the form of a foreword for the book meant so much to me because it said that the story I had told about the ten rules was accurate. When I first went to Wal-Mart to present the manuscript to their corporate communications department, which is the PR department, they were suggesting Lee Scott, the president of Wal-Mart do the foreword. And I said, you can't do that. I said if I wrote a book about your father, you can't have somebody else write the foreword about it. It's got to be the son. And so, I convinced Rob Walton to read the manuscript and he ended up writing the foreword for the book and it has really meant a lot to me personally to have his endorsement.

MichaelS: Let's go back to your new job. How did the ten rules that you were learning in culture, did it have a strong implication on your role as

the director of people at Wal-Mart corporate headquarters and how did they guide you personally during your tenure with the company?

MichaelB: Well, the rules, they really...the biggest impact on me were swimming upstream, be different, and challenge the status quo. Sam Walton was a big believer in taking risks and trying new things. And it was okay to fail at Wal-Mart. I think that was one of the things I learned that you can take a risk and when you do take risks, you're going to make mistakes and you're going to fail. Eight out of ten times, Sam Walton would tell you, when you take a risk, you fail. I found that in my own life, I will try things now that I might not have tried years before out of concern that I would fail. But if you have the concern of failure, you'll probably never achieve great things. And so, I take risks and I try to do things that others aren't doing. Sam would tell you if everybody else is going this way, we're going to go that way. And I learned that lesson real well from him and it's one that I use to this day.

Controlling expenses, I already talked about that, but controlling expenses, I recycle everything. I use the backside of every sheet of paper, as do everyone at Wal-Mart. All the Wal-Mart associates are trained to use the backside of every sheet of paper. And if you think about that, it theoretically cuts your paper cost by 50% and when you have 1.7 million employees, that makes a difference in your cost when everybody's using paper every day, so a very simple idea. I use it to this day in my business.

Exceeding expectations of customers and others. I believe that if you just leap the expectations of your customers, you're probably doing better than most of your competitors. So, if you have a goal to exceed expectations, you basically own the market and that's the goal that I have with my business is to really exceed the expectations of my customers, to make a difference in their lives, and by doing so, I have repeat customers as a result.

MichaelS: You gave me a great example of educating the vice presidents and training them how to be merchants. What kind of programs did Wal-Mart have in place to generate new ideas within the company? I'm sure that he had all the employees submitting ideas for the betterment of the company. Can you think of any formalized way that this was done?

MichaelB: Yes. There are a couple of different programs, but let me talk about one specific to products because they had a program that was a so to speak suggestion box type program called, Yes We Can Sam, which was designed for employees to submit ideas to improve any area of the operation. But they had a program that I thought was

fascinating that was designed to improve products and it was called VPI, volume producing items. The volume producing item program allowed associates to pick products in the store and merchandise those products on end caps in a big way to try and increase sales velocity. And what would happen is, you had what Wal-Mart referred to as intra-preneurs, an entrepreneur inside a company. An intra-preneur who could select a product, go to their supervisors and say I want to promote this particular product because I believe we can increase the sale on it.

MichaelS: Now, are these buyers within a category?

MichaelB: No, these are hourly associates at store level. They could say I want to sell more Colgate Toothpaste than we've ever sold before and I'm going to create an end cap with 4,000 tubes of Colgate on this end cap and I'm going to sign it right and we're going to blow them out the door.

There was one example of an employee in a store in Alabama who took a catalog from one of the suppliers that he had seen and asked his store manager if he could order mountain bikes and this was back at a time when mountain bikes didn't exist in Wal-Mart stores. The manager at the local level has some degree of buying authority, not a lot, but they have some degree of buying authority. So, this particular store manager approved the purchase of the first mountain bikes for his store in Alabama. They bought them on a local basis because there was a college campus there. It had the potential to be a good item. This young man who was at the time a college himself, a part time employee, brought these bikes in, built samples to put on the floor, built a nice display, and they sold the heck out of high-priced comparatively to what Wal-Mart was carrying at the time, high-priced mountain bikes, they sold them like hot cakes in this particular store. And they took the idea of this employee and they rewarded him for it and across the entire chain of Wal-Mart they began carrying mountain bikes. And it was a result of an idea of one associate.

Now, ideas are easy. It's the implementation that's tough and a lot of times Mr. Sam would say that's a great idea. Let's see you implement it. And if that person could implement it, he had a belief that if one can do it, all can do it. And that was the key at Wal-Mart, simplifying things. You had to prove that one store could do or one department could or one associate could implement it in a particular department and if it could be done in one place, it could be done everywhere. And that's the simplification strategy of Wal-Mart and

that's how they would take associate ideas and affect the bottom line.

MichaelS: How would they promote an idea like that from an employee? How was he rewarded?

MichaelB: What they would do is they actually had awards they would give for the volume producing items, the most successful. They weren't just based on a perception that it was a nice merchandise display. It was hard numbers; based on the number of units sold, inventory turn, margins, profitability. What they would do is they would have district level contests between stores for volume producing items to see who could come up with the best item. And what they would do is they would mine these great ideas like gold and then Mr. Sam had the ability to just replicate them across the system using Saturday morning meetings. He could find an idea like this mountain bike idea during the week when the VP was in that particular store and they told him about that bike example. He'd bring it back on Friday, they'd talk about it, and Mr. Sam could have it implemented on Saturday across the chain.

MichaelS: So, a new high volume product could potentially be selling in every store?

MichaelB: Yes. And that's really true of Wal-Mart, even with products they buy from outside the company through normal channels. What they do is they test product first anyhow. A supplier that might be interested in bringing product into Wal-Mart would often get a test of some limited number of stores. They might get a test of 50 stores to put their product into initially to prove a lot of different things. To prove that they have the ability to replenish product, to get it in there initially, to see if the customers are interested in buying it. And once the product is proven, then what they do is they ramp up and move it into more stores. But that's how they did it internally and there were examples of this VPI program, which by the way has been in place for over 20 years. They do it all the time and the associates are encouraged to come up with new ideas for better ways to merchandise and sell products.

MichaelS: So, if I had a local product that I thought would have a chance in a Wal-Mart store, I could conceivable approach a manager in my local store about it, right?

MichaelB: That's right. And you could probably start with the department manager that runs that department in the store. They could be the champion for that product within the stores. It doesn't necessarily

have to be the store manager who has the interest in that product. You could start at an assistant manager level or go to a department manager because those department managers know the customers for their products better than anybody else in that store. So, it's very possible for someone with a local product to make a sale at a local level.

MichaelS: Give me an example, Michael, of Sam Walton's operational excellence.

MichaelB: With so many employees or associates in the company, one of the most important parts of the culture is the focus on operational excellence. And how did they do that? Well, they had a program at Wal-Mart called _____. And _____ is a pseudo-American Indian word and at Wal-Mart they had a _____ song and a _____ dance that they'd actually act out in the form of a ritual for the associates of the stores. Picture a manager with a semicircle of employees in front of them and them going through the _____ song and dance. And in this ritual they would drive the concept of _____, which was acronym, which stood for high expectations are the key to everything. And they would focus everyone in the store on the concept that to set high expectations for everything that you do. And a great example of high expectation is their focus on quality in everything that Wal-Mart does. They're trying to do it to the highest quality standard level that they possibly can and they do it through their people.

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MichaelS: Can you think of another story?

MichaelB: Well, there are two of them. One of them involved the greeters that you see in Wal-Mart, but I'll hold that one back.

Here's one specifically on products and the product is birdcages. Birdcages in Wal-Mart in the pet departments have a tendency to sit on the shelves because the birdcages come in, in boxes. Well, there was an associate in a store who came up with the idea of taking them out of the boxes that they come in and building them and putting them out in merchandise so that the customers can pick them up already built and purchase them and just take them home and put them up. And what this particular associate did is he got a tape recorder that had the sound of birds tweeting and he played it

in the cage and he put a little stuffed bird in this particular cage in the place where he was merchandising. You couldn't use a real bird. And customers would come over and look at the cages and because of the combination of the visual and the way that he had merchandised and the sound, he sold more birdcages than anybody else had ever sold and so from that point on they figured out they needed to build the birdcages if they wanted to sell them. They don't sell in boxes.

MichaelS: Right. No one wants to build it.

MichaelB: The same thing with bicycles. Bicycles don't sell if they're in a box. People want to buy the bike built. In this particular example, it was proven that they could the heck out of these birdcages, took it back to the Saturday morning meeting, and it was implemented immediately that in that particular department, build your birdcages and have them available for the customers to take already built.

MichaelS: That's a great story.

MichaelB: And it worked.

MichaelS: Let's talk about retail-tainment.

MichaelB: Retail-tainment is a combination word of retail and entertainment and it's another example of how Sam Walton was doing everything he possible could to keep the shopping experience interesting and exciting for customers. A great example of retail-tainment might be when a Harry Potter video came out recently, the store announced that it was going to have a special promotion on Harry Potter videos and it offered to children coloring books...they were for free...a pair of glasses that were Harry Potter glasses, and a magic wand and created a coloring contest in the store that children could actually color these pictures of Harry Potter, have them displayed, and have the possibility of winning prizes for their Harry Potter coloring work. It's a way to get people into the store because obviously if children are going to come to the store for the Harry Potter promotion, they have to so to speak bring their parents. And so, it gets the parents back in the store to shop more often.

They do similar things in other areas of the store. For example, in the sporting goods area they might have one of the tournament champions from Bass Masters, from the fishing tournaments. And they might be in the back talking about different kinds of fishing strategies with fisherman who come in to meet them and to get an autographed picture and learn more about how to catch fish. And

retail-tainment is a program designed to create excitement in the store and get customers to come in over and over again for a fun and exciting retail experience.

MichaelS: What's another story?

MichaelB: Outside of New Orleans one of the stores put a greeter in the front of the store.

MichaelS: Was this the first time greeters were used?

MichaelB: The first time. It was the first time greeters were ever used. What happened was Mr. Sam was down in Louisiana visiting stores and he walked into the store and there was a gentleman at the door with the Wal-Mart smock on greeting him and the greeter didn't know who he was, didn't know it was Sam Walton, and welcomed him to the store and offered him a shopping cart. Well, Mr. Sam was taken by this and went to the store manager and said what's the story on the associate up here at the front door. The store manager said well we're having a problem with theft, what they call in retail term shrinkage. And so, what we did is we came up with a creative way to watch the door. And so, what we did is we put this person up there to welcome people when they come in, but they keep an eye on merchandise going out. And so, the interesting story behind the story is the greeter is as much a security person as they are a greeter. And so, what Sam Walton did is he went back and that next Saturday morning, without committee discussion, he said here's what I saw down in Louisiana. I want a greeter at the front door of every store that we own, 24/7, 365 and that's how it was implemented based on one example in one store where someone came up with this creative idea. And there's no telling what's that done for customer relations, as well as for the reduction in retail theft.

MichaelS: That's excellent because everyone listening to this goes into the Wal-Mart and sees the greeter and I never considered that it had anything to do with loss prevention. I always looked at it as just great customer service and a positive thing.

MichaelB: The funny story I tell is if you ever want to test that theory is walk in with a bag to return something to the service desk and that greeter will stop greeting and will immediately focus on that bag coming in the door and we're no longer in greeter mode, we're in secure the merchandise mode. It works and no one I've ever talked to has perceived that greeter to be in any form of loss prevention.

MichaelS: What are some examples of his thriftiness that he ran throughout the company?

MichaelB: When I first joined Wal-Mart, I walked into my office the first day and I noticed that I didn't have any office supplies in my office. I didn't have a chair. I didn't have a desk. I didn't have a clock. I didn't have any of the supplies that you need for an office. So, I asked how I was going to outfit my office and they said go down to the vendor's supply room where you'll find product samples that have been given to the company by the vendors. I went through the vendor's supply room and I picked a chair and a desk and a clock and everything that I needed for my office right out of the vendor's supply room. It wasn't intended for purposes of give us samples so we can outfit the office. They had the samples sitting there in the supply room so they just made use of them in the office.

I'll tell you another great example of the thriftiness of Sam Walton and Wal-Mart was the employees in my department in the home office brought their office supplies to outfit their desks like staplers, pens, scissors, paper, paper clips; whatever they needed for their office they brought it from home, out of their home supplies. And when I asked them why they would do that, they told me that it was their belief that this was their contribution to lower the expenses of the company to help to drive their own profit sharing. The stories of people at Wal-Mart who were in truck driver job or office clerical positions or store positions who are multimillionaires resulted from their own profit sharing and the growth of the company stock. And that's what they believe. This was their contribution to lowering cost.

MichaelS: I wonder what's it like today in the home office? Do you think these practices are still implemented?

MichaelB: I do. I just think that the culture is so strong. The interesting thing about that example is it's not a management mandate. This was a grassroots effort driven by the rank and file hourly paid associates who were doing what they could to lower expenses for the company and clearly it wasn't something directed by the company leadership. I can tell you when I experienced this phenomenon, I found myself outfitting my own office with the same kinds of supplies. I brought in pens and pencils and paper clips and post-it notes and whatever I needed for my office desk from my home. That's a very strange example, but that's how far the Wal-Mart army of associates is willing to go to lower the expenses of the company.

MichaelS: Can you give the listener a idea of just the sheer volume of Wal-Mart and how big of a company it is?

MichaelB: Let me share some of the big stats with you. The sales for Wal-Mart 2005 eclipsed \$300 billion of sales. And if the current sales trends continue as is, in the next five years Wal-Mart will be at \$500 billion of sales.

MichaelS: In the next five years?

MichaelB: In the next five years. And it's likely that if sales trends continue for 10 years to 12 years, Wal-Mart could be the first trillion-dollar company with a T. That's the opportunity ahead of Wal-Mart. If that were to happen, if you go out to 2016 to 2020 and they're a trillion dollar company in annual sales, they will be gathering in one of seven retail dollars spend on the planet earth. And the opportunities are just endless for the company. Wal-Mart is only in 14 countries right now and many of their largest competitors are in 30 to 35 to 40 countries. Wal-Mart has 170 million customers crossing their thresholds every week of the year. This year it's anticipated, in 2006, that they're going to open more than store a day somewhere in the world. The estimation is somewhere in the neighborhood of 500 stores will be opened around the world this year. Right now Wal-Mart has about 1.7 million employees, making them the largest employer in the world. They have the largest IT systems, second only to the U.S. government. The Pentagon operations have the largest computers in the world. Wal-Mart is the second largest.

MichaelS: Are all those computers in Bentonville?

MichaelB: Not all of the computers are in Bentonville. The majority of the mainframe, centralized computers are in Bentonville. They have operation centers primarily because of the inability to attract people to fill the jobs in Bentonville. They set up a center and I believe it's in Kansas City and one in Dallas, also. They've spread it out a little bit.

MichaelS: Look, I want to get my product into Wal-Mart. Do I have a chance? Is there a chance for a little guy like me, if I had the money, to get my product into Wal-Mart and become rich?

MichaelB: There's always a chance to get your products into Wal-Mart because of the fact that if you have a unique product that isn't in the market right now, you can take it to Wal-Mart. The problem is that Wal-Mart can be a dream come true for that small entrepreneurial type manufacturer or it can be your biggest nightmare. And the

reason for that is many small companies don't have the wherewithal to backup a product with manufacturing and distribution. When you consider the fact that Wal-Mart has 6,700 stores around the world today and growing...as I said at the end of this year they'll have over 7,000 stores...the small manufacturer can supply a small number of stores, but when put in the position to supply just take the U.S. base of 3,700 stores, they have to invest tremendous amounts of money in manufacturing and distribution capabilities that they don't have today in the hopes that their product will be successful long-term. If those products aren't successful and get thrown out of Wal-Mart, they get saddled with all this manufacturing and logistics facility that they have invested in with no market to put their products.

MichaelS: Do you think that's frustrating for Wal-Mart or does Wal-Mart have an endless opportunity to get products in because Wal-Mart's not getting into the manufacturing of products or maybe they are?

MichaelB: A lot of people aren't aware of the fact that Wal-Mart has somewhere in the neighborhood of 1,600 private label products in a Super Center.

MichaelS: Oh really.

MichaelB: Oh yes, one of the biggest growing businesses is private label products. One of the things that they do is there are a number of good reasons to have private label products. It's creates additional value for customers. It creates a little bit of back pressure on branded manufacturers. Wal-Mart offers soft drinks that are private label Wal-Mart brands that go up against Coca-Cola and Pepsi. They offer a private label Pseudofed. They offer a private label cooking spray that's similar to Pam to compete with the Pam product. And they do that specifically to keep the branded products honest in negotiations because they offer a private label product. There's better value, there's no doubt about it, and probably comparable to better quality than what are offered by the branded manufacturers.

MichaelS: Will they carry both, the brand manufacturer and the private label at the same time?

MichaelB: Yes. And they'll have them on the shelf next to each other. For example, if you go and look at the private label of Pseudofed type product that's offered in a Wal-Mart and compare, the actual chemistry of the product is almost exactly the same, but the price of the product is significantly lower. The quality of the manufacturing

and all of the research and development that has gone into it is equal to or better than what the branded manufacturers put into it.

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So, what do I need to know? What's the reality check that you're going to recommend me to really be aware of before I even consider flying out to show my product to a buyer at Wal-Mart?

MichaelB: I think that the bottom line is the price. The whole relationship with the retailers has sort of flipped from what it was in the old days where the supplier would come in and dictate the terms to the retailer. Today, Wal-Mart is dictating the terms to the supplier. And so, when they come in with a product and they have a price point in mind, first of all you better have the best price that you can possibly offer Wal-Mart on the table. They don't like the idea of sitting there and playing games with pricing.

MichaelS: So, you've got to come in with your absolute best price.

MichaelB: You have to have a sharp pencil and you've got to give them the best price the first time. If you're in a competitive market where there's another supplier of the same product, they're probably going to be walking in right behind you so that they can do a comparison of your product versus your competitor's. If I were coming to make a sale to Wal-Mart, I would come in with the best price the first time. You can't offer the Wal-Mart buyers any kind of special consideration in terms of free samples, a baseball cap, taking them out to dinner, on a trip to see your manufacturing facilities in San Diego. When you make a sale to a Wal-Mart buyer, everything is based on total integrity and total honesty. And for some suppliers, that's a foreign concept. In the marketplace historically, there are all kinds of under the table deals that were struck with buyers and that's not the case at Wal-Mart. You can't give a Wal-Mart buyer a baseball cap with your company logo on it. They won't accept it.

MichaelS: So, what happens when you come in and try to stuff like that?

MichaelB: You'll get thrown out. If you play any games with the Wal-Mart buyers on your products, you will not get into their stores and if you're currently in the stores, you'll get thrown out.

MichaelS: I understand that the buyers are only buyers in a certain category for a limited time. Is that true?

MichaelB: Yes, they move them around and that's with intent. You maybe working with one buyer today in a particular product line and they'll move somebody in there that has not related experience in buying your types of product. And that's also for that total integrity.

MichaelS: I've also heard on the other side that to get your product into some of these large mass merchandisers, some of the large national distributors are actually paying the lobbyist to help lobby and get products into these merchandisers. But that's not the case with Wal-Mart? There may always be an exception.

MichaelB: I would say this. In dealing with the buyers, you have to deal with total integrity. The bottom line price is your bottom line price and you can't play any games with them. If you try to play games with the Wal-Mart buyers, they have don't have time to figure out your game. They've got too much volume, too many products, too many stores. They don't have time to worry about whether you're dealing with them honestly or dishonestly. You need to deal straight up when you deal with Wal-Mart's buyers and you deal honestly at all times.

MichaelS: Have you ever sat in on a buying meeting where you see the vendor come in and present to a buyer?

MichaelB: Yes.

MichaelS: What kind of experience is that going to be like for me? Let's say I have a toaster and what do I do. I fly in.

MichaelB: You fly in the night before. You would stay at one of the hotels that are probably down south of the Bentonville headquarters in Springdale. By the way, Bentonville is a dry county, so it's funny that most of the hotels that are in the area have been set up just across the county line in a town called Springdale, which is not a dry county. And that's where most of the vendors and suppliers end up staying. And the meetings start as early as 7 o'clock in the morning and the lobby is full of suppliers coming in to meet with Wal-Mart's buyers. And they have product samples with them to show to the buyers, which are then taken into the vendor rooms. In the main hallway of the Bentonville headquarters are cubicle type rooms with doors, but with glass in the doors and glass windows so that the division merchandise managers are prowling the halls...up and down the hallway, watching transactions as they're occurring

from the hall as buyers are meeting with suppliers. And the meetings are typically not lengthy meetings. The product is brought in. There's a discussion of the product, price points, the margins, number of units. There might be discussion of capabilities of the ability of that vendor to handle the distribution of the products on a regional basis, on a national basis, or global basis. And that's part of the consideration with making decisions to buy a certain product is does that manufacturer have the capability to actually manufacture and supply it to the company in the timeframe that Wal-Mart needs it.

MichaelS: When they're in there, are they waiting for their buyer? Do they have an appointment and a time? Do they keep the vendors with their product samples waiting for hours until they see a buyer?

MichaelB: It could be. There's a large reception area in the front of the office and it's a waiting room. There are vendors with every type of product you can imagine sitting in there waiting to be called to come in. And you may be sitting across from one of your competitors who is there to present comparable product to yours or you may be sitting across from a competitor and not know it's your competitor. But there are people there selling every conceivable type of product from the Fortune 500 Procter & Gamble type companies to Mom and Pop operations in there trying to sell a product for the first time.

MichaelS: Now, what would you tell me when I come in before I present to the buyer? Is it going to benefit me to prepare and do my own research of the market of what Wal-Mart is selling in the same category of their prices? Does that give me an edge in getting my product into Wal-Mart?

MichaelB: Absolutely. I think you have to do research of all of Wal-Mart's competitors. You have to have a PhD in your product. You have to really know what's going on in the marketplace with that product, what is it that makes your product unique? The fact that K-Mart is carrying your product, or Target is carrying your product, or other retailers are carrying your product could be influential positively. It could be an influence negatively. You don't really know. But if you have a proven track record, that's helpful. So, I think you need to come in prepared. You need to really know the market for your product and be able to educate the buyer. And the buyer is going to give you a fair chance to present your story, to present your product, and to educate them on what the capabilities are of your product in the marketplace because they're, obviously, not going to be experts in your particular product.

MichaelS: How long does Wal-Mart make me wait for my money? I've heard stories that they float the money and you'll wait six months to a year before you're paid.

MichaelB: The terms that I typically hear are 60 days. From the time that your product is hitting that store, in 60 days they'll be cutting a check to pay for the product that put in. And the goal that Wal-Mart has is for you to turn your merchandise in 60 days or less. They'd love it if you could turn your merchandise in 30 days.

MichaelS: Explain to me what is a turn?

MichaelB: Well, inventory turn is let's say that you have the approval to supply the company with product in the stores. And let's say that you can put 20 units in a store. You have that authority for that amount of space on the shelf that you can fit your 20 units. Now, what Wal-Mart would like to see is that you're going to turn of your 20 original units at least 10 per month so that by the end of 60 days, you turned 20 units, in this example. It could be that with a product that you have, you might only be able to realistically turn six units in 60 days; three units a month. If that's the case, they don't want to force 12 units onto the shelf where you only end up at the end of 60 days with a 50% turn of units. They want to see 100% inventory turnover in 60 days. So, what ends up happening in vendor partnership that Wal-Mart has with its suppliers where they have the ability to replenish the shelves in an automated fashion...if I supply Wal-Mart, I have the authority to manage my own inventory. But I don't feel an obligation in this partnership as a supplier to jamb the shelves with merchandise that's just taking up space. What I do in that partnership is I try to turn merchandise in 60 days or less. And so, what I'll do is rather than jamb the shelves with 12 units when I know I'm only going to turn 6 in 60 days, what I do is I put 6 units on the shelf, turn 3 and start replenishing at 3 units at a time. And what ends up happening is my inventory turns are then closer to 100% in 60 days and Wal-Mart isn't paying for inventory that is sitting on the shelf longer than 60 days. So, they can make money on money. So, in that partnership, their successful and I'm successful. It's a true partnership and we're all focused on the ultimate customer putting that product into the trunk of their car.

MichaelS: Can you give me or the manufacturer or anyone wanting to get inside Wal-Mart any kind of pricing strategies for my products? Can I compete on price with Wal-Mart?

MichaelB: Well, can you compete with Wal-Mart on price? If you are a small retailer that is trying to compete with Wal-Mart on price, I would say you can't go toe-to-toe with Wal-Mart on the exact same product on the same price because you're going to lose money because of the way Wal-Mart buys. If you were buying for 3,000 stores, you can get a much lower price at purchase than someone buying for 10 stores.

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And so, what you have to do is you have to differentiate your product selection and have products at low price points, medium price points, and high price points within that category that Wal-Mart doesn't offer. Everyone doesn't want the lowest price product at the lowest quality level. A lot of people want moderate price products at higher quality levels or even high quality products at high prices. And so, the key for others who are trying to compete...and if I was a manufacturer trying to coach other retailers to compete...what I would do is try to give them offerings that are not offered in the big box stores. Give them products that are at higher price points and also offer services to support products. For example, if I sell vacuum cleaners, Wal-Mart sells a couple of different vacuum cleaners, but they don't sell high-end vacuum cleaners and they certainly don't service vacuum cleaners. They don't offer parts. They don't offer repairs and they don't offer in-home service for products. So, that's where the other retailer can compete by offering products and services that are not offered by Wal-Mart. I coach people all the time, don't try to go toe-to-toe with these big boxes on exactly the same products, the same prices because you can't do it. You'll be selling products below your cost.

MichaelS: Tell me a little bit about the store to community program. I've learned a little bit about it and it seems like if I'm a local merchant and I've got a hot product that that may give me a better chance of getting into Wal-Mart. What's their philosophy on that?

MichaelB: If I understand your question correctly, if the store managers have the ability to buy on a local level to meet local tastes...for example, if you're in the City of Pittsburgh where I live and the Pittsburgh Steelers or the Pittsburgh Pirate baseball team or the Penguins are a big deal here, so if you have products that are focused on that particular type of item, that would be a very popular item in this marketplace. If you can find products that meet the regional needs

of Wal-Mart that they can't supply out of Bentonville, you have a good chance of providing Wal-Mart with those products and they will put them in their stores, especially if other regional retailers are offering those products. They also want to be competitive on those products.

MichaelS: How about the consumable products like baked bread and things like that? Are the Wal-Marts working regionally or are they trying to do all that through Bentonville and national distribution?

MichaelB: They do buy from local bakeries because, obviously, in a local marketplace there are certain bakery items that are consumed in that market only. And so, they'll buy from the same supplier and offer those products on their shelves. The unfortunate thing for other retailers is Wal-Mart will buy in such quantities and offer them at such low prices it makes it difficult for other retailers to compete on local products. But Wal-Mart has its own bakery. Wal-Mart has its own meat department. They have a full array of bakery items, everything from cakes to cupcakes to breads that they bake every day and they are very competitive on the quality and extremely competitive on price. And so, many consumers find themselves purchasing the Wal-Mart private label breads and cakes and cupcakes and cookies and things of that nature, but they don't buy the pre-packaged meats that you see in the Wal-Mart store. They continue to go to grocery stores that have butchers that cut meat. And so, there are ways for the local retailer to compete even when the Super Center comes into town next door. They just have to be smart and again differentiate their offerings.

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MichaelS: Why don't we talk about the ugly side of getting a product into Wal-Mart. Obviously, getting a product into Wal-Mart, if it's successful and they continue to buy from you, can make you a multimillionaire. But on the negative side, it could also ruin you. Can you share any story where you've seen that happen for a company?

MichaelB: There's a belief that supplying these big box retailers like Wal-Mart is a dream come true, when in reality there are three types of suppliers to Wal-Mart. There are those that make a tidy profit, there are those that break even, and there are those that lose money. And I have to tell you that because of the pressure on price, manufacturers are lucky if they're trading dollars at times because

of the price pressure. You see people who come there in with the idea that selling large volumes of units through Wal-Mart is automatically translated into big profitability and that's not always the case. You have to really manage expenses on the manufacturing side and take the same approach as Wal-Mart does...every day low prices...and discount retailing is simply based on velocity; low prices, large volumes of sales equals large profitability, but a small profit per unit. And that's what a manufacturer experiences. So, I think it is a bit of a dream to make big money as a small supplier to Wal-Mart or a single product supplier to Wal-Mart. I would be conservative on profitability if I were thinking about supplying these big boxes because they're very smart about their purchases and if the price points you're offering are too high, there's a likelihood that they may decide to knock your product off and manufacture it themselves.

MichaelS: So, as far as integrity, that does happen, right?

MichaelB: It does happen and there are manufacturers that were unable to supply the company or there are manufacturers who refused to lower their quality so that they could lower their price. And there are manufacturers that have walked away from Wal-Mart and said I've decided I'm not going to try to supply you. I can't do it. And in those cases where those manufacturers have backed out, Wal-Mart has found other manufacturers to come that were willing to lower their quality and lower their price points or they have actually gone out and manufactured those products private label.

MichaelS: So, if you've got a commodity type product that you have competition, there's a chance that you could get into Wal-Mart and then they could pressure you and could get knocked out and they'll just go to either another supplier or manufacture it on their own and then you're out of luck.

MichaelB: The pressure is always down. Wal-Mart is always trying to figure out how little they can get for a product and that's the paradigm shift that Wal-Mart brought to discounting is they're trying to figure out how little they can get for an item where everyone else in the old days was trying to figure out how much they could get for a product. And so, they are constantly putting pressure on the manufacturers to lower their costs so they in turn can sell to Wal-Mart at lower prices. So, it is a constant battle to maintain a level of quality in product at low prices and it's never ending. So, it's not like you're guaranteed to stay in Wal-Mart stores once you have made the initial sale. You've got to step up and keep your costs down and keep your prices down and continue to drive your cost down

throughout your relationship with Wal-Mart through creative re-managing your own business. Wal-Mart teaches its department managers the famous Wal-Mart culture via the Walton Institute at the University of Arkansas.

MichaelS: What is the Walton Institute?

MichaelB: I guess other companies might call it their company university. This is Wal-Mart's university where they teach the Wal-Mart culture to new department managers. It's a weeklong program of cultural indoctrination that runs from Sunday through Saturday. It's actually seven days of indoctrination and almost 100% of the program is designed to teach Wal-Mart managers their famous culture because that's how important culture is to the success of the company. And one of the things that they teach in the institute is their customer service standard and one of the interesting practices is a program called Lagniappe and Lagniappe is a Cajun term and it means a little something extra. And as a good example, it's like the 13th donut in a baker's dozen. That would be an example of Lagniappe. And what Wal-Mart does is they try to create a shopping experience...they keep the shopping experience interesting for the customers by always offering a little something extra, something that's not expected by the customer; a too good to be true bargain. And as you walk the stores of Wal-Mart, you'll notice that they have in aisle ways displays of products at too good to be true prices. You get two for the price of one. All sorts of examples of a little something extra, which is the program Sam Walton called Lagniappe. It's a fascinating program of keeping the stores fresh and alive and giving the customers something new to look for every time they come into the stores. That's why you see the Wal-Mart customers just going up and down the aisles of the store; aisles they've been done many times before, looking for those too good to be true bargains.

MichaelS: Really, and this philosophy is strong and present and active in all of the stores?

MichaelB: It's everywhere. You just never know what they're going to have that's going to be...it's not really a sale item. It's really an item that's designed to create very high velocity at a very low price. If you look at the end caps at a Wal-Mart store, you're going to find products that the prices are really, really low. By merchandising products on an end cap, they try to increase the sale velocity to three, four, five times what it would normally be if it was on a normal shelf and they have a really hot price. By increasing the

velocity of sales, they overall increase the profitability of that item and create a very exciting shopping experience.

MichaelS: I could see that also gets people back to the store more often just looking for the special deal.

MichaelB: That's right. It's just that feel that it's too good to be true. And what it does is it ends up driving impulse purchases. And that's really one of the unique things about Wal-Mart is if you sit at the door and watch customers coming out of the Wal-Mart store, very rarely do you see anyone walking out without a bag, without having made a purchase. And if you did that same exercise at say a shopping mall and watched customers shopping the stores in the mall, you'd often see customer walking into stores and walking out without making a purchase. That's not the case at Wal-Mart. Ninety percent of the customers that come out of the store have a bag.

MichaelS: I can also see that program offering items at such good prices that the shopper maybe if they went in there and didn't have an intension of purchasing, it gets them into the buying habit at Wal-Mart. Almost like preprogramming for their next visit.

MichaelB: Right. The unfortunate thing about the low prices of Wal-Mart, especially these items that we just talked about on the end caps, is that the competitors of Wal-Mart that might sell those same products...let's say it was a tube of toothpaste...they can actually purchase those tubes of toothpaste for their own stores cheaper by buying them at Wal-Mart than they can by buying them from their own third party supplier because of Wal-Mart's buying power. When you're buying for 3,800 stores and you're buying 1,000 tubes of toothpaste for each stores, that's a lot of toothpaste and you get a pretty good discount from the supplier or manufacturer of that product that can't be touched by a third party supplier. I was told by one retailer that he would actually go into Wal-Mart to buy his motor oil because the price he could get for motor oil at Wal-Mart was cheaper than what he could get directly from the oil company. It just puts tremendous pressure on these third party suppliers to make money off the small retailers because if you think about it, they're not making a whole lot of money off the big discounters like Target and Wal-Mart, so they've got to make their money somewhere and come to find out they make it off of third party suppliers, which in turn is from the small retailers.

MichaelS: Yes. As distribution becomes more sophisticated, you're seeing it already. Third party suppliers and distributors are going to become a thing of the past.

MichaelB: At Wal-Mart it has pretty much become that. Even in the days when I worked there, Sam Walton was already moving down that path to directly work with manufacturers. The way that Wal-Mart buys and the quantities that they're buying, they don't have a need to have a third party in between. It's actually a disruption to the supply chain.

Products in Wal-Mart are commodity. Wal-Mart is not merchandise driven company. It's a logistics distribution and technology driven company. And so, the products that you see on the shelves don't have any particular intrinsic value to Wal-Mart. All they are is a commodity and what they're doing is they're turning products and retail stores into commodities across all segments. So, customers are now viewing products more as commodities than they are as some sort of intrinsic value. And so, it's driving prices down constantly across all segments of retail.

MichaelS: And commodities are sold on price.

MichaelB: That's right. And when you have supply and demand, that's why they can offer the low prices. They have a tremendous supply of products. They price them as low as they possibly can and they make their profit on volume. And that is the discount retailing strategy of Sam Walton back in 1962.

MichaelS: What's the future for Wal-Mart's competition... Target and all these other competing warehouses, Costco and such?

MichaelB: There are a number of good competitors that will continue to be successful.

MichaelS: Who is second to Wal-Mart?

MichaelB: Globally it's Carrefour out of France. They're the French hypermarket retailer. Hypermarket is like a Super Center and they are in 29 countries around the world. So, they would be the number two globally. And then I think Tesco out of the U.K. is number three. And so, Wal-Mart probably has more global competition than they do domestic competition.

MichaelS: How about domestically, who is second to Wal-Mart?

MichaelB: I would say it is Target. And they you have companies like The Home Depots of the world who are not direct competitors, but they're competitors. Let's say Target. Target has done a great job of differentiating themselves in the marketplace. The Target

consumer is not the same consumer that goes to Wal-Mart. They're more upscale and more upscale in their products. They have more fashion and more product design than Wal-Mart has focused on historically. And what you're seeing is Wal-Mart is trying to move in the direction of Target.

MichaelS: Oh really.

MichaelB: They're trying to move in the direction of Costco.

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Both of them have a more upscale customer. That customer has more money to spend and Wal-Mart wants that customer. So, Target is successful. They will continue to be successful. Others who tried to replicate the Wal-Mart model with the same products will continue to have marginal to no success.

MichaelS: Can you think of one that we know about that tried to do that? K-Mart?

MichaelB: Well, K-Mart is a good example. K-Mart cannot compete with Wal-Mart and we're beyond the beginning of the end. I don't understand how K-Mart is still competing and I don't their current strategy, whether it'll work or not. But if you look around the country, since Wal-Mart has gone into the grocery business, and this started in the early 90s, 26 regional grocers have gone out of business because they couldn't compete with Wal-Mart on price. And there's more of that type of activity that's going to come in the future because if you think about it this way, out of the 100 top metropolitan markets in the United States, Wal-Mart at the present time is only in 30 of the top 100 metro markets. It's hard to believe, but it's true. And those 100 metro markets are where 70-cents of every food dollar is spent in America. And so, the opportunity for further growth and expansion is just unlimited still in the United States. But people tend to think that they're fully saturated, and that's not the case. So, they will be moving into big markets like take New York City. They're going to be in New York City and they're going to be everywhere in New York City. They're working on Chicago right now. And these are big markets with big retail dollars at stake. And when they go in there, there are going to be other retailers that are going to close their doors as the result of Wal-Mart competition because they can't compete. A grocer is too narrowly focused to compete with a Super

Center and there's specific reasons why they can't and there's nothing that they can do to change their model. It's an old model of grocery retailing. The Super Center is sort of a paradigm shift in retail and makes the old model non-competitive.

MichaelS: So, a grocery store is working on a 1% margin just about. What kind of margins can Wal-Mart work on in their grocery market?

MichaelB: This is way a Super Center is so impossible to compete with for a grocery store. A Super Center...part of the store is devoted to groceries, another part is devoted to general merchandise. The margins on the general merchandise side of a Wal-Mart store are somewhere in the neighborhood of 8 to 9%.

MichaelS: That's big.

MichaelB: And then you blend that with...let's say their margins in the grocery side are 1%. Well, the overall margins for the store are still somewhere in the neighborhood of 6 to 7%. The grocery store now gets into a price competition on groceries with Wal-Mart and Wal-Mart can drop its prices on the grocery side to be anything they want and they still are supported by the 8 to 9% margins on the general merchandise.

MichaelS: And they're bringing in new customers into their stores for their groceries that they never would have had.

MichaelB: And they're coming in every week. And so, what's happening is it's just absolutely devastating the traditional supermarkets and grocery stores and Wal-Mart is now even offering gasoline at their Super Centers and their Sam's Clubs to try to get that customer to come to their stores every week.

MichaelS: Does Wal-Mart give its store managers a lot of creative leeway as far as doing in store promotions and trying new things?

MichaelB: Yes, absolutely. Sam Walton believed that as vitally important as it is to have a plan-o-gram that's centralized in a buying department because they have to know where the products are going on the shelves once they're purchased.

MichaelS: What is a plan-o-gram?

MichaelB: Every retailer has a plan-o-gram. When they're making a buy for a product, they have to know where that product is going to on the shelf and what's going to come off the shelf to create the space for

the new product coming in. Any by centralizing the buying process in retail, it took away one of the more important areas of being a retail merchant, which is displaying products. And Sam Walton realized that one of the things that was really important to maintain in his Wal-Mart stores was the feeling of being a merchant and understanding the connection of displaying products and seeing them go out the door in shopping bags. And he always wanted his associates, his employees to think like retail merchants and understand the importance of displaying product and the impact that it would have on what he called sales velocity and moving products through the store. And he always wanted to maintain that merchandising responsibility that was taken away by centralized buying. So, the local managers have authority to buy to meet local tastes. And if there are products that are important in that regional area, they'll go out and shop the competitors. Every week the department managers at Wal-Mart go out and shop competitors and look for new products, new ideas that they can bring back.

There's an interesting program at Wal-Mart. It's their shopping cart comparison program. And the department managers will go out and they'll shop the competitors departments and look for products that Wal-Mart sells and make sure that they're pricing Wal-Mart's products lower than the competitors in the area. I know of district managers who have gone into say a grocery store and they filled up a shopping with items and actually purchased a shopping cart full of items at a competitive grocery store. They simply bring them back to the Wal-Mart store, run them through the scanners at the register and lay the tape side by side. And that's called a shopping cart comparison. So, when they do these shopping cart comparisons, if they're prices are higher on certain items, they'll immediately go into the system and reduce prices on those items to make sure that they have equal or lower prices on every item.

MichaelS: They'll have to do that because they've got to stick with their USP, lowest prices.

MichaelB: That's the Wal-Mart strategy and that's how they accomplish that is through shopping cart comparison.

MichaelS: So, if I go into my local Wal-Mart store and I'm looking around, would it be safe to say that I am looking at a blueprint for merchandising of the best in the world; the way the end caps are set up, the product selection, everything about the merchandising in a Wal-Mart store, I'm looking at the results of the highest technology, testing, millions of dollars field tested, proven merchandising?

MichaelB: Yes, I think that that's a true statement. If you want to see great merchandising, great signage, great visuals, go to the shopping mall and you'll see some of the best at the retailers in the shopping mall. But if you go to the Wal-Mart stores, you're going to see product displayed in large quantities with great signage on one thing and one thing only; prices. They're going to sell that every day low price and they're going to try to attract you with large displays of product.

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MichaelS: How long does a non-selling item that gets on the shelf stay on the shelf; like a loser? How long is Wal-Mart going to give it a try before they know that it's not happening?

MichaelB: It's going to be pretty obvious that a product isn't selling because of the fact that the technology in the Wal-Mart stores provides daily reporting of moving a product. And they can create a list very easily of the poor selling items. I don't think a product that is not moving is going to last 60 days. It may not last 30 days. If it is clearly a dud and isn't moving, that's a lost opportunity for Wal-Mart. They could put other products in that space that would sell and it's dragging down the profitability of the store. The bottom line is the bottom line.

MichaelS: You've got a lot of media out there about Wal-Mart...some good, but a lot of it bad. They paint Wal-Mart as the bad guy. They've got a target on their back. What's been your experience with how the media perceives Wal-Mart and how does Wal-Mart deal with that?

MichaelB: Well, it's funny that when Wal-Mart wasn't the largest retailer in the world and depending upon the price of gas today, they'll be the largest company in world or Exxon is the largest company depending on the price of gas. But the media has placed a target on Wal-Mart's back as the biggest company and they're looking for negative stories. When you have 1.7 million employees, as Wal-Mart does, and probably in the neighborhood of 70,000 managers around the world supporting these 7,000 stores that Wal-Mart has around the world, you're going to have some bad eggs. Wal-Mart hires out of society where you have good people and you've got some bad people. And if 1% of Wal-Mart's managers, as an example, are bad eggs and they have 75,000 managers, you're talking about a large number of people that could be problems. And

so, it's not something on the part of Wal-Mart that is intended to be systemically negative, the things that they do. The examples you see in the media are typically someone who went off the reservation. It's an example in a localized area and it's not a systemic issue. That's my experience.

MichaelS: Very good. Why don't you tell us, Michael, about what you're doing and what are the plans for you and tell us a little bit about your speaking and some of the things you do in your consulting? Tell us what can you offer listeners who either want to learn more about Wal-Mart, get their product into Wal-Mart, have some consulting about giving them an edge and educating them about how to get their product into Wal-Mart; what can you offer any of the listeners?

MichaelB: When I originally wrote my books, I wasn't like an embedded reporter planning to write books when I worked at Wal-Mart thinking when I leave, I'll go ahead and write these great stories down and make lots of money. What happened was this. When I worked at Wal-Mart, I learned some things that I'd never learned before. I was working for PepsiCo prior to Wal-Mart and had learned the best practices of PepsiCo. I go to Wal-Mart and I learn all of these practices of Sam Walton that are very different than other Fortune 500 companies. And I guess when I moved on from Wal-Mart after Sam died, I went into two business turnarounds and I found myself learning the knowledge I'd gained from Sam Walton in both of these turnarounds that were highly successful. So, if I were coaching somebody from outside the company, I would say this...I wrote these books as a result of those turnaround experiences and using the Sam Walton and Wal-Mart knowledge I'd gained. And if I were going to try to supply that giant company, I would educate myself on the culture of the company, the leadership of the company, and what makes Wal-Mart different than everybody else. I have gone out and now I speak at conferences, domestically and internationally, and the common question I get is what makes Wal-Mart, Wal-Mart. Why aren't we here talking about Target today or K-Mart or Woolworth's or some other retailer. Why is it that Wal-Mart is feared by competitors around the world? I answer that question the same way everywhere. It's because of Sam Walton. If you want to understand Wal-Mart, you need to understand the teaching of Mr. Sam. And that's what I wrote about in these two books and that's what I go around talking to companies about. And I talk to some of Wal-Mart's current suppliers. I go into these companies and I consult and I also do speeches at their conferences to talk to the manufacturing teams and I talk to their sales teams about the culture of the company so they better understand how to approach the organization because they're not

like everybody else. It's a different type of company. They shifted the paradigm in retail. They shifted it in manufacturing. They shifted it in technology and logistics. Wal-Mart is not a product driven company. It's a logistics and IT driven company. It's a distribution driven company. And that's unheard of in retailing. And so, to understand how to sell this organization, you've got to understand the differences that this company brings to market.

MichaelS: I understand you are a supplier of Sam's Club, too.

MichaelB: I'm really happy to know that my book, that just came out recently, was picked up by the buyers at Sam's Club and Wal-Mart and it is carried in stores across the United States.

MichaelS: Now, that must be pretty exciting. That wasn't your intent.

MichaelB: When I wrote the book, The Ten Rules of Sam Walton, I actually felt that it would be extremely helpful to other retailers, non-retailers, manufacturers, and suppliers and others. But I also believe that it would be a nice touchstone book for the current associates of Wal-Mart and Sam's Club and the way I wrote the book was in such a way that I know it pulls the heart strings of the current employees of the company. And so, it's actually a really good touchstone for their own culture to make sure that they're maintaining the focus on the teachings of Sam Walton. And it means a lot to me to have Rob Walton's endorsement. And when I walk into a Sam's Club and I see my books on the shelf, it means a lot to me.

MichaelS: One final thing. I'm looking back at my picture on my desk of the manufacturer in China crying and it says help me get my product into Wal-Mart. You do a lot of motivational speaking. What one last parting words would you say to this man in China to give him the encouragement or any last advice to give him hope in succeeding in merchandising with the world's largest retail merchant?

MichaelB: I would say that you need to strive for excellence. Wal-Mart is a company that is actively trying to win the Malcolm Baldrich Quality Award for their company. And the Malcolm Baldrich Award goes to manufacturers in the United States who are the pinnacle of quality. And Wal-Mart will probably never win that because they're not a U.S. manufacturer. But the point is they're striving to those kinds of levels of quality in everything that they do. So, what I would suggest to someone is strive for quality in everything that you do and in every transaction. When you make a commitment to Wal-Mart, deliver on it. And finally, just make sure you understand the Wal-

Mart customer, as well as Wal-Mart understands their own customers. Take the time to shop their stores, know their customers, and set a goal to meet or exceed the expectations of your ultimate customer as a supplier, which isn't Wal-Mart. It's the customer at retail.

MichaelS: Very good. Michael, thank you very much. This has been an incredible interview and I think you've given me and the listeners a great insight into Wal-Mart and Sam Walton. Hopefully this insight can be used and turned into an advantage for that manufacturer dreaming to get their product into Wal-Mart. I really appreciate it.

MichaelB: Thank you very much.

MichaelS: Michael, if someone wants to get in touch with you, what is the best phone number for someone to contact you about a speaking engagement or consulting and aiding them in getting their product into Wal-Mart?

MichaelB: They just need to call me 1-888-503-0819.

MichaelS: That's the end of this interview with Michael. I hope this has been helpful. I hope it's given you lots of ideas and more confidence in getting your product into Wal-Mart or any of the other mass merchandisers.

If you'd like to consult with Michael or talk to him personally about anything related to the subject, you can contact him directly at 888-503-0819. That's 888-503-0819. Just tell him you heard the interview on Michael Senoff's www.hardtfindseminars.com and he'll treat you well.