WAL-MART INTERVIEW SERIES

Wal-Mart Strategy Advice To Manufacturers.
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Wal-Mart Strategy Advice To Manufacturers.

Here’s an exclusive interview with a Wal-Mart consultant named Richard G. With over 35 years of experience, Richard and his team provides business development consulting services to international manufacturers who want to enter the US market.

Richard also works with domestic manufactures to enhance their business either by finding new channels of trade or finding better ways to communicate their company’s message.

Richard has helped his clients sell their products to America's mega-retailers such as Wal-Mart, Kmart, Toys-R-US, Kroger, Safeway, and CVS.

You'll learn the best ways to work with the buyers at Wal-Mart and about one little known pricing strategy that will help you get your product in before your competition.

Hear the dirty little secret why Wal-Mart buyers only work with companies who already have successful, proven products.

If you’re a manufacturer and you’re worried about damaging existing sales with your other customers, don't worry too much. Richard will show you how to keep these customers and still be able to sell to Wal-Mart.

You’ll hear Richard explain why distributing your product to Wal-Mart is a smart way to build brand equity in your product, even if you make very little profits.

Richard gives other important advice like...

- How to understanding both the potential supplier’s corporate culture and the retailer’s corporate culture and how it will let you know what to expect before a sale is made.
- What the true role of the ambassador is and how to ensure that there will be no surprises during final negotiations.
- How to get the attention of a buyer by quoting revenues rather then unit profits.
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- 4 -

(Go to next page...)

- How to learn what motivates buyers to accept or reject products.
- How use licensing to increase the sell-through for your products
- What an importer should keep in mind with regard to ports of entry in the United States.
- Learn ways to ensure that the retailer will receive your products in a timely manner.

This interview with Richard is packed with valuable information. It contains years of trial and error and a wealth of understanding for anyone who is considering getting their product into Wal-Mart or any of the other large mega-retailers. Enjoy!

Michael: What are they all about in a nutshell?

Richard: Wal-Mart, they are all about driving as many dollars through that store per square inch as possible. If you think of every square inch in that store as an artery like you have in your body, if a product doesn’t sell, it’s cholesterol built up and you can’t drive anything through there. Wal-Mart needs to be constantly selling high demand products at great prices because it’s all about flowing product through there.

Hi, this is Michael Senoff with Michael Senoff’s HardtoFindSeminars.com. Get ready. I have a full hour with an expert on how to import and bring your product into mass merchandisers. His name is Richard G. He is a provider of business development services to the consumer products industry. Richard combines an MBA in Global Management with over 35 years of consumer products experience to help small, medium and Fortune 500 manufacturers increase their market share. Richard helps companies create innovative new ideas that leverage their company’s existing assets in dynamic new ways. Richard’s work was born in domestic companies, e-commerce providers, leading brands and top licenses. He has sold to North America’s major retailers including K-Mart, Wal-Mart, Toys R Us, Kroger, Safeway and CVS and many other major retail chains. He has successfully brought new products in companies to market as well as groom the market share of established companies who have become his clients. He’s worked internationally and has a vast experience in getting products distributed here in the U.S. In addition, Richard is a contributing editor to multiple magazines and industry publications. Get ready. Put your seatbelts on. We’re gonna cover a lot of content that’s gonna give you an edge in getting your product into large mass merchandisers. Let’s get going!

Michael: Why don’t you tell us what your name is, where you’re located and exactly what you do currently? And then we’ll get into how this all started.
Richard: Okay. Great. My name is Richard. I'm headquartered in lower Manhattan, right in the Wall Street area and I provide business coaching or business developing consulting, both terms are used, to people who either want to enter the U.S. market or people who are in business in the U.S. and really want to develop their business by either finding new channels of trade or doing just a better job of communicating their message.

Michael: Can you tell me what was it like working with the buyers of Wal-Mart? Can you take a potential manufacturer who wants to get their products into Wal-Mart, give them an idea what's it going to be like, what they can expect?

Richard: Sure. First of all, Wal-Mart does not want you to offer them any advertising money. They do not want any promotional allowances. All they want is your best price. And they want you to take any additional costs because they don't want to work with discount. They just want the lowest price. So, you have to begin with that. If they don't like your price, they will tell you where it needs to be.

Michael: Right there on that first visit?

Richard: Yeah, if they like it. For instance, you'll show a product and you'll say, "This is a 9.99 product." And they'll say, "No. It's a $5 product or it's a 7.99 product or whatever." And they're challenge to you if you want their business is to make it that price point, which means that you have to go back and work with your own supplier.

Michael: Now, do you think that's a game with buyers, that they say that to everyone as a part of their negotiating?

Richard: Because I've been there where they really have felt it was a good value. I don't think they're a game playing company at all. I think they're very conscious of their power. As a matter of fact the politest buyers I have run into are Wal-Mart buyers. It's interesting because when you have that much power you don't have to play games. So, they're very courteous.

They're very frank and they're very objective. And I have showed them products where they have not asked me to change the price, but I've also showed them product where they really thought it wasn't a good value for the consumer. And that's what they're all about. And then your job is to go back and see where you can cut market out. Some of the things you can do, maybe change your packaging.
Go back to the person, if you’re using an OEM producer like in China or something, tell them that here’s how much revenue is on the table. They’re gonna have to reduce the price. Can you pack the truck differently to get freight efficiency? In other words, it challenges you to find a way to make that product at a lower price and, of course, then you also have to consider how much volume and profit you can make out of selling Wal-Mart. It’s so huge.

One thing people really need to understand is that Wal-Mart is not a pioneer. They’re not gonna jump on a new product and they’re not gonna jump on a new company. You have to prove yourself first. So, if you have a new product, you’re not gonna get in there the first year or even the second year. And then when it’s time to get in there, you have to prove to them that you are a viable business entity or they won’t do business with you, which means that you have to actually provide them with a very long form that’s really like a financial statement.

Michael: Before you go to see them?

Richard: Once they approve you... In other words, let’s say they want to buy from you. You then have to be approved as a vendor. And being approved as a vendor is not like another company. You have to show them that you are financially viable. You can actually ship them their orders, that you have a production in place.

Michael: So, give me a strategy. Let’s say they’re a lot of manufactures who aren’t viable. If they have a great product and they have some capacity but maybe don’t meet the criteria to sell directly to Wal-Mart, can you think of a strategy that a company can use to still get into Wal-Mart maybe by approaching companies who do have the financial leverage in doing joint ventures?

Richard: I think there’s a couple things you talked about. Let’s talk about production first of all. Many companies today do not own their own production. They use original equipment manufacturers who actually produce for them. So, it could be a matter of let’s say, you’ve been producing with a factory in China or let’s say you’ve been producing on your own. You can go out and find other manufacturers who will manufacture on your behalf. So, then you put together this framework of production then you do have a production. You follow me? You haven’t paid for it, but you have sourced it.

Michael: You’ve got the capacity.

Richard: Correct.
Michael: Wal-Mart just wants to make sure that you’ve got the capacity.

Richard: Right. As far as the financials are concerned, if you are on the cuffs of selling Wal-Mart, there’s people who will lend you money. That’s a powerful receivable.

Michael: What’s the order here? What am I gonna need to do to be able to get an appointment with Wal-Mart? Do I have to fill out financials to get an appointment with the buyer?

Richard: No. To get an appointment with Wal-Mart, it’s not that hard, first of all. But what you do need to have is a finished product that has proven to be successful elsewhere. I mean if you’ve got a great idea, you’re not gonna show up and they’re gonna buy it from you if it has not retail history. You’re gonna have a very difficult time selling it.

Michael: Because there’s millions of other people that have proven products.

Richard: Correct. It’s not what they’re all about.

Michael: What are they all about in a nutshell?

Richard: They’re all about driving as many dollars through that store per square inch as possible. If you think of every square inch in that store as an artery like you have in your body, if a product doesn’t sell it’s cholesterol built up and you can’t drive anything through there. Wal-Mart needs to be constantly selling high demand products at great prices because it’s all about flowing product through there.

So, if you come in with a new product that’s untested, they’re not gonna take the chance of blocking an artery. So, they’re gonna wait until you prove that you have a viable product. So, once you’ve done that, if you email your Wal-Mart buyer, I think it’s easier to email than to call, frankly.

Michael: And they actually respond to emails?

Richard: Oh, yeah, they’re very responsive. They’re amazing. It’s not a wordy response, but they will respond. And if you have a product that they need to see, and remember let’s go back to what our original statement was. A good buyer has to take an opportunity seriously. They have to be very careful blowing anybody off. So, if you’ve got a product that’s proven itself in retail, you gotta look at it. So, you have to let them know about. And if you have a product that you can say, hey, this has been in such and such and my sales has been X, they’ll see you.
Michael: So, there’s lots of opportunity to get in front of them. You can go scout successful products that have proven distribution that aren’t in Wal-Mart and approach a buyer and maybe work a deal and get in, right?

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Richard: Yes. Now, some people that aren’t in Wal-Mart, have strategically chosen not to be. And they’ve chosen not to be because they feel that Wal-Mart drives the price down so much...

Michael: They’ll lose their distribution.

Richard: Right. It damages them with their other retailers.

Michael: Unless they use your technique and did a totally private label product for them.

Richard: That’s one way of doing it. I have another theory too. I think a lot of other retailers missed the point that Wal-Mart can function as a wonderful way to build brand equity for a line. I’ll give you an example. Let’s say you’ve got a product line that you have in all these little specialty Mom and Pop stores. Let’s say it’s construction toys. Let’s say there’s 20 different styles that you have in all these stores. And they’ll kill you if put that product in Wal-Mart. But Wal-Mart is not gonna carry all 20.

Wal-Mart will carry your best one or your best two. But think what that does for brand equity. Think what that does for raising the awareness of that product line. And if I brought that one from Wal-Mart and my kid loves it and I want more, I’ve got to go to that store that carries the big assortment to be able to buy it. So, I think that the retail community, I think a lot of the manufacturers miss the point, that being in Wal-Mart drives brand awareness, brand equity and actually drives sales for other people.

Michael: What’s your experience, once you get into Wal-Mart, how they can be tough to work with? What’s your experience, once you’re in and orders are going in? What can you educate someone who’s never been in Wal-Mart to expect once the process is inflow?

Richard: First of all, they pay on time and they don’t mess around with you at all. They don’t take markdowns. They don’t take surprise discounts. There’s no penalty. Very good to work with.
Michael: They’re not gonna come back and get you down on price later.

Richard: Later they may come back to you and say, “You know, if this was at this price point, we think we could exponentially sell this much more.” And you gotta do that analysis. What does this mean for you if you drop that price? How many more units will you sell? What will your gross revenue be? What will your gross profit be? A very interesting thing happened recently that will give you an idea of the downside at the arm of Wal-Mart, is Wal-Mart has really squeezed a lot of the extra costs out of their vendors.

So, it’s harder for them to increase profit. And one of the things they decided, they needed to turn the merchandise more, which means they needed smaller case packs of product. So, they went back to their vendors and if you were selling them six in a case, they want you to sell them three in a case, which increases the cost for the vendor. So, that’s a little bit of pain. It’s not a price increase, but it’s a real operational logistics cost. And in addition to that, Wal-Mart cut off all its buying this year to most of its vendors in order to reduce its inventory level.

In other words, when you set up with Wal-Mart, you actually will have a computer connection with them that you can, in real time, track the sales of your product. And you’ll get regular orders on a weekly basis or daily basis and they’ll show up on your computer. And Wal-Mart needed to reduce its inventory. So, for a great number of its vendors it stopped buying for about two months.

Michael: Did this just happen recently?

Richard: Yeah, it happened earlier this year.

Michael: So, companies who are used to getting orders every week...

Richard: Suddenly weren’t getting anything for two months.

Michael: Did Wal-Mart let them know what was going on?

Richard: Yeah, but in the papers. It was a pretty big announcement before it happened. People knew it was coming.

Michael: So, do they want to keep their inventories reduced ongoing now?

Richard: Yes, because they want to turn their inventory.
Michael: How do they benefit by turning their inventory more? You gave an example, instead of ordering six packs, they’re instructing the manufacturers or the vendors to make three packs.

Richard: Right.

Michael: How does that benefit Wal-Mart?

Richard: Cash flow. They get their money out of their inventory a lot quicker.

Michael: So, give an example of a product. When you say a six pack, would that mean they’re selling a six pack of paper towels, now they want them in three packs?

Richard: Paper towels are such high volume. I doubt they would do it with that. Let’s say, I used the example earlier of puzzles. They might do that with puzzles.

Michael: So, at the retail level puzzles would be packaged in six, but maybe they’ll say package them in threes and they’ll move more of them.

Richard: Right. Because when they get them, they’re able to put them on the shelf and turn around and order them again. Order it again. Order it again. I think they wanted to go from 14 turns to 18 turns a year. A turn being that, let’s say if you buy in threes or sixes or whatever, you want to be able to sell through that merchandise over and over and over again.

Michael: So, what advice would you give a manufacturer to be ready for if dealing with Wal-Mart when it comes to turns?

Richard: When making a presentation to Wal-Mart, remember that you just don’t sell Wal-Mart or any customer for that matter, you’re not just selling a product. You’re selling a service. And that service is getting that product there on time as promised and as efficiently as possible. So, pay a lot of attention to operations when you’re making your presentation.

Don’t just talk about why the product will sell or why it’s good. Talk to them about also your supply chain and why it’s so efficient. And if you feel like you’ve got an effective pack, tell them that you designed that garden pack because you feel it’s gonna give them more turns.

Michael: I interviewed a guy who is in the flower distribution business. And he sells to Wal-Mart and he’s got an entire office right down there at the headquarters of Wal-Mart.
Richard: There you go.

Michael: He’s got 600 employees and he’s got an entire office right there.

Richard: He’s got an embassy there.

Michael: Because you’ve got to.

Richard: In addition to that, a super sales person tends to be a good talker. A good ambassador needs to be not only a good listener, but he needs to be very aware of their environment. What is going on in that company? What is the culture like there? And basically be a proponent of their company’s interest within that culture and very carefully communicate that culture back to their own organization so that no mistakes get made.

Michael: Can you give me an example of how you use that attitude as far as being an ambassador rather than just a sales person to get some results in selling a specific product for your company?

Richard: Sure. I had a client that was a very successful European company and I was bringing him to the United States. And I was in front of a buyer for a very large company.

Michael: What was the product they had?

Richard: It was a toy product.

Michael: And this client hired you to help distribute?

Richard: Yeah, they helped me put together a sales organization and found them warehousing and put together the complete distribution and put together selling plan, a marketing plan, acquired licenses for them. I got the Disney license for them and several other major licenses. And today they’re a very successful company in the United States and they’re in major stores like Target and Toys R Us. So, we are able to do that. In this particular case, I had decided to make this call myself on a very major customer.

Michael: So, how did you know who to call?

Richard: First of all, I have proprietary knowledge just from my own resources. I have databases for all the major retailers in the United States. I have databases for all the major sales representatives, supermarket brokers, and licensing companies. I have all that. So, I was at the
customer's and we worked out a deal. It was looking really good. I got up to leave and I looked at him. I said, “You know, when I come back to you, you’re gonna cut me an order” and I said, “If you plan on surprising me with an extra discount you’re gonna demand, I need you to do it right.” I said, “Because this is a European company and they don’t know our business culture and it’s gonna kill the whole deal.” I said, “So, just to save us all some time and to save this order, tell me now.” He said, “We’re gonna hit you with an extra 10 percent.” I said, “Thank you very much.” That was the deal that I presented with the company and that was the deal that went through.

Michael: So, is this a game buyers play?

Richard: It is a game buyer's play, but I knew the culture of that particular company and knew how they did business and I knew this was gonna come. So, this is where an ambassador knows the culture, knows also the culture of his or her own organization and therefore, works as a mediator. My belief is that no employee of a manufacturer that has the word sales in their title should be negotiating with anybody because, number one, sales people are lousy negotiators. They're pleasers. Number two, sales people really are more afraid of their customer than they are their own management. And there's a brief simple reason for that.

You know, if you're a salesman and you do something that angers your company, you can get another job, but if you anger Wal-Mart or Toys R Us or K-Mart or Target, you may have to get another career. So, a salesperson will always tend to favor the customers. Now, they won't say that, but it really affects how they bring news and how they negotiate. When you have a salesperson negotiate on your behalf, they'll be very soft with the customer but they'll tell you they were aggressive.

Michael: The customer is the buyer, right?

Richard: Right, the buyer. Excuse me. So, my feeling and my belief has proved to be true, is that this that story I told you a little while ago about being a good ambassador, that if you ask a salesperson to mediate, which means to bring the two parties together to find common ground, this is what they're best at because they're pleasers and they want to make everybody happy. And so, if you need to have somebody in your organization who's a negotiator, you need to have somebody who has really no external contact, who's not dependent on customer relationships.
Michael: If the salesperson goes and he’s talking to a buyer, how does that work? He’s presenting the product to the buyer, where does that third party come in on the negotiation?

Richard: The salesperson is typically standing as the negotiator, the person who carries his or her company’s interest into the buying office. And these salespeople really get beat around pretty good by the buying community because they know that these people are fairly soft. Not because they’re soft people. It’s just that the salesperson is very leveraged by the buyer.

So, when the salesperson attempts to be a mediator, what happens when that buyer asks, let’s say, for a lower price, that salesperson will not even attempt to negotiate directly with the buyer. He or she will say, “You know, I’m for you. I’m gonna do everything to get this price for you.” And they’re gonna go back to their organization. And to their own organization, they’re gonna say, “Oh, this guy is really pushing us around.” In other words, you gonna try to make both sides happy. But if they’re smart, they’ll bring the two sides together and they’ll figure out a way to appease the customer and to keep [inaudible]. But if they attempt to negotiate directly, they will fail.

Michael: Can you talk about some details on how you were able to establish major account relationships with Wal-Mart, K-Mart, Toys R Us, Kroger, Safeway, CVS and other major retail chains?

Richard: When I was in Floyd, a large Fortune 500 company. It was a publisher of children books and toys, we had a very large drugstore chain and we did a little bit of business with them and I became a big believer that when you go to see a customer, if you really want to get their attention, you need to put a revenue and profit opportunity on the table that is so big that the buyer and his organization have to consider because if they don’t they’re either a bad buyer or they’re corrupt. But if you offer a buyer an opportunity to add major revenue and profit to his company or her company, they have to consider it.

This particular case, this was a company that maybe in the past had done annual business of maybe a couple hundred thousand dollars, I think it was. I put together a $4 million program.

Now, that sounds pretty extreme, but it was a pretty extreme idea and it was all designing a corrugated castle that at Christmas time went from one end cap to another on the toy aisle and it feature our product. And because the program did so much for them in terms of turning their toy aisle into a [inaudible] Christmas castle, and it afforded us the opportunity to get major promotion space.
We actually did the four and a half million dollars. And that time it was the largest single order ever to come out of the field. My belief is that good buyers buy profit. They don't buy products. And so you have to put a gross profit and a good gross revenue opportunity on the table.

If you talk in terms of unit profit, you're talking in terms of pennies and dollars and the conversation tends to be, I'm trying to know you down an extra few percentage points or an extra few pennies or dollars off the price. But if you talk gross profit and gross revenue, if you're talking hundreds of thousands or millions of dollars...

Michael: In gross sales or in profits after the sale?

Richard: Both. What's happening is that you're not talking about percentage of profit. It doesn't make any difference what your percentage is compared to somebody else's. It doesn't make any difference what your cost is as compared to somebody else's. I remember one time early when I was doing this, it was the Safeway chain, I remember. I had put together one of these programs and it was huge.

Richard: And I remember I had a salesperson working for me and they said, "They're gonna laugh you out of the room." I think it was a million dollar program and I said, "Nobody laughs at a million dollars." And we got the business. Does it always work? No. But I would say that it tremendously moves up your opportunity for dealing with orders and it will almost every time get you serious consideration. It would get management involved too.

Michael: Alright. Let's recap. For a company who wants to go after a big chain, your advise is when you talk to buyers don't talk in incremental unit price because they're gonna negotiate that price down. Present a program in talking gross revenue, larger numbers, because it gets more attention and keeps them away from knocking individual unit price down?

Richard: Correct. And to do that, as you said a little earlier, it does demand homework. You have to know how many stores they have. You have to take a look at the store and determine what kind of promotional opportunities there are. And you have to be able to justify that number you're giving them. It's a big part of the presentation. Not only I can do $2 million worth of business, but here's how it will happen. It's gotta be rationale. I found that it's really fairly simple to get up to some very big numbers.
Michael: How do you sell to a buyer? What is a buyer’s internal notice? What does he want? What makes the selling job easier when you’re dealing with buyers?

Richard: Well, it’s a great question and I think what’s surprising is that most people probably fail to answer a very important question. And it’s kind of a personal question to ask a buyer, but it’s a way to find out. It’s what are they bonused on? They can be bonused on profit. They can be bonused on revenue. They can be bonused on contribution.

I remember I had a situation once with a very large customer and we as a company just couldn’t get anywhere with them. And I met with the buyer and found out the problem we were running into was he was bonused on his ability to maintain an in stock position.

Michael: What does that mean?

Richard: Meaning that he was bonused on being as close to 100% in stock on all items as possible. In other words, he didn’t run out of stuff. And our company does, the nature of our products was we had a lot of units, different types of items, so we tended to run out of products. We were killing his percentages. We were single handedly eluding him bonuses.

Michael: And you didn’t know that. How did you find out that that’s how he was bonused on?

Richard: I asked him. I just asked him. And then what I did, I came back. I did a business review. And the purpose of the business review was not about how to do more business there. It was about how to solve this problem. And I came up with a system that allowed us to actually fill his orders. I think we went from like, say it’s an in stock, a 99% in stock. It would take too much time for me to explain how I did it. After that I orders just went up like crazy because we helped him make a bonus.

Michael: You identified the objection.

Richard: Right.

Michael: Give me another store, like the previous one you gave me about how you got into a major account.

Richard: Okay. Well, there was a situation of Kroger supermarket. I was working with a company that had a line of, I don’t know if you know what playballs are.
Michael: Playballs?

Richard: Yeah. When you go into a supermarket in the spring, there’s these big balls that are blown up.

Michael: Yeah, the kickballs that are in that wire thing?

Richard: Right.

Michael: Let me preface this. Is this a client of yours who contact you?

Richard: One of my clients.

Michael: Were they a manufacturer of these playballs?

Richard: A European manufacturer. And they had something interesting. First of all, they made a display that was not wire. It was PVC. It was a pretty display, white plastic. And in addition to that, they’re balls were very attractive. They had pictures on them. And we were up against three very established ball companies.

Michael: Were the other established ones in the U.S.?

Richard: Yeah. They were U.S. companies and we all had to go to the Fred Meyer offices in Portland, part of the Kroger group. And they had it all set up there. They brought their little racks and I did something fairly bold. I had my people build a display that was roughly 20 feet high, went to the ceiling, and we filled it with balls. And we pitched to them as a playball extravaganza rather than a display.

The logic was that they were gonna go through that many balls anyway, so why not use the top of that display as a stocking tier to maintain inventory. And that when people came into the store they would think they were having a religious moment. In that particular case, we didn't get that particular display in, but we got the program because they were so blown away.

Michael: Were the other three playbook manufacturers pitching at the same time?

Richard: Yeah, and they just had those little wire racks in there.

Michael: Oh, so do buyers, when they’re looking at a category like balls, they’ll bring all the companies there at once?

Richard: In that particular case, that’s the way Kroger was doing it.
Michael: Was your display inside that you set up?

Richard: They had a huge conference room with huge tall ceilings.

Michael: How did the price points compare and how important was that?

Richard: I'll give a great story. It's a bigger story than that. This is how I got it into Toys R Us and Target.

Michael: Same balls?

Richard: Yeah.

Michael: Okay.

Richard: What had happened was the American playball market was a market that was dominated by a very cheap looking kind of solid color marble looking ball and it usually retailed for 79 cents or 89 or 99.

Michael: Were they imported or made here?

Richard: Now, they're imported, but at that time they were domestically made. And I was at a show in Hong Kong, actually, and I saw a ball made by a European company that was gorgeous. It had pictures on it. It was printed. It's called 360 degree printing. And I was so knocked out by it that I met with them in Hong Kong, met with them in New York, and then actually went to Italy, met with them there. And then that's where we developed this consulting relationship. The issue though was that I did focus groups on this product because it was more expensive to make and found out that American consumers would pay $3.99 for this product.

So, we started going out to see buyers and initially, buyers just shut us down. They said, “Why would anybody buy a product that's four or five times the retail?” So, we went back and we did a gross profit analysis on these same people and [inaudible] our program that did a quarter of a million dollar and said, “You put ours in and we project you'll do a million and a quarter because we think that our ball is so good looking that we’ll sell more because we have different kinds of pictures, which means shoppers will buy more than one time if they have more than one child.”

Michael: Did you have licensed images?

Richard: We had licensed and non-licensed. And they'll buy more overtime. And I said, “I'll tell you what I'll do.” I said, “I'll give you a 10% gross profit
guarantee. I'll guarantee you that you will do at least 10% more gross profit on my line then the line you’re currently carrying. And if you don’t we’ll write you a check.” And we got the business and of course it was a no-brainer for me because I realized we would have to do a quarter of the business they were currently doing in units for me not to be able to make it. Okay? What ended up happening, we actually sold more units than they were selling out of the other program. So, we never had to write a check to anybody.

Michael: Wow. Is that still...?

Richard: Yeah. They are very dominating in the U.S. market now and we actually changed the nature of the playbook business.

Michael: You did. So, those ugly balls, they had to either step it up or they’re out of the market.

Richard: Well, the business really has gone to licensed balls.

Michael: Right. Interesting.

Richard: Yeah.

Michael: Tell me a little bit of how you used licensing to increase the sell through for those balls or maybe any other product. And how did you negotiate the licensing deal? How effective is licensing when you want to move a toy or a product that you want to get into to mass merchandising?

Richard: Well, in the U.S. toy industry, our product industry, it’s really become a fashion industry and it’s really lifestyle and trend based. And these licenses have a tremendous impact on sales of product. Something that a lot of people fail to understand is that they don’t understand why a manufacturer objects to paying a royalty for this license. It could be anywhere from 10 to 15%.

Michael: Of gross sales?

Richard: Of gross sales. And what they miss though is if the American consumer sees a quantifiable perceived value in having a license on that product, they’re willing to pay more because it delights their child.

Michael: Absolutely. I’ll tell you a story. I’ve got a three and a half year old and he’s into Spiderman. And I’ve bought Spiderman t-shirts, Spiderman hats, Spiderman scooter, Spiderman underwear, Spiderman everything. He won’t put anything on but Spiderman. And it’s...
absolutely true. The parents want to please the kid with what they like and what they identify with on TV or the movies and stuff.

Richard: I have a theory right now that I’m working on and that is that the American toy industry really is missing a whole segment of what kids like and what young kids like. And what I’m seeing is that what is extremely popular with children is anime. Are you familiar with the anime, Japanese form of art? Pokemon.

Michael: Oh, Pokemon. Yeah.

Richard: It’s a form of anime, but it’s much bigger than that.

Michael: Right. Pokemon. Digimon. All the shows. That comic look.

Richard: I go to a lot of shows. Comicon, which is the comic book. And attended some seminars on monga and anime. Monga is the girls’ version. And they did studies with boys and girls, roughly 8 years old. And they showed them pictures of anime and monga cartoons. And if you’ve ever looked at that stuff, they look to us, Asian, the characters. And they asked the kids, “Where are these children from?” And they said, “The United States.” And they were just very interested because what it showed was how our children see the world is, visually, very different than how we did. And what’s an American look has changed to be far more universal.

Michael: That’s true.

Richard: So, I think that there is a lack of use of this type of illustration in our products. The other one is similar here, is consumer electronics. These games that you play. Nintendo, etc. A lot of these characters are not being licensed in toys. Also things like flash art on the internet. So, our children are really into almost a different style of art and perception of what people look like than we are. And I think that that’s gonna be the next big cycle if we grab a hold of that.

Michael: Tell me how the television shows influence or prohibit toy manufactures from getting into the large retailers. You know, you’ve got Pokemon. You’ve got the TV shows Dora. If it’s on the air, it dominates the air and it dominates the buying decisions of these large mass merchandisers. Do you need a TV show to get your toys into these large merchandisers?

Richard: Well, I’ll give you an example. If you go into a major retailer and you go to the puzzle aisle where the children’s puzzles are, I would say 95% of the puzzles are licenses. There’s virtually no product that’s not
licensed anymore in a lot of these categories. So, you really do have to have one. There’s only so much licensing to go around. So, it is very important. You have to have deep pockets. You have to have good distribution. You gotta be bold and you gotta be a visionary. Part of being a visionary is spotting some of these trends before the big boys do and being able to get them at a bargain price, getting them early.

Michael: Can you tell us about your success on how you opened the Mexican and Canadian markets and introduced an import program that added a million dollars in the first year of sales?

Richard: Sure. Mexico was an interesting case. The Mexican economy, as you know, has changed enormously and I really got an opportunity to see that change take place. As there distribution system flattened from one that had a lot of people involved who were non-value added people. In other words, they didn’t add to the product. They just had to be included in the distribution chain.

Michael: What do you mean Mexico’s distribution flattened?

Richard: To give you an example, to do business in Mexico the manufacturer sold to a distributor who sold to another distributor who sold to another distributor who sold to a retailer.

Michael: And that was traditional distribution in Mexico.

Richard: Right. Right. So, what happened was about 10 years ago, Wal-Mart did a deal with the Arero chain. Now, Wal-Mart owns it. That’s Wal-Mart Mexico. I attended a conference of Mexican and U.S. toy manufacturers. And I was sitting next to a reporter from the Economist.

He said, “You see these guys in the Mexican toy industry?” I said, “Yeah.” He said, “Well, look around the room. Get a good look because you’re not going to see them in a few years. They’re all going away.” He said, “Because what’s gonna happen is Wal-Mart’s gonna flatten out the distribution chain.” In other words, Wal-Mart is gonna depress prices so low that there won’t be any room for distributors in the chain.

So, when I happened to be doing business in Mexico, this was at a time when Wal-Mart was entering the market. Essentially, I met with a distributor in Mexico who need a system in which he can sell Wal-Mart and he can sell the rest of the world.

So we developed a pricing strategy that allowed him to deal with the reality of his market. In other words, I went down there and visited the
market, went into the stores, talked to the people. And because I was there, I was able to develop a successful strategy.

Michael: Now were you working with a client again?

Richard: There was a client. That was Rose Art.

Michael: Oh, you were working with Rose Art.

Richard: Yeah. Really for their puzzle and game division. I consulted as their National Sales Manager.

Michael: So, you’re trying to come up with a strategy to get into the Mexican market.

Richard: What was interesting is that at that time Rose Art was not able to get in and I did.

Michael: How did you do it?

Richard: Basically, the problem we were running into was that at that time in Mexico Wal-Mart wanted to be sold directly with no distributors and the distributor needed to sell everybody else. In other words, we needed a distributor for everybody else. So, if you sold Wal-Mart at your lowest price, they would be so far below market from anybody else selling your product as a distributor that they’d be non-competitive. In other words, you can have one, but not the other.

So, what we did was we worked out a way that Wal-Mart could by the product but we sold them a product that was discernibly different from anything else we were selling in Mexico. We used different packaging. The distributor was able to sell a different looking product because the packaging was different.

Michael: So, you did a private label for Wal-Mart?

Richard: Essentially, yes.

Michael: So, it didn’t compete with your other products.

Richard: Right. Wal-Mart didn’t know it.

Michael: Wal-Mart didn’t know it.

Richard: That’s what it was.
Michael: Okay. Very good. Because you didn’t want your other existing distributors in Mexico to be upset that Wal-Mart was undercutting them.

Richard: Well, yeah. It would have been so dramatically below their pricing because you can imagine, number one, Wal-Mart works at very low margin and two, the competition not only worked on larger margins but had to build in for distributors.

Michael: So, you created an entire line not to upset the existing distribution in Mexico. Great solution.

Richard: Right. And in Canada, it was really just a matter of grunt work going up there. Again, going into the stores, visiting the different players and eventually working up the system where we had product in Canada because we found that it was important to be a corporate citizen in Canada and to be able to charge in Canadian dollars. That was very important to them.

Michael: Can you give me another example, another success story that you were able to get a product in where pricing was initially an issue and how you overcame that?

Richard: Okay. This was an interesting story. I was working with Rose Art and they licensed their rights to the Kodak name and put it on puzzles. So, our task was to find a way to take a major price increase. We were actually gonna have to go up 25%. We were gonna take it up from a $3 to $4 retail. And it was really very much doom and gloom as to how we were gonna people to actually do this.

Michael: Why were you gonna have to increase the retail?

Richard: Because when the company originally set the pricing on the line, they did not build in enough profit.

Michael: So, it was losing money?

Richard: Right.

Michael: You had to increase the price to keep the product making money.

Richard: We couldn’t get a 25% increase.

Michael: You couldn’t go back to buyers and say we need to up the price on you.
Richard: No. They would just go buy a different product from somebody else. So, my theory was to demonstrate the value of the Kodak brand was to offer them the same puzzle without Kodak on it at the old price. I gave them a choice. Then they balked at the price increase. I said, “Well, look what I got for you.” And I pulled that other puzzle out of the box and put it on the table. I said, “Everything's the same except it doesn't say Kodak.” And that really kind of stopped them because it forced them to consider the value of the Kodak brand. It quantified the value. And then I said, “I so believe that we can get this price on Kodak. I'll guarantee you a 10% increase in your gross profit if you take the price increase.” And we didn't pay a dime to anybody.

Michael: That's brilliant.

Richard: You know something, as an aside, it was the smartest thing I ever did in my career. Of anything I've done, I'm most proud of that one. I knew that I had to somehow quantify the value of the Kodak brand.

Michael: And you just put it right there in front of them.

Richard: Right. And the only way I could do it was to show them the exact same product without the Kodak brand on it.

Michael: No one dropped you and went to another puzzle?

Richard: Nobody dropped me at all. Two companies went with the non-Kodak brand.

Michael: Tell me. What’s your in with the company when you’re having successes? Does that lead the way and pave the way for more opportunities with different products and different lines? How are you more in a toll position being in with a large mass merchandiser moving and turning product?

Richard: There’s a term I like and that’s preferred provider and preferred representative. And what that means is that if you are a preferred sales representative, meaning an independent rep, a customer will come to you with an opportunity. You’re the one they’ll call. If you’re a preferred vendor, for instance, they need an item for an ad, they’ll call you. If they have a promotional opportunity, they’ll call you. And they’ll call you typically because, yes, product is king, but they’ll also call you because you’re reliable.

If you’re a vendor, ship on time as promised complete. If you’re a sales rep, you’re a great communicator, they hear from you all the time and whatever you promise you deliver. So, every rep should aspire to be a
preferred representative. And every vendor should aspire to be a preferred vendor.

Michael: Can you talk about some differences in how buyers differ and how companies differ in the way they buy from Wal-Mart to K-Mart to Toys R Us to Kroger, Safeway, CVS? How much difference do you experience out there as a sales rep?

Richard: I'll give you an example. We talked about Wal-Mart a little bit ago, about how Wal-Mart just wants your best price. They want you to net it out so they can give you the lowest price. Some retailers have a lot of profit centers within the company. In other words, you give them a price and then they want a 10% discount to cover this and they want a freight allowance and they want a discount for this and a discount for that.

They think they are getting a cheaper price because they are getting you to give them all these extra discounts, but smart vendors and smart reps figure out pretty fast that they can’t go in with their best price. They have to start with a higher price because they’re gonna have to give discounts away. And I think that’s the biggest difference I see.

You have to really know who you’re selling and you need to know in advance what the costs are business are there because you don’t want to go in with a price and not be able to support because you didn’t count on the additional discounts. And some of those discounts can be, some companies want you to pay the freight. That’s a big difference.

Wal-Mart never would ask you to pay the freight because they know they’re more efficient in their logistics system in getting products to their stores. But a lot of supermarkets, as an example, want the manufacturer to pay the freight costs. And when the manufacturer has to pay the freight costs, it’s typically not gonna be as efficient as what a sharp retailer can do.

So, you need to find out if that customer expects you to pay the freight or if they’re gonna pay the freight because if they expect you to pay the freight, you’re gonna have to build that into your costs.

Michael: So, how can I do my homework before I meet with a specific buyer of a specific chain?

Richard: If it’s a new company, maybe a company from Europe or Asia entering the U.S. market or it’s a new company that’s an American company
that wants to enter the market, it's very important to get good independent sales representatives who already call on these retailers and know how business done there.

Michael: Where can a company overseas find a good sales rep group?

Richard: A lot of people come to me to do that and I do it because I know a lot of these folks. But you can also buy a directories or you can contact different associations who may have information on sales reps. You can look in trade magazines. You can go to trade shows. I do a lot of work on the subject of independent sales reping. As a matter of fact, I do something called a quality of sales survey, which I've conducted for several sales industries now.

Michael: Tell me about that.

Richard: What interested me is that I found that when I would talk to buyers and I would talk to manufacturers, I found a very uneven perception of the independent sales rep and the sales people in general. And I wanted to know how did sales people see themselves and how did the buying community see them and how did the manufacturing community see them.

So, I asked a series of questions about communication skills, follow up, product knowledge, customer knowledge, and I found some really startling differences between buyers and manufacturers and sales people, how they solve these issues. And also between industries, which was very interesting to me.

I'll give you an example on the subject of knowledge of the customer. I found that manufacturers expect the higher level of satisfaction with their sales reps knowledge of their customers than the customers did of the sales reps knowledge of their business. Right.

So, in other words, let’s say I’m a manufacturer and I have sales rep who’s calling on Wal-Mart. Not just Wal-Mart, but in general I found that the manufacturers tend to have a higher opinion of that rep’s knowledge of the customer than the buyer did of that rep’s knowledge of their company. You follow me?

Michael: Yes.

Richard: So, this is not an insignificant issue because it means that a lot of these manufacturers are overestimating their rep’s knowledge, which tells me that the manufacturer needs to do a better job at knowing about their customers themselves. They gotta dig in a little deeper. But I do have a
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way, when hiring reps, to make sure that you’re getting the best person to be representing you. Independent sales reps carry a lot of lines.

So, whatever your line is, you want to make sure that sales representative calls on your buyer. Let’s say you sell dolls and you get a rep to represent your doll line. If he’s not in front of the doll buyer or he’s rarely in front of the doll buyer, he’s really not gonna know that business or know that buyer. So, you want to make sure that his most important line puts him in front of your buyer.

Most people never think to do that so they’ll get a rep who’s got a great reputation, who does a lot of buying. The problem is that rep’s never in front of their buyer. But again, just going back to the survey for a minute. I just want to mention that. What was very interesting is that there was a huge disparity in some of these areas that sales people in general did not get particularly good marks on communication skills, on follow up, on returning phone calls.

So, there’s a lot of work that needs to be done, but we’ve started a communication. I did this for the book industry. I did this for the juvenile products industry and I did this for the toy industry so far. And I spoke to those industries about this and we’re trying to raise consciousness of it.

Michael: So, you were talking about buyers. You wrote an article about the abusive buyer. How does one know when a buyer is over the line and what can you do about it?

Richard: Salespeople are the last unprotected class of work in the United States that they can be flirted with, they can harassed over, a number of issues that are not germane to the job. To me the real issue is if a buyer treats in such a way that has nothing to do with business, in other words, if it’s about your race or your religion or whatever, it’s abuse. If they yell at you, it’s abusive. And there are also buyers who will punish sales representatives for going over their head and actually won’t buy from them for a period of time.

Now, what I’m basically saying is that buying decision should be based solely on what revenue and profit contribution does this make for the company and it should have nothing to do with personality because no buyer should make a decision on personality. It doesn’t flow to the company’s bottom line. It’s wrong.

Michael: So, what would you do about? Has this ever occurred to you?
Richard: Most companies post on premises what they expect of their employees in terms of treating each other. You know, harassment policies, all that sort of thing. And they should clearly post to their buying community how they expect them to act and what’s acceptable and what’s not. And too, they need to be able to set up a way for salespeople to be able to go to management if they feel that they have a bona fide harassment claim if they’re not being treated right or it’s abusive.

Michael: There’s a current trend with our ports of entry. Can you talk about what you learned about that and what an importer should keep in mind when importing to large merchandisers?

Richard: Sure. It’s really interesting. China has been putting an enormous amount of money in building their export infrastructure because they’re such an export powerhouse. And imports from China into the United States are just going up exponentially every year and they’re anticipated to go up. At the same time, we have had very little in the way of port infrastructure development in the United States. And we’re at a point where the port of Long Beach, which is our major port on the West coast, is backed up all the time. As a matter of fact, I don’t know if you recall, there was a longshoreman strike a couple of years ago and it just backed people up forever.

Michael: Give me a visual. Let’s say you’re an importer. You’re anticipating Christmas orders from your buyers and you’re bringing your product over from China. How long should it take and in a bad situation, how long would it take?

Richard: Well, it should pass through in days, but what was happening there were containers that were stuck out in the water for a month because they just couldn’t move them through. I had a gentleman who was Vice Chairman over at Goldman’s Ax and he has been very involved in Homeland Security and he said that if a small bomb went off at the port of Long Beach, you’d have containers backed up across the ocean.

So, I think that in doing your exporting to the United States, it makes several questions. One, what other ports of entry may you have access too, because, by the way, even Wal-Mart is having to bring some containers in through the Gulf and through the East coast that are coming from China. They had to route them around. I think that people from other countries should think about maybe shipping some goods in early to have a padding. But it’s gonna get worse because we’re just not seeing the money being put into development. And plus, now you’re looking to having to check all the containers due to security issues. But it’s not as big a problem on the East coast. So, for...
European manufacturers it’s not a problem. It’s a bigger problem for Asian manufacturers.

Michael: You also wrote an article that appeared in the September 5, 2005 issue of Design News and it talked about the coming senior shopping boom. Can you talk a little bit about that and how a vendor or a manufacturer could potentially benefit from this boom?

Richard: Baby boomers are hugely brand conscious. They love their brands. And they’re getting old. And as they get older they’re still gonna love those brands. And it occurred to me that companies are not yet designing products for this coming senior citizen population. I’ll give you an example. When you’re in the store, do you ever see old ladies with these little aluminum walkers?

Michael: Sure.

Richard: Are those ugly or what?

Michael: Totally ugly.

Richard: Now, these are women, who in many cases are women who are fashionable or who have been fashionable, but this is the only thing that they can get. Why hasn’t somebody make it a great looking walker?

Michael: Or a great looking wheelchair?

Richard: What’s the story on Harley-Davidson? Are they gonna produce a motorized wheelchair for this population who love Harley-Davidson?

Michael: Yeah, that’s true.

Richard: What about iPod? How about a hearing aid that plays music?

Michael: Great idea.

Richard: I’ll give you another example. Boomers grew up on DC comic books, not Marvel. The DC Company needs to be planning on reintroducing a lot of these comic books and doing them in large format with big print. It’s gonna be a lot of fun and a lot easier to read for a lot of these people. The retailers need to do a better job at having a venue for these products and manufacturers need to really rethink design and taking a look at all these things, like you said, wheelchairs, and make them great looking.
Michael: What’s the future for brick and mortar businesses?

Richard: Well, it occurred to me one day, everybody’s talking about the internet and taking away sales from bricks and mortar, but you know, the internet doesn’t have to take away all the business. It just has to take away enough business so that the brick and mortar store is not doing enough volume to support the infrastructure. In other words, if you’ve got a 200,000 square foot store, if you lose enough customers just so you get to a place where you’re no longer profitable, it’s a real problem. So, the article pointed out that retailers need to do a better job at keeping customers, first of all, by making sure that you can get it and you can get out fast, that it’s enjoyable experience. And then they ought to look at ways to incorporate the internet into their bricks and mortar business.

For instance, if you were in a store and they sell leisure wear and travel clothes, bathing suits and that sort of thing. Then why not have a kiosk in there where you can book vacations. Or why not have a kiosk where you can buy oversized products that you can’t merchandise in the store. Brick and mortar need to make sure that they retain enough of their business to be able to support the brick and mortar infrastructure, the sales organization they have in the store or we’re gonna see people really get into trouble or having to cut back on the size of their stores.

Michael: Wow. We’ve covered a lot of our subjects here. You’ve offered a lot of value here, Richard. And if someone wanted to hire you on a consulting basis, can you tell me what they can expect when they call you and how you operate as a consultant? Give someone who’s listened to this an idea of what you can do for them in the process if they choose to use you?

Richard: The first thing I do is, we arrange a free 45 minute session on the phone. There’s no charge for it. There’s no hook. It’s strictly a means for that potential client to see if they want to work with me and for me to see if I want to work with them. I need to feel that I can offer them value, that I can make a difference. And if I can’t make a difference, I don’t take them on as a client.

Michael: So, what kind of questions do you even ask?

Richard: Well, what we’re basically gonna do is we’re gonna brainstorm. They’re gonna walk away with value. They’re gonna have ideas about their business that they didn’t have before. One of the questions I love to ask people and this is how I find out how to help them. I say, “When you wake up at 2:00 in the morning, what are you worried about?” And
whatever they tell you is usually the reason they’re really calling you. And it could be anything from they don’t think they’re getting enough sales or their market’s eroding, or they’re losing money. So we just brainstorm.

I give them ideas and then we determine whether we want to go to the next step, which for me to put together an action plan and proposal. What that proposal would be, I would identify what the deliverables are, what are they gonna receive and what they’re investment’s gonna be. And then they make a decision whether they want to go forward. And once they do, my first project I do, I do a 50% guarantee, meaning that I always get 50% upfront on the first project and when I deliver the project, they don’t have to pay the second half. I’ve never had somebody not pay me the second half, but I do that guarantee.

Michael: Do you charge on a per project basis or an hourly basis?

Richard: I can do it on an hourly basis or I could do it on a project basis. I always say to people, taxi drivers and lawyers always do it by the time and I think most people are uncomfortable with that kind of open ended situation. So, I can work on an hourly rate, but I find most clients are very comfortable with a project basis because they know what they’re getting and they know what the investment’s gonna be.

Michael: So, if I come to you and you identify that I’m gonna need one project or there may be several projects. Is that correct?

Richard: Yeah. I usually try and give them a menu. I find that it takes a lot of time to go over and find a client who will give you a huge project. And I find what’s more enjoyable for me and builds great relationships is give our client small bites and if they like your work, they’ll continue to come back to you. And you’ll do the same [inaudible] extreme overtime, which makes everybody more comfortable and happy.

Michael: How long does it generally take to start implement projects?

Richard: I’ll get started immediately upon reaching an agreement. And typically I can have the result to them, depending, of course, on how extensive the project is, anywhere from a week to a month. It depends on what they’re looking for.

Michael: How are you gonna keep me abreast of your progress?

Richard: I’m a great believer in communication. It’s one of my real pet beliefs. And so I tend to be in contact with a client two and three times a week and I’m giving them progress reports on what I’m doing, how I’m doing
in completing the project. And once I finish the project, I always allow the client, prior to the project, a number of hours of follow up to make sure they understand everything and that we can fine tune and polish it to go on.

Michael: So, you've been at this how many years?

Richard: Well, I've been in business for 35 years. I've been consulting for 10. If I wanted to do business in China, I wouldn't have a clue. And so when they want to do business in the United States, they pretty much don't have a clue either. It's just a very different business model, and I find most Europeans are amazed at the scales of doing business here. The biggest difference in terms of miles and in terms of cost of business and in revenues and profits. It's just huge. You know, our bankruptcy laws are different. There's just a lot of things that are different here. I really help them get into business and get going. I'm the source of a lot of information and knowledge of the marketplace.

Michael: What kind of client do you not want to work with?

Richard: If you are a manufacturer in Europe, as an example, if you are unwilling to change your ways of doing business and ways you view the market place, don't call me because I can't help you. You have to be willing to understand how the U.S. marketplace works. And you're gonna have to adapt your business to this marketplace. And this is extremely difficult for highly successful European companies because they're used to being successful and the way they do business. And it's difficult for a lot of them to make those changes because it's easy to change what you don't do well. It's much harder to change what you do do well.

Michael: Give me another example of who not to call.

Richard: Men buyers today, particularly in the larger retailers, will not set up a vendor who only has one product because they rationalize that the cost of setting up a vendor, there's a certain amount of costs involved, and that they only have one product, they're not gonna get a return on investment dollars in setting them up. So, you have to have a line, not a product.

Michael: What other criteria would you say that someone has to have before you work with them?

Richard: They're gonna have to be sincere to invest in me of course, because my services are gonna save them a lot of money and make them more money. Save them money by not making mistakes and make more
money by opening up more markets and doing it quicker. So, I think that in general they have to have the funding in place to not just deal with me, but to deal in this marketplace which is a marketplace that because of the volume and because of the miles and logistics, etc., you have to be financed to be able to do business. So they need to make sure they’re funded.

Michael: What’s the best way for someone to get in touch with you if they wanted to take you up on your 45 minute free consultation?

Richard: I have an 800-number which is 1-800-541-0673.

Michael: Well, look. I really appreciate your time. Your time is very valuable and I encourage anyone who is an importer or someone who’s not familiar into the distribution of the mass merchandise market here in America to contact you and take you up on that 45 minutes because I know what you charge per hour and that’s a nice gift to offer.

You’re listening to Michael Senoff’s HardToFindSeminars.com. That is the end of our interview with Richard. I hope this has been helpful and I encourage you to take Richard up on his generous offer to provide your company a free 45 minute consultation. You can reach Richard by calling 1-800-541-0673. If you’re calling from outside of the United States, call 858-274-7851.