

Picking Wal-Mart's POCKETS

Michael Bergdahl©

Wal-Mart is coming! Wal-Mart is coming! Wal-Mart is coming! The mere mention of the name *Wal-Mart* engenders fear in the hearts of competitors around the globe. The reality is that Wal-Mart is coming to a town near you . . . so what are competitor's to do? Historically, as Wal-Mart has expanded its operations around the globe the local competitive environment changes . . . forever! Wal-Mart has trounced hapless competitors worldwide so what can you do to make certain you are not one of them? The fact is that in every market Wal-Mart has entered there are retailers who were there before Wal-Mart arrived and they are still there today, competing surviving and even thriving! Unfortunately there are many other retailers who break under the pressure of Wal-Mart's Every Day Low Prices. Where can you learn the lessons you need to learn in order to insure the success of your business in a Wal-Mart World? The answer is by Picking Wal-Mart's POCKETS!

POCKETS is an acronym "P.O.C.K.E.T.S." which defines the seven strategies of Wal-Mart. The symbolism of P.O.C.K.E.T.S. is that for any business to compete effectively it has to identify its own unique market, niche or "POCKETS". The acronym stands for: **P** = Price, **O** = Operations, **C** = Culture **K** = Key Item Promotion/Product, **E** = Expense Control, **T** = Talent and **S** = Service. These are the seven key result areas of the Wal-Mart strategy. These are also the seven strategic areas around which competitors need to focus their businesses in order to compete effectively. In my book, my speeches, and in this article I use the P.O.C.K.E.T.S. acronym as a framework to discuss the inside strategies and tactics used by Sam Walton and Wal-Mart that makes competition with them so difficult.

Price: The USP (unique selling proposition) of Wal-Mart is creating value for money for the average consumer by focusing on low prices. Said another way, Wal-Mart has turned "everyday low prices" into a sustainable competitive advantage in the marketplace. "Price" is everything at Wal-Mart transforming all of its products, including well established international brands, into mere commodities. Sam Walton figured out long ago that consumers from Texas to Tokyo are driven by the same obsession to purchase products at the lowest possible prices. By offering the lowest priced products Wal-Mart has single handedly raised the standard of living for consumers around the world. Sam Walton's low price strategy has forever changed the retail, manufacturing/supplier paradigm and by doing so he has forced competitors to think like discounters. Some even try to match Wal-Mart's prices for their products. As so many retailers have found, this strategy is destined to fail! Interestingly, the key to retail competitors, manufacturers and suppliers surviving the onslaught of Wal-Mart's massive buying power, and everyday low prices, is not to compete with Wal-Mart directly at all! In other words, if you are not in the

discounting business don't try to act like a discounter! As I travel the world speaking to audiences about how to compete, survive and thrive in a Wal-Mart world it amazes me how many retail competitors and product suppliers actually tell me that they try to match Wal-Mart's pricing strategies. With almost 7000 stores around the world a local retailer doesn't have the economies of scale to compete directly on price. The key to succeeding is "product differentiation". In markets around the world other retailers, manufacturers and suppliers have proven they are able to thrive in the "curl of the Wal-Mart wave" and so can you, with the right strategy and tactics!

Operations: The philosophy that "high expectations are the key to everything" forms a large part of the foundation of Wal-Mart's achievement of standards of operational excellence. High expectations lead to higher productivity, which reduces costs. Lower costs allow for lower prices, which in turn build sales and profitability. Greater sales and profitability finance the opening of more stores. More stores enable greater economies of scale. Greater scale leads to lower costs. At Wal-Mart, efficiency is a never-ending mission to drive costs out of the system, which in turn allows the company to pass the savings along to the customer. When Wal-Mart saves money its customers benefit directly with lower prices of goods. Most competitors aren't aware of the fact that Wal-Mart is an "operations driven" company. Most retailers are "merchandise driven." The quality of its distribution systems are legendary. The United States Federal government even studied Wal-Mart's incredible distribution capabilities following Wal-Mart's quick response to supplying its stores in the aftermath of Hurricane Katrina. Technology and logistics are the foundations of Wal-Mart's success and in its stores products are mere commodities. Reducing inventory costs and keeping shelves stocked, with too good to be true bargains, is the ultimate driver of high volume sales at Wal-Mart. "In stock" means big business for the world's largest retailer and being out of stock is tantamount to being out of business. The rallying cry at Wal-Mart for their store and distribution center operations is "execution, execution, execution!" Wal-Mart, and its manufacturers and suppliers, are renowned for their focus on "operational excellence", "exceeding customer's expectations" and always striving to continuously improving operations.

Culture: A major contributor to the success of Wal-Mart has been their "people" culture. "Our people make the difference" wasn't just a catch phrase to Sam Walton; it was a hard-wired cultural belief shared by company leaders to this day. Sam believed if you take care of your employees, your employees will take care of the customer and the business will take care of itself. Said another way, "employee attitudes affect customer's attitudes which impact business performance."

Sam Walton really loved visiting his stores and spending time talking to customers and employees. The company's employees would walk right up to him and strike up a

conversation as if he was an old friend. In the early days, when Wal-Mart had fewer stores, he'd visit each of his stores at least once a year. Sam Walton was so down to earth that people were attracted to him like steel to a magnet. The employees at Wal-Mart could tell he was genuinely interested in what they had to say.

Sam was a “people” person and there was nothing he liked better than rubbing elbows with the troops. Upon arriving at a store, he would often pull the associates together in the front of the store by the cash registers and talk with them about the company or any concerns they might have. Before he left, he would always lead an enthusiastic Wal-Mart company cheer.

Sam attributed some of Wal-Mart's most innovative ideas directly to his employees. The idea for door greeters was originated in a single Wal-Mart Store in Crowley , Louisiana . Once Sam saw the people greeter at that store for the first time, he was committed to implementing greeters across the chain. Now door greeters are a mainstay at stores around the world! As in this example, entrepreneurial thinking by the people at Wal-Mart closest to the customer is not only encouraged, it is expected.

I heard Sam Walton at a Saturday morning meeting tell company leaders on several occasions to refer to and use the Golden Rule in their treatment of people. He believed in treating customers like neighbors or friends and his employees like family.

Key Item Promotion/Product: Every employee who works for Wal-Mart is expected to think, and act like, a retail merchant. In every department, from information technology, to accounting, to human resources, every employee at the headquarters, distribution centers and stores is expected to focus their thinking on how to better serve the customer. All headquarters employees are expected to visit the company's stores, as well as competitor's stores, in order to know the real market place issues, and to have a point of view on key business problems. If you ask someone from the Wal-Mart headquarters what they do for the company, don't be surprised if they tell you that they are a retail merchant. Trust me when I tell you that they mean it.

I think Wal-Mart's fanatical focus on having all of its employees and vendors think like merchants is because they know that having the right products, merchandising them well and providing outstanding service are pivotal to creating an exciting shopping experience and building customer loyalty. Wal-Mart's buyers and store managers do all they can to make their stores the destination of choice for value-driven shoppers. The price points are sharp and the merchandise is tailored to meet the needs of local customers. This customer-centered focus gives customers the feeling, “why shop anywhere else?”

With so many stores, Wal-Mart has incredible leverage in negotiating prices with its manufacturers and suppliers. It is important for competitors to understand that because of its buying power, Wal-Mart can sell its products at retail for less than the price at which most retail competitors are able to purchase the same products from their own wholesalers. Talk about a competitive advantage in the marketplace! For this reason, other retailers often buy products at Wal-Mart for resale in their own stores. It's scary to think other retailers can get better prices by purchasing directly from a Wal-Mart store than they can by buying from their own distributor/wholesaler network! That's why it is so difficult for others to sell the same products as Wal-Mart, successfully.

Expense Control: Company profits at Wal-Mart are derived through a combination of tough buyer negotiations on the front end and the company's fanatical focus on controlling costs. Adding insult to injury, Wal-Mart passes those cost savings along to its customers by lowering prices! It's like a double whammy for competitors. The goal at Wal-Mart is to drive costs out of every area of the company's operation, including stores, home office, distribution centers and fleet.

Wal-Mart's top executives focus constantly on managing payroll expenses. Work schedules must take into account the ebb and flow of sales volume throughout the week and within the day. Wal-Mart is disciplined in managing payroll expenses and that discipline is driven from the top. If sales are soft, managers aren't hesitant to cut hours mid-week to ensure payroll budgets are met.

Wal-Mart's distribution and logistics functions provide still another expense advantage for the company. The company uses an inventory management technique called cross-docking of merchandise in their distribution centers, which reduces the amount of time inventory sits idly on the floor in a warehouse. Using its own fleet of tractors and trailers, Wal-Mart replenishes its own stores 24 hours per day from its own distribution centers. Of course, the overall goal of distribution and logistics at Wal-Mart is to ensure the company shelves are always kept stocked.

Sam Walton used to say overhead is one of the most crucial things any business has to fight to maintain profit margins. The Wal-Mart cultural expense philosophy is that every time they spend a dollar foolishly, they take a dollar out of their customers' pockets. They sweat the details by getting everybody to try to save pennies, which ultimately leads to savings of lots of dollars. These savings are in turn plowed back into lower-priced products.

Talent: Sam Walton had a unique ability to gather a team of great leaders and to inspire them to focus on the achievement of a common cause. One of the greatest challenges he face was gathering top executives who were willing to suppress their individual egos in favor of the overall Wal-Mart team.

To understand the Wal-Mart staffing strategy, it is important to also understand its self-professed blueprint for people. The human resources function is actually called "People." The people strategy at Wal-Mart has three components: hire the best, provide the best training, and be the best place to work.

With almost two million employees, Wal-Mart is the largest private employer in the world, second only to the U.S. federal government in the sheer number of people employed. With some stores experiencing turnover as high as 300 percent annually, real issues exist simply to fill work schedules with qualified associates. People are their greatest asset, but I think at the same time, and because of turnover, and the difficulty of filling open positions, people may also be their greatest liability. Wal-Mart's appetite for quality people is virtually insatiable. You see, just one of the large Supercenters may have sales in excess of \$100 million USD and employ as many as 600 employees. To supervise that large a number of people requires as many as eight to nine assistant managers, two co-managers and the store manager. Because of its size and the turnover of staff, Wal-Mart must hire huge numbers of people. Under those circumstances, maintaining quality and the company's culture becomes difficult if not impossible. You can bet Wal-Mart is aggressively pursuing turnover control, especially when you realize the costs associated with it.

Service: Sam Walton built Wal-Mart into the company that it is by living the philosophy, "There is only one boss, the customer, and he or she can fire everybody in the company from the chairman on down, simply by spending his or her money elsewhere." In reality, in any business, you need your customers much more than those customers need you. Repeat business is the key to growing sales consistently quarter after quarter, year after year. When given a chance to provide great service, take advantage of each and every opportunity to do so. Great service is a key component in achieving great sales.

Focusing on the customer is and always has been the most important element of retailing product success. Talk to your customers, find out what they want and buy to those perceived needs. A local retailer has a great deal more flexibility in selecting products and merchandising them to fit the needs of the customers in their own community. Big-box retailers can't specialize to the extent you can. Leverage your own merchant skills by tailoring your assortment to best meet the tastes and preferences of the customers in your locale.

If Wal-Mart's arrival in town is the catalyst for your business to start improving customer service, it is in all likelihood too late. A good merchant by definition should have been providing great service to customers already. Once the big box arrives, it is too late to atone for past service sins, and you will experience payback from customers who are well aware that they have been historically slighted. In towns across the world retailers that failed to serve their customers have been forced to close their doors upon the arrival of Wal-Mart. In many cases, they didn't

have to shut down as they had a viable retail concept that could have survived, but with higher prices coupled with lackluster customer service previously loyal customers seek better and cheaper alternatives. Not serving the customer is a fatal flaw in retailing that will cause your business to fail.

Does your business project to your customers what it says on the sign in your window — “Welcome, We're Open for Business”? Or does your lack of commitment to great service send the subliminal message to your customers, “Sorry, We're Open for Business”? Remember, you've only got one chance to make a first impression on your customers, so make it a good one!

Michael Bergdahl is an international business speaker, author and turnaround specialist. He is the author of *What I Learned from Sam Walton: How to Compete and Thrive in a Wal-Mart World*, and *The 10 Rules of Sam Walton: Success Secrets for Remarkable Results*.

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