



The Siren Song of the Big Box

For many manufacturers, a contract with a truly mass retailer sounds like a dream come true.

Suddenly your products occupy thousands of feet of new shelf space, face to face with a thundering herd of buyers you could barely imagine before. And the enhanced credibility that comes with your new mass outlet is a force multiplier, building your strength in other markets as well.

Alpha One on the retail porch is The Beast from Bentonville, of course: Wal-Mart's 4,750 stores host *138 million* shoppers every week. Other big dogs include Target, Kohl's, Lowe's, Home Depot and a hundred or so other retail industry leaders (RILs).

Demand like that will surely pose new problems for your company — but aren't they the kind every company wants? They'll change you for the better — right? Make you leaner, faster, more efficient. You'll learn to handle more merchandise, and track it, and move it, all at warp speed. Your economies of scale will be immense — longer runs, bulked up ordering from your own vendors, negotiated discounts with shippers. It means change, all right, but change is easier when profits are rolling in. And, oh — those *profits*.

Where Do Thousand-Pound Gorillas Sit?

This potential, naturally, gives a Big Box substantial leverage in its dealings with suppliers. And don't forget the other kind of leverage — the kind an RIL brings to the retail marketplace. What the giant leverages there is *you*.

If there's one thing suppliers to mass retailers learn quickly, it's that when big stores promise low prices, *they mean it*. Price is their entire playing field, and it's one where the goal line often moves. That brings new pressures to bear on suppliers — unprecedented and unexpected, intense and unrelenting.

First, even to get inside a Big Box, a manufacturer can expect to invest significantly. New lines, new labor, new shifts, new sources — every stage of production, every logistical relationship and often every front office function must contribute to the goal. New packaging and bar-coding may be required on a massive scale.

But even after you're in the door, now may not be a good time to breathe. Other tasks emerge or grow: Just tracking returned goods, for instance, can occupy a sizeable team. And the retailer makes more demands: for new packaging, for IT upgrades . . . and always, always, for a lower price.

When an umbrella firm's costs rose, it proposed a five percent price increase to its RIL customer. *Try harder*, came the reply — *we're looking for a five percent drop*. The umbrella people shaved to the bone, cutting their request to two percent. *Thanks anyway*, said Big Box. *We buy our umbrellas in China now*.

Capitalism's Brutal Honesty

Suppliers can expect transparency in their dealings with RILs — but don't look for tender concern about your own fortunes. Low prices, not well-nurtured vendor relationships, are the goal.

That leads to demands like one *Fast Company* magazine reported after an RIL learned of a vendor's big plans for a nationwide promotion. *Save your money*, Big Box ordered — *and knock it off your price to us*. The alternative, of course, was to hit the highway — and take *all* your products with you.

Not every firm is ready to do business with that kind of customer. In fact, getting a foothold in a Big Box can be the victory that breaks a company's back. Demands for lower prices year after year, forced concessions, increased bookkeeping, rigid schedules, all under conditions of increased production — these can take a hard toll.

But selling through a Big Box can indeed grow profits. “If you're good with data, are sophisticated, and have scale,” one retired executive told *Business Week*, “Wal-Mart should be one of your most profitable customers.”

High risk, high reward, in other words — but the risk can be mitigated by a careful analysis of a company's readiness for the Big Box world.

Are you ready? What would it take to get ready? If you're tempted to approach the retail industry leaders, these are the prime questions.

The answers can only come from a careful examination of the opportunity, your company and its capabilities by people who understand RILs and respect the law of unintended consequences. We can help you find those answers.