

Lean Thoughts

WAL★MART The Lean Enforcer

I monitor several blog and other feeds to find topics that may be relevant for you. Kevin Meyer writes a daily blog called Evolving Excellence ... I think that his recent post about expressing value is very as it relates to the consumer is important to consider, especially as the line-up for bail-out funding continues to grow ... read on and see if you agree

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I need to start off with a profound apology to Wal-Mart. In my prior blogging life I trashed them pretty good for driving American manufacturing to China. In fact, they are driving all manufacturing to get lean or die. I am sorry for having misread Wal-Mart. They swing an equal opportunity hammer, and will trash a non-performing Chinese or Mexican company just as readily as they do an American one. Wal-Mart is doing nothing more than cutting out the middle man when the middle man isn't adding any value - they are eliminating non-value adding waste which is what lean is all about.

I came across an [article](#) - typical Wal-Mart bashing stuff by a guy who runs a web site called [Fast Company](#) - that contains a few interesting anecdotes. Most of it is the same old whining we hear from far too many manufacturers - "boo-hoo, my labour is higher than the Chinese and Wal-Mart is making me kick all of my people out on the street and close my factory", as if direct labour were that big a deal. But if you go to the bottom and skip ahead to page 7, you will save yourself a lot of misery and get to a story about Master Lock.

A former Masterbrand's CEO, Randall Larrimore, describes how his costs drove him to 9 bucks a lock compared to 6 for an import and he couldn't compete. So the Master Lock employees in Milwaukee got the heave-ho and the locks are now coming from Mexico and China. Nothing new about that.

Larrimore gives Wal-Mart credit when he says, "*They are all very rational people. There wasn't a whole lot of room for negotiation. And they had a good point. Everyone was willing to pay more for a Master Lock. But how much more can they justify? If they can buy a lock that has arguably similar quality, at a cheaper price, well, they can get their consumers a deal.*"

Of course Wal-Mart is right. The problem Mr. Larrimore, the author of the article and far too many people in manufacturing management and leadership have is that they confuse cost with value. The value of the lock is \$6, at most. We know that because someone else is willing to sell it for that price. Why would or should anyone in their right mind pay Master Lock \$9 for the same thing?

The solution is to (1) attack the non-value adding wastes/costs that are driving you to \$9 and simultaneously (2) harness all of the experienced, creative people who have been building locks for you in the effort to continuously improve the quality, utility and reliability of the locks - in other words, the value of the lock you sell. Get the cost down from \$9 to \$8 and the value up from \$6 to \$8 and it's a whole new ball game.

Trying to sell locks worth \$6 for \$9 is a losing proposition.
Selling locks worth \$8 for \$8 is the formula for huge success.

Where Lean Thoughts can become Reality

"Unless you try to do something beyond what you have already mastered, you will never grow."

Ronald. E. Osborn

This notion that the 'Brand' is worth something by itself is utter nonsense. It is only worth the value the company builds into the product. The fact that some guy poured his heart and soul a long time ago into making the best lock in the world - creating great value - means jack-nothing today.

Master Lock is now part of a three ring circus called Fortune Brands. (Companies with the word "Brands" in their name are always great blog fodder - Spectrum Brands, Furniture Brands, Fortune Brands - reading their stuff creates a mental image of what it would be like if a busload of zoophiles broke down next to the barnyard.) In this case, an old locksmith names Harry Soref dreamed up and figured out how to make the best locks the world had ever seen, then worked like a dog for 36 years to continually improve it and build up the company. He died, the family sold out and a couple of owners later we have Fortune Brands.

Fortune Brands is a holding company with 17 officers - 9 of 'em accountants and 3 more of them lawyers, so you know they are a mess. The other five are assorted PR and marketing folks. Nobody in the building knows the first thing about locks. The company owns a lot of liquor brands, however. I imagine they are rapidly becoming more and more familiar with those Fortune Brands products. They just had their least profitable year in at least 5 years - bringing a whopping 1.9% to the bottom line. Inventory oozes at less than 4 turns, sales are down, so what did they do? Cracked open another case of Jim Beam, apparently, and upped the dividend to its highest ever and paid themselves whopping bonuses.

The annual report says "*These are enduring brands that consumers have trusted for decades ... even centuries ... through every imaginable economic condition. After all, Jim Beam has been around since 1795, Courvoisier dates to 1843, Sauza started in 1873, Master Lock began in 1921 and Tittleist launched in 1932. We saw the challenging times of 2008 as an excellent opportunity to gain competitive advantage and win profitable market share.*"

The problem is that someone else was building value into those brands for all of those years - not these guys. Master Lock was being run by people that knew locks inside and out. Do the accountants in charge now think they can just send the locks off to Mexico, China, or Timbuktu and have the lowest global bidder make them and reap the same reward that Harry Soref earned with all of his blood sweat and toil? Do they think that they are going to make a lock better than anyone else without the 700 experienced lock makers they canned in Milwaukee? I wonder where they think the value of locks is created. The plan apparently is to dupe the customer into thinking that the accountants and offshore workers can make locks just as valuable as Harry and the Milwaukee folks.

Let's skip to [another article](#). This one an interview with Andrea Thomas, the czarina of private brands at Wal-Mart.

She says their private brands typically cost 5-20% less than the big name stuff. She says they tested their products by taking "*panels of our customers through 12 hours of training so that they could talk to us about flavour, texture and aroma. When they noticed a difference between our private label products and the national brands, we sent those products to a lab to work on some of the things we needed to change.*" (She is talking primarily about food products)

"Some of the national brands were using natural colorings in their ice pops. We reformulated our ice pops to use natural colorings. Also, we have a fat free sour cream. We worked on the texture. We wanted to make sure it was creamy enough."

"We launched an all-natural line of ice cream in flavours that Wal-Mart customers had requested such as "cake batter." We also added two new varieties to our Twist & Shout chocolate sandwich cookie. We now have one with extra filling and another that is vanilla flavoured."

Where were the big-time brand guys when the customers wanted cake batter ice cream? What purpose do they serve? Why should they get premium bucks for their brand name when they don't even know what customers want? And Wal-Mart can round up a dozen customers and haul their version of the branded stuff to a lab and create the same texture, aroma and flavour? What is that? Throw in natural flavourings and the Brand X ice pops are the same as the big brand stuff? If that is all the value the big brands are creating and they want 5-20% more for it then who needs them?

If a manufacturer is not continually increasing the value - not by some big whiz-bang innovation but by relentlessly improving the quality, utility and reliability of the products and the processes that make them - that manufacturer is doomed ... and good riddance. If that manufacturer is not adding to the value, then he is waste and Wal-Mart is doing us all a favour by eliminating that waste from the process.

People are not mindless idiots who automatically buy the cheapest thing they can find. Nor are they so dumb they will pay the big brand guy a premium if there is not corresponding value behind the brand name. Customers demand value - not lowest price - but best value. Creating that value is what lean is all about.

Show me a manufacturer whining about Wal-Mart, Home Depot, Kroger or another big retailer's private labelling strategy, and I'll show you a manufacturer who refused to embrace lean and is still trying to succeed with 30 year old wrong-headed thinking.

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