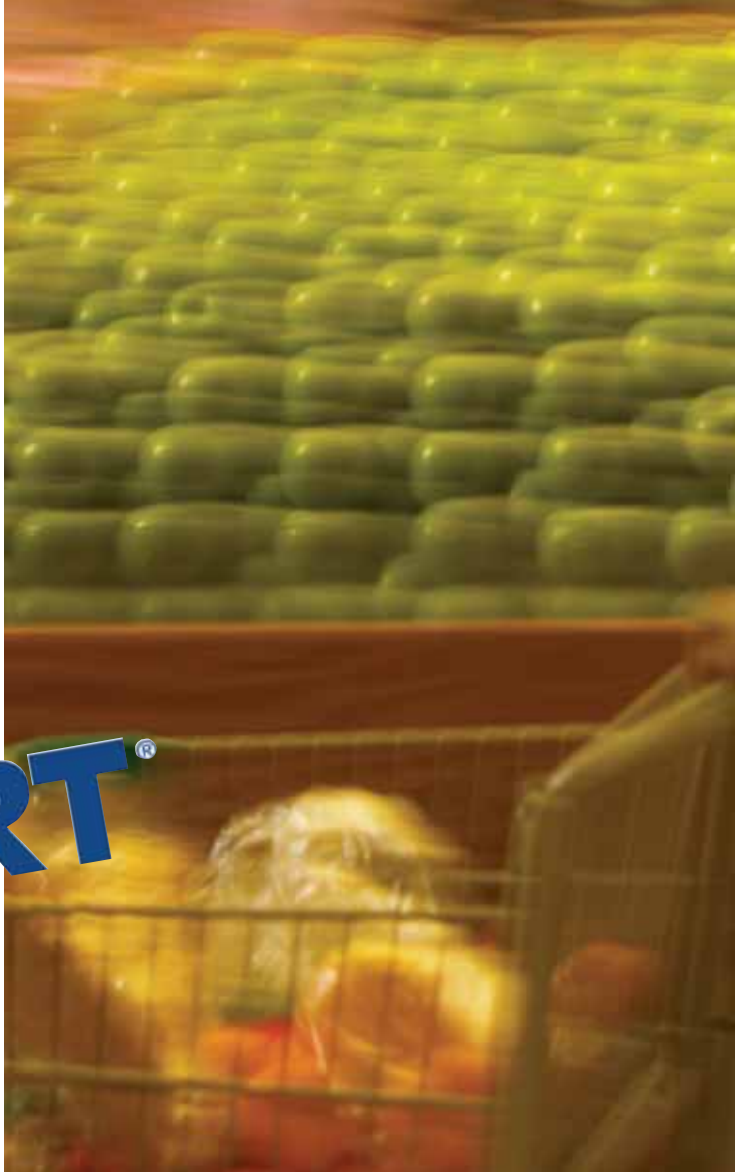


BY DOUG BURN

WORKING with WAL★MART®



Wal-Mart is popular with its suppliers globally but perhaps especially in Canada. Unlike our leading grocery chains, Wal-Mart vigorously supports national brands, dispenses with slotting fees and other charges, shares sales data and provides the most efficient supply chain for moving goods from plant to store. And, for now, supplying Wal-Mart is an option rather than a necessity as its domestic market share in food is less than seven per cent.

Wal-Mart is reputedly the most demanding retail customer in North America, if not the world, but its demands are remarkably straightforward. If an order specifies a delivery of seven pallets to the Calgary DC at 10 a.m. Tuesday, arrive with exactly seven and don't be a minute late. Wal-Mart, in turn, pays every invoice in full and on time.

The most contentious issue is pricing. The Wal-Mart slogan "We sell for less" means that Wal-Mart must buy for less. And because that smiley face mascot keeps rolling back prices, suppliers are pressured to cut their prices. Price increases are rare. Philippe Canac-Marquis, sales manager of Chateauguay, Que.-based Original Foods, once sought a 2.5 per cent increase in the price of its marshmallow cones (a seasonal confection) and Wal-Mart Canada promptly dropped

the item. Canac-Marquis continues to sell over 30 other products to Wal-Mart in Quebec and credits RetailLink with reducing his inventory and distribution costs.

Tom Eason, customer manager for Wal-Mart Canada at Schneider Foods, says, "Wal-Mart is tough but fair. There are no surprises. I really enjoy calling on Wal-Mart." Schneider Foods sells over 150 refrigerated, frozen and grocery shelf items to Wal-Mart since the discount stores added Pantry Departments in 1998 and to Sam's Clubs since their launch in 2003.

"Wal-Mart is very good to deal with because it is very focused on its objectives and open to sharing information," says Bob Chambers, High Liner Foods' account manager for Wal-Mart. In 2003, High Liner obtained listings for five of its SKUs with Wal-Mart discount stores and has since then added Sam's Clubs and expanded its SKUs to 15. Chambers particularly likes Wal-Mart's openness to fresh merchandising ideas.

Wal-Mart is most demanding of its 100 largest suppliers but accommodating the world's largest retailer has major payoffs. Toronto-based Cott Corporation is one of those suppliers as it sells over \$800 million worth of private label soft



Mario Palozzi , president and CEO of Wal-Mart Canada



drinks to Wal-Mart worldwide. Wal-Mart gave its largest suppliers a Dec. 31 deadline to implement RFID (radio frequency identification) and Cott met the deadline. In its latest annual report, John Sheppard, president and CEO reported, “Our implementation of RFID puts us on the leading edge of a technology that will transform supply lines over the course of time.”

Cott’s remarkable growth since obtaining listings with Wal-Mart throughout Canada and the U.S. in the mid-’90s belies the popular notion that meeting Wal-Mart’s demands for lower prices sacrifices supplier profits for higher volumes. Although Cott obtains 40 per cent of its \$2 billion in annual sales from Wal-Mart its shares have a return on equity comparable to that of Saputo and Maple Leaf Foods and only slightly lower than that of Wal-Mart itself.

Prerequisites for Success

Entrepreneurship

Wal-Mart seeks entrepreneurial suppliers that are enthusiastic about their products. Take the initiative to pitch fresh ideas for new formats, flavours, packaging and merchandising.

Innovative Products

Offer innovative products that can drive category growth.

Creative Marketing

Develop a marketing program that creates buzz.

Ship On Time and In Full

Wal-Mart runs a very tight ship when it comes to distribution and expects suppliers to do the same. If you haven’t enough stock to fill all your orders, short ship some other customer.

Appeal to Local Tastes

Wal-Mart strives to identify with local communities and seeks local suppliers with products that appeal to local tastes.

Given the considerable market shares of Loblaw Companies and Sobeys, Canadian manufacturers have developed customer-centric strategies and that’s what it takes to service Wal-Mart domestically and internationally. Jason Nichol, vice-president of business development and head of Cott’s Wal-Mart team in Bentonville, Ark., explains: “We align our business resources to those of our customers in an effort to meet and exceed their expectations. As one of our largest customers, we dedicate people and resources to work in partnership with Wal-Mart as we continually improve quality and service and develop innovative products together.”

Big Opportunities For Small Suppliers

Wal-Mart is particularly receptive to small suppliers with great products. Each Wal-Mart and Sam’s Club strives to

integrate itself into its community through grants to local charities, participation in local events and stocking products made by local suppliers that are popular within the community. Approximately 80 per cent of goods sold in Canadian Wal-Mart stores are sourced in Canada and many are produced and sold within a single province or region. “We prefer local suppliers and not just for mainstream products. We want unique products that can be marketed creatively,” says Kevin Groh, Wal-Mart Canada spokesman.

Molasses-based confectionery, for example, is particularly popular in Quebec so Philippe Canac-Marquis was well received when he pitched his company’s Grandma Kisses – a molasses toffee made with Grandma Molasses – to Wal-Mart in 1999. Canac-Marquis, sales manager for Original Foods of Chateauguay, Que., says, “Since getting listed with Wal-Mart, Grandma Kisses have taken over the molasses kisses category and are now the best seller in Quebec.” Original Foods, with 110 employees and three plants, currently supplies Grandma Kisses plus 30 other products including liquid bouillons, soup bases, cookies and pie fillings to Wal-Mart’s stores in Quebec plus a few in Eastern Ontario and Eastern Canada.

Canac-Marquis was impressed with Wal-Mart buyers’ knowledge of their categories and how Wal-Mart delegates authority down the line. “While other retail chains would have ordered a couple of cases for each store and asked for help in marking down our products if they didn’t sell, Wal-Mart’s district manager ordered a pallet for every store and he was true to his word. There were no returns.”

Food manufacturers don’t require the capacity to supply an entire province or region to win shelf space. Winnipeg-based Kraves Candy, for example, grew the sales of its Clodhoppers candy from \$400,000 in 1998 to over \$10 million beginning with a listing at a local Wal-Mart. The Winnipeg store raved about the products and brought it to the attention of Pat Whitehall, Wal-Mart confectionery buyer, who was so impressed she had it listed at Wal-Marts across Canada. In February 2000 Whitehall introduced Kraves Candy co-founders, Chris Emery and Larry Finsson, to Lee Scott, president and CEO of Wal-Mart Stores, at the annual Vendor Show in Toronto and he invited them to meet his buyers the following week in Bentonville, Ark. Today, Clodhoppers are stocked by Wal-Mart stores throughout Canada and the U.S., and Kraves Candy exports Clodhoppers

WAL-MART TIMELINE

1962

Sam Walton builds his first Wal-Mart discount store in Rogers, Ark.

1970

With 15 Wal-Mart stores in operation, Walton obtains fresh capital by incorporating as a publicly listed company.

1980

Walton expands the Wal-Mart chain throughout the '80s to 276 stores spread across 11 U.S. states achieving sales of US\$1 billion in 1980.

1983

Wal-Mart opens its first Sam’s Club.



1988

Wal-Mart opens its first Supercenter featuring a complete grocery department along with 36 departments of general merchandise.

1989

Wal-Mart Stores achieve US\$26 billion in sales through 1,400 stores.

1991

Wal-Mart opens its first store outside the U.S., a Sam’s Club near Mexico City.

1994

Wal-Mart enters the Canadian market with the purchase of Woolworth Canada’s Woolco division and its 122 stores.

1998

Wal-Mart Canada begins to incorporate pantry departments into its new and newly renovated discount stores.

2003

Wal-Mart Canada opens its first Sam’s Club in October.

to Australia, China, the U.K., Germany and the Philippines.

While Wal-Mart initially accounted for half of Kraves Candy’s sales, that share has declined to 30 per cent as the company’s success with Wal-Mart earned it listings with other retailers. Chris Emery explains: “Retailers are only willing to place orders if they are confident that you can ship on time and won’t short ship. Having the world’s number one food retailer as a customer raised our credibility immensely.”

Managing Your Business With RetailLink

Wal-Mart saves a lot of money with global procurement and private label but its most significant savings come from Collaborative Planning, Forecasting and Replenishment (CPFR) and the most visible aspect of CPFR is RetailLink. This online portal allows suppliers to track their inventory and sales SKU-by-SKU and store-by-store in real time. Groh says, “We give our vendors the tools to manage their business with Wal-Mart.”

RetailLink also includes replenishment forecasts, shipping instructions, invoice tracking and packaging guidelines. RetailLink is particularly useful in identifying the impact of packaging redesigns, in-store sampling and ad campaigns. Tom Eason, customer manager for Wal-Mart at Schneider Foods, adds, “RetailLink allows us to identify and concentrate on areas where we are weak. It is an excellent tool for us to drive Wal-Mart’s business.”

A former executive of a mid-size food manufacturer says that Wal-Mart’s unique distribution model enables even the smallest companies to service Wal-Mart and Sam’s Club outlets across Canada. At the time his company and his larger competitors were obliged to “pack and peddle,” that is, assemble orders and deliver them to individual stores. He explains, “We just didn’t have the

critical mass to do that cost-effectively over such a wide area so Wal-Mart’s multi-vendor system really worked for us.” His company delivered its goods to Wal-Mart’s DCs where they were assembled with goods from multiple vendors and delivered to the individual stores and clubs.

Until last year the route to regional and national listings involved winning a listing with one or more local Wal-Mart stores, which earned you the opportunity to attend the annual Vendor Show where you could pitch your products to the national category buyers. In October, Wal-Mart Canada made it even easier by hosting its first New Supplier Fair for companies not already listed with Wal-Mart. The event

**Estimated Food Sales of Wal-Mart Canada: 2003 to 2006
By Outlet and Department**

(Millions of Dollars)	2005	CAGR '05 to '03	2006	Change '06 v. '05
Total Pantry Store Sales	\$3,454	+ 58%	\$4812	+ 39%
Non-Pantry Grocery Sales	\$526	- 26%	\$201	-62%
Sam's Club Foods Sales	\$240	+ 300%	\$336	+ 40%
Total Wal-Mart Canada Food Sales	\$4,220	+ 34%	\$5,349	+ 27%

CAGR: Cumulative Annual Growth Rate Sources: Company reports, CIBC World Markets Estimates

included a seminar on how to sell merchandise to the company and an opportunity to meet category buyers and demonstrate new products.

Wal-Mart Today

- Wal-Mart Stores, Inc. is the world's number one retailer serving 138 million customers worldwide each week. Global revenues topped US\$285 billion for its 2005 fiscal year ended Jan. 31.
- In calendar year 2004, Wal-Mart's sales of food and beverages in Canada and the U.S. topped US\$84 billion, 50 per cent more than second place Kroger and four times the totals of Costco and Loblaw Companies according to Bloomberg and CIBC World Markets estimates.
- Canada is the only country where Wal-Mart International has discount stores but no Supercenters.
- On Jan. 31, 2005 Wal-Mart Canada had 256 discount stores across Canada and six Sam's Clubs, all in Southern Ontario.
- Wal-Mart Canada purchased over \$10 billion worth of goods and services from Canadian manufacturers and suppliers in 2004.
- According to CIBC World Markets, Wal-Mart's food sales are forecasted to reach \$5.3 billion by 2006, allowing Wal-Mart to overtake Metro Inc. as Canada's third largest food retailer.
- Approximately 90 per cent of Wal-Mart Canada's 256 discount stores now have pantry departments. Since 1998 the average number of SKUs per pantry has risen from 2,000 to 5,000.
- The Sam's Clubs stock an average of 2,000 food SKUs.
- Wal-Mart has 3.7 million sq. ft. of space in its three DCs (Calgary, Mississauga, Ont., and Cornwall, Ont.) ranging from 1.3 million to 1.8 million sq. ft. The CN Tower (1,815 ft./553 metres) could be laid end to end in the Mississauga DC without touching the walls.

Doug Burn is a Toronto-Based freelance writer and editor.

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