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The Education of an Evil Genius

Part 12

Promotion to Vice President

We survived our training. We had gradually gotten the knack of it, become proficient, then very proficient. Work became a source of joy! Every new responsibility was an exciting challenge!

We were both promoted to *Vice President* around the middle of our second year.

The other former trainee, now a Vice President like me, soon suggested a product that didn't meet our usual selection criteria. It was shot down.

Later, he brought it up again. This time, I backed him. My reasoning:

If this product – contrary to expectations – actually does well, then it opens up a WHOLE NEW CATEGORY of potential new products. If not, it's just one more new product that failed. Not the end of the world.

That product became a HUGE success. It paved the way for many new products. This category of products also played a decisive role in our later entry into *import/ export.*

His perseverance paid off again! Remember, this was the same fellow who got his job in the first place thanks to his perseverance.

He once told me: *The average successful man fails SEVEN TIMES before he succeeds!*

Recession!

The recession struck not too long after we had been promoted.

The company was no longer hiring. It was laying people off.

Asked for recommendations, I submitted two names for the chopping block: that of one of the supervisors …and *my own*.

My comrade-in-arms and I both figured *one of us* would get the axe. I thought it'd me, because the other fellow knew more about computers and had a degree.

One day he walked over to my desk and whispered: *I took a sneak peek at the payroll figures on the computer. My next check is a few thousand dollars more than usual. Obviously severance pay. It's been a pleasure working with you.*

We shook hands and I wished him well.

I felt sorry for him. But I also felt relieved that it wasn't *me*.

By the way, one of the brusque supervisors was also laid off.

Fortunately, he came from a wealthy family. Every morning, his father flew a helicopter from his country estate to the top of one of the skyscrapers downtown. That's how he got to work.

He stopped by the office several months later and mentioned he was starting up a catalog for high ticket products. He described some of them and their price tags. They were definitely not within my budget!

Waiting for the Verdict

Months later, we were all nervously awaiting completion of the primary Profit & Loss statement (P&L). It was expected back from the accountant soon.

The recession had taken its toll. Sales were down. Everyone feared the worse.

The CEO told me that he expected to see a *substantial loss* in our *largest* and usually *most profitable division!*

I replied that I expected a *profit* in roughly the same amount as the *loss* he expected. In essence, we agreed on the *amount*, but disagreed on the *plus or minus sign*.

He was visibly surprised and asked why I thought that. The dialogue went pretty much like this:

Him: *What's your reasoning?*

Me: *We have substantially reduced selling expense through the demographic analysis.*

Him: *But it wasn't THAT much.*

Me: *Yes, it was.*

Him: *I don't believe you.*

There was no point discussing it any further. The P&L was due soon. It would settle the issue.

When it arrived, we pounced on it.

I was right. We had actually ended up *well in the black* despite the recession.

My reputation and clout went up another notch.

This is one of the things I like about marketing and "demographic analysis". The profit gain – either through increased sales or through reduced expenses - is *highly* visible. So I always get the credit for it. And a big bonus! (Yes, that's the *other* thing I like!)

The same thing is true for new product development.

On the other hand, I always feel sorry for the fulfillment staff. If they send out *1,000 orders* without a hitch, nobody notices. But if they screw up even *one* order, everybody howlers at them.

At any rate, it was now clear why I had survived the Great Purge.

Life Cycle of a Division

The stages in the life cycle of our divisions often followed this pattern:

First, a new and untapped market is discovered, researched and then "attacked"

Second, sales boom. (The CEO once reflected: *Some years, I don't work hard, but I still make a lot of money. I just throw my money against the wall and it sticks like mud. Other years I work like hell and barely make any money.*)

Third, competitors enter the market. The honeymoon is over.

Fourth, profitability starts to gradually decline.

Here is an example:

We had a near monopoly in one division's market for many years.

Why?

First, we recognized an opportunity and *bent over backwards* to accommodate the market's *unique needs*.

Second, many of the customers were so darn *hard to do business with* that nobody else would have put up with them. Especially in the early years, which was before my time.

Eventually, their need for our products grew. They were still pretty demanding, but not nearly as unreasonable.

Then this market started to change. The need for our products grew dramatically. Naturally, all of our people were very optimistic at one staff meeting in particular.

After the jubilation had died down, I put in my two cents worth: *This market ex-*

pansion is the biggest threat we've ever faced in this market!

Silence. Astonishment. Bewilderment.

I explained: *This expansion will bring in a flood of new competitors. They will underestimate the cost of doing business in this market. They will undercut our prices. Then we'll lose sales and have to lower our prices, thereby reducing our profit margins…And we'll still lose market share, even if we remain #1.*

The CEO reflected for a few moments and then concurred.

Unfortunately, my prediction came true.

The honeymoon was over.

Manufacturer's Mindset

This division now had a serious problem. We knew our prices had to come down. But we didn't know *how* to do this!

We still had a *manufacturer's mindset*. Our hearts and souls rebelled against the very idea of a violation of the holy commandments of strict cost accounting. Blasphemy!

Then one day I stumbled on the solution in an article in *The Boardroom Report*: Pricing based on the concept of "contribution to profit and overhead". It was new to all of us despite our combined executive experience of nearly a century!

This concept saved our neck.

Counter-Intelligence

A year or so later, we realized our biggest competitor in that market was somehow learning our new catalog prices *before* the official big mailing. Presumably from one of our many wholesale accounts.

What should we do?

I came up with a devious plan.

We would print *two* catalogs. Each with *different* prices.

We would mail one catalog with the "wrong" prices to the distributors a little early. Then wait a few weeks so that the competitor had time to sneak a peek, adjust his prices accordingly, and put his own catalog to bed. Then we'd mail the second catalog with the "right" prices.

This trick worked like a charm!

We Start to Import

Eventually that market branched off into two different directions. We created separate catalogs for each sub-market. Our product lines for the two distinct sub-markets were not identical, but did overlap. Sales by season were different and were tracked separately. Obviously, sales projections and purchasing were affected.

The new sub-market compelled us to sell Asian products. We were soon placing large orders to importers.

Many of these products, especially the *top sellers*, were also being sold by the competition. So even a tiny price differential had a big impact on sales.

I suggested we start to *import the top sellers ourselves*. We had plenty of working capital and enough sales history to realistically assume and assess the risk.

Our company had never done any import/export in the past. But I had at least a little experience in this area from my father's company. So the assignment to start and run the importing operation was given to me. (My time abroad was also a plus. As well as my presumed ability to "get along with foreigners".)

Our competitive advantage was now HUGE!

We could often offer clearly *superior products* - at *lower prices* than the competition - *without* sacrificing a decent profit margin! Individual top-selling products often achieved *five digit sales* in the first year alone. *Profits boomed!*

We didn't even have a fax machine in the beginning. I'd call Thomas at the trading company in Taiwan from my home late in the evening, when it was already morning over there. We quickly established a good rapport. (He even laughed at my dumb jokes! Then again, maybe he didn't understand my English well enough to know just *how* dumb they were. Or maybe he was just being polite.)

Several office machine sales reps visited our office to pitch their fax machines. One rep stood out when he said: *I'd really like to sell you MY machine. But to tell you the truth, there's another model that better fits YOUR needs.*

His honesty impressed me. I made a point to tell the CEO, keep his business card and remember to give him the first crack the next time. Yes, I planned to buy his product even if his price was slightly higher.

At any rate, we soon purchased our first fax machine. It cost over $2,000.

Whenever Thomas flew to America to visit clients, he visited our office. We learned his father had founded a family business group with nine digit annual sales in U.S. dollars. Thomas ran that group's trading company doing upper eight digit sales.

The next year, Thomas backed one of his Taiwanese school chums, who was opening an import/export firm in the USA. He asked me to fly there, meet him, take a look at the operation and give him my advice. I did.

Thomas thought the import/export firms all demanded a much too big profit margin. He was naturally accustomed to a trading company's much smaller margins. I explained different distribution levels require different margins. We had plenty of time to shoot the breeze about a wide variety of topics and enjoyed doing so.

Thomas later offered to pay for my hotel and food, if I ever came to Taiwan. The CEO said he was willing to let me take a week off, but I'd have to pay for the airfare. I decided not to go, because I wanted reserve all my vacation time for visiting my folks. But I later regretted that mistake.

By the way, in addition to importing full container loads from Taiwan, we also imported smaller quantities from other Asian countries.

Trade Shows

The first year or two, I went to most local trade shows "on the clock". But I also went to some on my own time on weekends. At one trade show that fell into the latter category, I discovered a new product that we added to the line. It became one of our biggest sellers in one division for years to come, bringing in five digit sales the first year alone.

After that, the owner said I could go to *any* trade show I wanted in the greater metropolitan area. Heck, I could have gone to a *women's lingerie show*, if I wanted. (I didn't…But I did once happen to notice a table displaying S&M products padded with soft, *washable*, fur-like fabric.)

I did go to many trade shows for *related* industries. With a little imagination, I sometimes figured out how to make some of the products fit our needs, too. Other times they just triggered an idea. Kind of like "brain storming".

Occasionally, I stood on the *opposite* side of the table.

Sometimes we even hosted an evening cocktail hour for one division's customers. We hired a former executive in that market as a "consultant". Actually, he just a good will ambassador who shook hands and patted backs. Meanwhile, I would walk around the room, listen in on conversations, ask a few questions and keep my eyes and ears open.

Back at the office the next day, the consultant would tell us everything was great, everybody loved us and our products, and anything else he thought we wanted to hear. After he left, I presented my own report.

One year, I spent almost every weekend as an exhibitor promoting wares for my father's company at gun shows throughout the region. Market research and dealer sales were the primary objectives. The short-term profit was too modest to be worth the effort…even though marginally better than a kid's lemonade stand.

I sometimes used aliases when working on projects for different companies. This sometimes led to amusing situations.

I learned to better appreciate the significance of two things:

First, purchase method preference.

Our gun show customers liked to buy *face-to-face* at a show. They seldom responded to mail offers. Retail *and* wholesale customers alike would say: *Yeah, I got your mailing. But I figured I'd see you at the next show and get it then.*

Second, retail display. The first time I sold at a small gun show, it was a shot-in-the-dark experiment that did unexpectedly well. So I rushed to the second, much larger show. Seeing our products on the table, one man asked: *Are those for sale?*

I quickly put more products on the table and stacked them up into a big pile.

When I didn't see our products on the table of one of our dealers, I walked around his table a second time, but *still* couldn't spot them. So I asked him. He walked over and pointed them out, half-buried and lost to the eye…After that, I had 100 display signs silk-screened and gave them away for *free* to every dealer.

Later I even had large *display stands* built and *gave* them to dealers, too. The first prototypes were *terrible*. But the final version was collapsible, light-weight, easy to transport (in the duffel bag I supplied) and fast to setup on site. *Sales boomed!* Our dealers were delighted!

Incidentally, the duffel bag had two markings: "U.S. Army" and "Made in China". The metal clip was a lot weaker than the *real* U.S. Army duffel bags I remembered from childhood.

Sales aids and display stands are common knowledge for point-of-display retailers. But they were *not* a *common practice* for the average sideline/hobbyist dealer here.

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