

Case Study 2: Wal-Mart's 12lb (5.45kg) jar of pickles

Overview

When walking into a Wal-Mart outlet several years ago, I came across a stack of 12lb (5.45kg) jars of Vlasic pickles. Vlasic was the top pickle maker in the US and its products always sold at a premium. The 12lb pickle jar was impressive and heavy enough to be used in a gym as a dumbbell. What was more impressive was its price, \$2.97 for the entire 12lb (5.45kg) pickle jar.

The image of the giant pickle jar filled with the most famous pickle in the US, stuck in my mind. There was something wrong with this picture. Recently, I came across an excellent article by FastCompany magazine, titled "The Wal-Mart you don't know." The article shed some light into the joint venture by Wal-Mart and Vlasic to produce the 12lb jar of pickles. Some of the information in this case study is from this article.

When the number one retailer in the world cooperates with the top US pickle producer the result should be nothing short of spectacular. Did the cooperation go ahead as planned? Did Wal-Mart and Vlasic set realistic goals to begin with and to what extent did these goals get fulfilled?

Background information

There were two players involved in the 12lb pickle jar project, namely Wal-Mart and Vlasic. Some background information regarding Wal-Mart and Vlasic follows:

Wal-Mart and Vlasic

Wal-Mart is not only the world's largest retailer, but is the largest company in the world as far as revenue is concerned. If Wal-Mart was a country, it would rank number 30 in the world behind Saudi Arabia. With 100 million customers per week, Wal-Mart's revenue for a year is around 250 billion dollars. To get a feel of the magnitude of Wal-Mart, consider that in the 30

seconds that it will take you to read the current paragraph Wal-Mart's revenue will increase by \$250,000. Wal-Mart's revenue increases by \$250,000 every 30 seconds, of every day or night, whether it is a holiday or a working day, 365 days each year.

Vlasic is the maker of America's favorite pickles and is as American as apple pie. The company was founded by Frank Vlasic, a Polish immigrant. It took three generations of Vlasic, in order to make Vlasic pickles the number one pickle in the US.

Wal-Mart is an amazing company, however you look at it. It is very successful but controversial at the same time. Its enemies refer to Wal-Mart as "unchecked capitalism," while its friends claim that at Wal-Mart they find the "best product at the best price."

Who wouldn't like to undertake a project where Wal-Mart is the client? In theory everyone would regard such an opportunity as the chance of a lifetime. In practice matters can become very complicated and in some cases may have an unwelcome ending.

Wal-Mart is younger as a company than Vlasic. It was only in 1962 that Sam Walton opened his first shop in Arkansas. His motto was "stack them high and sell them cheap." The profits mounted and in 1992, when Sam Walton passed away, he was the richest man in the US.

Wal-Mart is amazingly nimble for its size. Sam Walton embraced technology faster and better than his competitors. Every transaction taking place at every Wal-Mart in the world is beamed via satellite back to Wal-Mart's headquarters in Bentonville Arkansas, every 15 minutes. The temperature of the freezers at every Wal-Mart is monitored every one minute and any deviation from the norm is beamed back to Bentonville Arkansas via satellite.

At the same time Wal-Mart can exhibit sensitivities which are not found in much smaller operations. For example, every Wal-Mart around the world has a person, called a "greeter" at the entrance for welcoming the customers when they enter and for sending them off when they leave Wal-Mart. This is the case in every country except Germany, due mainly to the conservative nature of the society there.

Below is an account of the project that Vlastic undertook with Wal-Mart as the client. We will try to answer such questions as:

- Should Vlastic have agreed to carry out the specific project?
- Did Vlastic realize what it was getting into?
- In hindsight should Vlastic have undertaken the project?

Project description

In the late 1990s Wal-Mart became interested in selling Vlastic's 12lb jar of pickles. The most amazing part of this project was the price of the deliverable. Wal-Mart wanted to sell the 12lb jar of Vlastic pickles for a mere \$2.97. This price was much lower than the price that the 12lb jar of pickles could fetch, based on sales tests that were conducted. Nevertheless Wal-Mart was adamant about the price.

The project goals of cost, time, scope and quality were clearly defined by Wal-Mart and could not be altered in any way. The scope of the project was clearly defined: provide as many 12lb pickle jars as required by Wal-Mart. Every one of the 3000 Wal-Mart outlets at the time, managed to sell around 80 jars every week. Vlastic needed to provide around 250,000 jars to Wal-Mart every week. The quality of the pickles was Vlastic quality, the best on the market.

The goal of Wal-Mart and Vlastic

Companies do not undertake projects for the fun of it. There should always have an underlying goal or set of goals. This should be the wellbeing of the company stakeholders.

In this case of the 12lb pickle jar, the project supplier is Vlastic and the project client is Wal-Mart. If the interests of the project supplier do not converge with the interests of the project client, then it is much easier to run into problems, when faced with a need to deviate from the initial plan.

Both Wal-Mart and Vlastic knew what they were getting into. Although no party was forced to enter into this agreement, it is apparent that Wal-Mart and Vlastic entered the deal for entirely different reasons.

In the worst case Wal-Mart viewed its cooperation with Vlastic as an advertisement campaign. Wal-Mart was not planning to become rich by selling 12lb jars of pickles at a profit margin of maybe 1%. Wal-Mart is a well respected company, which treats its customers and suppliers fairly, but it is not the place where the rich people shop. If Wal-Mart was treating Vlastic as one of its many products, it would simply put it on the shelves and would not need to brandish it at the entrance of every Wal-Mart supermarket. Wal-Mart was making a simple statement: the number one pickle company in the US was producing pickles the Wal-Mart way. Wal-Mart was able to carry the best brands at the best prices.

For Vlastic it was a different story. Wal-Mart accounted for a third of Vlastic's business. A little glitch in the cooperation or a small miscalculation on the part of Vlastic and this could easily mean the downfall of Vlastic. At \$2.97 per 12lb jar Vlastic was expecting to make a profit of about 1%. Assuming that this was the case Vlastic could have sold 12,480,000 jars of pickles per year. At \$0.03 profit per jar, Vlastic would make a profit of \$374,400 per year. Even if this was the case, it was nothing to write home about.

It is safe to say that there is no company on earth who can manage their operation within 1%. It is very easy for the 1% profit to be actually a 10% loss. The incentive on the part of Vlastic to cooperate with Wal-Mart was strong sales numbers and growth, which was not associated with any profit. Unless this growth was going to be used to achieve economies of scale in the production cycle, then the cooperation with Wal-Mart did not make any sense.

Project risk

The risk that Vlastic took for this venture was disproportionate to the risk taken by Wal-Mart. Vlastic needed to buy acres of cucumbers, new machinery, real-estate to house the new operation, personnel to meet the increased demands and undergo software and hardware infrastructure changes to manage the increased production and achieve compatibility to the Wal-Mart systems. The best case scenario for Vlastic would be to achieve a giant leap in revenue, but no increased profits. This might mean fat commissions for sales people whose targets are dependent on revenue,

not on profits. This was good news for the sales people, but not so good news for the company's stakeholders.

Even if Wal-Mart was unable to sell a single jar of pickles, it would make no difference to its bottom line. There is a good explanation why no single vendor accounts for more than 4% of Wal-Mart's overall purchase power. For Vlastic it was a white-knuckle ride where its survival was at stake.

Did Vlastic do its homework?

Did Vlastic understand what it was getting into? It was natural to expect a big jump in Vlastic's sales, which can give a misleading picture about the company. Did Vlastic predict the side effects that this venture would have on its operation as a whole?

Doing business with Wal-Mart makes a supplier more efficient. Wal-Mart continually improves the procedures with which it handles its merchandise and it expects its suppliers to be fully compatible. The only way for a supplier to do business with Wal-Mart may be to repackage its product according to Wal-Mart specification and to adopt a hardware and software interface, which is compatible to that of Wal-Mart's.

Wal-Mart is very much focused on error prevention rather than error correction. If Wal-Mart is in the least unsure about a specific supplier, it will ask to examine the private financial records of the supplier's company. In effect it will do an audit of the supplier's company in order to establish whether the supplier is in a position to meet its increased responsibilities from its association with Wal-Mart. At the same time Wal-Mart is able to establish the actual profit margins of the supplier and if these are too high it will ask the supplier to lower its profit margins.

There are plenty of examples of other companies, who did business with Wal-Mart. There are some success stories and some disasters. One thing is for sure, cooperating with Wal-Mart will change the supplier's life. A couple of examples:

Huffy Bicycle Co

Huffy was a leading manufacturer of bicycles in the US in the 1980s. Huffy sold to Wal-Mart around 20 models, at different sizes and prices. Wal-Mart

placed a big order for one of the entry level bikes. The order was for 900,000 bikes, at a time when the spare capacity of Huffy's bike factories was 450,000. Wal-Mart's order was placed at a time when Huffy's more expensive bikes were selling well at Wal-Mart and elsewhere.

Renegotiating the deal with Wal-Mart was not an option. With another retailer a compromise solution may have been found, but Wal-Mart is no ordinary retailer. In order to live to its part of the deal, Huffy had to free capacity in order to make the 900,000 bikes that Wal-Mart ordered.

To cope with the problem at hand, Huffy did something extraordinary and borderline suicidal. Huffy gave away to its competitors four of its higher end and higher margin bicycle to its competitors. In this way, Huffy freed the necessary capacity, but at the same time gave away its profits. To make matters worse these profits went to its competitors.

The relationship of Huffy with Wal-Mart is very important, since Wal-Mart is the number one retailer of bikes in the US. The fierce competition that exists has forced bicycle manufacturers in the US to manufacture their bicycles outside the US, in such places as China, Mexico and Taiwan. The last Huffy bicycle was manufactured in the US in 1999.

The Lovable Company

The Lovable Company was founded in 1926 and is in the lingerie business. It did business with Sam Walton's first store in Bentonville Arkansas. At one point in time it was the sixth largest company making lingerie in the US, with 700 employees in the US and another 2000 employees at eight factories in Central America.

In 1995 there was a disagreement between Wal-Mart and the Lovable Company, as a result of which Wal-Mart pulled its business from the Lovable Company. Less than three years later the Lovable Company closed its operations after 72 years of activity.

What went wrong?

All project parameters defined by Wal-Mart

The project cost, time, scope and quality were all defined by Wal-Mart. On top of this the project parameters were defined in a very strict manner. Wal-Mart is not the kind of retailer who will sit down and renegotiate if there is a glitch in the process.

Wal-Mart has over 20000 suppliers and employs very sophisticated logistics. If they needed to renegotiate every product then they will do no other work. On top of this, every supplier has an allocated delivery window which can be tight. The supplier either delivers at the right time and the right place, or they are out.

There is nothing wrong with this approach. Wal-Mart may be strict, but it has the reputation that is fair and also is known to pay on time. In the specific 12lb jar of pickles, nobody forced Vlastic to undertake this project. It was up to Vlastic to decide whether to accept the challenge or not.

Vlastic competes with itself

Vlastic spent many years trying to convince its customers that its product could sell at a premium. The 12lb pickle jar did not help the image that Vlastic wanted to project. The quantity was too much, its volume uncomfortable to store, its weight too clumsy to carry around and its price of \$2.97 simply ridiculous. Who appreciates a product that is basically given away?

The 12lb pickle jar essentially cannibalized Vlastic's other products and threw away years of trying to convince the consumer to pay a premium for its pickles. Vlastic was literally saying to its customers, "there is no reason why you should spend more money on Vlastic pickles." In essence Vlastic started competing with itself.

Reliance on one big customer

There are a lot of benefits associated with having one customer account for a large percentage of the business. There are fewer people to talk to, accounting transactions are simplified, better service can be provided since

the supplier can focus and invest time in what is expected to be a repeat customer.

On the minus column, reliance on a single customer involves more risk. If something happens to the specific customer then the revenue hole is big and not easy to fill. The customer has a big leverage on the supplier, who becomes increasingly more dependent on the customer. In the case of a disagreement the customer may proceed virtually unharmed financially, while the supplier will be stuck with an expensive to maintain infrastructure, which was put in place for the specific customer.

Questions

1. Should Vlastic have undertaken the 12lb pickle jar project?
2. Was Vlastic too reliant on Wal-Mart?
3. What was the best case scenario for Vlastic?
4. What risk did Vlastic and Wal-Mart undertake/
5. Is Wal-Mart a scorpion client? Wal-Mart sometimes looks into the financial statements of its prospective suppliers and in many cases forces the supplier to adopt a certain software interface to Wal-Mart.
6. Did the increased investment and dependence on Wal-Mart justify the decision to proceed with Wal-Mart?
7. What research should Vlastic have undertook prior to dealing with Wal-Mart?

Discussion points

1. Identify the project.
2. Identify the players.
3. Risk: Wal-Mart had a different risk than Vlastic.
4. Project goals: Different for Wal-Mart and Vlastic.
5. Identify the interdependencies between the project and the project environment.
6. Were Wal-Mart and Vlastic taking an acceptable risk?
7. Was there any miscommunication between Wal-Mart and Vlastic before agreeing for the project?
8. Should Wal-Mart and Vlastic have undertaken the project?
9. Was there ample information to warrant the cancellation of the project?
10. Was the 12lb pickle jar project a success or a failure?