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## Inventory Switch

### Where Are the Gloves? They Were Stocklifted By a Rival Producer

### Many Vendors Pay Big Sums To Get Competing Goods Off Major Chains' Shelves

### The Origins of Close-Outs

By YUMIKO ONO

Staff Reporter of THE WALL STREET JOURNAL

ATHENS, Ga. — At the giant Lowe's Home Improvement Warehouse store here, in aisle 23 near the lawn mowers, hundreds of garden gloves recently vanished.

The missing merchandise was manufactured by Wells Lamont, the nation's largest garden-glove company. And almost overnight, the empty shelves were restocked last January with gloves made by Wells Lamont's archrival, Midwest Quality Gloves Inc. The same scene played out in 100 other Lowe's stores: Wells Lamont gloves were replaced by Midwest gloves—floral, pigskin, cowhide and others.

Behind the inventory switch was Midwest. It had struck a deal with Lowe's to buy 225,000 pairs of Wells Lamont gloves and clear them all out so it could fill shelf after shelf with its own product.

#### Spreading Tactic

This shadowy retail tactic — called a stocklift or buyback — is spreading. Makers of everything from party napkins to bicycle chains are lifting truckloads of competitors' products everywhere from Kmart to Revco drugstores. Then they dump the merchandise into a sprawling underground pipeline for resale by faraway, and sometimes foreign, retailers.

Few products are exempt from the shelf switcheroo. Gemini Industries Inc., which makes power adapters and leather cases for cellular phones, says it has stocklifted products made by rival Katy Industries Inc. The First Years Inc., a baby-products company, says it recently stocklifted bibs and toys made by the Gerber Products unit of Novartis AG of Switzerland and Safety 1st Inc. The list of the stocklifted includes pet toys, humidifiers, flashlights, faucets and glue. As retailers consolidate into larger, fewer chains, suppliers are working harder to get into stores and get rivals out — taking an initial hit in the hope that a buyback will pay off in the long run.

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"Buybacks are a necessary evil in gaining market share," says Michael Brooks, chief executive of International Purchase Systems Inc., an Elmsford, N.Y., liquidator that disposes of stocklifted merchandise. "You get the market share immediately, but at a price."

#### Legal Risk

Legally, the tactic is dicey. A company may violate federal antitrust laws if it stocklifts from a competitor so often as to shut it out of a market, says Richard M. Steuer, an antitrust lawyer at Kaye Scholer Fierman Hays Handler LLP in New York. But such cases, brought under the century-old Sherman Antitrust Act, are difficult to prove, he adds.

Nonetheless, some legal experts deplore the tactic. Marianne Jennings, a professor of legal and ethical studies at Arizona State University's business school, worries that consumers don't know why some products vanish—or turn up—in a store. "You've taken away what should drive the market, which is the preferred product," she says.

Companies are generally reluctant to discuss stocklifting. When pressed, they frequently point fingers at one another. Retailers say new suppliers bombard them with offers to clear out rival products, and they add that retailers don't make any money on the deals because products are usually sold off at wholesale. Still, for retailers, a stocklift can help them avoid selling remaining inventory at a discount, potentially at a loss, while letting them quickly add a product that they think may sell better.

"With more competition, it's more likely that vendors will come to the table with buybacks as an option, just to try to lock in" a contract, says Greg Bridgeford, senior vice president for merchandising at Lowe's Cos. in North Wilkesboro, N.C. The No. 2 home-center chain after Home Depot Inc., Lowe's participates in "hundreds" of stocklifts a year, he says.

#### Costly Maneuver

Manufacturers say store managers increasingly consider stocklifts the normal way to do business with vendors. "It costs a ton of money," says Nicolaus Bruns, group product manager for humidifiers and other housewares at Bemis Manufacturing Co. But "if you want to land a major [retail] account, you're going to have to do it."

Driving the covert tactic is the emergence of product hit men, contracted to discreetly dispose of competitors' products. In many cases, the firms that do the job are barter companies or liquidators, which normally help route overstocked or flawed goods to close-out stores.

Their logistical expertise—expertise in disposing of merchandise cheaply — has become a sophisticated, powerful tool for stocklifting. Genco Distribution System, a Pittsburgh warehouse operator, has 40 warehouses nationwide and an army of 2,000 "teammates" who, among other things, use scanners to inventory stocklifted products and then stack them in new boxes. Genco can handle the most ambitious of projects, such as a recent stocklifting of 29 trailer loads of light bulbs.

In a huge, dimly lighted warehouse in Fogelsville, Pa., Genco has special ma-

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## How the Gloves Were Switched

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chinery to erase any sign that products once sat in a store. Price tags, for example, are instantly removed with electric sanding machines. One recent day, a few palettes in one corner were stacked with boxes filled with tick collars, flea spray and other items stocklifted from Kmart Corp. by a pet-products maker.

Some companies have an internal disposal system for stocklifted products. Magid Glove & Safety Manufacturing Co., a Chicago work-glove maker that sometimes stocklifts work gloves, says it routinely sells off the rival gloves along with its own brands to industrial customers. The buyers, usually factory workers, "don't care which brand it is," says Gigi Cohen, Magid's executive vice president of the retail division. The gloves are "like commodity items."

A detailed tracking of the stocklifted Wells Lamont gloves reveals how the tactic works. For years, Lowe's, which now has 450 blue-and-white stores, had primarily sold gloves made by Wells Lamont, a unit of Chicago's Marmon Group. But last year, it decided to try out another supplier in about 100 stores in the South.

#### Two Approaches

Lowe's typically has two ways to get rid of inventory. The new supplier, Midwest, could have paid Lowe's a "markdown allowance" to sell off the Wells Lamont gloves gradually, at discounted prices. But with the crucial gardening season approaching, Lowe's opted for a stocklift, to clear the shelves in one sweep. "It just gives a better presentation to the customer than mixing two different vendors," says Theresa Anderson, a Lowe's merchandising vice president.

Stephen Franke, Midwest's chief executive, declines to discuss specific stocklifts by his Chillicothe, Mo., company. But in general, he says, Midwest works hard to meet retailers' requests, including hanging the gloves on metal rods attached with clips, called "clip strips," for better shelf display. "We try to make it as easy as possible for the retailer to take our product in," Mr. Franke says, adding that such efforts have helped the company expand aggressively into new retail chains and increase sales an average of 35% a year.

Wells Lamont, the stocklift victim, had no immediate recourse. "Of course we mind it, but that's not illegal," shrugs Richard Stoller, a Wells Lamont vice president, referring to any stocklift. "We sold the product to the customer," the retailer. "It's their inventory, not ours."

So, last winter, the Wells Lamont gloves were pulled off the shelves, packed up and whisked away to a storage room. Meanwhile, Midwest arranged to sell all the gloves to Mr. Brooks, the 32-year-old liquidator. His International Purchase Systems derived 40% of last year's \$6 million of sales from stocklifts and has a long list of clients that routinely dump stocklifted products in his rented Railroad Terminal Warehouse in Yonkers, N.Y.

Wells Lamont gloves arrived in the

warehouse and, for weeks, sat in a dark corner. Some were stuffed into a hodgepodge of boxes that once held refrigerators and washing machines. Others, still sealed in Wells Lamont boxes, bore a sign that said "Buyback" in magic marker.

With rap music blaring from a radio hung from a pillar, four workers sorted out the gloves, discarding the shop-worn ones and separating them into about a hundred new cardboard boxes according to size and style—Cotton Hob-Nob, Vinyl-Coated K-Wrist, Work No Sweat and Yard & Garden with extra-long protective cuffs. Mr. Brooks calculates that 10 people working eight-hour shifts took about six weeks to sort out and count the gloves before they were resold. Time was running out. "The season is now. Spring and fall are when people do gardening," he says.

Midwest paid about \$700,000 for the 225,000 pairs of gloves, Mr. Brooks says; he believes that is about the wholesale price. In turn, he says, he bought the gloves for about \$280,000; the difference, about \$400,000, may indicate just how eager Midwest was to get its gloves into Lowe's stores. (Midwest's Mr. Franke disputes the figures but won't say what they were.) Then, Mr. Brooks sold the gloves to an array of close-out stores, including National Wholesale Liquidators Inc. in West Hempstead, N.Y., and Building 19 Inc. in Hingham, Mass. He took in about \$70,000, before his own operating expenses.

That may seem slim, but Mr. Brooks expects to be rewarded in the long run. In his tiny office on Warehouse Lane in nearby Elmsford, he shows off framed thank-you letters from customers. "When buybacks or slow-moving inventory occur, we know where to find you," says one 1996 letter from Masco Corp., which makes Peerless and Delta faucets. He has also expanded business by tapping the revenge impulse: After purchasing stocklifted products, he puts in "courtesy calls" to the victims, encouraging them to "return the favor" by working with his company.

#### More-Profitable Deals

Since his first stocklifting deal four summers ago, when he personally sorted paper plates and napkins in an unventilated warehouse, Mr. Brooks says these labor-intensive assignments have often led to some more-profitable deals, such as companies' excess inventory. Those products are more profitable because they are "factory fresh," free of store tags or other markings that have to be erased.

Two weeks later, with the gardening season in full bloom, some of the Wells Lamont gloves surfaced in downtown Manhattan's National Wholesale Liquidators store, amid a jumble of photo albums, vacuum cleaners, cordless telephones and \$3.97 salad spinners.

In the basement of the close-out store's home-improvement department, an open box marked "Lowe's" sits next to coiled garden hoses. It is filled with Wells Lamont's purple Yard & Garden gloves. The "regular" price tag of \$2.99 is crossed out. The gloves are on sale for \$1.49.