

Supermarket News

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By LYNNE MILLER

A few short years ago, warehouse clubs created an exciting new destination for their members -- meet and seafood departments. Designed to increase the frequency of shopping visits, these additions have done that more. Now they take a small but growing -- bite out of supermarket meat departments, industry observers told SN.

During recent visits to units of Costco, Sam's Club and BJ's Wholesale, SN observed a common merchandising strategy: Self-serve cases are limited to the most popular meat products, presented in jumbo-sized packages at highly competitive prices. These operators also place less emphasis on customer service than traditional supermarkets.

Indeed, supermarkets and members-only clubs work under different financial models. Supermarkets, which are open longer and stock a larger assortment of merchandise, require higher margins than warehouse clubs, industry watchers told SN.

At clubs, the limited number of products, combined with quick turnover and added revenue from membership fees, allows clubs to operate with a lower gross spread. And, unlike supermarkets, clubs can count on business from restaurant operators, who buy large quantities.

Offering high-quality merchandise is another important part of the strategy, sources told SN.

"We feel quality is our No. 1 attribute," Jeff Lyons, Costco's vice president and general merchandise manager of fresh foods, told SN. "No. 1, you'll get the best quality. No. 2, it'll be priced at a reasonable level."

Carrying a limited assortment of meats lets meat managers focus on quality-- they can make sure the products meet their specifications every time, according to one club observer.

"The quality of their meat gives them an edge," said Michael Clayman, president of HHC Publishing, a Nor-wood, Mass.-based publisher of Warehouse Club Focus, a biweekly newsletter focusing on the warehouse club industry. "Since the clubs stock a limited number of SKUs and since they cut the meat on premises, they demand the highest quality and trim it to the highest level."

To illustrate Costco's belief in quality, Lyons pointed to the boneless, skinless chicken breasts, sold fresh and frozen in a dual branding arrangement with meat and poultry processor Tyson. Packages bear the names of both Tyson and Kirkland, which is Costco's house brand.

When they stock up on boneless, skinless breasts, consumers get pieces of chicken that have been trimmed carefully so there's no rib meat, Lyons said. The extra trimming sets the product apart from what the competition sells.

"We have a superior product," said Lyons, who's based at the company's Issaquah, Wash., headquarters. "Our boneless, skinless chicken breasts are a phenomenal item."

At a 144,000-square-foot Costco Warehouse, SN observed a sprawling presentation of flesh meat -- 60 feet of fresh beef and pork, 40 feet of poultry and 24 feet of fish and seafood. In the beef section, large and small packages of New York strip steaks were on display, priced at \$5.99 a pound for just under 3-pound tray packs of steaks that had been trimmed and tenderized. Hefty bundles of strip steaks wrapped tightly in plastic without trays -- weighing more than 16 pounds -- were available for \$4.59 a pound.

Costco occasionally rounds out the selection with seasonal items. In early December, SN observed 4 pound packages of Kirkland signature marinated beef rib eye roast, priced at \$7.49 a pound.

"We brought it in to pick up holiday business," said Anthony Fontana, manager of the Costco Wholesale warehouse in Brooklyn, N.Y.

Armour-brand marinated pork loins, 8-pound and 9 pound packages of pork spareribs, 7-pound packs of pork chops, seasoned turkey breasts, turkeys from Butterball and large packs of various chicken pieces filled up several cases.

In the seafood section, rainbow trout, crab legs, catfish fillets, Pacific swordfish and tilapia fillets were available. One of Costco's signature items is fresh, farm-raised Atlantic salmon, and it's a best-seller (\$3.99 a pound). "We sell over 3,000 pounds of salmon a week," Fontana said.

"We do very well with seafood," he said. "You're not going to find 20 to 30 items, but you'll find the staples."

SN observed a similar mix of merchandise at a Sam's Club and a BJ's Wholesale Club -- with a few differences. BJ's was the only club with a small section certified Angus, regarded to be a premium beef brand. Certified Angus steaks and other cuts filled up a 3 foot area.

At this BJ's, SN observed about 50 feet of self-serve cases offering 6-pound packs of 93% lean ground beef, (\$2.29 a pound); boneless leg of lamb in packages under 2 pounds, (\$3.29 a pound); and 2 pound packages of Excel cooked half boneless prime rib (\$6.99 a pound). A case hugging the meat cutters window contained 8- to 10 pound packages of pork spareribs, pork loin and beef items. A separate case contained spiral-sliced hams (\$2.39 a pound).

An island case, which was less than half full, contained value-added pork, chicken and turkey products from Bryan and Hormel, among other processors.

A few feet away, another island case contained 5-pound packages of fresh salmon, (\$3.99 a pound); previously frozen King crab legs, (\$10.99 a pound); fresh sea scallops, (\$6.99 a pound); stuffed salmon fillets, (\$4.49 a pound); previously frozen packaged salmon burgers (\$4.79 a pound); fresh flounder; and smoked whitefish, salmon and herring.

Signs at the meat cutters window encouraged customers to ask for service: "Meat and poultry cut to order" and "Ask about special orders. Place large quantity ham, turkey and meat orders one week in advance."

Officials from Natick, Mass.-based BJ's declined to be interviewed by SN.

At a Sam's Club, a division of Wal-Mart Stores, SN observed attractive red-and-yellow signs -- with catchy messages: "Meat Your Match" and "There's No Misteakin' It." Signs promoting the USDA Choice meats and the company's fresh guarantee promise were visible as well.

Self-serve cases were well-stocked with Wilson Black Forest Ham, (\$2.59 a pound), and spiral-sliced half hams (\$1.99 a pound). The poultry section, encompassing about 18 feet, included the usual items, including 5-pound packages of Perdue boneless, skinless chicken breasts (\$2.59 a pound) and 6-pound packages of drumsticks (79 cents a pound). The seafood areas, encompassing about 18 feet, offered salmon fillets (\$3.99 a pound) and seasoned, peeled and deveined shrimp (\$5.99 a pound). Also available: imitation crabmeat, fresh tilapia and smoked salmon.

With a hard-to-miss, large red sign that reads "Fresh Meat by the Case," Sam's Club appears to target price-conscious members with big families, or restaurant operators who buy large quantities. The sign lists a handful of products available by the case, including ground beef, 90% lean (\$1.41 a pound) and boneless, skinless chicken breasts (\$2.20 a pound).

The meat department has become a destination for members, a spokesman from the company's Bentonville, Ark., headquarters told SN.

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"They appreciate the quality, freshness and value that we offer," the spokesman said. "Our member response has been excellent.

"With our 100% Choice Beef, we offer our members value, always," the spokesman said, when asked what the clubs offer members that they cannot get at supermarkets.

While casual visitors could mistake a Sam's Club for a Costco or a BJ's -- so similar are the no-frills merchandise displays, big, bold signs and jumbo-sized product packages the clubs attempt to distinguish themselves. At BJ's, members find slightly more product variety. At Sam's Club, the emphasis is on low prices.

CLUB STATS

Fresh Meat is a growing category for warehouse clubs. Sales figures are for the year 2000.

| | Store Count | Meat/ Seafood SKUs | Meat Sales (in millions) | 2 Overall Sales Store |
|------------|-------------|-----------------------|-----------------------------|--------------------------|
| Costco | 369 | 56 | \$447 | 1.4% |
| Sam's Club | 492 | 71 | \$382 | 1.4% |
| BJ's | 118 | 117 | \$56 | 1.2% |

Sources: Warehouse Club Focus; company reports.

"At Costco, what I hope you'll hear is quality," said Lyons of Costco. "Across the board, whether it's a TV or a tomato, quality is our goal.

"Sam's tries to be the lowest price," he said. "BJ's will look for variety."

As meat merchants, the members only clubs are hitting their teen years. Sam's Club launched fresh meats and seafood in 1988 and '89. According to Costco officials, they were the first to dive in, rolling out meat and seafood departments in 1988. BJ's first tested fresh meats in 1990, according to Warehouse Club Focus.

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Since then, the clubs have become a small but growing channel for fresh meats. Officials from the National Cattlemen's Beef Association and National Chicken Council report increases in the amount, by weight, of protein sold at the clubs during the '90s.

Club-store sales accounted for 3.8% of all chicken sold in 1999 -- compared to 3% in 1997, and 2.8% in 1995, according to the NCC. Nor is the growth spurt close to being over. Officials anticipate the results of the 2001 survey will show clubs capturing an even bigger piece of the chicken pie.

"I expect club stores share will have grown, likely at the expense of retail grocery stores," said William Roenigk, senior vice president at the NCC, Washington. "I would expect it to grow over 4%."

But while company officials and outside observers insist future growth at warehouse clubs will be generated by fresh food departments, including meat and seafood generally the most profitable fresh department for retailers -- super markets as meat merchandisers still have several important advantages.

"The clubs will take their share of meat sales, but the supermarkets will remain dominant," said Clayman. "This is due to the convenience of shopping for meat at a super market vs. a club."

Supermarkets watch the clubs closely, and have tweaked their strategies to remain competitive. One industry observer noted it's only been a few years since supermarkets in some markets stepped up the practice of offering meats in extra-large packages, with price markdowns.

"There's always been a family pack, but now there's a huge, jumbo-sized family pack," said Huston Keith, a principal with Keymark Associates, a Marietta, Ga.-based consulting firm. "Go into a Kroger or a Publix and you'll see family packs, heavily discounted, as much as \$2 off per pound.

"I think [clubs] still have their niche, but most supermarkets have been able to address competitive issues raised by the warehouse clubs," he continued. "I haven't seen a lot of new major developments in meat merchandising in warehouse clubs."

The competition benefits consumers. Late last year, in northern Florida, meat industry consultant John Story saw the impact of a warehouse club's expansion of its fresh foods departments on a local supermarket chain.

"In this marketplace, Publix stepped up service," said Stow, who's based in Reddick, Fla. "If you're faced with that type of competition, you have to do that. If you don't, you'll perish."

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