

BJ's Wholesale Club

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NATICK, Mass. -- BJ's Wholesale Club is fine-tuning its strategy of targeting household shoppers with an expanded selection of retail pack sizes -- charting new territory in an industry segment defined by institutional sizes and by-the-pallet merchandising.

BJ's recently expanded the number of so-called "life-size" stockkeeping units as part of its effort to become more of a primary shopping destination, rather than a special trip occasion. The downsized assortment of nearly three dozen bakery, meat, poultry, seafood, produce and pet food items retails at a higher unit cost than the wholesale products sold in larger packages.

"So far, it's been successful," said spokeswoman Nancy Sodano, noting the program sets BJ's apart from the other warehouse clubs.

For the test, the company carefully selected some of the most popular fresh food items normally sold in supermarkets, she said, noting the "life-size" collection represents a tiny portion of a club that typically carries up to 6,500 items.

During a visit to two units in the Cleveland area earlier this year, an industry observer noted the company merchandised the wholesale and consumer-sized packages next to each other to highlight the availability of both sizes. The club's 43 "life-size" products included Au Bon Pain bagels, BJ's branded muffins and croissants in six-count packages in the bakery; half-gallons of milk in the cooler; 3.5-pound packages of Perdue boneless chicken breast, filet mignons that weighed about a pound each and one-pound packages of salmon in the meat and seafood department; and one-pound packages of strawberries, red grapes and other fruits and vegetables in the produce department.

Though it seems a contradiction for club stores, retail packs are consistent with BJ's strategy, an industry veteran said.

"This is just another step in a path they've been taking for some time," said Pat Turpin, an investment banker who heads up the food and beverage practice of Santa Monica, Calif.-based USBX Advisory Services, and former executive with Costco Wholesale.

"A lot of people along the way scoffed at how 'retail' BJ's was. As people were somewhat disparaging of BJ's retail strategy, it seemed to work for them."

It makes sense for BJ's to reach out to household shoppers, since rival Sam's is honing its focus on business customers, while Costco maintains a balance of business and household members, Turpin added.

Other industry watchers agreed. Chuck Cerankosky, an analyst with Cleveland-based McDonald Investments, said that the new sizes fit the company's overall plan to increase the frequency of member visits, and consequently boost sales.

"The food is providing the frequency, but the entire club-shopping experience allows the customer to find a great deal in other product categories to push up the volume," he said.

Still, the strategy is not without risk. According to Michael Clayman, publisher of Warehouse Club Focus, a twice-monthly newsletter, the new products are inconsistent with one of the basic principles of warehouse club merchandising -- limit the product mix.

"The club philosophy was set up to maximize efficiencies, and part of that is through [limited] SKU counts," he said. "If they are serious about targeting women with families, then logically, it makes sense [to offer smaller packages]. Operationally, does it make sense?"

Turpin added that on BJ's home turf, the Northeast, the small-pack strategy could be especially well-received with consumers living in tight quarters. What remains to be seen is whether the company can reach its objectives -- greater frequency and increased sales.

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