

## SAM'S CLUB TURNS 25

by Warren Thayer , Editorial Director

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Having attained the ripe old age of 25 and survived its share of adolescent identity crises, Sam's Club has not forgotten its roots: serving business members.

Oh, it will continue to serve consumers, as well as the household needs of its business members (a huge market, by the way). And yes, it did in fact try to out-Costco Costco for awhile, and no, it wasn't pretty. But contrary to still-lingering rumors, Sam's has actually been aware for some time now that it is not Costco. What's more, this is most emphatically not seen as cause for alarm.

The focus on the business shopper in a soft economy may pay off well for Sam's, observers say. They also see it likely to bode well for Sam's frozen and refrigerated foods. With well-recognized low-price offerings, the departments may attract more small businesses seeking distribution alternatives in tough times, as well as consumers out for cheaper meals at home.

Sam's executives see their increasing focus on business shoppers as a good differentiator – more evolution than revolution. In an interview with Refrigerated & Frozen Foods Retailer, executives note the shift in SKUs toward business members, and express optimism about the new Sam's Club Business Center opening in Houston this month. (See "Sam's Focus on Business Shoppers Evolves" on following pages.)

Most observers we interviewed see Sam's as holding the low-price leader crown, and having significant opportunity to cash in on tough times. Dan Raftery, president, Raftery Resource Network, Antioch, Ill., notes that "The club model is perceived as the lowest-price retail outlet – you get past your membership fee pretty quickly." He expects shoppers who already visit club stores to respond to tougher times by ramping up their spending within the channel, to see more savings. And shoppers new to the channel will be more likely to give it a try.

As Jim Hertel sees it, Sam's is starting to think more like a distributor – and with good reason. Hertel, managing partner at Willard Bishop, Antioch, Ill., says that "A person filling vending machines may find it cheaper to go to Sam's and use a credit card, getting the float and in effect better payment terms. Vendors with a lot of locations but low volume per location may see economic sense in buying on a day-to-day basis and getting around minimum order quantities. A lot of DSD companies want cash, so the extension of credit can be a pretty big deal."

Hertel adds that as consumers eat out at restaurants less often, finding good low-priced home meals is also becoming increasingly important. "Club stores have a great opportunity because of the price points they can hit and their orientation to frozen prepared foods," he says. "Sam's has many convenience items that are spot-on from a trends standpoint."

Kevin Janiga, president of Winsights Marketing, Tampa, Fla., sees strong potential in the new Sam's Club Business Center. "This is a very savvy move," he says. "It provides them much-needed focus against the consumer base that supported Sam's Club's early success. More important, this customer segment is not being served as well by Costco, providing Sam's Club with some white space to fortify its strategic positioning."

Perhaps the Sam's-Costco comparisons will continue forever, linked a la Ali-Frazier. But one thing about these epic battles: They're never dull.

### sidebar: SAM'S CLUB AT A GLANCE

**Division of:** Wal-Mart Stores, Bentonville, Ark.

**Annual sales:** \$44.357 billion for 12 months ending Jan. 31, 2008, up 6.3% from prior year

**Store count:** 592 at start of 2008

**Store size:** 110,000 to 130,000 square feet

**Average shopper:**\* Income \$68,395; age 46; home owner, 81%; home value, \$322,940; White, 51.7%; Black, 14.1%; Hispanic, 22.4%; Asian, 5.7%; Other, 6.1%.

**Costco's average shopper:**\* (Because you just have to compare, right?) Income, \$75,928; age, 45; home owner, 78%; home value, \$535,969; White, 48.7%; Black, 6.4%; Hispanic, 21.8%; Asian, 16.7%; Other, 6.4%.

\*Source: [www.themediiaudit.com](http://www.themediiaudit.com), Houston, Tex.



### SAM'S FOCUS ON BUSINESS SHOPPERS EVOLVES

Is Sam's Club targeting business shoppers, or consumers? The answer is simple: Both, with growing emphasis on the business shoppers who got it all started in the first place. That's not only true to Sam's roots, it differentiates the chain from Costco and traditional supermarkets.

One clear signal of this shift: This month, a Sam's Club in Houston is being converted to a Sam's Club Business Center, targeting just business members. The product mix will focus on bulk items such as office



supplies and food for restaurants, convenience stores, offices and other enterprises. Although consumers can shop there, they won't find any apparel, recreational merchandise or categories such as books or toys.

**MORE CONVERSIONS COMING?**

Doug McMillon, president and chief executive officer of Sam's Club, shared in a recent media conference during the company's shareholder event that he expects the new Sam's Club Business Center to do well, but at this stage it's a test and time will tell if it makes sense to convert or open more facilities like it.

Today, about 45% of SKUs are targeted to business members, up from perhaps 15% five years ago, according to Michael Heintzman, senior vp of merchandising for Sam's Club. Michael Curry, senior buyer, cooler and dairy at Sam's, notes that many items actually serve the needs of both business and consumer shoppers. One example, he says, is three-pound cottage cheese, which disappears in some households faster than you might think.

Another example: those famous six-pound trays of lasagna. Although originally targeted to foodservice, consumer members discovered these large packs and began buying them regularly, Curry says. Packaging of foodservice items, when possible, takes the potential dual usage into account. This way, consumer members can use what they need right away and finish the rest later — getting restaurant-quality food at a significant discount.

Picking up on Curry's point about lasagna trays, Heintzman adds "It's a great business item, but Mom can always use a half pan of lasagna for when folk come over for dinner, or for a church dinner. Obviously, she can't shop at a wholesale food distributor, so we give her the best of both worlds. For example, we also build a four-pound pack of butter for our business members, but we see a lot of Advantage (consumer) members buy that and not worry about it going bad. It's got a long shelf life, and it's a great value."

Heintzman says Sam's spends considerable time with small business members, working up invoice comparisons to help them understand the cost of goods and to help them find ways to save without shortchanging quality. "Folks buy a Sam's card to save money; we're about value and price leadership," he notes.

**COMPLEMENTING WAL-MART**

Does that put them at odds with Wal-Mart stores? Curry says no. "We see ourselves as a complement to Wal-Mart stores, which are the best out there," he says. "Our goal is to be the best club operator. We have members who shop Wal-Mart stores, and Wal-Mart has shoppers who also rely on us. It'll be for different items, but we complement each other. In some cases, we even share the same parking lot."

Sam's Club also shares the same distribution centers with Wal-Mart in many markets. The clubs gained new synergies some years ago when Wal-Mart's supercenters opened and began carrying products needing refrigeration. Prior to the supercenters, Sam's used third parties for frozen and refrigerated logistics.

"Now we can piggyback along with them," Heintzman says, "although obviously it is for different items with different slots. But we're able to drive efficiencies by having it all under one roof."

The growth in the frozen and refrigerated departments at Sam's has been strong over the years. Heintzman says that in the earliest days, Sam's had 18-20 doors of frozen foods facing an equal number of cooler doors across the aisle, with each side having about 35-40 items. Today, the combined door count is typically 86, with about 160 SKUs altogether.

"Sam (Walton) had a very viable format with the Wal-Mart stores, and his thrust from 'day one' when he announced the Sam's Club concept was to provide savings to the small business entrepreneurs — a group that was struggling to find lower cost alternatives," Heintzman says. "Today, we also look at personal needs, both of the business shopper and the Advantage member."

How will a soft economy affect club store sales? "It bodes well for Sam's," says Susan Koehler, senior manager corporate communications. As things get tougher out there, members are coming in and buying a bit more. We're offering real value to them, and can help them save their way to better profits or help them stretch their weekly grocery budget. We don't deliver, but we do offer 'click 'n pull' on our Web site for all members, where you can place an order electronically. If you put in an order by 5 p.m. the night before, it will be ready the next morning for pick-up. Some facilities even have a drive-through canopy. It's not just for business members, but they do gravitate to it a bit more."

**sidebar: SAM'S CLUB: A TIMELINE**

1983  
First Sam's Club opens  
In Midwest City, Okla.

1984  
More than 2 million  
Members

1988  
104 clubs and



7 million members

1991

First international club  
opens in Mexico City

1993

From Maine to California  
419 clubs in 47 states

1993

Sam's Club acquires PACE  
Warehouse Clubs

1997

First gas station opens  
Wichita, Kansas

1998

Member's Mark private  
label launches

2000

Samsclub.com launches;  
Click n' Pull follows

2003

20th anniversary,  
522 clubs

2005

Doug McMillon named  
President and CEO

2006

First hometown club  
opens in Bentonville

2007

Sam's Club Fayetteville  
Model for Sustainability

2008

592 clubs at start of  
25th anniversary year

## SAM ON SAM'S

In his autobiography, "Sam Walton: Made in America, My Story," the late Wal-Mart founder Sam Walton discussed the founding of Sam's Clubs, then a \$10 billion business with 217 stores and, as he put it, "terrific growth potential." Walton never took credit for inventing the concept, but he sure made it fly.

One Wal-Mart alumnus was working on the West Coast for a supermarket chain at the time, and he recalls that "When the first Price Club came on, everyone laughed at it. But Sam didn't; he saw opportunity. Pretty soon the retailers who were laughing didn't think it was funny anymore."



Here are some excerpts from Walton's book, written with John Huey and published by Doubleday in 1992.

**Sam Walton:** "Just like discounting, I'm sorry to say we can't take any of the credit for inventing the wholesale club concept. Put yourself in our position for a moment, though, and you can see why we had to steal the idea from those who did roll it out. It was the early '80s, and we'd been in the discount business for around 20 years. Only the efficient operators were still in business, because prices, and margins, had been falling steadily the whole time. Suddenly, we noticed a whole new class of sub-discounter undercutting our prices, wholesalers with very low overhead who were selling at margins way below the 22% in the discount business – 5% to 7%. Since "Low Prices Every Day" had brought us this far, we had to explore the business. Especially since we know that Sol Price — one of the original discount pioneers — was behind this idea. He had started his Price Club stores in 1976.

"So one day in 1983 it went to see Sol in San Diego. I had met him earlier when my son Rob and I called on him. This time, though, Helen and I were out on the West Coast already for a meeting of the mass merchandisers, so we dropped down to have dinner with Sol and his wife Helen at Lubock's. And I admit it. I didn't tell him at the time that I was going to copy his program, but that's what I did.

"I came home and went over to Oklahoma City, where we rented an old building for about 90 cents a square foot or maybe even 75 cents. We remodeled it and to manage it, put together a pickup crew of mavericks to manage it who were sort of underappreciated at Wal-Mart. We had two or three buyers. We whipped up a program and a design, and put the whole thing in

motion. We opened our first club in 1983. It had that same feel of chaos and excitement as the early days at Wal-Mart. And we went out of our way from the very beginning to separate the Sam's Club culture from the Wal-Mart culture. One of the guys I picked up was Rob Voss. He was not really looked on as a top management talent at Wal-Mart because he was always swimming against the current more than he was going with it. He was a little bit of an agitator."

**Rob Voss, first general merchandise manager, Sam's Club:** "I told Sam up front that he had a lot of egos around this company, and that they needed to understand we were going to be doing our own merchandising. So he got up at a Saturday morning meeting and told everybody — this is a direct quote — 'The Sam's Club operation will be doing their own merchandising. If any of you buyers out here with Wal-Mart take exception to that, and feel that because you're the buyer of a category you should be buying it for the entire company, I suggest you come and visit with me in my office on a one-on-one basis, and I'll explain it to you in a little more detail.' From that day on we never had a problem."

**Sam Walton:** "We quickly went on to open Sam's in Kansas City and Dallas and then two units in Houston. It was a lot like Wal-Mart. Once he had those five units up and going, I knew we could run with it, and we did. I hate to say it, but I guess it was almost what you call a second childhood for me — a second challenge anyway. I had a chance to build a company all over again, and I tried to be as hands-on as I could, although David Glass was heavily involved with Sam's from early on, too."

**Ron Loveless, Retired Senior VP, Wal-Mart:** "I came over from Wal-Mart to help set up Sam's. Since we were patterned after Price Clubs, sometimes we copied them without exactly knowing what we were doing. We were bringing a West Coast idea to the Midwest, and we didn't know how it would be received. I remember one idea that didn't transfer too well. Price Club had a huge stack of wine in front of its stores. We bought the same amount for our stores in the Midwest, and we learned the hard way that Midwesterners aren't exactly wine drinkers."

**Tom Coughlin, Senior VP, Sam's Clubs:** "... (Our customers) know there are no frills whatsoever in those warehouses. They know our management people are likely to be the ones to grab the forklift and pull the goods down for them, and they come to expect it. And like it."

**Sam Walton:** "The competition in the club business can get pretty spirited sometimes. Once I was in the big Price Club on Marino Avenue in San Diego, and I had my little tape recorder with me — like I always do — and I was making notes to myself about prices and merchandising ideas. This guy, a big guy, comes up to me and says 'I'm sorry but I'll have to take your tape recorder and erase the material you've got on it. We have a policy against people using them in the stores.' "Well, we have the same policy, and I knew I was caught. So I said, 'I respect that. But I've got things on here from other stores that I don't want to lose, so let me write a note to Robert Price' — that Sol's son. So I wrote: 'Robert, your guy is just too good. I was trying to get some information on this recorder about some of the items you were carrying and some of my impressions of your store, and he caught me. So here's the tape. If you want to listen to it, you certainly have that privilege, but I have some other material on here I would like very much to have back.' So in about four days I got a nice note back from Robert, with the tape, and none of it had been blurred or scratched out. He probably treated me better than I deserved."

**PB IS 11% OF SAM'S VOLUME**

About 11% of dollar volume at Sam's Club comes from its two private labels: Member's Mark, launched in 1998 for consumer members, and Bakers and Chefs for foodservice members.

That's the word from Michael Clayman, president of HHC Publishing, Foxboro, Mass., which publishes a newsletter, Warehouse Club Focus, and the annual Warehouse Club Industry Guide. He puts private label penetration higher at Costco (17%) and at BJ's (13%).

About 7% of SKUs at Sam's Club have been private label in recent years, Clayman says. By comparison, that ratio has run at about 12% for Costco and 10% to 13% for BJ's. Based on Clayman's research for the calendar year 2007 (all data that follows is for that period unless otherwise specified), 377 of Sam's 5,379 SKUs were private label.



The greatest number of Sam's private label SKUs — 115 — were in perishables (frozen, cooler, deli, fresh), with 106 under the Member's Mark name and nine under Bakers and Chefs.

Private label makes a strong contribution at Sam's, however. Clayman says a branded SKU on average generates \$262 weekly per club, vs. \$362 for a private label item. Costco's branded SKUs generate \$469 weekly per club vs. \$715 for a private label item, while BJ's branded and private label SKUs each turn in about \$124 weekly per club, according to Clayman's research.

He notes that the buzz is that Sam's plans to increase its private label penetration while adding more superpremium and unique offerings to provide differentiation. Sam's is said to believe it has opportunity to offer more innovative products in categories such as prepared meals, appetizers and desserts.

Recent additions to the Sam's private label lineup include an eight-item line of frozen chicken under the Member's Mark label, in bags ranging from three to six pounds. During a recent walk of a Sam's Club in Seabrook, N.H., with Clayman, two frozen Member's Mark items in particular caught our eye: a 36-ounce package of Gourmet Crepes with Cheese (16 pieces, sweetened with a Neufchatel cheese and cottage cheese blend) for \$7.81; and grilled mini chicken soft tacos, 18 to the 28-ounce package, at \$10.44. The latter bills itself as a "100-calorie snack solution" in the upper left corner, making the package appealing to not just the business customer, but the consumer concerned with portion control. (Got to say the quality was top-notch on both.)

Sam's surveys its members for their opinions on potential private label items, and independently tests and benchmarks new SKUs. It may expand private label items at a few locations before doing a national rollout. The chain has the advantage of being able to tap into overseas trends via Asda, Wal-Mart's United Kingdom operation.

As a rule, private label products at club stores generally exceed traditional club store gross margins of 8% to 12%, says Clayman. According to the 2008 Warehouse Club Industry Guide, club store private label products typically exceed the standards of competing national brands while yielding a 20% average savings.

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Warren Thayer , Editorial Director  
thayerw@bnpmedia.com