CASE 4

Competition among the North American Warehouse Clubs: Costco Wholesale versus Sam's Club versus BJ's Wholesale

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In 2010, the nearly $125 billion discount warehouse and wholesale club segment of the North American retailing industry consisted of three principal competitors: Costco Wholesale, Sam's Club (a Walmart subsidiary), and BJ's Wholesale Club. Warehouse clubs operated no-frills, self-service big-box facilities where customers could choose from a relatively narrow assortment of discount-priced merchandise across a wide range of product categories, including food and household supplies, electronics, office supplies, selected appliances and furniture items, apparel, books and DVDs, home furnishings, and tires. Items were typically sold in case lots (cleaning supplies, paper products, office supplies, soft drinks, bottled waters); packaged in large containers (laundry detergents); shrink-wrapped in quantities of 6, 8, or 12 (canned goods); bundled in cartons of 100 or more (trash bags, paper plates, disposable cups), or giant-sized bags (potato chips, pretzels). In order to achieve high sales volumes and rapid inventory turnover, warehouse clubs generally limited merchandise selections to brand-name items that were leaders in their categories and an assortment of private-label items.

Warehouse clubs drew customers away from other wholesale and retail outlets such as supermarkets, department stores, drugstores, office supply stores, consumer electronics stores, and automotive stores chiefly because it was difficult for such sellers to match the low prices of a wholesale club. Costco, Sam's Club, and BJ's Wholesale had substantially lower operating and costs than most retailers because they purchased full truckloads of merchandise directly from manufacturers, displayed items on pallets or inexpensive shelving, kept extra inventory on high shelving directly on the sales floor rather than in central warehouses, had very low costs for store decor and fixtures, had comparatively low labor costs (because warehouses were open fewer hours than conventional retailers and required comparatively fewer people to operate relative to the sales volumes that a store generated), and spent minimally on advertising and customer service. The low operating costs of warehouse clubs enabled them to charge significantly lower prices than traditional wholesalers, mass merchandisers, supermarkets, and other retailers. Moreover, because of high sales volumes at each store location and consequently rapid inventory turnover, warehouse clubs were able to receive cash for a large portion of their inventory before they had to pay many of their merchandise vendors (even in instances when a club elected to take advantage of early payment discounts offered by vendors rather than delay vendor payment until the standard 30 to 60 days after the merchandise was delivered). Thus, a warehouse club could finance a big percentage of its merchandise inventory through the payment terms provided by vendors rather than by having to maintain sizable working capital (defined as current assets minus current liabilities) to facilitate timely payment of suppliers.

The low prices and broad merchandise selection found at the three leading warehouse clubs were attractive to small-business owners, churches and nonprofit organizations, caterers, small restaurants, and individual households (particularly bargain hunters and those with large families). A significant number of business members

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