

Warehouse Club Operations

BJ's warehouses were located in both freestanding locations and shopping centers. Construction and site development costs for a full-sized owned BJ's club were in the \$6–\$10 million range; land acquisition costs ranged from \$5 to \$10 million but could be significantly higher in some locations. Each warehouse generally had an investment of \$3.5 to \$4.0 million for fixtures and equipment. Pre-opening expenses at a new club ran \$1.0 to \$1.5 million. Including space for parking, a typical full-sized BJ's club required 13 to 14 acres of land; smaller clubs typically required about 8 acres. During recent years, the company had financed all of its club expansions, as well as all other capital expenditures, with internally generated funds.

Merchandise purchased from manufacturers was routed either to a BJ's cross-docking facility or directly to clubs. Personnel at the cross-docking facilities broke down truckload quantity shipments from manufacturers and reallocated goods for shipment to individual clubs, generally within 24 hours. BJ's worked closely with manufacturers to minimize the amount of handling required once merchandise is received at a club. Merchandise was generally displayed on pallets containing large quantities of each item, thereby reducing labor required for handling, stocking, and restocking. Backup merchandise was generally stored in steel racks above the sales floor. Most merchandise was premarked by the manufacturer so that it did not require ticketing at the club. Full-sized clubs had approximately \$2 million in inventory. Management had been able to limit inventory shrinkage to no more than 0.20 percent of net sales in each of the last three fiscal years (a percentage well below those of other types of retailers) by strictly controlling the exits of clubs, by generally limiting customers to members, and by using state-of-the-art electronic article surveillance technology. Exhibit 8 shows interior and exterior scenes at various BJ's locations.

Membership

Since 2006, the number of businesses and individuals with BJ's membership cards had climbed from 8.6 million to 9.4 million. The company charged \$45 per year for a primary Inner Circle

membership (for individuals and households), which included one free supplemental membership; members in the same household could purchase additional supplemental memberships for \$20. A business membership also cost \$45 per year, which included one free supplemental membership and the ability to purchase additional supplemental memberships for \$20. Since 2003, BJ's had offered a Rewards membership program geared to high-frequency, high-volume members that entailed a 2 percent rebate, capped at \$500 per year, on most in-club purchases. In the fiscal year ending January 30, 2010, 5.5 percent of all BJ's members were Rewards members (which entailed an annual fee of \$90); these members accounted for 13 percent of BJ's total merchandise and food sales.

BJ's was the only warehouse club that accepted MasterCard, Visa, Discover, and American Express cards at all locations; members could also pay for purchases by cash, check, and debit card. BJ's accepted returns of most merchandise within 30 days of purchase. Losses associated with payments by check were insignificant; members who bounced checks were restricted to cash-only transactions.

Information Systems

Starting in 2007, BJ's management began a large-scale technology initiative to upgrade or replace the company's sales reporting, financial, human resources, and membership systems; the effort was expected to take a minimum of five years to complete. A new warehouse management system, implemented in 2009, enabled the company to more efficiently manage its logistics, inventory, and warehouse replenishment activities. Sales data was analyzed daily for replenishment purposes. Detailed point-of-sale data enabled warehouse managers and buying staff to track changes in members' buying behavior. The company had recently improved the efficiency of its checkout process and implemented an online system to handle merchandise returns and refunds.

Advertising and Public Relations

BJ's Wholesale increased customer awareness of its clubs primarily through a variety of public relations and community involvement