

FROZEN FOOD AGE

Frozen foods play a larger role in **club** stores

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Abstract:

*Frozen foods are playing an increasingly important role in **club** stores, and change is coming rapidly in the areas of buying/merchandising strategy, private label and brand name extension. The **Warehouse Club Focus** newsletter puts frozen foods at a 5% share of **club** store sales, or about \$2.6 billion annually. The **club** industry is concentrated in 3 players: BJ's Wholesale **Club**, Costco Wholesales and SAM's **Club**. The buying/merchandising strategies of the **clubs** and how they differ from supermarkets are examined. For example, **clubs** offer members low prices on a limited selection of nationally branded and private label merchandise within a wide range of categories. Rapid turnover, high volume and reduced operating costs enable **warehouse clubs** to operate at lower margins (8% to 12%) compared to discount chains and supermarkets, which operate on margins of 20% to 40%.*

Full Text:

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Frozen foods are playing an increasingly important role in club stores, and change is coming rapidly in the areas of buying/merchandising strategy, private label and brand

name extension. Meanwhile, lurking in the wings is The Millennium Club, the code name for the new club store format being planned by SAM's Club. (See separate story.)

Estimates vary, but our Warehouse Club Focus (WCF) newsletter puts frozen foods at a 5% share of club store sales, or about \$2.6 billion annually. Although the club industry turned in some \$51 billion in volume last year, it is concentrated in three players: BJ's Wholesale Club, headquartered in Natick, Mass.; Costco Wholesale, headquartered in Issaquah, Wash.; and SAM'S Club, headquartered in Bentonville, Ark.

First, let's take a look at buying/ merchandising strategies of the clubs, and how they differ from supermarkets. Clubs offer members low prices on a limited selection of nationally branded and private label merchandise within a wide range of categories. Rapid turnover, high volume and reduced operating costs enable warehouse clubs to operate at lower margins (8% to 12%) compared to discount chains and supermarkets, which operate on margins of 20% to 40%.

The clubs use large freezer boxes that contain about 90 freezer doors per box. Costco, SAM'S and BJ's stock a different number of SKUs per club. BJ's stocks more items than Costco or SAM'S. Therefore, frozen products at BJ's receive less merchandising space than at Costco or SAM'S. BJ's stocks three SKUs per freezer door, SAM'S stocks two SKUs per freezer door and Costco stocks one to two SKUs per freezer door.

The accompanying charts detail the SKU count by category in the freezer departments at each club. The study was done in August, 1998.

Generally, the clubs will stock institutional-sized products, targeted towards restaurants. However, BJ's tends to stock items that are targeted toward retail members or consumers. These include a four pack of ten-ounce boxes of Howard Johnson's macaroni and cheese and a four pack of eight-ounce boxes of Birds Eye green beans and almonds.

The clubs have shown a tendency to change the pack of institutional products so that they meet the needs of their retail members. For instance, some prepared meals are packed in a five-pound package. However, the clubs have modified these packages so that they still sell five pounds but the new package is a two-pack of two and a half-pound product. This makes more sense for the retail member but as long a similar value exists, the institutional member needs are met. Products that fall into this category include Michael Angelos vegetable lasagna (2-2.5 pounds), Campbell's chicken fettuccine florentine (2-2.5 pounds) and Tyson chicken stir fry (2-1.5 pounds).

Overall, each club follows a different strategy when buying and merchandising frozen products. Costco will stock the fewest number of SKUs but those SKUs will receive the greatest amount of merchandising space. Costco will also rotate its product selection more frequently because it has a large number of potential products to choose from as it does not stock all potential items. Costco will also tend to stock products that appeal to the business member first.

BJ's is the opposite and will stock the largest number of SKUs among the three clubs. Those items, due to space restrictions, will receive the least amount of merchandising space. BJ's will concentrate on the retail member or consumer first. SAM'S falls in

between Costco and BJ's. It will stock a fewer selection of products than BJ's but will focus on the institutional member.

Now, let's take a look at how private label products are becoming increasingly important in the overall strategy of the warehouse clubs. Costco, SAM'S and BJ's are all at different stages of private label development.

The clubs develop premium private label products-products that meet or exceed the quality standards of the national brands. Purchasing for private label products is done at the corporate level. Private label buyers use the following seven-point outline when developing their private label products:

1. Gross margin should exceed 15%.
2. Retail prices should yield 20% savings vs. national brand.
3. Generally, the clubs will work with one manufacturer per product to reduce costs.
4. High unit volume products are generally considered for private label.
5. Product quality should exceed the national brand.
6. Categories without national brands are considered for private label development.
7. Products are promoted through demonstrations and the club magazines.

Costco's private label brand name is Kirkland Signature and is three years old. According to a recent study by WCF, Costco stocks 223 products under this brand name with three frozen products. These products include:

1. Six-pound bag of boneless skinless chicken breast that is co-branded with Tyson.
2. Four-pound bag of ravioli.
3. Six-pound bag of meatballs. The boneless skinless breast product is an example of a strategy that

Costco uses to introduce its private label product. By placing the Kirkland Signature name on one of the best selling staple frozen food items, Costco is able to associate the quality of Tyson with the Kirkland Signature label in the minds of consumers. In time, WCF believes that Costco may try replacing the Tyson name with its own name on this product.

SAM'S Club introduced its private label brand name this year. It is called Members Mark. According to a recent study by WCF, SAM'S stocks 35 products under this brand name with nine frozen products. These products include the following:

Five-pound bag of green beans; a five-pound bag of green peas; a fivepound bag of kernel corn; a 24-count bag of mini cob corn; a five-pound bag of stir fry vegetables; a fivepound bag of mixed vegetables; a four-pound bag of broccoli spears; a five-pound bag of rotini/vegetables; a five-pound bag of broccoli normandy.

BJ's will be introducing two new private label lines after the 1998 holiday season. BJ's has created a private label line called Executive Choice for its business members and a private label line called Berkley & Jensen for its retail members. The first group of products that will arrive in the clubs will be under the Executive Choice name. Those products will include office supplies and paper products.

Frozen SKU Counts				
Category	Total Items	Percentage	Total Sales	Average Invoice Size
Beefed Foods	4	2.5%	2.5	0.6
Chicken	17	15.0	14.7	0.8
Condiments	165	165	165	NA
Desserts	7	6.2	6.0	0.8
Finger Foods Appetizers	17	15.0	15.5	0.9
Fruit	1	0.9	0.9	0.9
Ice Cream, Novelties	13	11.5	7.4	0.6
Salted Foods	16	14.2	8.8	0.6
Juice	2	1.8	0.9	1.0
Milk	6	5.3	6.3	1.0
Pizza	4	3.5	2.3	0.6
Produce, Others	3	2.7	2.7	0.9
Seafood	6	5.3	3.0	0.6
Snacks	8	7.1	5.0	0.7
Vegetables	6	5.3	3.8	0.6
Total	112		81.9	0.7

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Frozen SKU Counts

By the end of the first quarter, BJ's expects to have 40 products under both private label names and by the end of 1999, BJ's expects to have 100 products under both private label names.

Private label sales within the club industry will increase in the coming years, aided by gains in frozen foods. Manufacturers of branded and nonbranded products are advised to work with regional and corporate buyers to understand where the clubs may expand their frozen private label assortment. Because the clubs only stock a limited selection of products, the introduction of private label products means that competing items may be deleted. This fact alone makes it important that all manufacturers in the club business should understand these products and the direction of the clubs.

Products that have been recently introduced into the frozen department include items that are nationally recognized brands or restaurants.

This trend makes a lot of sense in the club environment. With a limited selection of SKUs, products that are more easily recognized by members have an improved chance of success. Also, since the clubs provide a larger amount of merchandising space, branded manufacturers can develop packaging that takes advantage of the space and the brand name recognition.

For example, Legal Sea Food, which operates seventeen seafood restaurants and three retail markets in Massachusetts, Rhode Island and Washington, D.C., has developed a strong reputation on the East Coast for quality. Recently, the company announced that it will market its clam chowder and crab cakes to warehouse clubs. Roger Berkowitz, Legal's president, said that the company conducted market tests and found that warehouse club members were the most likely to purchase Legal Sea Food products. Other examples of brand name product "tie-ins" include:

1. Camelot Desserts introduced a Hershey/Health Bar cake.
2. Camelot Desserts introduced a Reese's mousse cake.

3. TGI Friday's has introduced its own potato skin product.
4. Philadelphia brand cream cheese has introduced its own plain cheesecake and its own four-pack assorted cheesecake.
5. Pizzeria Uno has introduced its own four-pack of individual pizzas.

Manufacturers who own nationally recognized brand names have an opportunity to develop frozen products for sale in the warehouse clubs. As evidenced by the above introduction of restaurant based products and candy related "tie-ins," manufacturers outside of the frozen food industry can capitalize on this trend.

Frozen SKU Counts				
WAREHOUSE CLUB	Total Items	Percentage	Total Dollars	Average Dollar Sale
Bread/Hot Foods	12	5.3%	2.2	0.5
Chicken	30	13.1	68.5	8.0
Candies	5	1.3	1.1	0.4
Entrees	18	8.0	37.7	6.5
Finger Foods, Appetizers	23	10.2	61.1	6.3
Fruit	3	1.3	1.8	0.6
Ice Cream, Novelties	36	15.5	18.5	0.5
Italian Foods	14	7.1	9.5	0.6
Juice	3	1.3	1.5	0.5
Milk	20	8.5	12.7	0.6
Pizza	13	6.3	5.7	0.5
Potato, Onions	8	3.7	4.0	0.7
Seafood	22	9.7	8.4	0.4
Shrimp	13	6.8	8.1	0.5
Vegetables	8	4.0	3.7	0.4
Total	228		198.8	0.8

Source: Warehouse Club Focus-August 1988.

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Frozen SKU Counts				
WAREHOUSE CLUB	Total Items	Percentage	Total Dollars	Average Dollar Sale
Bread/Hot Foods	12	3.6%	3.7	0.3
Chicken	36	10.8	11.3	0.5
Candies	1	0.3	0.3	0.3
Entrees	37	11.1	32.2	3.2
Finger Foods, Appetizers	45	13.5	12.3	0.5
Fruit	5	1.5	1.8	0.2
Ice Cream, Novelties	40	11.7	15.3	0.3
Italian Foods	35	10.5	9.3	0.3
Juice	10	3.0	2.8	0.3
Milk	19	5.7	6.5	0.3
Pizza	10	3.0	3.4	0.3
Potato, Onions	12	3.6	3.2	0.3
Seafood	32	9.8	8.8	0.2
Shrimp	16	4.8	5.3	0.2
Vegetables	15	4.5	2.9	0.2
Total	334		95.0	0.3

Source: Warehouse Club Focus-August 1988.

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