

1 For 14 years, your best source for information about the clubs.

- Supreme Court & Costco—5.
- Coke/Costco DC Test—6.
- Costco 2nd in Australia—7.

Warehouse Club Packaging Strategies

Packaging is one of the single most important components of a successful warehouse club item. With limited or non-existent sales help, a product's package must not only answer potential questions, explain benefits and features and help sell an item but also address club distribution and merchandising strategies. Additionally, BJ's, Costco and Sam Club are constantly refining and developing their business models and buyer packaging expectations are always evolving.

This article will provide a perspective on packaging ideas, concepts and strategies that are being used today. This article is not intended to be an all inclusive look at current packaging trends but will highlight key themes. Those themes are not in order of importance. Please note that the packaging information provided on the following pages should be used as a general rule for each warehouse club operator. When engineering a pallet, developing a display case and designing a product's package, buyer involvement is critical to make sure individual club needs are met.



Thorsen Tool—Dog Bone Wrench

Key Concepts – In terms of an overall perspective, Doug Farrell, director of sales at U.S. Merchants/Diversified Repackaging (USM), listed five key packaging concepts that any vendor should consider when selling the clubs: does the package convey value, is the packaging design durable, does the package meet club merchandising requirements (graphics, cube, features and benefits), does the package meet material requirements (plastic type, design style and eco-friendly materials) and does the package reinforce or promote quality.

Thorsen Tool Company has been selling its dog bone wrench in the club channel since July, 2009 (see picture on the left). Lance Meholovitch, vice president of development at Thorsen Tool Company, commented on how his company approached the dog bone wrench package, "We wanted a package just large enough to tell the product's story, but small enough to be environmentally responsible for both shipping purposes as well as the amount of packaging material that would be used. The cut case with lithograph printing looks sharp and really draws the customer's eye. The design and structure of the cut case supports the solid steel product. We used recycled material for the clamshell and monitored the flexibility properties of the clamshell very closely."

BJ's Half Pallets – A typical BJ's location, which is 20,000 to 35,000 square feet smaller than a typical Costco or Sam's Club, stocks 7,000 SKUs compared to a typical Costco with 4,100 items and a typical Sam's Club with 5,300 products. To be able to fit the extra 1,700 to 2,900 products in a smaller footprint, BJ's, in many cases, utilizes pallets that are approximately one-half to two-thirds the height of a traditional 52-inch high pallet. Those shorter pallets enable BJ's to merchandise two SKUs in the same space a single SKU is typically stocked. As can be seen from the picture on the right, a half pallet of Olay age defying body wash is merchandised on the floor and a half pallet of Aveeno body wash is merchandised above.



BJ's—Half Pallets

Cube Utilization – Vendors should make sure a product's package and pallet can be cost effectively distributed to the clubs. Chip Crowl, director of marketing at Concept Connections/Preferred Global Logistics, said, "The clubs are all about cube utilization. The logistics and operational flow is as much a part of the sale as the item's margin and salability. Concept Connections partners with packaging experts such as Menasha Packaging to help suppliers in the pursuit of getting items placed by designing the product, display case and pallet from the outside in. They start at a maximum of 52-inches high by 40-inches wide by 48-inches long. Those dimensions allow you to get 52 pallets in a 53-foot trailer. Shipping a fully cubed out trailer produces the absolute lowest freight cost and therefore the lowest net landed cost."

Wal-Mart, Sam's Club Mexico,
Coca-Cola, Heineken, PriceSmart,
Cost-U-Less, Citigroup, Ben & Jerry's,
Good Humor-Breyers and ShopRite
have benefited from our programs.

SHOULDN'T YOU?

On-Site Seminars

Bringing our knowledge, expertise and analysis to you

To learn more about these customizable
programs, call 617-770-0102

False Bottom Pallets – There are many items that the clubs stock whose sales volume does not require a full pallet display. For items like these, the vendor will create a half pallet merchandising display that sits on empty pallets and is surrounded by a corrugated wrap promoting the item/vendor. The perception is established that a full pallet of merchandise is being offered which creates an assumption in the member's mind that the item is popular and successful. From the warehouse club and vendor perspective, the number of SKUs on the pallet is reduced which reduces inventory risk and maximizes inventory turns.

To address this situation, USM developed the Butterfly Shroud (see picture on the right of an LG Bluetooth headset). The product is shipped to the warehouse clubs in one contained unit and placed on top of five pallets. Once the stretch wrap and pallet cap are removed, the sides of the merchandising unit come down and cover the five empty pallets. Once the Butterfly Shroud is attached and the product stretch wrap removed, the item is ready to be placed on the merchandising floor for sale. In addition to the inventory benefits mentioned previously, the pallet wrap or Butterfly Shroud heightens product visibility and acts as an advertising vehicle for the product and vendor.



U.S. Merchants—Butterfly Shroud

Sustainability – Over the past few years, the club channel has focused on packaging items in environmentally-friendly or sustainable material. However, the theme of sustainability is also present within the item itself. In



Sam's Club—APC Surge Protector

the office supply category, Sam's Club stocked a package of six clipboards from Saunders for \$4.22. The clipboards were made of recycled fiberboard which was highlighted on the display case. Sam's also stocked an APC surge protector with six outlets and an on/off timer for \$16.76. As can be seen from the picture on the left, the pallet signage and display case promotes the fact that this particular surge protector will save the user energy and money.

Crowl said, "More and more, the item packaging must be ecologically friendly. Members today don't want waste and in almost all cases are looking for recyclable packaging and even corrugate that is produced from recycled materials. Most clubs are moving away for the traditional blister pack and asking that PVC not be used in any of their packages."

Bonus Items – One of the easiest ways for club buyers to build value into their product is to include bonus items for free or at least not at the full cost of those additional products. For example, in the HBA department, BJ's stocks a package of three 9.5-ounce cans of Edge men's shaving gel that includes a 2.75-ounce travel size can for \$6.99 (see picture on the right). In the hardware category, Costco stocked a package of two photoelectric smoke and fire alarms from First Alert for \$22.99. The package included two 9-volt Duracell batteries for each smoke and fire alarm.



BJ's—Edge Gel

Pallet Facing – Typically, in the aisles, Costco's merchandises product facing the 48-inch (long) side of a pallet compared. BJ's and Sam's Club, in the aisles, tend to merchandise product facing the 40-inch (short) side of the pallet. The strategy difference manifests itself in the look and feel of a club with BJ's and Sam's Club, who stock more items than Costco, able to merchandise three SKUs in a merchandising bay compared to Costco which merchandises two products in a merchandising bay.

Important Notice from HHC Publishing, Inc.

All contents © 2010, HHC Publishing, Inc. All rights reserved. HHC Publishing, Inc. strictly **PROHIBITS** without its express written permission **ALL** copying, faxing and emailing of *Warehouse Club Focus (WCF)* to persons or companies who have not paid the annual subscription fee. *WCF* reserves the right to **TERMINATE** any subscription to those individuals or companies distributing *WCF* to non-subscribing individuals or companies. In this regard, HHC Publishing, Inc. may use software, Internet tools and other available means to track and monitor subscribers' use of *WCF*.

If you have received this issue of *WCF* without paying the annual subscription fee, the distributor is in violation of copyright and intellectual property laws. To sign up for an annual subscription, call us at 617-770-0102 or visit www.hhcpublishing.com. If your company is interested in learning about how to provide the information found in *WCF* throughout your organization call us at 617-770-0102 and ask about our corporate subscription program.

Vendors have three choices regarding the pallet facing issue. Engineer the pallet so it can be effectively merchandised from both the 40-inch and 48-inch side, engineer two different pallet configurations (one facing the 40-inch side and one facing the 48-inch side) or engineer the pallet to effectively merchandise from one side. **The company who can engineer their pallet to display from both the 40-inch and 48-inch side saves time and money.** No extra work is done to meet the needs of each club customer and their product has the opportunity for stronger sales since product visibility is maximized no matter how the pallet is merchandised.

For example, in the dry grocery department, Sam's Club stocked a case of thirty individual cereal boxes from Kellogg's for \$8.98. As can be seen from the picture on the right, the pallet is engineered to effectively merchandise facing either the 40-inch or 48-inch side. The front of the case is facing the aisle at Sam's Club. As can be seen, on the left side of the pallet, the cases are positioned to face the 48-inch side of the pallet, as well.



Sam's Club—Kellogg's Cereal



BJ's—Toothbrush Sanitizer

Consumer Focus – BJ's business model differs from Costco and Sam's Club by focusing more attention on the consumer or retail member. The attention paid to this member is noticeable with BJ's merchandising strategy in two ways: shelf hangars and retail displays. In some areas around its club location, BJ's merchandises consumer items on the steel. These items are called shelf hangars. Since the program began a couple years ago, the shelf hangar item assortment has trended to more premium products with higher retail prices. For example, BJ's stocks a hands free can opener from One Touch for \$17.99, an ultra-violet toothbrush sanitizer from Zapi for \$24.99 (see picture on the left) and a package of five waterproof polyester baby bibs for \$9.99.

The other example is a four shelf merchandiser for Gillette products (see picture on the right). The four shelf end cap unit includes Fusion blades, Gillette deodorant and Fusion shaving gel. Costco also merchandised a unique retail-style display of children's sun protection apparel.



BJ's—Gillette Products

Costco stocked an assortment of merchandise within a free standing unique retail display next to its apparel department (see picture on the left). The product assortment included hats, wristbands, one-piece swimsuits, long sleeve shirts, swim shorts and jackets.



Costco—Sun Protection Display

Larger Package – Costco buyers are more likely to purchase larger sized products in comparison to BJ's and Sam's Club buyers. This is especially evident when all three clubs stock the same brand and product. Costco's goal in buying a larger package is to attain a lower unit cost. In the dry grocery category, all three clubs stocked Bisquick. BJ's merchandised a five-pound box for \$4.49 or 89.8-cents per pound and Sam's Club merchandised a five-pound box for \$4.29 or 85.8-cents per pound. Costco stocked a six-pound box for \$4.99 or 83.1-cents per pound.

In addition to the value, larger packages positively affect the clubs in the following four ways: the club's average transaction increases helping to reduce payroll as a percentage of sales, studies have shown that larger packages are consumed more quickly potentially increasing sales, the club generates higher gross margin dollars and a decrease in the freight cost per selling unit of the larger package could be potentially attained if more product can be engineered to fit on a pallet or a truck.

Crossover – These type of items are targeted to both business and consumer members. Crossover items possess the greatest sales potential due to the fact that they appeal to all club members. For example, Sam's Club stocks a package of four 14.4-ounce cartons of Honey Maid graham crackers for \$7.22 (see picture on the right). By including cartons that can be resold instead of clear inner sleeves, the vendor increases the item's sales potential by including the member who will resell the honey grahams as well as the foodservice or restaurant member, the day care provider and the consumer who will purchase it for their family.



Sam's Club—Honey Maid

Another example of a good crossover item is in the freezer department. Sam's Club stocks a package of two ½-gallon tubs of Member's Mark private label Madagascar vanilla ice cream for \$7.44. Historically, the clubs sell a one-gallon tub of ice cream which is fine for a foodservice or restaurant member but is much too large for a consumer. However, selling two ½-gallon tubs does not affect the business member (as long as the cost is the same) but is an easier package to manage for the consumer. Instead of opening a larger one-gallon tub, the consumer is able to keep one of the ½-gallon tubs closed while using the other ½-gallon tub.

Blistercard – Over the past few years, the warehouse club industry has become very focused on using sustainable packaging materials. For example, one of USM's sustainable 100% recyclable products is called a blistercard. To create the blistercard, USM "traps" a #1 RPET plastic blister between a 20pt coated Blistercard on top and a 250# B-Flute corrugated backer card (see picture on the right). Farrell said, "The blistercard provides the same shrink-resistant, structurally-sound design found in the clamshell" which delivers a higher percentage of fiber board than plastic."



There are three primary benefits to using a Blistercard type package: product security/protection, product visibility and inventory control. This type of packaging system will almost guarantee that a product will arrive at the club location in the same condition in which it left the vendor's manufacturing floor. A blistercard type package can prominently display an item and explain the features and benefits. This is especially important for smaller-sized products, which, without the blistercard, would be stocked in locked cages.

Regarding inventory control, Farrell said, "We help the vendor and the club to maximize product visibility while managing the number of SKUs in a display tray and on a pallet. Unless the vendor is certain the club will sell-through the inventory, caution applies when considering the number of sell units on a pallet. The club can always reorder product. It is important to work with the buyer and understand the commitment they are willing to make and explain the financial implications of different sized pallet configurations."

Package Engineering – In the hardware category, Sam's stocks a dual flush toilet from Alexis for \$99.84 (see picture on the right). When Sam's Club initially introduced the item, the toilet's box was rectangular and did not work well in Sam's supply chain. The amount of damaged product was above acceptable levels.



The packaging team at Sam's Club along with the vendor and the packaging supplier worked together to improve the situation. The goal was to develop a package that worked efficiently within Sam's distribution system. The team determined that it needed to use higher quality paper for the box to support and protect the toilet. However, higher quality fiber or paper could potentially increase packaging costs by up to 300%.

To address the added cost, the rectangular box was redesigned into a trapezoid shape. By changing the box shape, the cost of fiber or paper used increased by just 16%. With the new shape, Sam's was able to increase the number of items on a pallet by 50% and increase the number of items on a container by 20%. By lowering per unit shipping costs from the supplier through Sam's distribution center and ultimately to the club locations, an overall transportation cost savings of 15% was achieved. In the end, Sam's Club was able to pass savings onto the member.



Member Attention – Club member attention is notoriously short. As a manufacturer you have seconds to communicate many produce-related issues to them: what you are (brand, product and variety), what form you come in (size, contents and use), what value you bring to them (price per ounce and price comparison) and why they should buy your item. Anything that makes those questions difficult to answer quickly (such as poor display, confusing graphics or poor illustrations) probably results in a lost opportunity.

Crowl commented on the importance of attracting a member's attention referencing the picture on the left. He said, "The visual enticement that draws a member to a specific item is critical. In order to help the buyer have their items stand out, it is the responsibility of the supplier to design a visual presence that draws the member in. The Menasha team is very adept at working with companies such as Eco Touch to get their message on the cartons or trays that contain the item. Some cartons use color and intriguing designs to get the member to pick the item up. Some pallets use wraps that tell the story much like a billboard. Both have the intention of getting the member to stop and look at the item."

Woman's Bathing Suits – To be able to easily merchandise ladies' swimsuits, Costco places plastic inner sleeves inside the swimsuit enabling it to be laid fairly flat and clearly viewed. From the club perspective, stocking the swimsuits is easy, as employees just lay one swimsuit on top of the other. From the member perspective, the swimsuits can be easily seen and sorted through to find the correct size.

Handles – Due to the package size of many club products, vendors must add handles to make the product easier to carry. Handles appear on office chair mats, most juice SKUs that include more than one bottle, some olive oil SKUs, some 2-liter soda SKUs that include more than one bottle and even cat litter. BJ's stocks a 42-pound bag of Scoop Away cat litter for \$11.99 (see picture on the right). The top of the package clearly highlights the location of the product's handle.



Saddle Package – One of the challenges in developing a club item is determining the right package size and the right package design. Portability and ease of use are important attributes for a club item. Designing a package so that the larger club item can be broken down into manageable serving units is an important product quality. An example can be found in the fresh chicken category. BJ's stocks a 3.42-pound package of Perdue thin sliced boneless skinless chicken breast for \$3.69 per pound (see picture on the left). The package includes individually packaged pouches of four to five chicken breast pieces in each. Users can easily freeze the unused pouches for a later time and since the product is vacuum packed, freezer burn issues are eliminated. This packaging eliminates the need to bag or rewrap unused pieces before freezing.

Co-Branding – One of the more important strategies for the clubs in developing a strong private label program is member acceptance of the product. One way that Costco (as well as BJ's and Sam's) achieves this is to co-brand its Kirkland Signature label with existing brand-name products. By associating the Kirkland Signature name with an existing well-known consumer brand name, members associate the quality of the branded company to Costco and Kirkland Signature. This can only help to increase members' positive perception of new and existing Kirkland Signature products.



Costco has placed its Kirkland Signature label on the following products: organic coffee with Starbucks, jelly beans with Jelly Belly, chicken nuggets and animal crackers with Disney, bacon strips with Hormel and grape juice with Newman's Own. Costco recently introduced a new co-branded SKU: a package of two 35-ounce bags of Kirkland Signature and Post raisin bran for \$6.59 (see picture on the left).



Disappearing Pallet – One of the ways the clubs and vendors are addressing the sustainable packaging issue is to eliminate secondary packaging. Some club items have no display cases and no slip sheets in between layers and when the product is gone, the only thing left on the floor is the pallet itself. A good example is in the dry grocery department. Costco stocks a package of eighteen 2.15-ounce packages of Kraft Easy Mac macaroni and cheese for \$5.99 (see picture on the right).

CLUB NEWS

Costco Wholesale

Supreme Court to Hear Swatch Case against Costco

Reuters – April 19, 2010

The United States Supreme Court will hear a copyright infringement dispute between Swatch Group and Costco. In 2003/2004, Omega, a division of Swiss-based Swatch Group, sold watches to an overseas distributor. An unidentified third party purchased the watches from the distributor and sold them to a New York company, which then sold them to Costco. The underside of each watch obtained by Costco is engraved with the U.S. copyright "Omega Globe Design".

After Costco sold 43 watches, Swatch Group sued citing copyright infringement. Costco argued that under the U.S. Copyright Act's first sale doctrine, the initial foreign sale precluded infringement claims. Although a federal judge ruled in favor of Costco, the 9th U.S. Circuit Court of Appeals in San Francisco, California said the first sale doctrine did not apply to imported goods. Costco's attorney's appealed the U.S. Appeals court decision to the Supreme Court. The case will be argued in the Fall, 2010.

Order Form

Warehouse Club Focus

Single Subscription—\$479 (choose delivery method below)

Email (PDF format) Mail Email, Mail

Corporate/License Subscription—Call for program details/setup

3 Subscribers—\$900 **6 Subscribers—\$1,700**

10 Subscribers—\$2,200 **20 Subscribers—\$3,000**

Unlimited Subscribers, Company Intranet Posting—\$5,000

2010 White Papers

Each White Paper costs \$79 and is delivered via Email in PDF format.

- | | |
|--|---|
| <input type="checkbox"/> What is a club? | <input type="checkbox"/> Product Development |
| <input type="checkbox"/> Retail and Club Sales Data | <input type="checkbox"/> Marketing Money |
| <input type="checkbox"/> Club Member Profile, Analysis | <input type="checkbox"/> Packaging |
| <input type="checkbox"/> Private Label | <input type="checkbox"/> Club Industry Survey |
| <input type="checkbox"/> Department Analysis | <input type="checkbox"/> Costco Buying, Operating |
| <input type="checkbox"/> Item Basket Comparison | <input type="checkbox"/> Sam's Club Buying, Operating |
| <input type="checkbox"/> Understanding Club Buyers | <input type="checkbox"/> BJ's Buying, Operating |

2010 Books

Selling a Warehouse Club—2010 edition

Delivery via Email in PDF format.

Costco Wholesale—\$299

BJ's Wholesale—\$299

Sam's Club—\$299

Each 90-plus page PDF book provides an accurate, up-to-date account of what needs to be done to sell BJ's, Costco or Sam's Club.

2010 Warehouse Club Industry Guide

Print and DVD Versions.

2010 Print—\$799

2010 DVD—\$799

2010 Print & DVD—\$999

At over 300 pages, the 2009 Guide is the most comprehensive account planning tool available for the warehouse club channel.

PLEASE PRINT ALL INFORMATION

Name

Title/Position

Company

Address

City, State, Zip

Email

Telephone

Invoice Me Check Enclosed

American Express MasterCard Visa

Credit Card Number

Expiration Date &
Signature

Mail/fax your order to:

HHC Publishing, Inc.
PO Box 9138
Foxboro, MA 02035-9138
Fax: 617-479-4961

If you have questions, please call us at:

Phone: 617-770-0102

**UNCONDITIONAL
MONEY BACK
GUARANTEE**

If you are not completely satisfied with any HHC Publishing product, return it for a full refund.