BJ'S Wholesale-Competitive Advantage

BJ's Wholesale is a membership-based warehouse club that, like its main competitors, Costco and Wal-Mart's Sam's Club, offers fee-paying members a limited selection of low-priced products across a wide range of merchandise categories. The typical warehouse club carries 4,000 items compared to 40,000 to 60,000 items at discount retailers and supermarkets. The warehouse club business model is aimed at driving down operating costs to enable the club to charge lower prices than those found at other retail establishments and still be profitable. Warehouse clubs lower their cost structure by purchasing in large volumes, maximizing inventory turnover, achieving efficient distribution, and reduced handling of merchandise in non-frills, self-service warehouse facilities.

BJ's is currently the best performer in the highly competitive warehouse club segment of the U.S. retail industry. Founded in 1984, it has grown to over 120 stores, most of them concentrated in the northeastern United States (Costco and Sam's Club both have over 400 stores). In 2001, BJ's generated $5.3 billion in sales, an increase of 15 percent over 2000. Not only has the company grown rapidly, it has also done so profitably. In 2001, its return on invested capital (ROIC) was 19 percent compared to 13.5 percent for Wal-Mart, 11 percent for Costco, and an average for the retail industry of was 10 percent. Moreover, this performance was not a one-time event: BJ's ROIC has outperformed that of the industry and its closest competitors every year since 1996.

How does BJ's achieve its superior profitability? By buying in bulk, BJ's is able to get deep price discounts from merchandise vendors, lowering its cost of goods sold. Moreover, because it also sells its own label products, it is able to use this as a lever to bargain down the prices it pays for branded merchandise. BJ's eliminates many of the merchandise handling costs associated with traditional multiple-step distribution channels by purchasing full truckloads of merchandise directly from manufacturers and storing merchandise on the sales floor rather than in central warehouses. In essence, BJ's devotes far less space to storing inventory than traditional retailers do, thereby driving down its investments in property, plant, and equipment relative to its sales base and driving up its ROIC.
BJ's warehouses have minimal fixtures, which also reduces investments in property, plant and equipment relative to sales and increases the company's return on capital.

Moreover, because its high sales volume leads to rapid inventory turn-over, it generates cash from the sale of a large portion of inventory before it is required to pay its merchandise vendors, thereby reducing its working capital and boosting its ROIC.

Although these strategies help explain its superior performance, Costco and Sam's Club operate with a similar business model. So, what does BJ's do differently from competitors that explain its superior profitability? First, unlike Costco, BJ's pursues a clustering strategy and places its stores close to each other so that they cannibalize sales from each other. By doing this, BJ's can maximize the efficiency of its distribution system, and this increases profitability. BJ's strong presence in a locality also maximizes opportunities for word-of-mouth advertising, which reduces the need for costly advertising, which also increases profitability. Finally, it combines purchases for nearby clubs and ships them on a same-day basis, which results in higher volume discounts, reduced freight expenses, and lower receiving costs.

Second, BJ's focuses on only smaller towns and suburban locations outside cities, which tend to be less expensive than the larger urban locations favored by its competitors, thereby reducing BJ's investment in stores and increasing its profitability. The average BJ's location is 111,000 square feet, 20 percent less than Costco and 10 percent less than Sam's Club. Although Sam's club and Costco store racks up twice the sales of the average BJ store ($100 million versus $43 million) break-even sales figure for a Costco store is $45 million, or 45 percent of average sales, compared to $17 million at BJ's, or 35 percent of average sales. Lower breakeven sales figures translate into higher profitability.

Third, BJ's has tried to differentiate itself by focusing on and catering to the needs of individual retail customers. In contrast, its competitors focus on both small business and individuals. To do this, BJ's carries more merchandise items than its competitors do: 6,000 on average versus 4,000 each at Costco and Sam's club. Thus, BJ's might carry four or five styles of TV's compared to one or two at Costco. BJ's believes that its wider selection appeals more to retail customers and allows it to charge slightly higher prices than Costco and Sam's Club. Whereas Costco operates with markups on goods in the 8 to 12 percent range, BJ's places markups as high as 15 percent of goods.

This retail customer orientation also led BJ's to be the first warehouse store to accept credit cards and debit cards (to keep costs down, Costco and Sam's Club were long a cash – or check only operation). The suburban location strategy also ties into BJ's focus on retail customers.

Finally, BJ's has been a leader in investments in information technology. It was the first warehouse club to introduce scanning devices that work in conjunction with electronic point of sale (EPOS, terminals which have enabled it to streamline its reordering and payments systems. BJ's analyzes sales data daily for stock replenishment purposes. The efficiencies gained have allowed it to employ fewer people. The company has lowered its payroll as a percentage of sales in each of the past three years, which has translated into lower sales expenses and greater profitability. BJ's has also used its information systems to collect detailed purchasing data on individual members. This permits buying staff and store managers to track changes in members' buying behavior, altering stocking accordingly to meet customer needs better.

Thus, through its distinctive approach to doing business-its focus on providing a broader range of products for individual retail customers in suburban locations and its aggressive use of information systems-BJ's has been able to achieve higher profitability than its competitors in the sector.