

Costco, BJ's Are 'Winning With Consumers.' Is That Also a Win for CPGs?

National brands face opportunities and risks as club retailers open dozens of locations.

By Shefali Kapadia | April 19, 2023



Photo: Getty

A hallmark of every Costco location — aside from food court hot dogs — is the club retailer's immense grocery section. Multipacks of tortilla chips, jumbo boxes of cereal and big stacks of flavored water line the aisles.

In today's economy, the grocery section at club retailers has become even more popular due to the value that large packs provide to consumers. 

Costco reported sales growth in food over the last year, while sales fell in non-food items, electronics and jewelry. BJ's said its food business has outgrown its general merchandise business in recent years. In 2022, unit sales of snacks grew 3.4% in the club channel compared to 2021, while units fell in grocery, convenience, mass and dollar, according to a Circana webinar on the snacking market. Plus, dollar sales grew the most of any channel in club.

"Every CPG is at a point where they've recognized club is winning with consumers," said **Todd Ruberg**, partner at retail and CPG consultancy **Simpactful**, and former VP at **Procter & Gamble**.

As the club channel gains steam, opportunity abounds for food and beverage CPGs to use the channel for a greater proportion of sales and volume. But club isn't devoid of risks, which CPGs will need to consider within their distribution strategies.

More Volume and Sales Opportunity

Club retailers have responded to the momentum by opening more clubs and warehouse locations (they rarely use the word "stores"). **Walmart**-owned **Sam's Club** said it will open more than 30 locations over the next several years, "motivated by historic comparable sales growth, and a record rise in membership." **Costco** said it will open 14 warehouses in the U.S in fiscal 2023. And **BJ's** announced five additional locations, adding to its roster of 2023 club openings.

More locations naturally demand more volume. Experts said those items will primarily come from CPGs that are already doing business with the club.

Club retailers need to stock items from big CPGs to avoid alienating shoppers, according to **Jeremy Smith**, president of **LaunchPad**, a strategy firm focused on emerging brands and their retail strategies for Costco.

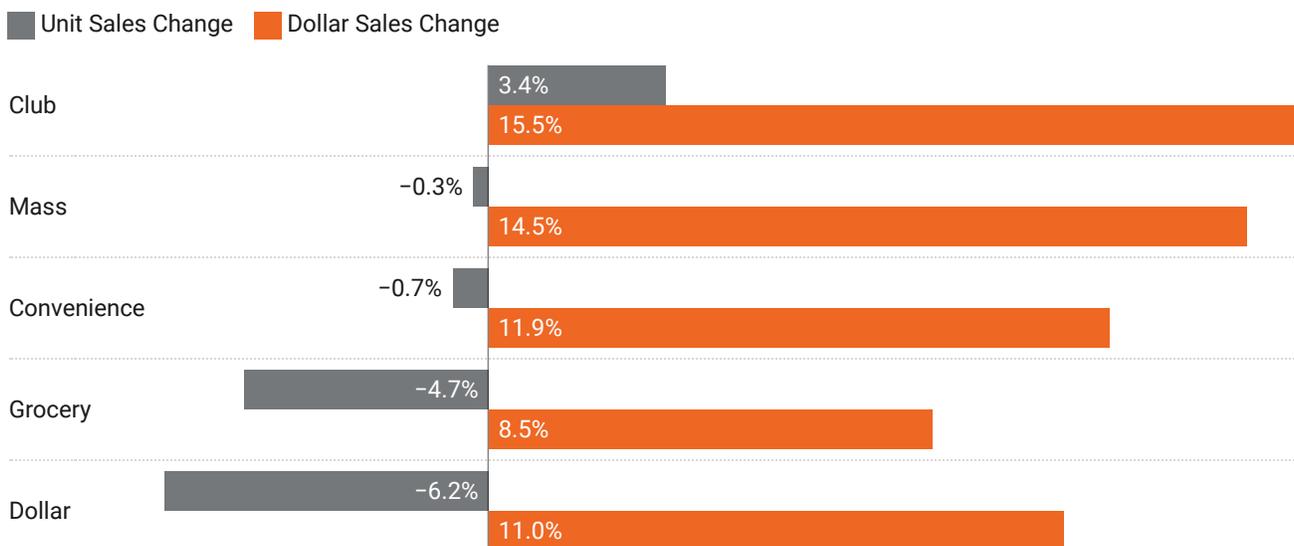
"If you don't carry Cheerios or Coke or Pepsi, then that forces the consumer to have to shop at more than one place," Smith said.

Even the big CPGs should pay attention to the opportunity that club expansion provides, said **Beka George**, project consultant at consulting firm **Propeller**.

"I think it provides brands a lot more outreach across the different markets," George said. In the club channel, CPGs "normally sell a larger quantity, which can obviously result in higher volume of sales and help increase the revenue."

Club Sales Grow Faster Than Other Channels

Change in snack sales from 2021 to 2022



Source: Circana • [Get the data](#) • Created with [Datawrapper](#)

Club sales can also act as a complement to a CPG's sales in other channels. **Zevia** found that consumers would purchase a variety pack of the beverage brand at a club. From that purchase, they would discover their favorite flavor and then buy a 12-pack of it at a grocery store.

Zevia CEO Amy Taylor said that interplay ^{has} made club distribution "well worth the investment," during a November earnings call. "That shopper spends more on a higher-margin pack in grocery once they come onboard with the Zevia brand. ... It's not just a volume play; it's a strategic marketing play."

Similarly, **BellRing Brands**, the CPG behind Premier Protein and PowerBar, noticed a high repeat rate among its consumers, after initially buying and trying a small pack of the product.

"They often repeat within the club channel, because they want bigger packs at a cheaper price," CEO **Darcy Davenport** said on a February earnings call.

More Chance to Trial New Products

Costco maintains a strict SKU count, around 4,000, compared to a typical supermarket with 30,000. To win precious shelf space, CPGs need to bring their best products to the club channel — what Ruberg called the "power SKU." At times, that may be an exclusive new item.

Club's assortment is often described as a "treasure hunt," because the retailers offer unique products not found elsewhere.

"It's a place where CPGs can actually test new products before releasing them out to other channels," said **Michelle Garcia**, director of client strategy at **Vericast**, whose work experience includes roles at **Quorn Foods** and **Kraft Foods**.

That new product might be a different product or flavor. But it might also be a new variety pack of existing products and flavors. **Humm Kombucha**, for example, launched its first-ever variety pack in 2018, sold exclusively at Costco warehouses in southern California.

"The opportunity exists to create custom SKU configurations ... that individually perform differently but together offer a value proposition that drives volumes," Shri Hariharan, head of industry solutions and pre-sales for supply chain tech company Blue Yonder, said in an email.



Club's assortment is often described as a "treasure hunt," because the retailers offer unique products not found elsewhere. (Photo: BJ's)

More Risk of Low Margins and Profits

Costco gets about 80% of its profit via consumer memberships, "so there's not as much pressure to make big money on the retail operations piece," Ruberg said. For CPGs, that translates to fewer markups on the products they sell via club, making it a less-profitable channel, he added.

CPGs can also encounter upfront costs that turn into profits when they begin to package goods for the club channel.

Energy drink maker **Celsius** had to use secondary repacking facilities to accommodate the larger pack sizes needed for club. That resulted in lower margins for the channel, CEO **John Fieldly** said on the CPG's March earnings call.

"[We are] working with our co-packers to transition to in-line packing, so the product doesn't have to be moved to a secondary location facility," Fieldly said.

More Competition With Private Brands

Private label brand **Kirkland Signature** makes up about 30% of Costco's sales, according to multiple experts. Smith said Kirkland used to be about 12%-15% of the sales, and Costco has discussed investing further in the brand to bring it to 35%-40%.

"Investing in private brands is a key way for club channel retailers to differentiate their assortment," said **Katherine Burkhardt**, director of brand strategy at **Daymon**, a firm focused on developing private brands.

Costco now holds a 12.3% share of total private label dollar sales, second only to Walmart, Numerator data shows. And Kirkland is present in more than 30% of households.

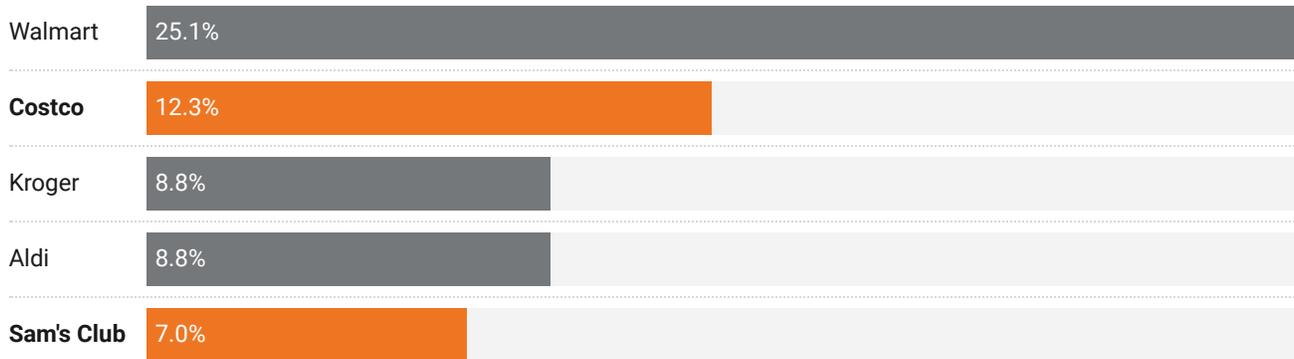
One of the reasons Kirkland has amassed a following is because of the focus on quality that Costco puts on the brand. Ruberg said Costco has strict quality standards and protocols to choose manufacturers for its private brand.

"They get very high quality suppliers to build Kirkland brands," he said. "And they guard Kirkland like the crown jewels."

CPG Grabs Market Share in Private Label



Dollare share of the private label market



Source: [Numerator](#) • [Get the data](#) • Created with [Datawrapper](#)

Smith also noted the high quality of Kirkland products, coupled "with much better pricing than traditional CPG brands," Smith said. "It kills the other brands."

More Pushback on Pricing

CPG-retailer rows over pricing are well documented at this point, and club retailers are no different in wanting to keep prices down. As clubs expand their locations, they're starting to compete with one another in certain geographies.

In November, BJ's opened a location in Wayne, New Jersey, not far from an existing Costco warehouse. Costco "has reacted to BJ's grand opening by reducing prices," analysts at **Oppenheimer** said in a March research note. They included photos showing Kirkland water, priced at \$3.99, down from \$4.29.

Club retailers also aim to keep prices lower than other channels, as part of their competitive advantage.

"Value is the most important product that we sell," BJ's CEO **Bob Eddy** said last month. "We offer 25% better pricing than our grocery competitors." Eddy said BJ's consumers are "savvy and price conscious, [and] treat saving money as a sport."

CPGs aiming to raise their prices might not be able to successfully push those through in club. Ruberg said it's critical to keep in mind that Sam's Club, Costco and BJ's are, in fact, clubs. They want the best assortment and pricing that motivates a consumer to shell out annually to belong to the club.

"They're not necessarily a retail store. That becomes the big mind shift that you have to take," Ruberg said. "If you don't go along with that mind shift, your interface with them could create some friction."

 Print |  Email | Text A A

Next 

Contact the reporter: shefali.kapadia@ft.com

Purchase a reprint: [click here](#) or (212) 542-1265

Feedback

Enter tips, feedback or comments

SUBMIT FEEDBACK