Club store strategies for national brands
87.4% of CPG executives surveyed believe that the warehouse club channel is a strategic channel for CPG companies.

88.6% of CPG executives surveyed expect their company’s sales in the warehouse club channel to increase in the next three years.

70.7% of CPG and retail executives surveyed believe that pricing differences between products in warehouse clubs and other retailers increases channel conflict.

84.6% of CPG executives surveyed believe that the importance of the warehouse club channel has increased in the past three years.

“The club retailers want to deal with someone who understands the club business” – Retail executive

“We know that CPG companies spend more than [the club channel’s] fair share of time trying to figure out the channel due to the challenging buying environment and limited space for SKUs. They don’t want to miss out on the club volume.”

– Retail executive
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About Deloitte
Executive summary and Introduction

It all began in an old airline hangar on the wrong side of the railroad tracks in 1976. For a $25 membership fee, local San Diego businesses and consumers could purchase heavily discounted products in bulk across many product categories. The store was sparse – with products on simple shelves or pallets in the brown shipping cardboard box they arrived in from the manufacturers. The success of this retail concept – low prices, limited offerings in bulk packaging, low overhead covered by membership fees, rapid inventory turnover, and large warehouse space – pioneered by Price Club founder Sol Price attracted imitators. In 1983 and 1984, several other retailers entered the market with their own versions of the warehouse club concept.

Fast forward to 2013, the warehouse club channel in the United States is now nearly a $148 billion industry with over 1,600 stores. Over the past decade – from 2001 to 2011 – revenue at club stores rose 7.1 percent annually and the number of stores increased 2.6 percent annually. In 2011, grocery and household goods accounted for approximately 57 percent of the channel sales. For CPG companies, the warehouse club channel generated 10 percent of sales in 2011, up from 9.4 percent in 2008 (see figure 1). While grocery, mass merchandisers, and supercenters account for the majority of sales (72.6 percent) this share reflects an erosion of 2 percentage points in three years.

Figure 1. Changing consumer preferences is resulting in a shift of CPG sales from grocery and mass merchandise to the club, drug, and dollar channels in the United States

![Figure 1](image-url)

Source: SymphonyIRI Consumer Network\textsuperscript{14}, 52 weeks ended January 1, 2012 and same period 2008

Club market share has increased from 9.4% to 10%
Twenty-five years ago, recognizing the potential for channel conflict, some national brands resisted offering products in this emerging channel. Ironically, this compelled Sol Price and others to develop a portfolio of store brands—that today have developed to a significant proportion of their product offerings. Times have changed. Today national brands recognize the value of the warehouse club channel. Retail executives also acknowledge the importance of the warehouse club channel: In the words of one executive, “We know that CPG companies spend more than [the club channel’s] fair share of time trying to figure out the channel due to the challenging buying environment and limited space for SKUs. They don’t want to miss out on the club volume.”

The perspective presented here on consumer product strategies for club stores is the outcome of several primary and secondary research techniques. The research methods in this report include an executive survey of 132 CPG manufacturers and retailers (see Appendix for description of methodology), in-depth interviews with consumer product and retail executives, mystery shopping trips across the club retailers, and a large-scale consumer survey of 4,086 active shoppers. This report contains a close look at the effectiveness of CPG strategies in club stores, challenges CPG companies face, and capabilities that may be helpful in the warehouse club channel. The executive survey also includes an assessment by the CPG respondents’ of their company’s capabilities across 34 attributes in seven categories: innovation and product, merchandising and packaging, joint strategic planning, commercial planning activities, account team structure and staffing, cost structure, and pricing and promotions strategies. CPG executives assessed their company’s performance in each of the seven categories from “basic” to “advanced” as it relates to alignment with the warehouse club channel. The CPG companies that ranked themselves in the top third for these capabilities were more likely to self-report high revenue growth and customer loyalty than those companies self-ranked in the bottom third for these capabilities. To put it in another way, CPG companies that invest in these club store related capabilities self-report higher revenue growth and customer loyalty than those who do not.

The warehouse club channel is an important and profitable segment for those CPG companies that have tailored their business toward the club retailers. In other words, some CPG companies believe they have cracked the code of the unique characteristics of the warehouse club channel in five distinct areas:
- Successful CPG companies begin with a channel, and often retailer-specific approach to brand, product strategy, and innovation.
- They pursue unique merchandising and assortment strategies for the channel, and at the store level.
- Their pricing and trade promotion strategy acknowledges potential channel conflict by providing unique product-price value propositions across channels.
- They partner with the club retailers to tailor their supply chain, distribution, and operations to the unique channel logistics and distribution environment.
- Finally, those CPG companies serious about succeeding in the warehouse club channel build strong account and support teams with marketing, packaging, pricing, and supply chain expertise for this channel.

Where to begin? Considerations for national brands in the warehouse club channel

Innovation: Increase investment in new product development specific to each warehouse club retailer.

Product strategy: Partner with club retailers to share consumer insights and member data to develop and refine product offerings.

Joint strategic planning: Collaborate with retailers to create a multi-year business outlook, a joint strategic and financial vision, and a cross-portfolio view of brands and product categories.

Account team: Assign channel-dedicated employees with strong warehouse club consumer, merchandising, and supply chain expertise to the warehouse club channel.

Cost structure: Involve manufacturing and supply chain early in the new product development process to take advantage of the potential operational cost-to-serve advantages in the warehouse club channel.
Overview of the warehouse club channel

A strategic sales channel for CPG companies.
In a recent survey of 132 CPG and retail executives, most of the survey respondents (81.7 percent) agreed or strongly agreed that the warehouse club channel is a strategic sales channel for CPG companies. The CPG executives (87.4 percent) were more likely to view the warehouse club channel as of strategic importance than the retail executives (72.4 percent), which could be indicative of the retail landscape shifts where traditional grocery is challenged by the relatively small but growing channels such as club, dollar, and e-commerce. CPG executives have acknowledged the relative weakness in the grocery channel and the shift toward the warehouse club channel. According to Brian Cornell, CEO, PepsiCo Americas Foods, “…there has been considerable weakness in the core grocery channel, but that’s being offset by growth in other channels, food service, [convenience] store and certainly Club.”

The warehouse club channel accounted for 10 percent of sales for CPG companies in 2011, an increase from 9.4 percent in 2008. Warehouse club channel sales have increased in many food, beverage, personal goods, and household goods CPG categories. Some of the growth can be attributed to the warehouse club retailers aiming to provide the best deals to their members on known CPG brands to justify membership fees. Increasingly appealing store brands and co-branded products also play a role in the growth of CPG consumable sales in the warehouse club channel. Store brands not only appeal to many consumers, but they also put pressure on national brands to maintain a price per unit significantly lower than grocery stores. Products that do not sell well are quickly rotated out of the warehouse store — resulting in relatively high sales per square feet.

When asked how the importance of each channel has changed in the past three years, 84.6 percent of the CPG executive respondents believed that the importance of warehouse club channel has increased or increased significantly (see figure 2, and see Appendix for survey methodology). This is in contrast to only 42.3 percent of CPG executives seeing an increase in importance of the grocery channel. Furthermore, 25.6 percent of the CPG executives viewed the importance of the grocery channel decreasing. “The old classic food and drug continues to suffer. It’s hard for them to compete with the scale and the attraction of the mass merchants and the club stores,” according to James Craigie, CEO, Church & Dwight Co., Inc. Retail executives were much less bullish on the rising importance of the warehouse club channel than CPG executives (59.1 percent compared to 84.6 percent saying importance has increased or increased significantly), and slightly less bearish on the grocery channel (20.0 percent compared to 25.6 percent saying that importance has decreased).

Higher future sales expectations in the warehouse club channel.
Looking forward, nearly nine out of ten CPG executives expect their company’s sales through the warehouse club channel to increase in the next three years (see figure 3). The growth expectations are similar to mass merchandise/supercenters (87.2 percent); however, much more than grocery (49.3 percent). One out of six executives surveyed (17.7 percent) expect sales in the grocery channel to decline. Across seven retail channels, warehouse club ranked first in expectations, followed by mass merchandise/supercenters, dollar, and ecommerce. The shift in sales toward club has also been recognized by others also, “…we have seen a shift in our sales toward alternative channels like dollar stores and warehouse clubs,” according to Alan Wilson, Chairman, President & CEO, McCormick & Co Inc.


Figure 2. Most CPG executives (84.6 percent) consider warehouse clubs more important than three years ago

Survey question: How has the importance of the following channels changed during the past three years?

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=70 to 78 (only CPG executives)

Figure 3. Most CPG executives (88.6 percent) expect their company’s sales through the warehouse club channel to increase in the next three years

Survey question: How do you expect sales through these channels to change for your company during the next three years?

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=72 to 79 (only CPG executives)
Improvement in warehouse club net profit margin ranking.
The CPG executives surveyed ranked net profit margin percentage by channel currently and the expected rank in three years. Not surprisingly, the top spot is occupied by grocery with the highest net profit margin today and three years from now. Of interest is the relative optimism the executives place on the warehouse club channel, a move up from 4th to 3rd in ranking (see figure 4).

Figure 4. CPG executives expect the profitability of the warehouse club channel to rise relative to other channels in the next three years

Survey Question: Please rank the following channels on the basis of net profit margin percentage (Rank 1 - Highest and Rank 7 - Lowest):

<table>
<thead>
<tr>
<th>Channel</th>
<th>Current rank</th>
<th>Expected rank (Three years from now)</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grocery</td>
<td>1</td>
<td>1</td>
<td>Unchanged</td>
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<tr>
<td>Mass merchandise or supercenter</td>
<td>2</td>
<td>2</td>
<td>Unchanged</td>
</tr>
<tr>
<td>Drug</td>
<td>3</td>
<td>4</td>
<td>Down</td>
</tr>
<tr>
<td>Warehouse club</td>
<td>4</td>
<td>3</td>
<td>Up</td>
</tr>
<tr>
<td>Convenience</td>
<td>5</td>
<td>6</td>
<td>Down</td>
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<tr>
<td>Ecommerce</td>
<td>6</td>
<td>5</td>
<td>Up</td>
</tr>
<tr>
<td>Dollar</td>
<td>7</td>
<td>7</td>
<td>Unchanged</td>
</tr>
</tbody>
</table>

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=78 (only CPG executives)

More changes in the future for club stores?
While the recent recession slowed the pace of new club store openings, the wholesale club retailers are not standing still. Club retailers have been remodeling existing stores, including allocating more space for food – particularly organic, healthy, and fresh offerings – and personal care products. Wholesale clubs continue to provide a variety of services and benefits to members – whether it is for personal consumption or for the member’s business. The number of SKUs offered at club stores is just a fraction of a grocery store or supercenter to boost productivity. While some rationalization of SKUs has occurred in recent years, in general, club retailers have increased the presence of both premium products and store brands. Similarly, club retailers are emphasizing the importance of frequently refreshed “treasure hunt” products to drive impulse purchases. Club stores continue to provide ancillary products and services to build member loyalty, drive additional store visits, and increase basket size. Personalizing the shopping experience through product demonstrations and sampling programs is an important strategy for club stores that consumers and CPG manufacturers value. Also, club retailers have been emphasizing online and mobile technologies to expand reach and better connect with members.

Consistent with the club stores’ strategies, most executives surveyed expect warehouse clubs to increase the number of food, household goods, and personal care CPG SKUs, expand geographic presence, and increase space allocated to health and wellness products in the next three years (see figure 5). They also expect a further rise in fresh food and beverage offerings, and an increase in e-commerce and mobile capabilities.
Most executives expect warehouse clubs to continue to improve and grow in the next three years. Figure 5.

Survey question: During the next three years, how do you think warehouse club stores will develop in terms of

- CPG SKUs and product choice 10.7% increased/improved significantly, 67.8% increased/improved, 14.0% no change, 7.4% decreased/worsen significantly
- Geographic presence 16.3% increased/improved significantly, 58.5% increased/improved, 22.8% no change, 2.4% decreased/worsen significantly
- Space allocated to health & wellness products 18.7% increased/improved significantly, 56.1% increased/improved, 22.8% no change, 2.4% decreased/worsen significantly
- Space allocated to fresh food and beverages 17.2% increased/improved significantly, 54.9% increased/improved, 25.4% no change, 2.4% decreased/worsen significantly
- E-commerce and m-commerce capabilities 21.3% increased/improved significantly, 49.2% increased/improved, 27.0% no change, 2.4% decreased/worsen significantly
- Space allocated for sustainable products 6.6% increased/improved significantly, 63.1% increased/improved, 25.4% no change, 1.9% decreased/worsen significantly
- Space allocated to store brands 21.3% increased/improved significantly, 46.7% increased/improved, 25.4% no change, 6.6% decreased/worsen significantly
- Quality of products 8.2% increased/improved significantly, 59.8% increased/improved, 28.7% no change, 3.3% decreased/worsen significantly
- Targeting key ethnic shopper segments 14.6% increased/improved significantly, 52.8% increased/improved, 26.8% no change, 5.7% decreased/worsen significantly
- Regional/local products 13.9% increased/improved significantly, 50.0% increased/improved, 32.0% no change, 4.1% decreased/worsen significantly
- In-store experience, visually appealing presentation of products 12.2% increased/improved significantly, 51.2% increased/improved, 35.0% no change, 4.1% decreased/worsen significantly
- In-store customer service during check-out 9.8% increased/improved significantly, 43.1% increased/improved, 39.8% no change, 7.3% decreased/worsen significantly

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=121 to 123

Warehouse club members are making more trips, spending more at club stores, and are finding these stores more appealing. Figure 6.

Survey question: How has member behavior changed with respect to warehouse club stores during the past three years?

| Number of trips | Increased/improved significantly | Increased/improved | No change | Decreased | Percent
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<td>70.0%</td>
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<td>69.6%</td>
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<td>52.9%</td>
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| Dollars spent   | Increased/improved significantly | Increased/improved | No change | Decreased | Percent
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<td>8.7%</td>
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<td>70.0%</td>
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<td>14.5%</td>
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<td></td>
<td>69.6%</td>
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<tr>
<td>7.2%</td>
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<td>52.9%</td>
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</tbody>
</table>

| Overall appeal  | Increased/improved significantly | Increased/improved | No change | Decreased | Percent
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<tbody>
<tr>
<td>10.0%</td>
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<td>70.0%</td>
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<tr>
<td>1.0%</td>
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<td></td>
<td>69.6%</td>
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<td>4.3%</td>
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<td>52.9%</td>
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</table>

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=69 to 70 (only CPG executives)

Club store appeal on the rise.

Most of the CPG executive respondents believe that warehouse club members are visiting club stores more often, spending more in this channel, and considering these stores more appealing than just three years ago (see figure 6). Our mystery shoppers had similar perspectives. According to one mystery shopper, “[M]ost major brands are represented. Products in shelves are nicely displayed, [although] some areas are cluttered with merchandise stacked on pallets.” Furthermore, club stores have become more important in terms of shopping for food, beverages and other household products for more than half of the consumers surveyed (51 percent to 56 percent more important among shoppers of the top three warehouse club retailers).
Channel conflict with traditional grocery and mass merchandisers – left unmanaged – will rise.
Most executives surveyed (70.7 percent) believe that pricing differences between warehouse club products increase channel conflict. Significantly fewer executives (41.9 percent) believe that the warehouse club specific product offerings are increasing channel conflict.

Over half (52.6 percent) of CPG respondents view sales to the warehouse club channel primarily or completely a shift from other channels including grocery and mass merchandisers (see figure 7). While retail executive respondents are slightly more likely to view the growth as a balance of incremental sales and a shift from other channels, both groups of executives acknowledge that much of the club growth is at the expense of other channels.

Figure 7. CPG executives believe that the warehouse club channel derives the bulk of revenue growth from a shift in sales from other channels

Survey question: How would you characterize the source of revenue growth in warehouse club channel sales?

The mix of the types of member shopping trips is also indicative of cross-channel conflict. The CPG and retail executive respondents estimated that 57 percent of club store shopping trips are for stocking-up (i.e., regular primary large trip), 26 percent fill-in trips to complement mass merchandiser and grocery trips, and 17 percent as standalone trips for a few items. According to one retail executive we interviewed, “Due to the economy, consumers are evaluating whether they really need a particular trip to the grocery store or club store.”

The club store: where high income consumers shop.
In addition to the executive survey, we also conducted a large-scale consumer survey of 4,086 active shoppers in October 2011. As expected, consumers reported a lot of cross channel shopping for food, beverage, household goods, and personal care across retailers, and club stores played an important role. Nearly half of the consumer survey respondents (46.3 percent) shopped at a club store for food, beverage, and household goods. A much higher proportion (71.3 percent) of affluent consumer respondents, those with over $100,000 annual household income, shopped at club stores. Higher-income consumers spent more on food, beverage, and household goods.
Club store strategies for national brands

(24 to 32 percent higher) than the average income consumer in warehouse club stores. The number of trips to club stores is remarkably similar across income levels, ranging from 1.7 to 2.1 trips per month for the average-income and high-income consumers. In comparison, the dollar store shoppers and grocery store shoppers we surveyed shopped those channels more frequently (2.6 and 3.1 trips per month at dollar stores and the top grocery retailers, respectively).

Most club store shoppers surveyed (85.2 percent) are members of only one club; however, affluent consumers are more likely to shop at multiple club stores (20.4 percent compared to 14.8 percent). Economic uncertainty and consumers’ focus on value have made club stores a more important channel for many consumers. Club stores have maintained their appeal to high-income consumers, and seem to be enticing even low-income consumers. While business members only comprise 13 to 21 percent of members across the three major warehouse club retailers, they play a disproportionately important role for warehouse club stores.  

Will club store growth continue in the United States?  
Eighty-eight percent of CPG executives surveyed expect their company’s sales in the warehouse club channel to increase during the next three years. Furthermore, revenue at club stores has steadily increased on average 7.1 percent annually and the number of stores rose 2.6 percent annually over the past decade.

With over 1,200 stores across all 50 states and nearly $140 billion in revenue, the top three club retailers touch much of the United States. Admittedly, each of the top three club retailers has relative regional strength; however, in aggregate club store density in the United States is similar to overall population (see figure 8). Furthermore, the distribution of club stores is proportionate to the number of households with annual income greater than $100,000 – with slight under penetration in the Northeast, and overrepresentation in the South. This is in contrast to dollar stores where the top three dollar retailers believe there are clear underpenetrated regions in the United States where they can expand.

Still, the top three club retailers have modest growth plans in the upcoming year. One retail executive we interviewed was cautious in projecting low to mid-single digit growth in the warehouse club channel from same-store sales and new stores in existing geographies. He said, “There are a lot of [geographic] areas that have not filled in yet; however, the question is will club stores have enough of a population base to get enough members to make the economics of the new club store sustainable.”

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage of club stores in each region (top three)</th>
<th>Percentage of U.S. high-income population (annual household income &gt; $100,000) in each region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Midwest</td>
<td>18.4%</td>
<td>19.4%</td>
</tr>
<tr>
<td>Northeast</td>
<td>19.1%</td>
<td>23.0</td>
</tr>
<tr>
<td>Southeast</td>
<td>35.8%</td>
<td>32.2</td>
</tr>
<tr>
<td>West</td>
<td>26.7%</td>
<td>25.4</td>
</tr>
</tbody>
</table>

Figure 8. Club store penetration of the top three retailers is relatively uniform to population across the United States

Sources: Company 10-K’s and websites, US Census Bureau (2009 and 2010).
Effectiveness of CPG strategies in club stores

CPG executives assessed the effectiveness of 15 CPG strategies in the warehouse club channel (see Figure 9). The top six CPG strategies in terms of effectiveness relate to club-specific package size, in-store sampling, operational improvements to reduce costs, promotion in circulars, joint business planning, and unique packaging for business/food service.

For retail executives, the top six CPG strategies in terms of effectiveness relate to club-specific package size, in-store sampling, operational improvements to reduce costs, investment in new product innovation, promotion in circulars, and unique packaging for business/food service. CPG and retail executives differ about the effectiveness of individual strategies (see figure 10).

Retail executives are more optimistic about the effectiveness of club-specific new product innovations than CPG executives (77.3 percent effective or somewhat effective compared to 68.1 percent). Similarly, CPG executives are much more optimistic about the effectiveness of joint business planning than retail executives (78.4 percent effective or somewhat effective compared to 52.3 percent).

Challenges faced by CPG companies in the warehouse club channel.

CPG companies face many challenges in executing the above strategies. When asked to list the biggest challenge a CPG company faces while dealing with the warehouse club channel, CPG executives had much to say about innovation, merchandising, account team staffing, supply chain, channel conflict, cost structure, and pricing/promotions (see Appendix for additional executive verbatims).

Figure 9. For CPG executives, offering unique package sizes for products sold in warehouse clubs tops the list of tactics for succeeding in the warehouse club channel

Survey question: How effective are the following CPG strategies in order to succeed in warehouse club stores

Source: Deloitte Executive Survey, November 2012, n=57 to 77 (only CPG executives)
Figure 10. CPG executives are comparatively more bullish about joint business planning, while retailers are more optimistic about mobile apps and new product innovation

Survey question: How effective are the following CPG strategies in order to succeed in warehouse club stores

![Bar chart showing effectiveness of CPG strategies](chart.png)

- Offer unique package sizes of products sold through clubs: 5.5%
- In-store product sampling and other in-store promotions: 0.9%
- Reduce costs through innovations in operations and supply chain: 3.5%
- Offer unique packages aimed at business/food service members: 6.4%
- Invest in new product innovations targeted at the channel: 14.8%
- Participate in joint business planning with the retailer: 26.1%
- Point of sale promotions: 10.2%
- Offer unique brand (or sub-brand) for the club channel: 11.5%
- Manufacture co-branded products with retailers: 2.4%
- Partnering with the club’s e-commerce and m-commerce initiatives: 6.5%
- Offer unique formulations/ingredients for the club channel: 4.1%
- Shift to more direct store delivery: 2.0%
- Promotion through the club’s social networking sites (e.g., Facebook): -10.9%
- Offering CPG mobile shopping app: -9.2%

Source: Deloitte Executive Survey, November 2012, n=99 to 121

- **Innovation and product strategy** challenges include “freshness to consumers of our products”, “coming up with new cutting edge products”, and “filling pipeline with new products”.

- **Merchandising and packaging strategy** challenges include “speed, developing floor-stand displays for in-out promos & tests”, “specific demands on product sizes and offerings”, and “limited shelf space for a limited number of brands.”

- **Account team structure and staffing** challenges include “CEO does not rate as a priority”, “having enough resources for product innovation”, and “internal resistance from managers wed to other channels.”

- **Supply chain and distribution** challenges include “lead time”, “rapid response to changing demands”, and “distribution across multiple units, consistent display and storage at multiple units.”

- **Channel conflict** challenges include “comparison shopping between the clubs”, “channel shift from the grocery accounts”, “not cannibalizing other more profitable sales”, and “we struggle with club stores buying from other channels (not through us) and undercutting market prices, creating issues with mass merchandisers who have to match price.”

- **Cost structure** challenges include “not having low cost capabilities in our plant and the in/out nature of club stores”, “providing different capability can require specialized equipment”, and “need to increase margin for manufacture of club channel products”.

- **Pricing and promotion** strategy challenges include “coordinating volume needs for national club promotions”, “profitability due to inability to adjust prices when input costs have escalated”, and “failure to understand consumer behavior.”
Proprietary benchmarking analysis reveals gaps

The capabilities (34 attributes in seven categories) in our CPG executive survey were developed from a compilation of leading practices drawn from research and project work completed over the past two years including projects with major CPG manufacturers and U.S. retailers (see Figure 11).

Survey respondents ranked their company’s performance or club alignment strategies in each of the seven categories along a five-point scale, where Level 1 is basic, Level 3 is intermediate, and Level 5 is advanced. At the basic level, the CPG company lacks club alignment (i.e., it is an organization that exhibits or prioritizes few capabilities relevant to the warehouse club channel). At the intermediate level, the CPG company exhibits selective alignment (i.e., it is an organization that tailors some of its capabilities to the warehouse club channel). At the advanced level, the CPG company is aligned with the warehouse club channel (i.e., it is an organization that has differentiated itself in the warehouse club channel and simultaneously redefines its leading practice capabilities).

The respondents’ self-assessment rankings across the attributes were marginally higher than intermediate level at 3.3. Only 16.2 percent of ratings were at the 5-advanced level, with 25.7 percent at the 4 level, 33.8 percent at the 3-intermediate level, 19.5 percent at the 2 level, and 4.9 percent at the 1-basic level. There is over a one and half point difference in self-assessed performance of the top third respondents (average rating of 4.1 across 34 capabilities) compared to the bottom third (average rating of 2.4).

Figure 11. Summary of CPG responses to club alignment benchmarking survey

![Summary of CPG responses to club alignment benchmarking survey](image-url)

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=74 to 78 (only CPG executives)
Figure 12. Most of the CPG executive respondents self-assessed their employer as performing better or comparable to their primary competitors in the past three years.

Survey question: Considering all your primary competitors, how would you rate your company’s business performance in the following areas, during the past three years?

The respondents of the survey tended to be executives of large CPG companies that self-reported better performance – total revenue growth, market share, customer loyalty/retention, and net profit margin – than competitors in the past three years (see figure 12).

The CPG companies whose ranks were in the top third for these capabilities were more likely to self-report high revenue growth and customer loyalty than those companies that were in the bottom third for these capabilities. That is, CPG companies that invest in these club store related capabilities self-report higher revenue growth and customer loyalty than those who do not.

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=77 to 79 (only CPG executives)
Where to begin?
The ten lowest rated attributes indicate areas of relative deficiency for CPG companies (see figure 13). Similarly, those capabilities rated highest are relative areas of strengths for some CPG companies. Improvement efforts can begin in the five of the seven broad categories with relative deficiency; however, most CPG companies still have work to do in the two categories of relative self-reported strength: merchandising and packaging strategy, and pricing and promotion strategies.

Figure 13. CPG executive self-assessment of relative deficiencies and strengths in working with the warehouse club channel

<table>
<thead>
<tr>
<th>Relative deficiency for CPG companies</th>
<th>Relative strength of CPG companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation and product strategy</td>
<td></td>
</tr>
<tr>
<td>• Club channel specific innovation (34th out of 34)</td>
<td>• Production and distribution of club specific products (6th out of 34)</td>
</tr>
<tr>
<td>• Sharing of consumer insights and/or notion of how to apply member data (25)</td>
<td></td>
</tr>
<tr>
<td>Merchandising and packaging strategy</td>
<td></td>
</tr>
<tr>
<td>• Understanding of merchandising in the club environment (1)</td>
<td></td>
</tr>
<tr>
<td>• Product packaging (2)</td>
<td></td>
</tr>
<tr>
<td>• Offers ideas for visual merchandising (3)</td>
<td></td>
</tr>
<tr>
<td>• Engagement in club-tailored assortment, packaging and presentation (8)</td>
<td></td>
</tr>
<tr>
<td>Joint strategic planning and execution strategies</td>
<td></td>
</tr>
<tr>
<td>• Cross-portfolio view (28)</td>
<td></td>
</tr>
<tr>
<td>• Creation of joint strategic and financial visions (24)</td>
<td></td>
</tr>
<tr>
<td>Standard commercial planning activities</td>
<td></td>
</tr>
<tr>
<td>• Duration of business plan (30)</td>
<td></td>
</tr>
<tr>
<td>• Incorporates customer insights, marketing calendars, and POS data (4)</td>
<td></td>
</tr>
<tr>
<td>• Involvement of leadership (7)</td>
<td></td>
</tr>
<tr>
<td>Account team structure and staffing</td>
<td></td>
</tr>
<tr>
<td>• Shared services (33)</td>
<td></td>
</tr>
<tr>
<td>• Club-dedicated support functions (32)</td>
<td></td>
</tr>
<tr>
<td>• Assignment of resources (28)</td>
<td></td>
</tr>
<tr>
<td>• Channel ownership within a separate organization (26)</td>
<td></td>
</tr>
<tr>
<td>• Club channel specific account teams and support functions (10)</td>
<td></td>
</tr>
<tr>
<td>Cost structure</td>
<td></td>
</tr>
<tr>
<td>• Capability to address club needs from an operational and infrastructure viewpoint (32)</td>
<td></td>
</tr>
<tr>
<td>• Requirement of retailer “finishing” for products and displays (27)</td>
<td></td>
</tr>
<tr>
<td>Pricing and promotion strategies</td>
<td></td>
</tr>
<tr>
<td>• Use of trade program funds (5)</td>
<td></td>
</tr>
<tr>
<td>• Pricing stability and price change visibility (9)</td>
<td></td>
</tr>
<tr>
<td>• Club channel specific pricing and promotion strategy (11)</td>
<td></td>
</tr>
</tbody>
</table>

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=74 to 78. Relative ranking (#) where 1 is the highest rated capability, and 34 is the lowest rated capability.
Innovation and product strategy should be an area of keen focus. In particular, CPG companies should consider developing innovations specific to each club and better applying member data to identify consumer insights. On the flip side, production and distribution of club-specific products was assessed a relative strength.

While merchandising and packaging strategy is an area of relative strength for CPG companies, this is an area cited as being critical for success in the warehouse club channel in executive interviews. The executive respondents rated their companies relatively highly in terms of merchandising in the club environment, developing product packaging, and engaging with retailers to develop club-tailored assortment, packaging, and presentation.

A joint strategic planning and execution strategy is an area where two important relative deficiencies stood out. CPG companies should consider working with the club retailers to develop a cross-portfolio view across brands and product categories, and they should create a joint strategic and financial vision.

<table>
<thead>
<tr>
<th>Definition of advanced club alignment</th>
<th>Definition of advanced club alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Club channel specific innovation</td>
<td>Innovation specific to each club; clubs targeted as channel to achieve growth</td>
</tr>
<tr>
<td>Production and distribution of club specific products</td>
<td>Can provide club specific products and localized assortment, addressing both consumer and business members</td>
</tr>
<tr>
<td>Collaboration for innovation or product planning</td>
<td>Formalized, detailed innovation process with dedicated sponsors and owners (i.e., collaborative approach)</td>
</tr>
<tr>
<td>Sharing of consumer insights and/or notion of how to apply member data</td>
<td>Provides clubs with actionable consumer and market insights</td>
</tr>
<tr>
<td>Innovation pipeline visibility</td>
<td>Greater than 12 months of innovation pipeline visibility</td>
</tr>
<tr>
<td>Engagement in club-tailored assortment, packaging, and presentation approaches</td>
<td>Responsive and innovative in providing clubs with assortment, packaging, and presentation of offerings</td>
</tr>
<tr>
<td>Understand merchandising in the club environment</td>
<td>Provides merchandising proposals that are in alignment with the club model</td>
</tr>
<tr>
<td>Offers ideas for visual merchandising (e.g., adjacencies, placement within store, compelling displays)</td>
<td>Presents compelling and fresh ideas to improve visual merchandising in-club and online</td>
</tr>
<tr>
<td>Product packaging</td>
<td>Emphasis on visually compelling and “green” packaging</td>
</tr>
<tr>
<td>Record of in-and-out products</td>
<td>Successful record of in-and-out products</td>
</tr>
<tr>
<td>In-person working sessions</td>
<td>Strategic, multiple in-person facilitated sessions requiring pre-work</td>
</tr>
<tr>
<td>Creation of a joint strategic and financial vision</td>
<td>Both sides work to develop a joint strategic and financial vision</td>
</tr>
<tr>
<td>Involvement of management and functional representation</td>
<td>Top tier management involvement with cross-functional representation: marketing, merchandising, operations, IT, supply chain, etc.</td>
</tr>
<tr>
<td>Cross-portfolio view</td>
<td>Cross-portfolio view across brands and product categories</td>
</tr>
<tr>
<td>Duration of business outlook</td>
<td>3-year business outlook focusing on strategic investments</td>
</tr>
</tbody>
</table>
Standard commercial planning activities are an area of relative strength. For example, including customer insights, developing marketing calendars, and applying POS data during planning. Also, involvement of executive leadership in representing the brand portfolio, and unlocking corporate investment during the planning process was cited as a relative strength. CPG companies recognized a deficiency in the business plan time horizon as part of commercial planning activities with retailers – they should consider extending their planning outlook to 12 to 18 months.

Account team structure and staffing is an area of relative deficiency, especially in club-dedicated support functions versus shared resources and the number of channel-specific resources assigned. CPG companies should consider club-dedicated employees in logistics, customer strategy, sales finance, trade marketing, innovation, and packaging – and limiting shared services across the channel account teams to manufacturing and customer service. According to one retail executive interviewed, “The club retailers want to deal with someone who understands the club business.”

Cost structure alignment with club channel has some deficiencies including addressing warehouse club needs from an operational and infrastructure viewpoint and the requirement of retailer finishing for products and displays. CPG companies should consider providing products and displays that are retail ready for the warehouse club channel, in addition to aligning operations to the unique logistics and distribution needs of this channel.
While **pricing and promotion strategies** was assessed an area of relative strength, our executive interviews and other survey responses identified pricing and cross-channel conflict as a challenging area for CPG companies. The executive respondents rated their companies relatively highly in the use of trade program funds, pricing stability and price change visibility, and warehouse club channel specific pricing and promotion strategy.

**Figure 14g. Advanced pricing and promotion strategies**

<table>
<thead>
<tr>
<th>Definition of advanced club alignment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Club channel specific pricing and promotion strategy</td>
</tr>
<tr>
<td>Flexible funding with pricing and promotion strategy specific to club channel</td>
</tr>
<tr>
<td>Pricing stability and price change visibility</td>
</tr>
<tr>
<td>Stable pricing over extended periods; price change visibility at least a month out</td>
</tr>
<tr>
<td>Responsiveness and flexibility of promotional strategy to what retailer considers “best vehicle”</td>
</tr>
<tr>
<td>Responsive and flexible to support what retailer considers “best vehicle”; plans demonstrate innovation from year to year</td>
</tr>
<tr>
<td>Capability for exclusive retailer programs and regional promotions</td>
</tr>
<tr>
<td>Open to exclusive retailer programs; can accommodate regional promotions</td>
</tr>
<tr>
<td>Use of trade program funds</td>
</tr>
<tr>
<td>Participates/collaborates in broader strategic trade programs (e.g., thematic marketing); flexibility to allocate and deploy spend across brands/categories</td>
</tr>
</tbody>
</table>
Implications for CPG companies

Merchandising and packaging (83 percent increased or increased significantly), innovation and product strategy (77 percent), pricing, promotions, and trade strategy (77 percent), and joint strategic planning (69 percent) garnered increased investment from most executive respondents. Given the growing warehouse opportunity, challenges, and gaps in club alignment capability, continued investment seems warranted.

The warehouse club channel presents CPG companies with several undeniable challenges: club-channel-specific product and packaging, pricing and margin management, and supply chain. However, none of these challenges are insurmountable. Our research suggests five main areas where CPG companies should consider enhancing their ability to pursue the club-channel opportunity.

1. **Brand, product strategy, and innovation**
   It all begins with CPG companies developing and offering unique package sizes of products sold through the warehouse club channel targeted to the relatively affluent consumer base. To do this, CPG companies should consider increasing investment in new product innovations and corresponding R&D targeted at the warehouse club channel. Finally, CPG companies should partner with club retailers to share consumer insights and member data to develop and refine product offerings.

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**Figure 15. Most CPG executives believe that their companies have increased investments to better serve the warehouse club channel**

Survey question: How has your company’s investment in serving the warehouse club channel changed during the past three years?

<table>
<thead>
<tr>
<th>Area</th>
<th>Increased significantly</th>
<th>Increased</th>
<th>No change</th>
<th>Decreased</th>
</tr>
</thead>
<tbody>
<tr>
<td>Merchandising and Packaging</td>
<td>18</td>
<td>61</td>
<td>12</td>
<td>22</td>
</tr>
<tr>
<td>Innovation and Product Strategy</td>
<td>23</td>
<td>61</td>
<td>21</td>
<td>16</td>
</tr>
<tr>
<td>Pricing, Promotions and Trade Strategy</td>
<td>21</td>
<td>65</td>
<td>29</td>
<td>12</td>
</tr>
<tr>
<td>Joint Strategic Planning &amp; Execution Processes</td>
<td>1</td>
<td>46</td>
<td>34</td>
<td>1</td>
</tr>
<tr>
<td>Supply Chain and Distribution</td>
<td>1</td>
<td>51</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>Account team staffing</td>
<td>3</td>
<td>49</td>
<td>14</td>
<td>14</td>
</tr>
</tbody>
</table>

Source: Deloitte Executive Survey, November 2012, n=78 to 79 (only CPG executives)
2. Merchandising and assortment
CPG companies should consider offering unique packaging aimed at business/foodservice members. Additionally, CPG companies should consider expanding their health and wellness offerings including food – particularly organic, healthy, and fresh food offerings – and personal care products. Finally, CPG companies should work with club retailers to develop store-specific and personalized promotions based on member data.

3. Pricing and trade promotions
CPG companies should consider striving for club-channel specific pricing and promotions and cross-channel price visibility. CPG companies should consider using in-store product sampling and other in-store events for not only mature products, but also to introduce consumers to new products. Whether they buy at the club store or at another channel, in-store samplings give a preview of products to desirable high-income shoppers. Similarly, CPG companies should consider aligning their products with ancillary services including in-store food service provided by club stores to members. Finally, CPG companies should consider promotion of products in monthly warehouse club membership circular.

4. Supply chain, distribution, and operations
CPG companies should consider putting in place ongoing operational and supply chain cost reduction efforts to maintain or grow margins in the warehouse club channel. That is, they should consider looking for ways to take advantage of the warehouse club channels cost-to-serve advantages – high volumes, few SKUs, access to member data – from manufacturing to distribution by involving manufacturing from day one of the new product development process. CPG companies should consider providing retail-ready products and displays to reduce or eliminate retailer finishing requirements.

5. Account team structure, staffing, and capabilities
CPG companies should consider assigning employees with strong channel-specific consumer, merchandising, and supply chain expertise to the warehouse club channel. Furthermore, CPG companies should consider club-dedicated support functions for customer logistics, customer strategy, sales finance, trade marketing, innovation, and packaging. Finally, collaboration with retailers to create a three-year business outlook, a joint strategic and financial vision, and a cross-portfolio view of brands and product categories should be considered.
Closing thoughts

The warehouse club channel is an important and profitable segment for those CPG companies that have tailored their business for club retailers. In other words, some CPG companies – according to the executives we surveyed and interviewed – have taken the pains to understand the characteristics unique to the warehouse club channel in five distinct areas:

• Successful CPG companies begin with a channel, and often retailer-specific approach to brand, product strategy, and innovation.

• They pursue unique merchandising and assortment strategies for the channel, and at the store level.

• Their pricing and trade promotion strategy acknowledges potential channel conflict by providing unique product-price value propositions across channels.

• They partner with the club retailers to tailor their supply chain, distribution, and operations to the unique channel logistics and distribution environment.

• Finally, those CPG companies serious about succeeding in the warehouse club channel build strong account and support teams with marketing, packaging, pricing, and supply chain expertise for this channel.
Appendix: About the executive survey methodology and survey respondents

- 20 minute web-based survey of CPG and Retail industry executives conducted from October 30, 2012 to November 6, 2012.
- 132 survey respondents across CPG (79 respondents) and retail (53 respondents), including vice presidents, directors, and managers.
  - CPG respondents worked primarily in food, beverage, household goods, and personal care; primarily in sales, marketing/brand management and operations/supply chain management.
  - Retail respondents worked in mass, pharmacy/drug, grocery, and mostly other; primarily in operations/supply chain management or buying/marketing/sales/merchandise.
- Respondent roles and titles reflect a broad range of expertise, with 61 percent of CPG respondents working in marketing and operations/supply chain related areas as a manager/director/VP.
- Majority of respondents (58 percent) are from large companies, recording sales of more than $10 billion a year; nearly all (97 percent) of respondents are from companies with more than $1 billion in annual revenue. Most respondents (76 percent) are from large companies employing more than 10,000 people.
- Most CPG executive respondents believe that their business has performed better than their primary competitors in the past three years in terms of total revenue growth (63.3 percent significantly higher or higher), market share (57.0 percent significantly higher or higher), and customer loyalty/retention (50.0 percent significantly higher or higher). For net profit margin less than half (46.8 percent significantly higher or higher) believe that their business has performed better.
- Most retail executive respondents believe that their business has performed better than their primary competitors in the past three years in terms of total revenue growth (56.6 percent significantly higher or higher), market share (53.8 percent), and customer loyalty/retention (67.9 percent), and net profit margin (64.8 percent).
- CPG respondents reported an average of 19.5 percent of their sales from the warehouse club channel. Median response was 15.0 percent of sales.
- Survey respondents were allowed to answer “Don’t know” or “N/A” for most survey questions. “Don’t know” and “N/A” responses were eliminated when calculating percentages.
- Responses to the applicable subset of survey questions that support this research are included in the following pages of the Appendix.
Appendix: Differentiation of products across channels

Many executives believe that there are significant differences in some product-related attributes – primarily pack size, assortment, and pricing – across the warehouse club, grocery, mass, and e-commerce channels.

Survey Question: How do products in warehouse club stores compare to those in mass merchandisers, grocery stores and e-commerce in terms of

- Quality
- Convenience
- Product offering or formulation
- Value to consumer
- Pricing per unit
- Assortment
- Pack size

Source: Deloitte Warehouse Club Executive Survey, November 2012, n=105 to 128
Appendix: Internal capabilities CPG companies should be building and refining to be successful in the warehouse club channel

Survey question: What internal capabilities should consumer product companies be building and refining to be successful in the warehouse club channel? (free text response from CPG executives)

Innovation and product strategy: “expand variety of products”, “differentiating merchandise”, “to offer specific products for the club”, “quick development of specialty product/sizes”, “R&D for products unique to club channel”, “with better insights into consumer base better analytics to club channel”

Merchandising and packaging strategy: “larger quantity SKU’s”, “nimble package flexibility”, “flexibility in package design”, “better labeling and marketing”, “larger pack sizes, ability to mix flavors”, “sustainable packaging, packaging innovations”, “have to offer larger package sizes and different case pack configurations”, “flexibility in packaging, size offerings”, “targeting merchandising and product packaging”

Joint strategic planning and execution processes: “joint planning sessions to satisfy shelf space while maintaining brand value”, “joint-planning”, “joint business planning”

Account team structure and staffing: “dedicated R&D staff”, “dedicated customer service”, “top-to-top relationships”, “club teams that consist of T&D, finance, supply chain, marketing”, “create total teams to call on these large warehouse chains that include sales, logistics, analyst, etc.”, “customer service”, “dedicated account teams”, “stay on top of buyer patterns”

Cost structure: “continue to reduce steps and handling in the supply chain, a cleaner delivery system, more direct, more volume.”, “logistics”, “supply chain capabilities”, “supply chain capabilities”, “supply chain”, “quality execution throughout the supply chain - warehouse clubs are particularly hard on damaged product claims”, “ability to ship direct from factory”, “more efficient supply chain”, “more efficient product supply”, “looking for ways to improve gross margin”, “put the axe to all constantly recurring cost”, “more flexible manufacturing processes to allow for special package sizes that are cost effective (not incurring higher cost because plant has to hand pack for example)”

Pricing and promotion strategies: “sales and performance data relative to the marketing area that they operate in”, “quality of product at a lower price per unit”, “better value”, “marketing; better understand who the customer is”, “consumer research to understand the shopper in this channel”, “consumer knowledge”, “mindset regarding consumer”

E-commerce and direct-to-consumer: “build the e-tail and platform space more”, “direct sales”
Survey Question: What internal capabilities should consumer product companies be building and refining to be successful in the warehouse club channel? (free text response from CPG executives)

Innovation and product strategy: “innovation, new products”, “Innovation with new products”, “product innovation”, “private brands”, “offering private brands that do not compete with their own brand in other retailers”, “co-developing exclusive products with warehouse club”, “co-brand related products”, “offer wider assortments of product not available elsewhere”, “develop more co-branded offerings”, “providing products that appeal to the specific needs of consumers that shop through club channels”, “diversify customer base as club could undercut with house brand positioning”

Merchandising and packaging strategy: “differentiation between other channels”, “better packaging to appeal to consumers”, “product assortment variations that can support both in-store and e-commerce channels”, “packaging larger sizes”, “different size assortments”, “packaging products with more value improving customer satisfaction with purchase of goods”, “offering smaller sizes to meet more demand”, “packaging sizes that are slightly more consumer friendly”, “develop exclusive value packaging”

Cost structure: “the ability to update their technological infrastructure”, “cost control”, “supply chain, local demand forecasting, channel roles”, “productivity”

Pricing and promotion strategies: “product sampling”, “new products sampled at club”, “delivery and niche marketing”, “staying on top of trends and showing value to the customer”, “competitive prices and quality products”, “partner with the warehouse club counterparts to participate in customized customer campaigns and personalized pricing/promotions participate in loyalty programs”

E-commerce and direct-to-consumer: “e-commerce”, “offer mobile solutions for shopping assistance” “targeted marketing via non-traditional channels”, “exploring avenues to attract the younger, Millennial generation, target [social media], apps”
Appendix: Challenges faced by CPG companies in the warehouse club channel

Survey Question: What is the biggest challenge your company faces while dealing with the warehouse club channel? (free text response from CPG executives)

Innovation and product strategy: “freshness to consumers of our products”, “coming up with new cutting edge products”, “filling pipeline with new products”, “taking variety/assortment”, “product selection”, “achieving the high standard of excellence that the customer demands”

Merchandising and packaging strategy: “speed, proving new products will succeed, developing floor-stand displays for in/out promos & tests”, “specific demands on product sizes and offerings”, “limited shelf space for a limited number of brands”, “shelf space”

Account team structure and staffing: “CEO does not rate as a priority”, “having enough resources for product innovation, securing raw, rotations wins”, “internal resistance from managers wed to other channels”

Supply chain and distribution: “lead time”; “volume fluctuation”, “rapid response to changing demands”, “distribution across multiple units, consistent display and storage at multiple units”, “unique supply chain requirements”

Channel conflict: “conflict with other channels”, “not cannibalizing other more profitable sales”, “we struggle with club stores buying from other channels (not through us) and undercutting market prices, dilutes national brand, club stores buying through 3rd parties - undercutting market pricing - creating issues with mass merchandisers who have to match price”, “comparison shopping between the clubs”, “channel shift from the grocery accounts”

Cost structure: “not having low cost capabilities in our plant and the in/out nature of club stores, forces us to purchase limited quantities of ingredients and packaging to avoid write offs, but limited quantities increases our cost”, “meeting margin requirements”, “profit erosion”, “margin impairment...need to increase margin for manufacture of club channel products”, “declining gross margin”, “need to increase margin for manufacture of club channel products”, ”competition”, “strength and amount of private label, assortment, cost to do business with exclusive packaging and products”, “profitability due to inability to adjust prices when input costs have escalated”, “providing different capability can require specialized equipment, inventory is increased as well because of the increase in formats”

Pricing and promotion strategies: “underselling to steal customer base”, “pricing pressure”, “failure to understand consumer behavior”, “coordinating volume needs for national club promotions”, “profitability due to inability to adjust prices when input costs have escalated”
Appendix: Organizing to serve the warehouse club channel

Most CPG executives say that their companies have a standalone emerging channel team with shared support functions across the business unit.

Survey question: Which organization model best describes how emerging channels like the warehouse club are organized within your company?

- Standalone emerging channel team with dedicated support functions within the emerging channels group: 17.8%
- Standalone emerging channel team with shared support functions across business unit: 53.4%
- Dedicated emerging channel team integrated within business unit: 28.8%

Source: Deloitte Executive Survey, November 2012, n=73 (only CPG executives)
Appendix: Summary of CPG executive responses to benchmarking survey questions

Deloitte Warehouse Club Executive Survey, November 2012, n=75 to 79 (only CPG executives), excluding “don’t know” responses

Benchmarking survey questions rated on a scale of 1 to 5, where 1 is Basic and 5 is Advanced

<table>
<thead>
<tr>
<th>Category</th>
<th>Mean of top 1/3rd</th>
<th>Mean of bottom 1/3rd</th>
<th>Mean</th>
</tr>
</thead>
<tbody>
<tr>
<td>Innovation and product strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchandising and packaging strategy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joint strategic planning and execution strategies</td>
<td></td>
<td></td>
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<tr>
<td>Standard commercial planning activities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Account team structure and staffing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost structure</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pricing and promotion strategies</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Alignment by capability category

Innovation and product strategy: 8 17 33 26 15
Merchandising and packaging strategy: 2 15 28 36 18
Joint strategic planning and execution strategies: 4 22 37 21 16
Standard commercial planning activities: 3 19 36 26 16
Account team structure and staffing: 6 22 32 25 14
Cost structure: 5 25 34 20 16
Pricing and promotion strategies: 3 18 36 24 18

1 - Basic  2  1 - Intermediate  2  5 - Advanced
Innovation and product strategy alignment

<table>
<thead>
<tr>
<th>Category</th>
<th>1 - Basic</th>
<th>2</th>
<th>1 - Intermediate</th>
<th>2</th>
<th>5 - Advanced</th>
</tr>
</thead>
<tbody>
<tr>
<td>Club channel specific innovation</td>
<td>10</td>
<td>23</td>
<td>33</td>
<td>20</td>
<td>14</td>
</tr>
<tr>
<td>Production and distribution of club specific products</td>
<td>5</td>
<td>13</td>
<td>32</td>
<td>37</td>
<td>14</td>
</tr>
<tr>
<td>Collaboration around innovation or product planning</td>
<td>8</td>
<td>15</td>
<td>37</td>
<td>27</td>
<td>13</td>
</tr>
<tr>
<td>Sharing of consumer insights and/or notion of how to apply Member data</td>
<td>13</td>
<td>17</td>
<td>28</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Innovation pipeline visibility</td>
<td>4</td>
<td>18</td>
<td>38</td>
<td>23</td>
<td>17</td>
</tr>
</tbody>
</table>

Note: 1 - Basic indicates
- No club channel specific innovation. Clubs not addressed as a main stream channel
- Club products produced offline or assembled from conventional channel product elements
- No collaboration around innovation or product planning (i.e., transactional based relationship)
- Limited sharing of consumer insights and/or notion of how to apply member data
- No innovation of pipeline visibility

Note: 5 - Advanced indicates
- Innovation specific to each club, Club targeted as channel to achieve growth
- Can provide club specific products and localized assortment, addressing both consumer and business members
- Formalized, detailed innovation process with dedicated sponsors and owners (i.e., collaborative approach)
- Provides clubs with actionable consumer and market insights
- Greater than 12 months of innovation pipeline visibility
Merchandising and Packaging strategy alignment

1 - Basic indicates

- Limited engagement in club tailored assortment, packaging and presentation
- Lacks understanding of club merchandising constraints (e.g., limited placement, high turn requirements, high SKU competition and churn)
- Offers few ideas for visual merchandising (e.g., adjacencies, placement within store, compelling displays, etc.)
- Product packaging lacks member appeal and "green" features
- Prefers not to engage in-and-out products

5 - Advanced indicates

- Responsive and innovative in providing clubs with assortment, packaging and presentation offerings
- Provides merchandising proposals that are in alignment with the club model
- Presents compelling and fresh ideas to improve visual merchandising in-club and online
- Emphasis on visually compelling and green packaging
- Successful record of in-and-out products
Joint strategic planning and Execution strategy alignment

Note: 1 - Basic indicates
- Tactical, template based approach with limited in-person working sessions
- Program goals are retailer specific and do not include creation of joint strategic and financial visions
- Mid-level management involvement with participation from Merchant-Sales teams and supply chain
- Category/product specific view
- 1-year business outlook focusing on tactical plans

Note: 5 - Advanced indicates
- Strategic, multiple in-person facilitated sessions pre-work
- Both sides work to develop joint strategic and financial visions
- Top tier management involvement with cross-functional representation (e.g., Marketing, Operations, IT, Supply chain)
- Cross portfolio view
- 3-year business outlook focussing on strategic investments
Note: 1 - Basic indicates

- Clubs fall into standard “one size fits all” business planning approach
- Limited input from customer insights, club’s marketing calendar, POS data, etc., with minimal course corrections throughout the year
- Short-term and limited promotion planning
- Involvement limited to account team and supporting team members
- Annual business plan with focus on 3-4 months

Note: 5 - Advanced indicates

- Business planning process tailored for club channel
- Incorporates customer insights, marketing calendars, POS data, etc. with checkpoints to adjust business plan
- One year visibility of promotion plans with proactive discussions around cart rail, seasonal, end caps, new in-and-out items
- Top tier leadership representing brand portfolio, and capable of unlocking corporate investment
- Longer term business plan, 12-18 months
Account team structure and staffing alignment

<table>
<thead>
<tr>
<th>Category</th>
<th>Basic 1</th>
<th>Intermediate 2</th>
<th>Advanced 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Club channel specific account teams and specialized support functions</td>
<td>6</td>
<td>18</td>
<td>27</td>
</tr>
<tr>
<td>Channel ownership within a separate organization</td>
<td>9</td>
<td>19</td>
<td>32</td>
</tr>
<tr>
<td>Shared services</td>
<td>6</td>
<td>26</td>
<td>32</td>
</tr>
<tr>
<td>Club-dedicated support functions</td>
<td>8</td>
<td>24</td>
<td>28</td>
</tr>
<tr>
<td>Number of dedicated resources</td>
<td>3</td>
<td>23</td>
<td>42</td>
</tr>
</tbody>
</table>

Note: 1 - Basic indicates
- Separate club account teams with limited channel support functions
- Basic, unspecialized support functions are shared between all retailers
- No club specific support functions
- Relatively low number of dedicated resources

Note: 5 - Advanced indicates
- Dedicated club channel with distinct account teams and highly specialized support functions
- To create specialization, channel ownership is within a separate organization
- Shared services: Customer Service, and Manufacturing
- Relatively high number of dedicated resources
### Cost Structure Alignment

<table>
<thead>
<tr>
<th>Metric</th>
<th>Levels</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capability to address club needs from an operational and infrastructure viewpoint</td>
<td>1 - Basic</td>
<td>32</td>
</tr>
<tr>
<td>Supply chain planning collaboration</td>
<td>2 - Intermediate</td>
<td>17</td>
</tr>
<tr>
<td>Requirement of retailer “finishing” for products and displays</td>
<td>3 - Advanced</td>
<td>18</td>
</tr>
<tr>
<td>Understanding of club cost-to-serve advantages</td>
<td>4 - Expert</td>
<td>20</td>
</tr>
</tbody>
</table>

**Note: 1 - Basic indicates**
- Company not well adapted to deal with bulk inventory, club handling patterns and exception processes
- Limited sharing of sales planning horizon
- Provides minimal support at retail; shipped configuration requires retailer “finishing”
- Lack of understanding around potential club cost-to-serve advantages

**Note: 5 - Advanced indicates**
- Company well oriented to address club needs from an operational and infrastructure viewpoint
- Supply chain planning collaboration reaches back to production cycle
- Provides “retail ready” products and displays
- Exploits club cost-to-serve advantages from manufacturing to distribution
Endnotes

2. Planet Retail, accessed January 2, 2013
5. Symphony IRI Source: SymphonyIRI Consumer NetworkTM, 52 weeks ended January 1, 2012. Note: Supercenters are large discount retailers with both mass merchandise and grocery products.
6. Executive interview conducted by Deloitte in October 2012. Fourteen executive interviews with CPG and retail executives were conducted from March to November 2012. Interviews were 30 to 60 minutes in duration.
7. Deloitte Warehouse Club Executive Survey, November 2012, n=126 (79 CPG and 47 Retail executives)
9. Symphony IRI Source: SymphonyIRI Consumer NetworkTM, 52 weeks ended January 1, 2012. Note: Supercenters are large discount retailers with both mass merchandise and grocery products.
12. 2009 to 2012 warehouse club store annual reports and 10-Ks
15. The 2011 American Pantry Study: The new rules of the shopping game, October 2011, n=4,086
17. 2009 to 2012 warehouse club store annual reports and 10-Ks
19. 2009 to 2012 warehouse club store annual reports and 10-Ks, PlanetRetail, accessed January 2, 2013
21. Executive interview conducted by Deloitte in October 2012. Fourteen executive interviews with CPG and retail executives were conducted from March to November 2012. Interviews were 30 to 60 minutes in duration.
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