IN FOCUS: BJ's Wholesale Club

AMERICA'S MOST MISUNDERSTOOD RETAILER HAS POSITIONED ITSELF FOR **PHYSICAL** AND **DIGITAL GROWTH** WITH THE BACKING OF **PRIVATE EQUITY OWNERS** AND THE **LEADERSHIP OF PRESIDENT** AND **CEO CHRIS BALDWIN.** > By Mike Troy

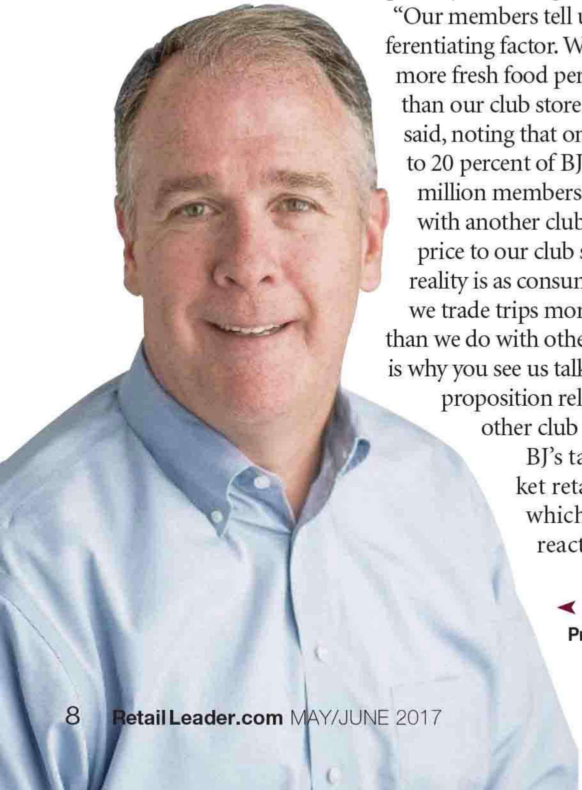
BJ's Wholesale Club has always defied neat classification. Even with the words "wholesale" and "club" in its name, it has never fit the mold of Costco or Sam's Club. All three charge a fee to shop their warehouse style stores with limited assortments, but there are noteworthy differences in how BJ's goes to market that make it a hybrid between a warehouse club, supermarket and convenience store.

"We are trying to be the best BJ's Wholesale Club we can be versus trying to chase somebody else who does something similar to what we do," BJ's president and CEO Chris Baldwin said when asked about similarities to club competitors.

Being the best BJ's means operating a network of 214 clubs in 14 states along the east coast of the United States, where the primary focus is on helping families save money — especially on their grocery bills.

"Our members tell us fresh food is the differentiating factor. We sell about 50 percent more fresh food per member per year than our club store competitors," Baldwin said, noting that only about 15 percent to 20 percent of BJ's approximately 5 million members have a membership with another club. "While we certainly price to our club store competitors, the reality is as consumer behavior plays out we trade trips more with grocery stores than we do with other club stores and that is why you see us talking about our value proposition relative to grocery versus other club competitors."

BJ's takes aim at supermarket retailers in advertising, which characterizes the reaction shoppers have upon looking at their receipt from the supermarket as, "grocery store receipt cringe face."



Chris Baldwin, President and CEO

"We sell groceries at 25 percent less than grocery stores on average in our markets and we validate that every week," Baldwin said. "Fresh food is what drives the frequency of visit and is a key reason why consumers pay to shop our clubs. We have almost one million members who shop us more than 50 times a year."

BJ's also offer supermarket-like products and services that differentiate it from Costco and Sam's Club. Although its clubs range in size from 70,000-sq.-ft. to 130,000-sq.-ft — smaller than competitors' buildings with upwards of 130,000-sq.-ft. — BJ's assortment of roughly 7,000 items is double that of club competitors. BJ's also accepts coupons, offers somewhat smaller pack sizes and operates a deli with freshly sliced meats.

"Our value proposition is also very evident when you look at our fuel business. We sell at a penny or two below the best price in the market and are equal to other club store operators," Baldwin said. However, a key distinction is that BJ's credit card holders receive an additional 10 cent a gallon discount. "That kind of value proposition really matters."

The combination has resulted in a very loyal member base with a renewal rate of 85.5 percent. That's not as good as Costco, typically in the low 90 percent range, but is believed to be better than Sam's Club, which has never disclosed its renewal rate.

THE NEW BJ'S

Baldwin joined BJ's in September 2015 as president and COO after previously serving as CEO of the nearly 1,400 unit convenience store operation of Hess Corporation. Three months after joining BJ's, Baldwin was elevated to the role of CEO when longtime BJ's executive Laura Sen relinquished the CEO position but remained as chairman. Last May, Lee Delany joined BJ's as EVP and Chief Growth Officer (see page 16) after previously leading the consumer practice at Bain & Company.

The duo have positioned BJ's for growth in existing and new markets, refined and experimented with new merchandise categories, and upgraded digital capabilities with their efforts guided by a philosophy to help members live generously.

“We proudly serve middle America. Our core member makes $75,000 to $90,000 a year. The opportunity we give them with a membership to save a significant amount of money is something we take very seriously,” Baldwin said. “We are living in a time where for the first time in a very long time median incomes have not grown in the United States. Our target consumer is one we lovingly refer to as ‘the smart saving family.’ They tend to be a mom and dad who both work with a couple children the club membership is a big part of their ability to afford what they want for their family and our ability to save them money every day we consider a very humbling responsibility.”

As BJ’s applies that philosophy to its business it is leveraging member purchase history along with data from its propriety credit card to better understand members needs and wants. As a result, BJ’s is limiting its jewelry business and expanding into new categories.

“We are working really hard to make sure our assortment is relevant and one of the things we hear from our members is a desire for us to be in home categories,” Baldwin said. “We will still be in the jewelry business, but it won’t get anywhere near the space it has in the past. We will use that space for home. We are beginning to launch appliance and we are entering the tool business for the first time in our history.”

BJ’s has also streamlined its offering of own brands, going from 13 a few years ago to only two. The Wellsley Farms brand encompasses food and beverages and Berkley Jensen is apparel and general merchandise. The simplified approach worked, with own brand sales up 10 percent last year with a high teen penetration rate of total sales, Baldwin said.

“We are working hard on our e-commerce business and you will see us rapidly expand a variety of capabilities in our e-commerce business that we believe are strategically sound and really reflective of what our members are looking for from us,” Baldwin said.

For example, BJ’s lets members make appointments online for tire install and rotation service whereas its club competitors do not. Last year it began a service called “Pick Up and Pay,” and is looking at curbside pickup and scan and go payment options. BJ’s has also begun using its clubs as appliance showrooms. Transactions are consummated online and members schedule delivery, installation and removal.

The Pick Up and Pay service is currently available for all non-food products but Baldwin said the service will be expanded this year for reasons that have been well-documented by other retailers.

“When members come to the club to pick up and pay they buy more stuff,” Baldwin said. “The basket is about double what they reserved online.”

THE PRIVATE EQUITY ADVANTAGE

BJ’s financial results were headed in the wrong direction in 2011. Sales were growing due to the addition of new clubs, but same store sales were decelerating and BJ’s ended its fiscal year January 29, 2011 with total sales of $10.6 billion and profits of $95 million that were the lowest in four years.

The private equity firm Leonard Green and Partners had entered the picture the prior year when it acquired a nearly 10 percent stake in the company. By early 2011, BJ’s acknowledged it was exploring strategic alternatives and then in September 2011 Leonard Green and CVC Capital Partners acquired the company for $51.25 a share in a deal valued at $2.8 billion.

BJ’s has grown its store count to 214 units from 190 units under private equity ownership.

“Private equity has been great for our company,” Baldwin said. “In 2011, BJ’s had a pretty significant technology debt, but over the course of last several years our sponsors have been extremely supportive and made a very significant investment in improving the company’s technology infrastructure, most notably a full and successful install of SAP.”

As a public company, such an investment would have been more challenging due to the expense involved and the fact that large scale ERP system installs don’t always go smoothly, leading to supply chain disruptions.

“BJ’s now has a much stronger technology base, our investment profile is great and we are performing very, very well,” Baldwin said. “Another benefit is we have access to so many experts given (Leonard Green and CVC’s) long track record of successful investing in retail and other businesses.”

The BJ’s nine member board includes chairman Laura Sen, Rob Steele, the former Vice Chairman of Procter & Gamble and Ken Parent, president of Pilot Flying J, who joined through private equity connections. They serve alongside three representative each from BJ’s two private equity owners.

Beyond investments, talent acquisition and board leadership other beneficial aspects of private equity ownership speaks to longer term growth potential. At the time BJ’s was acquired it operated 190 units, but during nearly six years as a private company that figure has grown to 214 locations. A 215th location set to open June 1 marks BJ’s entry into South Carolina and Baldwin hints at BJ’s potential in dense markets where it already has experience operating.

"In our core markets, particularly in the Northeast, those markets are not easy to penetrate. We have been extremely encouraged by our smaller footprint, particularly in inner cities," Baldwin said, referencing locations in the Bronx and the Newark suburb of Kearney. "Our value proposition in those cities is even better than the 25 percent (grocery savings) we have across our company. We believe that value priced fresh food and club store offerings are extremely relevant in a world that is increasingly urban and in many cases Hispanic and we feel great about our proposition in those markets and we'll do more and more of it going forward."

Other than the new location in South Carolina, BJ's doesn't have plans for additional units this year and Baldwin declined to share a number when asked about future openings. However, it is clear he sees greater growth in BJ's future given the company's unique positioning and improving analytics and digital capabilities.

"We will continue to expand and we feel great about a couple things. Over the past couple years we have delivered some of the best performance in the company's history. We think businesses that can grow at the intersection of value and fresh can be very successful and we believe we deliver both well," Baldwin said. "There are significant opportunities for us to continue to expand in our core markets and in new markets. As we get clearer and clearer about who our target is and how we can serve them better we feel very good about our right to win in the space we occupy." **RL**

IMPROVING SUPPLIERS' UNDERSTANDING OF BJ'S

Lee Delaney, Executive Vice President and Chief Growth Officer

When Lee Delaney joined BJ's Wholesale Club in May 2016 as Executive Vice President and Chief Growth Officer it seemed at the time to be an unconventional move. Delaney had spent the previous two decades at private equity firm Bain & Company and now BJ's was asking a private equity guy to lead two of its most important functions: supply chain and merchandising. Oftentimes retailers in need of those skills look to poach talent from elsewhere in the retail industry or elevate someone from within their own ranks. BJ's President and CEO Chris Baldwin had a different idea.

"I am a deep believer that the world is changing rapidly to one that is driven more by analytics and quantitative capabilities than the old world where someone had to grow up in the stores to become a merchant," Baldwin said. "I work for a company that has perfect information with purchase history for five million members and our ability to effectively use that information is something that Lee is uniquely qualified to do."

That's because even though Delaney never directly worked for a retailer during his tenure at Bain & Company he did lead the firm's consumer products practice. In that role he was focused on the retail industry and regularly interacted with and helped improve the performance of consumer goods companies, many of whom are BJ's suppliers.

"Lee has deep and rich experience with our suppliers and an ability to interact with CPGs at a level that many of our competitors can't. He has been a big part of reframing how our suppliers should be thinking about BJ's."

A key aspect of that reframing is to help suppliers better understand the potential that exists with BJ's network of 214 clubs in 14 Eastern and Mid-Atlantic states and its emerging digital business.

"What we have tried to do is help suppliers understand that in a limited assortment environment like ours if they help bring consumers into our clubs they are more likely to win in our clubs than they are in a store environment where there are 40,000 skus or 100,000 skus in a mass merchandiser environment," Baldwin said.

The typical BJ's offers about 7,000 products, which is roughly double the assortment found in Costco or Sam's Club but well below what is found in a typical supermarket and dramatically less than what Walmart or Target offer.

The growth potential argument resonates with suppliers, according to Baldwin, who are coming to appreciate BJ's differentiated approach, loyal member base and deep insights capabilities.

"Companies like Procter & Gamble have been particularly thoughtful in giving us better resources in terms of the talent they put up against our business," Baldwin said. "Given that we are membership club, we have perfect information and more and more of our work with them is how do we use that information to our collective advantage to better serve our members. The response to our challenge to suppliers broadly has been wonderful."

Using information is something BJ's has been better able to do since the successful implementation of an SAP enterprise resource planning system. The supply chain and merchandising organizations under Delaney's leadership are building capabilities to leverage member purchase history and develop strategies that encourage members to shop clubs more broadly depending on how long they have been a BJ's member.

Another area related to leveraging data stems from the fact that Delaney and Baldwin have strong CPG backgrounds. Delaney was at Bain & Company and Balwin was at Procter & Gamble and Nabisco before he served as CEO of Hess Retail Corp. immediately prior to joining BJ's. Because of their CPG backgrounds the science of pricing is an area of intense focus for the merchandising organization.

"We are making investments in pricing capabilities that will allow us to be more and more competitive going forward in all of our markets," Baldwin said. "We are also dramatically improving our ability to localize our assortments. Our ability to manage assortments club by club is something that is dramatically improving every day." **RL**