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1 *The source for information about the warehouse club industry.*

Warehouse Club Brokers and Consultants

Warehouse club brokers and consultants play an integral role in developing, marketing and selling merchandise to warehouse club buyers. They can provide an in-depth understanding of the industry and can develop, introduce and manage a product program. A club broker or consultant understands what a buyer is looking for in a sales call and will have the information, packaging or product ready for the meeting. For club manufacturers who work with a broker or consultant or are considering using one, it is important to understand the services and programs these companies might offer so warehouse club sales can be maximized.

“We advise clients to budget sufficient marketing funds and markdown money to deal with overstocks and clear inventory. We identify problems and fix them before they become major issues.”

Howard Jackson
HSA Consulting, Inc., 2004

This article is an overview of brokers, who offer their vendor clients direct sales representation, and consultants, who support their vendor clients' direct sales efforts

with product, packaging and program development. The first section provides a list of points on which to evaluate your broker or consultant. The second section provides brokerage rate information. The third section provides an overview of club in-house brokers and the fourth section provides opinions, tips and suggestions from club brokers and consultants.

In compiling this article, a number of brokers, consultants and club vendors were interviewed. Among them are the following companies (a brief background appears at the end of this article).

- *Peter Burke, Results* – an Irvine, California based club broker.
- *Howard Jackson, HSA Consulting* – a Knoxville, Tennessee based club consultant.

Services, Qualities and Programs

It is important to understand the types of services, qualities and programs that a broker or consultant might offer. The following section provides a checklist that can be used to evaluate an existing or potential warehouse club broker or consultant.

Questions to Ask – When considering potential club brokers and consultants, manufacturers should use the following key questions as a basis for evaluation:

1. What is the broker/consultant's club industry experience and knowledge?
2. What are some broker/consultant successes?
3. Has the broker/consultant been successful with products that are similar to your own?
4. Does the broker/consultant have a strong relationship with your potential buyer?
5. Does the broker/consultant have low product line turnover?
6. What type of time will the broker/consultant be spending on your business?

Sales Call Preparation – Club buyers do not want to spend time in a sales call explaining what they need and then having to wait for a follow-up presentation or two. As one broker said, a buyer wants to know that a product “presentation is in a format that is ready-to-authorize today, rather than needing several follow-up details done after the fact.” A club broker or consultant understands what a buyer is looking for in a sales call and will have the information, packaging or product ready for the meeting.

Burke said, “The key point in selling to club buyers is to bring them the best product. The more unique and mass appeal the better. The rest usually falls in line with a good broker unless your item is just too expensive to appeal to a mass audience.” A food manufacturer said, “I want [the broker] to have a complete understanding of what the club buyer is looking for. If it is a very unique concept, I want the broker to help me develop the presentation based on his knowledge of the buyer so that the buyer can clearly see the value.”

Product Demonstrations – Some brokers and consultants help manage the product demonstration process. Some of the services might include organizing, scheduling and executing a demonstration plan. That can include finding demonstration partners, communicating with the club demonstration companies, tracking demonstration results and managing inventory prior to demonstrations.

Sales Analysis – Brokers and consultants should help analyze sales and inventory reports so they can suggest programs and ideas that will increase performance, correct any problems and take advantage of any opportunities.

Retail Link – An understanding of SAM'S retail link technology is critical, as this technology plays an important role in working with SAM'S Club buyers.

Sales Goals – The broker/consultant and the manufacturer should develop monthly, quarterly and annual sales goals and these goals should be reviewed consistently. With these goals, both the broker/consultant and the manufacturer understand how the relationship with the club should progress and they have a yardstick with which to monitor the plans.

Manufacturer Competitors – Brokers and consultants should understand the importance of gathering market data on manufacturers' competitors. This information includes pricing data, merchandising and packaging.

Aggressiveness – Brokers and consultants should push manufacturers to develop new products, programs and ideas so that buyer meetings are informative, interesting and productive.

Field Checks – A club broker or consultant should visit club locations on a consistent basis in order to understand buying and merchandising issues and the nuances of various club regions.

National Distribution – Small or medium-sized manufacturers who do not have the time, capital or knowledge to sell to the clubs on a national basis can turn to a broker/consultant who understands the regional and corporate nuances of the club channel. A broker can help distribute a small or medium-sized manufacturer's product on a national basis.

Rates

Manufacturers and brokers were polled by WCF regarding brokerage commission rates. Typically, a broker charges between 3% and 5%, but there were responses as high as 10% and as low as 1%. A broker said, "Three percent to 5% is often the case, but it can go as low as 1% on huge volume to 7%, 8% and even 10% on unique situations."

The following are a sampling of commission survey responses:

Bonuses – One manufacturer said its base brokerage fee is 1%. However, based on sales, brokers have the opportunity to earn up to 3%.

Broker – Buyer Relationship – Working with a broker who has good relationships with the buyers that a manufacturer needs to work with is an important factor in choosing a broker. One manufacturer said that it asks itself whether "the broker understands the buyer's hot buttons so that we are showing products/programs that meet [the buyer's] needs."

One manufacturer said that brokers represent a number of manufacturers to the same buyer. A broker may value the buyer relationship more than the vendor relationship. For this reason, brokers may hesitate to disagree or fully represent a manufacturer when negotiating with a club buyer. One manufacturer wants to know if the broker "can stand up to buyers and negotiate in our favor without jeopardizing relationships." Burke said, "Manufacturers should consider the dedication of the brokers to their business. They should feel that they are getting the results against their expenditure."

Buyer Communication – Brokers communicate to buyers on a regular basis and the constant communication enables them to respond to opportunities and problems quickly. Manufacturers may not be able to communicate in person with buyers as often due to time and distance and opportunities may be missed. One broker told us, "Club brokers facilitate the sales process by having frequent meetings and phone contact with regional and corporate club buyers. Consistent and frequent interaction gives the club buyer comfort that the club broker understands their business and their needs."

Day-to-Day Operations – Not only should your broker have a good relationship with the buyer, he should also have an understanding of the day-to-day operations of the club buying office. This day-to-day knowledge includes developing relationships with assistant buyers, who are relied on heavily by club buyers, as well as reorder or inventory-management personnel. These employees are important, as they are the people who deal with inventory situations and have access to critical sales information.

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Peter Burke
Results, 2004

Order Processing and Supply – In many cases, a broker will be responsible for order processing and supply issues. Jackson said, "Continuity of supply and a short lead time require back up inventory, especially when an item's sales exceed expectations."

Brokers and consultants should be familiar with the procedures and functions of order processing, dealing with order changes, dealing with late and missed shipments and should be constantly checking pricing and discounts to make sure the vendor and warehouse club are getting the program they negotiated.

Product Sell Through – Jackson discussed a successful warehouse club program and how he advised the company to prepare for overstock in some club locations. The vendor, a cutlery manufacturer, generated \$25 million annually, but did not do any business with the clubs. Jackson helped the company develop a program of combination packages that generated \$6 million in sales in year one. Jackson said, “We advise clients to budget sufficient marketing funds and markdown monies to deal with overstocks.” Jackson helped the vendor manage the sell-through process, identifying slow moving pallets and targeting where marketing money should be spent. Jackson said, “We identified problems and fixed them before they become major issues.”

Club Vendor Forms – Brokers and consultants familiar with the club industry will also be familiar with the paperwork necessary for vendors to get item approval. Understanding the importance of these forms and knowing how to fill them out is an important quality. These forms can include vendor packets, vendor commitment forms, insurance certificate requirements, product demonstration commitment forms and new items sheets.

Service Level – One manufacturer said that when it uses brokers, it pays between 1% and 3% depending on the service provided. Its Canadian broker receives 3% because it is a full-service broker that includes inventory management.

Rate Reduction – A manufacturer said, “We are currently paying 2%, but are considering a reduction. Nothing happens with our club business unless one of our company representatives is present at a meeting. Therefore, in essence, we are paying for order processing, demo scheduling and general light paperwork. We feel that is an expensive bill when comparing the costs of going direct.”

Bonuses – A vendor said, “We are also considering broker bonuses for new item placement. For example, we may pay a triple brokerage for one year after a new item is placed. Most of the brokers are carrying so many lines, they don’t pay attention unless there is a monetary reward.”

In-House Brokers

In-house brokers represent manufacturers exclusively to one warehouse club operator. Costco works with two

in-house brokers, Anderson Chamberlin and Daymon Associates, and BJ’s works with one in-house broker, Marketing Management. SAM’S discontinued its use of an in-house broker in 1998.

Costco – Anderson Chamberlin (www.aciteam.com) – Anderson Chamberlin, which represents manufacturers exclusively to Costco, operates 11 offices throughout the world, including eight in the United States (its corporate headquarters is in Issaquah, Washington), two in Canada and one in the United Kingdom. Although Anderson Chamberlin does not have a physical presence in Mexico and Asia, the company fully services manufacturers selling to Costco in these regions through its teams in San Diego and Issaquah respectively.

Anderson Chamberlin has been serving Costco exclusively since 1984. Each of its offices is located near one of Costco’s regional offices. As a result of its broad geographic presence and its unique alignment with Costco, Anderson Chamberlin can serve as a manufacturer’s single sales organization for Costco. The company’s experience and expertise extend across branded and private label programs sold in the food and sundries, non-food and pharmacy categories, as well as Costco’s many other ancillary businesses.

Costco – Daymon Associates (www.daymon.com) – Before the merger between Costco and Price Club in 1993, Daymon represented manufacturers in the club industry exclusively to Price Club. After the merger, Costco continued to work with Daymon as one of its in-house brokers. Daymon works with many retail formats, but works exclusively with Costco in the warehouse club industry.

Although Daymon built its reputation by specializing in private label programs, the company works on both branded and private label products in the club industry. Daymon’s corporate club office is in Issaquah, Washington, but it has regional offices in the same locations as Costco’s regional offices.

BJ’s – Marketing Management Inc. (www.mmihome.com) – Marketing Management’s reputation is built on private label products. However, the company represents both branded and private label manufacturers to BJ’s as its in-house broker. The company’s corporate office is in Fort Worth, Texas, but it also has an office at BJ’s headquarters in Natick, Massachusetts. For manufacturers who have decided to use a broker to sell to BJ’s, Costco and SAM’S Club, the decision to use an in-house or outsider broker can be complicated. Manufacturers and brokers provided their opinions regarding the advantages and disadvantages of using an in-house broker versus an outside broker.

The following are reasons a manufacturer may choose an in-house broker to sell BJ's, Costco and SAM'S Club:

- **Buyer Relationship** – In-house broker relationships with buyers are generally stronger because these brokers are in constant contact with buyers.
- **Quick Response Time** – Due to the constant buyer contact and close proximity, in-house brokers are able to be on the forefront of program development and product opportunities.
- **Program Development** – In-house brokers understand clearly what their buyers require in a program because they work with the clubs exclusively. They make sure that manufacturers present programs in the way buyers want to see them.
- **Knowledge** – As one broker said, "In-house brokers have an advantage in some ways over an outside club broker in that they are stationed in the club customer buying office and may be privy to information as it is released, whereas an outside broker may get the information after it's been released and becomes public knowledge."

The following are reasons a supplier may choose outside brokers to sell BJ's, Costco and SAM'S Club:

- **Top-Down Approach** – Some buyers may resent in-house brokers because of the top-down selling approach.
In-house brokers have high-level relationships and buying decisions are sometimes made a level or two above the buyer, taking away the buyer's decision-making ability.
- **Overlapping Product Lines** – Manufacturers should strive to have the only product represented by the in-house broker in a category. In some cases, in-house brokers may represent different products in the same category. One broker said, "Manufacturers need to do their homework to make sure product lines do not overlap."
- **Large Client Base** – Small manufacturers may not get the same amount of attention that larger manufacturers receive from in-house brokers. This can be due to the amount of effort it takes to represent a smaller manufacturer to a buyer or lack of potential volume.
- **Club Focused** – Since the in-house broker works with only one client, the possibility exists that an in-house broker may work to meet the needs of its club customer before its vendor client. One manufacturer said, "The in-house brokers really work for the club, not the manufacturer." Another manufacturer said, "My perception is that they are too close to the club."

Opinions, Tips and Suggestions

Club Program Development - Burke commented on the key services that Results provides to manufacturers. Burke said, "Results provides four key services for our clients: Research - We first apply our marketing, sales and club experience to understand both the client's strengths and the specific club opportunity. Plan - We jointly develop a strategic plan for the clubs. This aligns the manufacturer's product, pricing, packaging and support programs with the wants of club members. Sell - We sell our plan nationally across all clubs. Support - We execute all support activity, handle all day to day management issues with both clients and clubs and make sure everyone has fun doing it all."

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Private Label – A broker commented on the danger when an item becomes too successful. "The greatest challenge is avoiding the private labelization of successful items. If a product succeeds on a large scale, it risks being swallowed in the private label push. The clubs gain the benefit of a company's investment to develop and promote the item in the clubs. They then takeover this knowledge and then bid out an item to other companies that are temporarily willing to 'buy' the business. It's not unusual to be asked the most minute details of a product's composition - BEWARE."

Fewer SKUs – A broker said, "Clubs also are carrying fewer SKUs, making new products a part time venture with short lifecycles. This makes it hard to recoup investment costs for developing products. Suddenly it's extremely difficult to introduce an innovative food item into the buildings and make money. The treasure hunt is getting more expensive for the manufacturer."

Brand Extension – Jackson discussed an unusual product strategy used by one of his clients to expand their club program. Jackson said, "Our client licensed world class brands to differentiate and/or extend their product assortment for multiple seasons and simultaneous club placement. They were able to develop more frequent in-and-out programs in less time, by refreshing existing proven items."

Broker and Consultant Background

Peter Burke, Results

www.clubstoreresults.com – Burke has worked in various sales and marketing positions for companies such as Johnson & Johnson and M&M/Mars. He founded Results in 1997 in Irvine, California with his partner Jack Gibson (26 years of club sales experience). Kirk Miller, a traditional packaged goods marketing and sales specialist, represents eastern market interests out of New Hampshire.

Howard Jackson, HSA Consulting

www.hsaconsultinginc.com – Jackson previously was vice president of marketing, membership and strategic planning for PACE Membership Warehouse (acquired by SAM'S in 1993). HSA, which was formed by Jackson in 1993, offers strategy and implementation services (including packaging, pricing, logistics, merchandising and inventory control) to companies involved in the warehouse club industry. In addition, HSA provides cost reduction, membership sales and marketing services to existing and potential clubs, as well as advisory services to industry analysts and investors (contact phone (865) 633-9261)

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Warehouse Club Focus (ISSN: 1533-6816) is published twice a month by HHC Publishing, Inc. Annual subscription rate for 24 issues is \$449.00 US, delivery by mail or Email. Subscription requests should be sent to Warehouse Club Focus, PO Box 9138, Foxboro, MA 02035-9138. Tel (978) 567-9067. Fax (617) 479-4961 or Email michael.clayman@hhcpublishing.com

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