Five-Forces Analysis of the Competition in the Wholesale Club Industry

❖ ***Rivalry Among Existing Players***—a strong competitive force

All wholesale clubs (Costco, Sam's Club, and BJ's Wholesale) offer low prices to attract members and provide them with considerable cost savings enough to more than cover membership fees. The rivalry among them is vigorous and will remain so:

- All 3 club rivals are aggressively pursuing top-line revenue growth (chiefly by opening new stores, attracting more members at both new and existing stores, and endeavoring to grow sales revenues and shopper traffic at existing stores). The industry is becoming somewhat mature and that intensifies rivalry.
- It is easy for households and businesses to switch their memberships from one club to another. Switching costs are low, thus strengthening rivalry.
- There is considerable similarity in the merchandise offerings of all three clubs. The degree of product line differentiation is weak, which enhances rivalry.

❖ ***Threats of New Entrants***—a weak competitive force

The window to enter the warehouse club industry is pretty small unless an outsider opted to acquire BJ's Wholesale Club with the intention of rapidly expanding into areas and states where there are currently no BJ's locations. The barriers to a new entrant are high:

- Costco and Sam's are formidable competitors and enjoy sizable scale economies not easily accessed by a newcomer.
- Capital requirements are sizable if an entrant wishes to compete on a scale comparable to the industry incumbents.
- The marketing and advertising costs to attract members and build a significant volume of sales (and otherwise overcome the loyalty of existing warehouse club members) would be very high. Moreover, the three industry incumbents are in a strong position to vigorously contest any newcomer's entry, making it not attractive for others to enter this industry.

❖ ***Bargaining Power of Suppliers***—a moderate to weak competitive force.

The suppliers consist mainly of the manufacturers of the products that warehouse clubs elect to stock. While a big proportion of these manufacturers are undoubtedly large enterprises with well-recognized brand names and good reputations among consumers, they are not necessarily in any strong bargaining position that allows them to dictate the terms and conditions on which they will supply their products to the warehouse clubs.

Costco and Sam's, in particular, have considerable bargaining power over suppliers in obtaining the merchandise they desire to stock. No single supplier constitutes a large percentage of the merchandise that the wholesale clubs stock, thereby limiting any one supplier's bargaining power. Moreover, these wholesale clubs are big volume buyers and thus have substantial bargaining clout with their suppliers. If a particular supplier chooses not to sell to the wholesale clubs at an attractively low price, they can easily switch their purchases to alternative manufacturers with little disruption of their business. Such ease of switching suppliers lessens the bargaining power of suppliers. In sum, the suppliers to the wholesale clubs cannot put much pressure on their wholesale club customers in negotiating for better/higher prices and other more favorable terms of sale.

❖ ***Bargaining Power of Buyers (Customers)*****—**a weak competitive force

Wholesale club members are numerous and buy in relatively small quantities, with no single member accounting for a meaningful fraction of a wholesale club's total sales. Consequently, individual members of wholesale clubs have little power or leverage to bargain with a wholesale club over the prices they will pay or over other terms and conditions of sale. To be sure, a member can choose not to purchase a particular item (but obtain it from another retailer or discounter) and can also choose not to renew their membership, but this does not yield any bargaining power of consequence. Even though members have low switching costs, they cannot negotiate for better prices or obtain any benefit beyond what their membership card provides.

❖ ***Threats of Substitute Products or Services*****—**a strong competitive force

Small business and individuals/households do not have to go to warehouse clubs to shop. They have many other alternative places and channels they can make purchases, including from online retailers. Overall, the threat of substitutes is quite strong, given that:

- Acceptable substitutes are readily available.
- Buyer costs to switch to substitutes are minimal. While the prices of substitute retailers may not be quite as low, the range of merchandise selection is far greater and the number of convenient store locations of these substitute retailers is much greater as well.
- Many consumers are already familiar with and comfortable with shopping at substitute retailers/discounters.
- The merchandise that can be purchased at substitute retailers/discounters is quite comparable to the merchandise sold by wholesale clubs. Product differentiation is low.