

U.S. Merchants

The cornerstone of the warehouse club industry is value. BJ's, Costco, PriceSmart and Sam's Club create value for their member by combining product quality and low prices. Offering the lowest cost is very important, but when it is combined with product quality, a competitive advantage is created. The clubs are fully capable of offering the lowest price in the marketplace on any item. However, the value proposition is magnified when the club offers the lowest price on a top selling quality product.

To be successful doing business with the warehouse clubs, companies must incorporate that same high quality and low-price philosophy into their operations. In 26 years of covering the warehouse club industry, U.S. Merchants/Diversified Repackaging (USM) has consistently provided that high quality/value philosophy for its club industry stakeholders. The company began in the early 1980s when Jeff Green opened a small retail business in Los Angeles, California.

In 1983, Green began selling footwear to one club operator. In learning about the club operator and its footwear business, Green discovered the footwear department had inherent problems: shoes were stolen, shoes were left outside boxes, pairs were split up and tissue paper from inside the boxes was strewn over the floor. High theft and the need to clean up the department each night cost money. Green created two solutions that improved the quality of the footwear SKUs being shipped to this club customer.

Green developed a binding that could be easily applied to the shoes prior to shipping. The member could not remove the binding and the result was: theft was reduced, shoes were kept together, and it was easier to put them back in the boxes. The footwear business for this club operator became more profitable. Green also removed the tissue paper in the boxes prior to shipping and club employees no longer had to clean up tissue paper in the footwear department.

Today, USM provides packaging, products and services nationally and internationally to club operators and suppliers that continue to be based on that same focus on quality and value. This chapter provides an overview of USM and includes four sections: company background, packaging, injection molding and distribution services.

Company Background

USM (www.u-s-merchants.com) employs 1,500 people in facilities located throughout North America including California, Virginia, and Quebec, Canada among others. In 2021, USM opened a large-footprint facility in Houston, Texas and is planning to open another new facility in the Spring, 2022 in Phoenix, Arizona.

As the company grew, Green learned the club business from the executives and buyers with whom he dealt with every day. By gaining a complete understanding of club buyer and operator needs, Green built a business that has become a virtual extension of the clubs. As the industry grew and new buyers replaced those with whom he initially did business, Green became a resource for those new buyers to learn about the club business. Green believes that the relationships he has built, and which he constantly works to maintain and improve, are his and USM's most valuable asset.

Green said, "We look at ourselves as an industry expert because our business has always been driven from the club side. We understand what the buyers are looking for because working with them is how we began. We approach every retail project as a partner in helping vendors make the right decisions so their item is presented in the best possible light to the buyers, members and the end-user."

To ensure each business unit within USM has the same go-to-market strategy, Green has developed a company philosophy called the "Jeff Green Standard". No matter what package, display, product or service is being provided or sold, USM will not only produce, package and/or ship it correctly and accurately the first time but will attain the highest possible standard in meeting the needs of that project's particular stakeholder. Green said, "We treat your product as though it were our own. From the moment we receive your merchandise, to the moment it ships, we track your product with care and accuracy."

Packaging

USM's core business is clamshell/blister packaging. The majority of that business is with non-food consumer products. However, some USM locations include temperature-controlled facilities which allows the company to not only package and distribute all types of food and drinks but also liquor. USM's packaging business has been successful because of its competitive advantages, its packaging philosophy and package types.

Competitive Advantages – USM relies on four key competitive advantages: industry expertise, a vertical operation, swiftness to market and its pallet program system.

Industry Expertise – USM has been doing business with the warehouse clubs since the industry’s early days. The knowledge learned over those years is an extremely valuable asset that can simply not be duplicated by competitors. That expertise not only enables USM to understand club buying, merchandising and operating needs but also the needs of club industry vendors and the club members. Club suppliers have come to rely not only on USM’s packaging services but its counsel on how to effectively sell the warehouse clubs.

Vertical Operation – USM has the advantage of being a vertically integrated packaging and distribution company. While USM purchases raw packaging materials, it uses those ingredients to manufacture its finished packaging products. All the work necessary to produce and deliver a clamshell blister package, a two-piece blister, blister cards and its injection molded products is done in-house. This vertical operation not only helps to reduce costs which are passed on to club suppliers, the clubs themselves and ultimately the club member, but it helps to insulate those stakeholders from the reliability problems of a multi-company supply chain.

Swiftness to Market – As a result of its vertical operation, industry expertise, its facilities and focus on the club industry and their retail partners, USM is able to respond to the club operator and supplier needs quickly and accurately.

Pallet Program – USM developed and patented the pallet program concept in the club channel. Green refers to the process as a “package system” which includes product/package, display cases, slip sheets, corner posts, pallet tops, shrink-wrap and pallets. USM has received a number of patents on its pallet program system which serve to protect USM’s investment in the system that has become an industry standard.

Packaging Philosophy – USM’s packaging philosophy is simple: package an item correctly the first time to the highest quality standard as it’s less costly than correcting a problem later. That packaging philosophy includes six key points:

Package Size – The first critical step in package development is identifying the packaging “footprint”. USM simplifies this process for customers by providing several standard packaging sizes ideally suited for the pallet display requirements of club operators and retail buyers. These standard package sizes provide untold geometric flexibility in terms of form, fit, and function and allow for targeted pallet inventory investment analysis on the part of buyers.

Inventory Control – A key issue is the number of SKUs on a pallet. USM works with the club vendor and buyer to understand the purchase commitment the club is willing to make. USM explains the financial implications to the supplier of different sized pallet configurations. The club can always reorder product if the pallet SKU count is conservative but if an item does not sell well, USM wants to avoid the vendor having to pay to increase sales and/or accept returns. In the end, USM’s goal is to find a “happy medium” between the club need to maximize sales and the supplier need to minimize inventory risk.

Retail Price Point – Green commented on how an item’s retail price point can affect the final package and SKU composition. Green said, “Our viewpoint, as well as the club’s, is to pass on as little packaging cost to the member as possible. There are times, when you are looking at a \$10 retail price for an item and a \$3 package cost. In those consumer cases, it makes sense to include accessories in the package, like batteries, to reduce the packaging cost percentage compared to the retail price. USM works with our customers to arrive at the best overall value package to present to the clubs and retail channel.”

Art and Design – USM utilizes a full in-house design staff. USM uses state-of-the-art high-speed printing presses offering a wide variety of output capabilities: pressure sensitive labels, insert/backer cards, hang tags, instruction manuals and glossy magazine inserts. For small production runs, USM uses digital presses enabling vendors to test an item in as few as 10 clubs without the cost and risk of a chain-wide production run.

Engineering – USM designs each package and pallet to provide the utmost stability, security and support. The end result is that every item that leaves a USM facility will arrive at the distribution center or club location in the same condition as when it left USM. For example, USM includes a cardboard bar in each display case that adds extra support and its pallet wrap system includes a 275-pound test pallet cap with fiber corner posts not only on the sides but on the top that act to cushion the straps that are wrapped around the pallet.

Attention to Detail – Based on its experience and knowledge in the club and retail industries, USM considers all factors when deciding on the optimal package to most effectively display a product. For example, USM will apply spot ultra violet coating on a company logo which creates a reflection and can help attract a member’s attention when walking a club location and it will coat the inside and outside of the plastic package with silicone which keeps the plastic clear and helps prevent scratches. USM will also polish the thermoform molds (that create the plastic package) before putting them into production which helps produce a cleaner plastic.

Another example of its focus on details concerns its bill of lading. Every bill of lading specifically states not only what is on the truck but the fact that it was inspected by the trucking company and is in “perfect” condition when it left the USM facility. This not only protects USM in case of shipping/delivery problems but, more importantly, the vendor.

Package Types – USM maximizes packaging materials with the highest pre-consumer and post recycled content. From #1 PET film to both SFI (Sustainable Forestry Initiative) and FSC (Forestry Stewardship Council) certified paper, USM has established a leaner environmental footprint. USM's sustainable packaging product is called GreenPack™. It includes four packaging concepts: blistercard, clampack, PET folding carton and Duraseal. A fifth packaging type is called the butterfly shroud.

Blistercard – USM “traps” a #1 RPET plastic blister between a 20pt coated Blistercard on top and a 250# B-Flute corrugated backer card. The package offers the following benefits: a clean and stylish appearance, additional space for graphics and product information since the back of the B-Flute card can be used and all components are 100% recyclable (see picture on the right of Blue Lizard sunscreen).

Clampack – A 100% recyclable design utilizing PETG material for a highly-impactful, sustainable package. The PETG material is post-consumer recyclable through many curbside pickup programs. The design frequently incorporates a USM innovation called point seals. The point seals anchor product cavities eliminating product movement and providing for a higher security benefit resulting in shrink reduction.



USM—Blistercard

The multi-color insert cards are also recyclable, as it uses vegetable/soy based inks. The corrugated trays used to hold the product on the pallet or shelf is made from an estimated 20% to 25% pre-consumer and 30% to 35% post-consumer recycled pulp.

PET Folding Carton – This highly flexible design uses clear, dyed, or printed RPET material for a premium department store appearance. It is very popular for use with high-end ornamentals or fragrances. Insert cards or folding cartons can be included to enhance cosmetic and merchandising appeal. Ultra violet sealing can be added for an additional security benefit. It also provides for simple stackability, too.

Duraseal – Warehouse club operators continue to use “voucher” or “gift card” presentations where the member exchanges a printed card, which is typically the same size as a packaged item, for a gift certificate or high-value merchandise at the customer service counter.

Larger volume programs are litho-laminated. For smaller runs, USM uses digital printing for laminated labeling. This provides a significant cost savings for testing the product.



USM—Peets Capsules

Butterfly Shroud – There are many items that the clubs stock whose sales volume does not require a full pallet display. For items like these, USM developed the patented Butterfly Shroud (see picture on the right of StriVectin). The product is shipped to the clubs in one contained unit and placed on top of five pallets. Once the stretch wrap and pallet cap are removed, the sides of the merchandising unit come down and cover the five empty pallets. The item is now ready to be placed on the sales floor.

The perception is created that a full pallet of merchandise is being offered which creates an assumption in the member's mind that the item is popular and successful. From the warehouse club, retail partner and vendor perspective, the number of SKUs on the pallet is decreased which reduces inventory risk and maximizes inventory turns.

Injection Molding

USM began its injection molding business four years ago and now operates machines in two locations. Every item produced by USM's injection molding machines is checked and passed through a quality control process to ensure it meets USM's high standards 100% of the time.

USM's first three injection molded products included: the InstaCrate folding storage bin and a professional box/container in two sizes: 12-gallon and 27-gallon.

InstaCrate – The InstaCrate collapsible storage bin folds and ships flat (maximizing the number of items on the pallet and reducing the shipping cost per SKU) but can be easily converted into a box. From the club perspective, the item appeals to both business and consumer members given its wide range of storage features. For example, for businesses, the item includes molded rails to support hanging file folders.



USM—Butterfly Shroud

The original InstaCrate is 20.75-inches long by 14.06-inches wide by 11.75-inches high and it folds flat and has a patented rail folder system. USM recently introduced the InstaCrate Grande which is 23.5-inches long by 16-inches wide by 13.25-inches high and it is stackable with a hinged lid and built-in coasters (see picture on the right).

USM attended the 2021 National Hardware Show in Las Vegas, Nevada from October 21 to 23, 2021. The show includes the Retailers' Choice Award which is affiliated with the National Hardware and Paint Association (NHPA) and the National Retail Hardware Association. The Retailers' Choice Award names outstanding and innovative products.

The InstaCrate Grande won a Retailer's Choice Award as one of the outstanding and innovative products at the show. Green said, "We are honored to be recognized as a NHPA Retailers' Choice Award recipient at the 2021 National Hardware Show. The award is a testament to the many contributions of our product design and development team members. Our focus continues to be quality, quality, quality and the comments received from judges bore this out."

Winners are able to use the organizer logo on packaging and marketing material and appear in the January, 2022 showcase catalog that is distributed to NHPA members, exhibitors and attendees.



USM - InstaCrate



USM - 27-Gallon Container

Professional Box/Container – The 27-gallon professional box/container is pictured on the left. The construction-grade heavy duty black container includes a yellow snap-tight lid that is recessed (making it easier to stack) and has six padlock holes for security.

Through research, it was learned some storage containers in the market show a marble texture on the plastic and some can have a distinct odor that can indicate non-food grade resin was used. The resin material used to produce USM's 27-gallon professional storage container, as compared to others of similar style, resulted in a consistent black color and a lack of an odor emanating from the plastic.

Green said, "The quality of the finish on both the inside and outside of the storage container is of the highest quality found throughout the industry as evidenced by NSF's ANSI 2 Food Equipment certification for our 12-gallon and 27-gallon storage containers. This is a competitive advantage as it distinguishes our container products from other storage product manufacturers."

One of the challenges storage container vendors have is pallet organization and distribution cost. To maximize the number of SKUs on a pallet while keeping the pallet organized in the club environment, the lids are placed in boxes and the containers are nested inside each other.

USM's understanding of the club and retail channels contributed to the creation of a unique feature for this item that enabled it to be merchandised outside the hardware aisle in a quad display in high traffic areas. USM is testing different color lids in certain markets that match the color themes of popular college/sports teams. For example, in Oregon, the professional box/container was shipped with two different colored lids coinciding with two college teams.

Distribution Services

Green said, "The success of USM is based on the fact that we offer an entire array of services and packaging, so we're not just pigeon-holed into one type of package and one type of solution. We offer multiple solutions and multiple opportunities for manufacturers to save money and to be able to cut costs. We explore all available options depending on what the vendors' needs are and what the clubs' desires are." The following are examples of the different services, initiatives and qualities that USM offers:

Greenline Transportation™ – USM has its own fleet of short and long-haul trucks under the Greenline Transportation banner. The trucks use state-of-the-art global positioning equipment (GPS) and satellite tracking via the Internet so a shipment's exact location can be tracked from beginning to end.

Distributor – One of the unique services USM offers vendors is the ability to act as product distributor. In certain situations, USM will buy merchandise from a manufacturer and sell it to a club or retailer themselves, acting as a vendor.

Green said, “There are instances where a vendor offers a range of products each under its own UPC. However, the club wants to package those items together under a unique UPC, but the vendor is not capable of meeting that request. We’ll act as a distributor and purchase the individual items, create a package for them and sell the bundled package as a unique UPC. We’ll pay the vendor for the product and the club or retailer will pay us for the order. USM becomes the vendor of record. The packaging may just reflect the manufacturer’s brand and logo and the USM name and logo may not even appear on the package. It makes it a picture-perfect program for the retailer and a picture-perfect program for the manufacturer.”

Financial Flexibility – A key quality of USM’s business is financial flexibility. In addition to the ability to act as a distributor, USM’s capital structure enables it to have sufficient supplies of key raw materials, for example, so it can sustain any supply issues related to that product.

Customer Service – USM has five to six customer service representatives at each facility.

Inventory and Distribution – Green commented on USM’s storage capability. Green said, “There are instances when a buyer says to a manufacturer that we want to buy your product at the current price, but we do not need it for a few months. The vendor may tell the club that if they don’t buy it now, they will not get the current price. USM will step up for the vendor and the club and store the product until the club needs it. Again, it makes a perfect fit.”

Web Site – USM allows manufacturers and retailers to check the real-time status of merchandise that is being packaged via its web site. Once they are logged in, manufacturers and retailers have the opportunity to see item production, shipping, delivery and inventory information on a daily basis.

Assembly – USM is extremely flexible in the services it can offer a supplier including assembly. For example, a large CPG company was not able to cost effectively supply the clubs on key items. USM set up a program where it would receive bulk product and unfolded boxes and it would hand and machine assemble the products into club pallet displays. USM dedicated a significant amount of space to this project.

If you are interested in learning more about USM's packaging services, visit their web site at www.u-s-merchants.com or contact Jeff Green at their corporate headquarters: 8737 Wilshire Boulevard, Beverly Hills, California, 90211, 301-228-4000

Notes