

Wholesale clubs grow as supermarkets slide

By SARAH SKIDMORE (AP) 6 1 day ago

PORTLAND, Ore. — A steady stream of shoppers looking for deals on necessities has helped wholesale club operators Costco Wholesale Corp. and BJ's Wholesale Club Inc. deliver profit gains while many of their grocery competitors struggle.

Costco and its smaller competitor, BJ's, both reported Wednesday that traffic, profit and sales trends improved at their stores during the quarter.

It's a marked difference from many of its grocery competitors like Kroger Co., Walmart Stores Inc. and others, where food sales that once buoyed business are starting to sink profits thanks to the continued drag of the weak economy and increased price competition.

Costco reported that its second-quarter profit rose 25 percent as strong overseas sales growth and higher gasoline prices lifted its revenue. BJ's Wholesale Club Inc. said its fiscal fourth-quarter profit climbed 5 percent, also due in part to higher gasoline prices effect.

Wholesale clubs have been one of the stronger performers during the economic downturn as they used their size and low-cost format to deliver deals that appealed to cost-conscious consumers. And with their promise of all-around savings for members, they have been insulated from the advertising costs and day-to-day price battles of traditional grocers that can cut into profit.

Wal-Mart Stores Inc., for example, is the world's largest grocer but it also operates Sam's Club — the other competitor in the wholesale club industry. When the company reported its earnings in February it said its sales at stores open at least a year fell 1.6 percent overall, due in part to weak grocery sales, but rose 0.7 percent at Sam's Club.

Profits at many large national supermarket chains are slipping as stores battle for every purchase, such as Safeway — which said on Wednesday that its 2010 results could miss expectations after a tough year.

Costco and BJ's both said they saw an increase in traffic and their membership figures grew for the quarter. And sales at stores open at least a year, considered a key indicator of a retailer's performance as it strips away the impact of new stores, improved.

Costco said its sales at established stores grew 9 percent, with a significant benefit from the impact of a weaker dollar and higher gasoline prices. At BJ's, sales at stores open at least a year grew 4.6 percent, with a 2.3 percent benefit from gasoline sales.

But shoppers are still shying away from nonessentials as they grapple with high unemployment, a weak housing market and uncertain futures.

"In terms of discretionary (items), it is creeping along, but I don't see any major turnaround," Laura Sen, president and CEO of BJ's, told investors Wednesday.

Looking forward, analysts are expecting Costco — the largest of the wholesale club operators — to deliver the long-term growth given both its stability and international reach.

Standard & Poor's Equity Research analyst Joseph Agnese said he expects Costco traffic trends to remain strong and see sales benefiting from food prices, which had fallen for some time, rising in the second half of the year.

And while he reiterated a "buy" rating on BJ's shares, saying new club growth and technology investments will help drive long-term market share growth, he cautioned the short-term impacts of those investments could cut into its earnings.

Shares of Costco fell 58 cents to \$60.80 in late afternoon trading Wednesday and BJ's fell \$1.86, more than 5 percent, to \$34.61.

Copyright © 2010 The Associated Press. All rights reserved.