

The background features a large red circle on the left, a medium grey circle in the center-right, and a hatched circle on the top right. The year '2020' is centered within the grey circle.

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COSTCO WHOLESALE ANALYSIS

SARAYU CHITYALA

The bottom right corner features a small red circle and a hatched circle, mirroring the design elements at the top.

INTRODUCTION

Every company has a unique feature that we're all attracted to. Especially in today's competitive business environment, marketing and advertising are crucial for a company to be well known. I've always wondered how several hugely successful companies can be so profitable with very minimal expenses in advertising. A perfect example of a company that has low spending on advertising, yet a great deal of loyalty and profitability is Costco. Every time my family and I go to Costco, the average Costco transaction is between \$140-\$200. Including myself, some of their customer base is absolutely addicted to Costco — absolutely addicted to the experience, the brands, and the thrill of going to Costco.

In the US, the number of paying members is **51.6M** compared to BJ's Wholesale Club and Sam's Club— **5.5M** and **25M**, respectively. It's also important to note that the Costco Membership is the most expensive. Despite the competition and high membership prices, 90% of their members renew memberships every year. I did some research on what makes Costco such an exceptional company, inside and out. The purpose of this article is to educate you about Costco's value proposition and give further explanations of their business processes. Based on my research, I found three overarching qualities that intrigued me in what Costco chooses to offer its customers :

Value

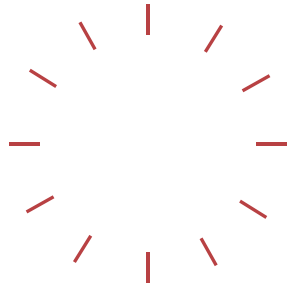
Quality

Consistency

VALUE

In-Store Experience

The in-store shopping journey goes beyond what a customer would experience in a regular retail store. From the samples to the variety of exciting product demos, customers are always amused by what they find. However, there is undoubtedly more behind what is visible to us as customers- here are two aspects of the store that are vital to the in-store experience, namely, the "parking lots."



The designated area for books, toys, and movies: This section is always situated in the center of the store to be accessible from other parts of the store. Consequently, it is also very close to the staple food departments, such as produce and dairy. Due to the intelligent location choice of the toys department, parents can easily allow their child to browse in the area. At the same time, they can step out of the area to get staple goods from surrounding aisles. To make this section a "parking spot," the area is surrounded by couches and chairs for children while they are browsing.

The food court: Although the items are inexpensive, customers never doubt the quality and always make a purchase. One of the go-to choices in the Costco food court is the hot dog and soda combo, sold for \$1.50. How could Costco be so profitable even with such low prices? And more importantly, *why* are they so low? The reason lies in the company's business philosophy. For people that need to make weekly shopping trips, the convenience of buying a cheap, ready-to-eat meal is a huge incentive. Costco is now making its food courts only for members, which illustrates the importance of how the food court impacts the customer experience for members at Costco.



DID YOU KNOW:

Effective March 16, 2020, an active Costco membership card will be required to purchase items from our food court. Before this implementation, non-members were allowed to make purchases at the food court.

QUALITY

Versatility of Membership Fees

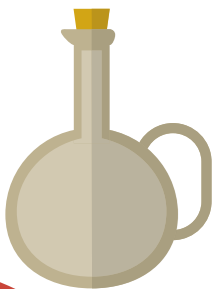
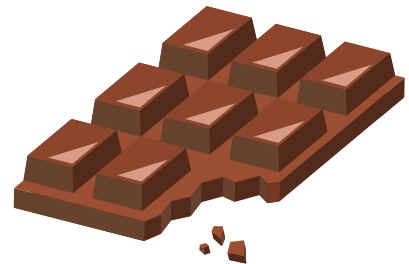
Costco is not just a store, but an Eco-system. The range of products and services offered to members is exceptional. Costco memberships are a vital component of the company's profitability and success. In 2018, 75% of its revenues came from membership fees only. The profitability of the membership model gives the company more flexibility in setting lower prices in their textile, food, healthcare, and many other departments. Once a customer signs up to become a member, the perks, savings, and quality of the membership will lead to increased spending. It's safe to say; the membership speaks for itself when it comes to attracting loyal customers. The versatility of the membership includes travel benefits, cashback, exclusive offers, optical center, and many more, making the membership so valuable.

DID YOU KNOW:

Costco doesn't have an advertising budget and spends nearly nothing for marketing. They reinvest that money in slashing prices to undercut their competition.

Sustainable Supply Chains: Kirkland Signature

Cocoa: Kirkland Signature chocolate products are made from cocoa sourced through sustainable programs, such as Costco's Sassandra Cocoa program. It is sourced from a region named Cote d'Ivoire in West Africa, which is the original location chocolate is sourced from.



Olive Oil: Since 1996, Costco has directly supported thousands of smallholder farms in Tuscany to make high-quality Kirkland Signature™ Extra Virgin Olive Oil. The Olive Oil is PGI, which signifies that every grower is registered, the number of trees and yields on each property is verified.

CONSISTENCY

Employees

The average Costco employee generates nearly triple the revenue compared to the average Wal-Mart and Target employees. With highly paid, satisfied employees, Costco can deliver the best services to traditional retailers like Wal-Mart. As a result, turnover will be much lower- stemming from happier workers, more high-quality applicants to choose from, and workers' fear that they can't make the same money anywhere else. And this is precisely what keeps the customer's coming back - the consistency in people as well as its products. This all ties back to Costco's philosophy:

COSTCO'S PHILOSOPHY

