

# Costco case study essay



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## The key elements of the company's business model

Key elements of the company are to attract and retain their clients by offering them products at affordable prices. The company also believes in treating its employees well and counts them as important assets. They are the people that are in constant contact with their customers and good treatment accorded to them will boost the performance of the company. Their customers and clients are given more services apart from simply buying company products and receiving remuneration packages. The company aims at granting its employees a job security that they can rely on, apart from good remuneration packages; they are also given insurance and medical benefits. Customers are given the chance to become members of the company where by they can purchase goods at discounted rate and benefit from other services offered by the company.

## Their financial position and its success

The financial position of Costco is very sound and successful. This is due to a wide range of products that they deal in and the fact that they have a good number of loyal customers. Even though they sell their products at a slightly cheaper rate compared to other stores, their profit margin is high and they are always able to manage their expenses. Company stores are always stocked and have not had any case of bankruptcy. They are always looking up for avenues where they can expand on their operations and attract more customers. Their financial position is also revealed through the good remuneration packages that they offer to their employees.

Type of generic strategy present here and the elements that support its implementation

The generic strategy of the company lies in offering reliable and affordable services to their clients to promote sales. There are a number of mechanisms that the company employs which are meant to only attract customers but also to retain them. They desire to give their customers services that will better their lives and give them a good reason to always do their shopping at Costco (Walsh, 2009). The strategies of the company have been implemented successfully as they continue to record a good turnover of their customers. Their employees are also happy as they have been guaranteed a safe and reliable working environment. Most of them have expressed their desire to work for the company until when they retire.

#### Recommendations for the Costco Management

Costco is a company with much potential, which can also be maximized to attract more clients. One of the strategies that the company may consider applying is offering delivery services especially for their loyal customers. They can have a means through which they will allow their customers to make their orders and get their delivery at home. Customers can order their items on line and leave their addresses where the goods can be delivered to them. They to supply goods to other institutions such as schools and hospitals may also use this strategy. Some of their customers that may not have time to visit the stores will utilize the opportunity to enjoy such services.

#### Chief Elements of Costco's Strategy

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The chief element of their strategy is to give their employees a satisfactory working environment and make more sales through their affordable prices. Recognizing its employees and making them feel part of the organization is a motivational strategy that enhances its performance. The company believes in offering a working environment that will allow their employees to sharpen their career skills as they have fun. They take them through a training procedure to check on their attitude and how willing they are to work for the company. They have equal job opportunities for their applicants and show discrimination when enrolling applicants for the different positions. It is mainly due to this strategy that most of their employees desire to retire from the company and even encourage their relatives to work for it.

#### Jim Sinegal as a CEO

Jim Sinegal is a CEO that foresaw the market and laid down strategies and objectives that will ensure the company survives both the current and future challenges in the market. Objectives of the company were set on attracting and retaining customers and offering their employees a fulfilling working environment (Simchi, et al, 2003). The CEO had to do the unimaginable, a strategy that caused him to receive a lot of criticisms from competitors. He understood the fact that customers were looking for means through which they could save their money and still obtain what they needed. Apart from slashing their products, the company also provides them with convenient means through which they can make their payments.

#### Costco's performing from a financial perspective

The information derived from the data reveals that Costco is not performing badly financially. Despite the fact that they have to invest a lot of money in maintaining the company, they get a good value for their products. The reason is not only derived from the high customer turnout but also from the fact that they obtain their merchandise directly from producers and manufactures of high brands. Their hence minimizes on their need of employing middle men and other transportation contingencies. The location of their units and stores are also economically sound considering also the prices they offer for their products. The income and expenses of the company are balanced as they continually make investments to expand on their activities.

Costco's financial performance compared to that at Sam's Club and BJ's wholesale

The exhibits give a comparison on the performance of three companies, Costco, Sam's club and BJ. Even though the two companies are recording a good performance, they cannot beat the financial performance of Costco. The companies deal in almost similar products and also offer similar services to their customers. However, a majority due to its good prices has preferred Costco and a wide range of products that they deal in. the company is in partnership with manufactures of top brand in United States, this gives it an added advantage as customers flock their shops for quality services and products.

Costco's expansion outside the U. S

The expansion of the company outside the United States is not very successful as revealed by the exhibit. This may be related to a number of reasons, which may include the cultural practices of the people and the differences in brands that they sell. The company enjoys good deals in US because of the numerous partnerships that they have entered into by manufactures and producers (Daft & Marcic, 2008). The same has not been very effective in other countries outside the US due to the economic practices being adapted by the people. They do not have the home advantage in other countries, as few people are yet to understand some of the services that they offer.

#### Costco's performance from a strategic perspective

Costco will enjoy a good customer turnout as long as they stick to their objectives and strategies. Sam's club and BJ's are also dealing in similar line of products and offering their customers similar services as those being offered by Costco. However, the main thing that gives the company a competitive advantage is the fact that they give good remuneration packages to their employees who are also good marketers of the company and their products, which are sold at a slightly cheaper price. This hence means that if the other companies adapt such similar strategies, the competition will even be tighter. However, Costco has already captured the market by enrolling a good number of members who are also loyal customers. The other companies will have to stoop very low, for them to win over Costco.

Costco's prices whether too low or not

The company has gone too far in lowering prices simply to attract clients. The prices of the products are too low and this may pose a great risk to its future performance and maintenance. Most of its customers are mainly attracted to the company because of the crazy discounts being offered. As the company expands, its expenses may increase and hence posing a challenge to its finances. They may be forced to increase the prices of the goods, which may in turn dissatisfy its clients. Despite its low prices, the other expenses will continue to escalate with time (Gerston, 2003). Unless the company adopts measures to offer reasonable prices for their products, they may have a problem of maintaining their activities as time goes by.

#### Costco's payment to its employees

Costco is a company that understands the value of treating its employees properly for its success. This is a strategy that is attached to their good performance. Employees of the company always have a good reason to keep working for the company considering the allowances and remuneration packages. An employee who is not paid well will start skimming for ways through which they can steal from the company or rather not take their work seriously. They will in fact be working but look out for other better opportunities to walk out of the company. The good salaries offered by Costco create a desire within the employees to keep working for the company.

Recommendations to Jim Sinegal regarding the actions that Costco management needs to take to sustain the company's growth and improve its financial performance

With the goodwill that the company enjoys, it can take advantage of the same to improve on its performance especially internationally. A good analysis of the needs of customers need to be done by the company and the necessary action taken to ensure that it enjoy good sales as in the US. The company may also think of expanding on the services that it is providing. They can venture into other business activities such as banking and insurance firms. This will ensure that they completely own their clients by offering them any other services that they may be in need of. Since they will be dealing with same people but providing different services, they will offer them at an affordable rate and hence minimizing on their expenses.