

# Costco case

Business



Wholesale for the following reasons:

- oExcellent customer service capabilities
- oMaintaining low employee turnover
- oCompetitive pricing of membership fees while offering better selections (also fees contribute to net income)
- oGreat inventory turnover strategy (limited selection minimizes inventory costs and operating expenses)

8. Are Costco's prices too low? Why or why not?

- No. Costco's low prices and treasure hunting environment make it unnecessary for them to raise prices.

Their strategy causes inventory to move quickly which ensures high sales volumes and rapid inventory turnover.

This results in savings for the company because:

- oAllows the company to sell and receive cash for inventory before it had to pay many of its merchandise vendors
- oAllows company to take advantage of early payment discounts
- oCompany is able to finance a big percentage of its merchandise inventory through the payment terms provided by vendors rather than having to maintain sizable working capital to facilitate timely payment of suppliers

9.

Does Costco pay its employees too much? Does it make sense for Costco to compensate its employees so much better than the employees at Wal-Mart/Sam's Club? Why or why not?

- No, I do not believe that Costco pays their employees too much. Sinegal was convinced that having a well compensated workforce will help execute Costco's strategy successfully. He believed that paying good wages and keeping your people working with you is very good business.

I tend to agree with him because I am sure his company has fewer turnovers than those who pay less and don't offer the benefits that Costco does. 10.

What recommendations would you make to Jim Sinegal regarding the actions that Costco management needs to make to sustain the company's growth and improve its financial performance?

- Continue with their current business philosophy, values and codes of ethics (seems to be working for them)
- Could increase the amount of merchandise offered to customers
- Could accept manufacturer coupons
- Could remain open longer hours than competitors