

Costco swot analysis

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Costco Wholesale Corporation is an international chain of membership-only warehouses. It began operations in 1983 in Seattle, Washington. Costco provides a limited selection of nationally branded and private-label products. Costco offers an attractive value proposition to its loyal clients which allow it to have strong membership renewals. Costco has operations in US, Canada, and 8 other countries. As of 9 February 2017, Costco had a total of 729 warehouses.

Costco Wholesale Corporation operates various membership warehouses in the country with an aim to offer low prices on the selective and specialty brands in the wide range of products. There are grocery items, clothing, fruit, electronics, health and beauty, furniture, optical, photo services, and more for consumers. Costco's membership programs offer Business, Gold Star, and Executive levels.

The SWOT analysis examines the internal strategic factors (strengths and weaknesses) and the external strategic factors (opportunities and threats) relevant to the business. Costco's SWOT analysis gives insights on the most significant issues that the company must include in its strategic formulation. Effectively addressing these issues in the SWOT analysis can support the continuation of Costco's position in the global retail market.

Strengths

There are numerous remarkable features of Costco that make it unique and different from other retailers in the sector. One of the strengths of Costco is its pricing authority. The company mainly focuses on offering its customers quality products at the most competitive prices. The fact that it does not

emphasize on maximizing profits in the short-term gives many customers the confidence of always obtaining high-quality products.

Among the most remarkable strengths of Costco is its Kirkland brand of the private label brands. Kirkland offers high-profit margins and accounts for 20% of Costco's total sales. Moreover, compared to its closest rival Sam's club, it attracts more affluent customers due to which the effect of economic slowdowns on the brand has remained minimal. With its huge market presence, Costco has been a success story and hardly needs to invest in advertising or marketing activities. Everything it does already creates enough media buzz – somewhat like Apple. Apart from everything Costco's business model depends heavily on its supply chain which is not just efficient but is among one of the best. Costco also holds immense clout on its suppliers for the large purchases it makes from them.

Costco Wholesale also operates several consumer and business services, ranging from financial planning to health insurance. By providing top quality goods and services, Costco has been able to increase its market share a great deal over the past several years

In addition to everything abovementioned, Costco is the second largest global retailer as of January 2017 16th largest in Fortune 500.

Weaknesses

Costco's high geographic concentration of stores is a major weakness. For example, 30% of its sales come from California region only. 10% of the brand's sales come from gas. However, if the prices are already low, there are no incentives for the customers to shop at Costco for gas. Costco's

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product mix is also limited as compared to its rivals and the profit margins too are lower. Moreover, a membership is required for shopping at Costco.

In comparison to other large retail stores in the US, a Costco warehouse stocks less number of products. On an average, Costco stocks about 4000 products in its warehouse, whereas Walmart stocks about 50000 products. The limited product offering acts as a competitive disadvantage for the company

Costco operates in a highly competitive industry. While its no-frills model has proven hugely successful in the past, competition is on the rise, both from online retailers like Amazon, as well as from other supermarket chains and discount operators. Competition from discount supermarket chains Aldi and Lidl in the US market may also prove a threat to Costco's operating model. These operators have well-established private-label brands, and could pose further competitive threats to the success of Kirkland Signature, Costco's own private-label brand.

Opportunities

Costco has stepped up its pace in opening new warehouses internationally due to inherent growth opportunities. Costco can expand its market presence in the various regions of the world especially the developing markets of India, China and Japan. These markets show great potential for growth of the company. It can also start online business opportunities for its customers across the globe. The company is constantly working to make its distribution channels stronger and enter new potential markets. Costco has a

sizable opportunity in transitioning from primarily a North America-based retailer to a truly global name.

Costco can concentrate on age group between 19 and 34 to expand their customer base and build on their new customers. Adding to its fresh and organic produce will be a key attractor for new customers. Plus, organics also represents a sizable opportunity for Costco, both for the top and bottom lines. Also, Costco's e-commerce channel growth should also boost sales both from young generation as well as other demographic groups. The company needs to give attention to younger customers as they can help in doing long term sales with the company.

Threats

Costco is highly dependent on the financial performance of U. S. and Canadian operations, which comprised 87% and 84% of net sales and operating income in 2016, respectively. Within the U. S., Costco is highly dependent on California operations, which comprised 31% U. S. net sales in 2016.

The growth of Costco is dependent, in part, on the ability to acquire property and build or lease new warehouses and regional depots. Costco competes with other retailers and businesses for suitable locations. They also may have difficulties negotiating leases or purchase agreements on acceptable terms. Certain jurisdictions have enacted or proposed laws and regulations that would prevent or restrict the operation or expansion plans within their jurisdictions. Failure to effectively manage these factors may affect the ability

to timely build or lease and operate new warehouses and depots, which could have a material diverse effect on the future growth and profitability.

Costco competes on a worldwide basis with global, national, and regional wholesalers and retailers, including supermarkets, supercenters, department and specialty stores, gasoline stations, internet retailers, and operators selling a single category or narrow range of merchandise. Competitors such as Wal-Mart, Target, Kroger, and Amazon. com are among the most significant general merchandise retail competitors. Costco also competes with warehouse club operations (primarily Wal-Mart's Sam's Club and BJ's Wholesale Club), and nearly every major U. S. metropolitan area has multiple club operations.

Conclusion

Costco is the leading company in wholesale business and it is also expanding its working with low price to get the loyalty of the clients. The management is enhancing the business of the company in various other countries and can have a global appearance. The company has to take strict and right steps to promote their business and they should follow the rules and regulations to remain within the legal restrictions. Its ability to deliver quality products, at an affordable price, should appeal to most consumers in North America and around the world.

References

- Costco Annual Report 2016
- Sample Essay on SWOT Analysis of Costco
- SWOT Analysis: Costco Wholesale Corporation