# Costcp vs sams club

Sol Price’s Price Club emerged as the unchallenged leader in member warehouse retailing, with stores operating primarily on the West Coast. Although he originally conceived Price Club as a place where small local businesses could obtain needed merchandise at economical prices, Sol Price soon concluded that his fledgling operation could achieve far greater sales volumes and gain buying clout with suppliers by also granting membership to individuals—a conclusion that launched the deep discount warehouse club industry on a steep growth curve. Price Club was eventually merged withCostcoin1984.

The same year, Walmart adopted the Warehouse Club concept and launched its first Sam’s Club stores. The Club warehouses typically have concrete floors, sparse decor, and goods displayed on pallets or simple wooden shelves. The Warehouse floor plans are designed for economy and efficiency in the use of selling space, in the handling of merchandise, and in the control of inventory. Warehouse Business Model Warehouse Clubs are “ big box stores that sell groceries as well as general merchandise at lower costs” The basic model is to maintain very low prices, sell high volumes, and maintain very high Operating efficiencies.

The business idea is that low prices on a limited selection of national brand merchandise and selected private-label products in a wide range of merchandise categories produce high sales volume and rapid inventory turnover. All current warehouse Clubs operate under the following model: (Refer Figure 1): * low Profit margins. * Low prices * Limited selection (around 4000 items) * Wide range of merchandise categories (tires to baby wipes) creates the rapid inventory turnover. * Volume purchasing * efficient distribution * reduced handling of merchandise * no-frills warehouses

Warehouse Clubs comprise a very big business opportunity and a current market of 500B+ (including Costco $71B, Sam's Club $54B, BJs $11B and Walmart SuperCenters - $390B. ) There is a combined Membership base of more than 130 million paying members across the existing warehouse clubs who pay membership fees in exchange for the privilege of shopping at the warehouse clubs. The typical sales for each SKU is $12M per SKU at Costco and $10M per SKU. This allows them to order massive amounts from manufacturers. Bulk packages sell larger quantities to consumers. The huge warehouse clubs eliminate the need for actual warehouses.

At the same time, they reduce the need for handling. This greatly enhances distribution efficiency. Their large-scale membership base makes them strong. Figure 1 Warehouse Clubs are very popular with households with higher incomes(Refer Appendix C). Costco - Background Costco was founded by Jim Sinegal and Seattle entrepreneur Jeff Brotman. The first Costco store began operations in Seattle in 1983. Costco Wholesale Corporation (Costco), with its subsidiaries operates membership warehouses that offer its members low prices on a limited selection of branded and selected private-label products in a range of merchandise categories.

By offering quality merchandise at a low price, they attract mostly affluent shoppers. Its typical membership profile is a relatively well heeled customer with an average yearly income of $75K. Costco's Strategy is to sell quality items at low prices and to create a treasure hunt like atmosphere with a set of variable famous brand items available at low prices each week that Its buyers had been able to procure. Costco's warehouse format averages approximately 141, 000 square feet. Its warehouses operate on a seven-day, 69-hour week.

It carries an average of approximately 3, 600 active stock keeping units (SKUs) per warehouse in its core warehouse business. Many consumable products are offered for sale only in case, carton, or multiple-pack quantities only. It operates warehouses worldwide including countries such as Mexico, UK, Japan, Taiwan, Korea and Australia. Costco and Sam’s Club are more similar than different. They have the same model. Costco is known as an Upscale Sam’s Club. Figure 2 Costco and Sam’s Club Comparison Memberships Offered: Costco offers memberships in the following formats. Gold Star Member = $ 55 Business Member = $ 55 Executive Member = $ 110

Membership fees combined with its high member count (64M), allow Costco to maintain low prices. Sam’s Club Background Sams Club is part of the 3700 stores Walmart Chain. Walmart followed Costco into the warehouse club business and the first Sam’s Club store was opened in 1984. Sam’s Club has more products than Costco, but is smaller than Costco in total revenues. Wal-Mart Stores, Inc. (Walmart) operates retail stores in various formats around globally. Everyday low prices (EDLP) is the Company's pricingphilosophyunder, which it price items at a low price everyday. The Company's operates in three business segments: the Walmart U.

S. segment, the Walmart International segment, and the Sam's Club segment. Its Sam's Club segment consists of membership warehouse clubs operated in the United States as well as countries such as Africa, Brazil, China and Mexico. Sam’s Club primary focus was Small Businesses until 2006. Currently, it targets all consumers, including small business. Many Sam’s Club locations are adjacent to Wal-Mart Supercenters. The concept of the Sam’s Club format is to sell merchandise at very low profit margins, resulting in low prices to members. Membership Offered: Advantage Member = $35 Business Member = $ 40 Plus Member = $ 100

Membership cost less than Costco. Sam’s also has less members (48M versus 64M) Competition and Market Position of Rivals Sam’s Club has slightly more locations than Costco, but has overall lower revenues. This is due to Costco’s larger number of members and higher sales per customer per location. Costco maintains low margins of less than 15% on each item as a strategy, to offer low prices to its members. In the discount warehouse retail segment, there are three main competitors—Costco Wholesale, Sam’s Club and BJ’s Wholesale Club. At the end of 2012, there were just over 1, 200 warehouse locations across the United States and Canada.

Figure 3 Market Positions of rival Warehouse Clubs Key Ratios Inventory turnover is an important metric in the wholesale club industry. Costco has the highest inventory turnover, but Sam’s Club and BJ’s, both are close. Costco has the lowest profit margin, due a combination of factors, including the high pay and benefits, it offers its employees. Figure 4 Key Ratios Comparison across Functional Areas We believe Supply Chain cannot be looked in isolation and it involves human capital, use of Informationtechnologyand Marketing. We compared Costco and Sam’s Club across 5 broad functional areas. We did not go deeply into theFinancearea.

Broadly, we found that warehouse clubs including Costco and Sam's Club preferred to buy the real estate and buildings rather than lease it. 1) Human Capital Both warehouse clubs chose to * Promote from within * Empower Warehouse Manager. 2) Information Technology. Both warehouse clubs leverage technology to drive efficiencies and lower cost 3) Distribution and Supply Chain Both clubs broadly try to optimize and drive efficiencies in their distribution and supply chain processes. * Cross-dock, Planning and Forecasting, VMI. 4) Marketing Both do not spend as much on marketing. * Little to No marketing 5) Finance Own versus Lease of real-estate and buildings Even though the warehouse clubs are more similar than they different, differences do exist We will go through each functional area in more detail. 1) Human Capital Costco Employees are the highest paid in the industry with good benefits. They are well treated and are highly motivated. Costco covers 82% of its employers forhealthinsurance compared to only 47% by Sam's Club Human Capital Advantage Costco: Costco is able to derive more benefits from keeping its employees happy. Costco has a higher sales per employee, Higher sales per store as well as a higher sales per SKU than Sam's Club.

This is clearly due to its highly motivated workforce. 2) Information Technology Both the warehouse Clubs are able to derive benefits of tracking membership information and sales associated with members through the use of their IT systems. This allows them to effectively track and predict/forecast seasonal demand information. Since all customers must swipe card when checking out, clubs know exactly who is buying what. Costco uses information technology to connect all its warehouse locations to corporate

HQ. It provides real time information and the effective use of its inventory and control systems.

It has outsourced 75% of its IT department to an India location and built effective interfaces from Costco. com to UPS and Fedex to facilitate shipping. Costco has also tried to reduce operating costs through reduction in energy consumption. It has incorporated skylights in all warehouses and solar panel in 40 of the warehouses. It has also incorporated an extensive Recycling Program. Sams Club uses information technology more effectively due to Walmart’s support. It is able to leverage Walmart’s size and scale to its advantage. It uses a satellite system to collect data and observer merchandize flow.

Wal Mart’s satellite network sends point of sale (POS) data directly to 4, 000 vendors. It also has very strong system that support the CPFR process and allow for collaborative planning, forecasting and replenishment with its suppliers. Information Technology Advantage: Walmart Sam’s Club Figure 5. CPFR process(Collaborative Planning, Forecasting and Replenishment 3) Distribution and Supply Chain Costco and Sam’s Club both use Cross docking (Refer figure 6 below) to derive efficiencies. Merchandise is shipped directly from manufacturers to Warehouse. This allows them to eliminate multi-step distribution channels and thus lower costs.

Goods in depot are distributed within 24 hours. Merchandise is placed right on the sales floor, typically above. Both leverage their large scale operations to get lowest prices from Manufacturers / Suppliers. Warehouse Manager has decision making to run each individual warehouse as a Investment Center. No one manufacturer supplied a significant percentage of the merchandise that warehouses stocked and management believed that if one or more of its current sources of supply became unavailable, the company could switch its purchases to alternative manufacturers without experiencing a substantial disruption of its business.

Costco Supply Chain Costco has 9 cross-docking distribution centers and has direct buying relationships with many producers of national brand-name merchandise (including Canon, Casio, Coca-Cola, Colgate-Palmolive, Dell, Fuji, Hewlett-Packard, Kimberly-Clark, Kodak, Levi Strauss, Michelin, Nestle, Panasonic, Procter ; amp; Gamble, Samsung, Sony, KitchenAid, and Jones of New York) and with manufacturers that supplied its Kirkland Signature products. Sam’s Club Supply Chain

Approximately two-thirds of the merchandise at Sam’s Club was shipped from the division’s own distribution facilities and, in the case of perishable items, from some of Wal-Mart’s grocery distribution centers; the balance was shipped by suppliers direct to Sam’s Club locations. Like Costco, Sam’s Club distribution centers employed cross-docking techniques whereby incoming shipments were transferred immediately to outgoing trailers destined for Sam’s Club locations.

The Sam’s Club distribution center network consisted of 7 company owned and operated distribution facilities, 13 third party owned and operated facilities(3PL’s), and 2 third party owned and operated import distribution centers. A combination of company owned trucks and independent trucking companies were used to transport merchandise from distribution centers to club locations. Sam’s Club has Vendor Managed Inventory(VMI) relationships with many of its large suppliers such as P; amp; G, GE and Wrangler. Sam’s

Club due to its relationship with Walmart is very strong in the Distribution and Supply Chain and is very efficient.

It also has a practice of dealing with only Manufacturers. * Costco Strengths * Buyers scour the business world to find overstock brand items that can be sold at a discount to create a Treasure Hunt atmosphere. * Sam's Club Strengths * leverages large Walmart Hub and Spoke Distribution Network. * Vendor Managed Inventory(VMI) relationships with many suppliers such as Wrangler, P; amp; G and GE. * Deals only with Direct Manufacturers. Supply Chain systems Advantage: Walmart Sam's Club. What is cross docking?

Cross-docking is a practice in logistics of unloading materials from an incoming semi-trailer truck or railroad car and loading these materials directly into outbound trucks, trailers, or rail cars, with little or no storage in between. This may be done to change type of conveyance, to sort material intended for different destinations, or to combine material from different origins into transport vehicles (or containers) with the same, or similar destination. " Hub and spoke" are arrangements, where materials are brought in to one central location and then sorted for delivery to a variety of destinations.

Figure 6 Cross-docking What is Vendor Managed Inventory(VMI) Vendor Managed Inventory(VMI) is a means of optimizing Supply Chain performance in which the manufacturer is responsible for maintaining the distributor's inventory levels. The manufacturer has access to the distributor's inventory data and is responsible for generating purchase orders. Please refer Figure 7 To further define it, let's look at 2 business models (Refer Figure 8): Under the typical business model (Purchase Order driven): When a distributor needs product, they place an order against a manufacturer.

The distributor is in total control of the timing and size of the order being placed. The distributor maintains the inventory plan. Vendor Managed Inventory model (Demand driven): The manufacturer receives electronic data (usually via EDI or the internet) that tells him the distributor’s sales and stock levels. The manufacturer can view every item that the distributor carries as well as true point of sale data. The manufacturer is responsible for creating and maintaining the inventory plan. Under VMI, the manufacturer generates the order*, not the distributor. Note: VMI does not change the " ownership" of inventory. It remains as it did prior to VMI. Figure 7 Vendor Managed Inventory Figure 8 Demand driven (Vendor Managed Inventory) versus Purchase Order driven system. 4) Marketing – Advertising Costco limits its advertising to cut marketing cost. Both warehouse clubs are engaged in direct mailing to potential and current consumers But Costco does not have a PR department and believes the most effectiveadvertisementis “ Word-of-Mouth”. Sam’s Club does advertise and through television and Cable media.

Marketing Advantage: Costco Known for its great customer satisfaction and service. High CustomerLoyalty(87% renewal rate. ) Vertical Integration and Alternative Sales Channels Both the warehouse have created their own private labels and rely on other manufacturers and suppliers to manufacturer their products and provide top quality at a low price. Costco’s private label is branded under the “ Kirkland Signature” brand which is considered as a quality brand. Sam's Clubs have several private labels such as Member's Mark, Artisan Fresh, Daily Chef and Simply Right.

Costco and Sam's Club , both have websites, which allow them to sell products that are typical not in the warehouse. It also allow them to sell services such as insurance and travel which leverages the companies information technology rather than the physical supply chain. Alternative services offered * Consumer Services * Travel * Optical * Automotive * Financial Services * 401(K) * Loans * Insurance * Pharmacy * Recycle electronics Conclusion Costco Wins Round One , but the Battle Continues. Costco has 64 million very loyal members and is known as a provider of top quality merchandise at low prices.

Its buyers are able to scour the world to get acquire overstocked premium goods at low prices to create a treasure hunt atmosphere in its warehouses. It private label is considered a premium branded product that has top quality. Its employees are exceptional and Costco has a high performance workforce. * Best-Cost Provider * 64 million very loyal members * Top-quality merchandise * Low price * Treasure-hunt items * Kirkland Signature * Top-quality in-house brand * Exceptional employees * Economies of Scale Appendix A – Savings for Members Warehouse Clubs offered low prices in comparison to supermarkets.

A sample comparison of frequent buys at Costco versus a local grocery store is attached. Costco price for the list is $171. Grocery Store price is $538, a savings of $367. Appendix B – Porter's Five forces (Warehouse Clubs) Appendix C – Warehouses Popular with families with higher income Appendix D – Costco derives value from paying its employees more Appendix E –

Costco and Sam’s Club Websites Appendix F – References WAL MART STORES INC (Form 10-K). " WAL MART STORES INC (Form 10-K, Received 03-27-2012) COSTCO WHOLESALE CORP -NEW (Form 10-K, Received 10-14-2011) Costco Deploys EnFlexA? EWebConnect for Enterprise Facility Information Management - EnergyVortex. " Costco Deploys EnFlexA? s EWebConnect for Enterprise Facility Information Management. N. p. , n. d. Web. 15 Oct. 2012. < http://www. energyvortex. com/pages/headlinedetails. cfm? id= 1003>. Standard& Poor(S& P) Report on Costco and Walmart Corporation. Reuter’s Report on Costco and Walmart Corporation " Distribution: Channels and Logistics. " Distribution: Channels and Logistics. N. p. , n. d. Web. 15 Oct. 2012. < http://www. consumerpsychologist. com/intro_Distribution. html>. Consumer Reports - Costco and Sam's Club. Received 10-27-2011