Strategic analysis of wholesale company costco marketing essay

This report has performed a brief strategic analysis of the internal resources and external factors that affect Costco. The report includes an over view of the firms strategies using Porter's five force model as well as a SWOT analysis of the firm. The report illustrates why Costco remains the 'Anti-Wal-Mart' using aggressive scare tactics to achieve the lowest possible prices for its customers even if it means dropping high brand names. The report includes recommendations for the wholesalers, the main one being to carry on with their current successful strategies in order to maintain the fight for industry leadership and further their globalisation in to Eastern countries

1. 0 Introduction to Costco

Costco is a wholesale cash and carry, which operates through warehouses using a membership only service. The company sells high quality, private label merchandise at low prices to businesses buying for commercial use as well as individuals that are members of specific employment groups , for example NHS or government employees. The basis of the company is to achieve high sale volumes and rapid inventory turnover, offering a limited array of merchandise, with a wide product category at low prices (www. costco. co. uk). Additionally Costco operates customer services ranging from health insurance to financial planning. The main competitor of the company is Wal-Mart's -Sam's club within the US, although they have 200 more stores operating in ten more states than Costco , Sam's club does not experience the same revenues. Yet there is still a constant battle for increased market share with newer entrants such as B'J's Wholesale Club (Hughes, 2007). Operating internationally the company has divisions in the US, Canada, Mexico, UK, Taiwan, Japan and Korea, Australia and an internet site operational in the US and Canada. Some of the stores include pharmacies, food courts, opticians, photo centres, travel desks and hearing aid centres within the warehouses. The company also operates 307 petrol stations with some of the US and Canada stores. Named as the only company Wal-Mart fears James Signal (2004) of Costco has 'captured a breed of urban sophisticates, who trade up for exiting products and trade down to private labels of more prosaic products (Duff, 2009)'.

2. 0 Costco existing missions/strategies

Costco's Mission Statement; 'To continually provide our members with quality goods and services at the lowest possible prices' (www. findarticles. com)

In order to sell 'at the lowest possible prices' Costco implement various pricing strategies through bargaining with suppliers and only adding a maximum mark up of 14% to each product, even in cases where demand is high as CEO Signal stated 'you always give the customer the best deal'(Shapiro, 2004). Costco falls into the Overall Price Leadership category one of Porters four generic competitive strategies (Mitchell, 2001). Price leadership is achieved by implementing a successful strategy using continual exceptional efforts to reduce costs, without excluding services or products which customers perceive to be essential. There strategies include;

? Low advertising costs to keep merchandise price down, using 'word of mouth'

? High employee wages to retain employees and reduce new staff that would require training

? Merchandise stock on pallets to reduce labour and allow for maximum sales

? Inventory system detects items that are reaching thresh hold for re order

? Just in time approach to reduce over stock, buying direct from manufacturers and sent directly to warehouses within 24 hours

? Provide low prices through volume buying

? Willing to change manufacturers to gain the best possible price on a product

3. 0 Strategic Management

Costco' Strategic management shows an ability to develop and sustain competitive advantage, resulting in of added value to their brand (Ramachandran et al, 2006). Illustrated by Costco's rise in net income by 1. 1% to $266 million and revenue soared to $71. 4 Billion compared to Sam's club at $46. 8 billion and B'J's at $10 billion for the first fiscal quarter ended Nov 22nd 2009 (Business News, 2009) compared to Wal-Mart net sales which increased by 1. 2%.

The just in time approach implemented by the company means products are sold for cash before the payment to the suppliers is due , creating a high operating cash flow. This operating advantage improves Costco's working capital and efficiency, resulting in a long lasting value difference in the product, compared to the competitors and as perceived by the customers (Duncan et al, 1988).

4. 0 Porters Five Forces

The nature of competition in an industry rely on five forces including; the threat of new entrants, the bargaining power of new entrants, the bargaining power of customers, the bargaining power of suppliers and the threat of substitute products or services (Porter, 1979). These are all competitors that may be more or less prominent or active depending on the industry. A company's awareness of Porters five forces can allow the organisation to stake out a position within its industry that is less vulnerable to attack (Bruton, 2008).

4. 1 The threat of new entrants- medium threat

There are many potential new entrants into the industry, which could pose as a threat including, wholesale clubs, discounters and hypermarkets such as Aldi and Netto, which are both limited range discounters. Other large existing wholesale competitors such as Wal-Mart could gain market share through acquisition giving them new resources. However, barriers to entry in to the wholesale food industry are relatively high, as huge costs would be involved in imitating established distribution networks, brand name and financial capital that Costco have established. Furthermore it is unlikely customers will switch to a competitor when they have already paid a yearlong membership fee (Costco reported 85% of cardholders renewed their membership in 2009, www. phx. corporate-ir. net).

4. 2 Bargaining power of suppliers-low/medium threat

The bargaining power of Costco sells to many business owners, the power over their suppliers is very high, as suppliers are forced to cut prices to lessen the risk of them losing their contract. Costco have a small range of brands for each product, yet sell high quantities. They could be losing a large amount of sales compared to Wholesalers like Wal-Mart, whom give customers a larger amount of choice and therefore spread their sales between suppliers. Furthermore Costco have proven they are willing to lose even major brands to improve their leverage, margins and lower prices, forcing suppliers to compete amongst themselves and with the wholesalers cheaper own brand products. Highlighted through Costco's most recent decision to stop selling Coca-Cola in a pricing dispute due to growing power of private labels, by using details received from loyalty cards retailers are more aware of which brands to keep and lose (Neff, 2009).

4. 3 Bargaining power of customers- low threat

According to Bruton (2007) the threat is low because there is only a small concentration of wholesale buyers, predominantly middle class consumers, small business owners and families. The latter two however have a greater power over the higher and middle class customers as they would buy to 'satisfy needs' rather than luxury items. They are likely to resort to finding alternative stores such as competitors to get what they want at the price they can afford to pay for their regular purchases, due to the growth and alternative availability in discount stores.

4. 4 The threat of substitute products- low threat

The threat of substitutes limits the profit potential of the wholesale industry by identifying the effectiveness of volume of sales at a particular price level. Substitutes include specialised stores, for instance The Home Depot in America and B&Q in the UK competing against the non-food sales through discounting as well as hypermarkets. For these reasons, the threat of substitutes is low for the wholesale notion. However, there is an increased threat to particular sections such as furniture and electronics especially because supermarkets are now selling a wider array of products for example Tesco's. A further threat is e-commerce businesses and sites such as EBay focusing on the customer directly (Bruton, 2007).

4. 5 Rivalry among competitors-medium threat

Rivalry between competitors in the growing wholesale industry is particularly low because the three main competitors concentrate on different consumer groups. Furthermore price wars are minimal due to the lack of advertising with the rivals especially Costco. However as Costco is gaining strength through globalisation, there are different levels of threats in particular countries.

5. 0 SWOT analysis

The basis of strategic management is the notion that strategy creates an alignment between an enterprises internal strength and weaknesses as well as its opportunities and threats (SWOT) in its external environment (Andrews, 1987).

The following table illustrates alignments factors within and outside of Costco;

6. 0 External factors

Focusing on the external, broader environment in which the company operates it is clear the next stage in the Costco globalisation process would be expansion. Due to the fierce market in the US and saturation a large opportunity for the company would be to enter the Chinese and Eastern European market and according to Baker (2001) 'Globalisation of the markets is at hand'. Competitor Wal-Mart have already entered the fast growing market in China through purchasing 35% of the recognised hypermarket- Trust-Mart. The alliance benefits Wal-Mart , gaining expertise in operations and logistics and allow Chinese consumers to build trust with their brand name- an important part of their culture.

Globalisation forms markets where economies of scale lead to reduction of costs and prices according to Baker (2001). Therefore, Costco may have to adapt their strategy when entering new countries due to the barriers of entry; it would be difficult to compete with local companies that are already established as well as suppliers to cut prices as low as they do in the West.

The main threat to Costco currently is online speciality stores, which can compete through lower operating costs and manufacturing abroad thus increasing the power of existing buyers.

The economic slowdown in 2007 with the 'credit crunch' attracted more customers to the company due to its low prices and bulk products which allowed customers to stretch their money in the economic crisis enabling sales to grow by 13% by 2008. However the net income still decreased by 15. 3% by 2009 as of the weakened economy. Even fiercer pricing strategies reduced the impact of the recession by reducing costs on a range of popular products two weeks before the reduction came through anticipated from manufacturers. Thus allowing them to get ahead of competition by taking advantage of the opportunity to attract customers through surrendering their profit (Duff, 2009).

7. 0 Conclusions

From carrying out the report on one of the leading wholesale suppliers it is clear they refuse to buy from suppliers that are not willing to pass on the reduction in manufacturing costs on to Costco. They are willing to remove high named brands from their shelves if they think they are being charged too much for the product. Through these publicly made choices it seems clear that Costco are on the customers side when it comes to prices, and are willing to lose profit to satisfy their customers. Both the Porter's Five Forces Model and the SWOT analysis identify the main internal and external threats to the company, the highest threat of all being the power of suppliers. Costco's strategy of merging high wages with innovative ideas, and low cost products highlights that consumers, workers and shareholders can all benefit from a cost-leadership strategy.

8. 0 Recommendations

? Continuation with their current successful pricing strategies of 'low prices and high volumes' in order to maintain barriers against buyer power, supplier power and new entrants. Porter's 'low cost leadership' will also allow growth in revenues from further international expansion.

? The main threat to Costco currently is the threat of substitutes especially in discount stores and hypermarkets and the alternative to this is online speciality stores which can compete through lower operating costs and manufacturing abroad thus increasing the power of existing buyers.

? In order to compete with the threat of e-commerce businesses a further development in the online sales capability is likely to increase the company's strengths. Cannibalisation is unlikely to occur until the industry becomes completely saturated in the US in which case the company can then be ahead of competitors through the internet or through global expansion.

? Subsidiaries or Joint venture are a possibility as in Mexico where the 31 warehouses are 50% joint ventures, this strategy may benefit within the foreign Indian and Chinese market, to allow for a better integration and brand loyalty (www. slideshare. net). The firm is likely to have the logistical capabilities to enter the Chinese market as they have entered nearby Japan successfully, and some networks would be partially formed through transportation.

? More strategic alliances with manufacturers as with Kirkland in expanding countries to gain trust from customers, enabling them to recognise brand names and build loyalty

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