

History of the costco wholesale corporation marketing essay



**ASSIGN
BUSTER**

Introduction

Costco Wholesale Corporation, founded by James Sineagal and Jeffrey Brotman drives an international chain of membership warehouses, mainly under the “ Costco Wholesale” name, that signifies quality and aim at merchandizing commodities at substantially lower prices when compared to the deals available at conventional wholesale or retail stores. The warehouses are designed with a sole motive to help small-to-medium-sized business houses reduce costs in purchasing for resale and for day to day business use.

The Costco’s web based electronic version, costco. com registered 61. 37 million visitors in 2009. Costco has three e-commerce web domains which include costco. com, costco. ca and costco. co. uk for the US, Canada and United Kingdom markets respectively. In addition to this Costco runs a travel site available only for its members at costcotravel. com.

Costco’s warehouses showcase huge and most exclusive product category selections that are found under a single roof. Categories comprises of groceries, appliances, television, candy and media, automotive supplies, toys, hardware, tires, sporting goods, jewellery, cameras, books, watches, house wares, health and beauty products, tobacco, apparel, furniture, office supplies. Costco is recognized for carrying highest quality national and regional brands, with 100% satisfaction guaranteed, at prices which are consistently below wholesale or retail outlets.

In addition to retail, Costco Wholesale Industries operates manufacturing businesses, including food packaging, optical labs and jewellery distribution.

<https://assignbuster.com/history-of-the-costco-wholesale-corporation-marketing-essay/>

These businesses share a common goal of providing users with high quality products at substantially lower prices.

Costco employs about 149, 400 employees. As of now[update] Costco have 57. 2 million members. For fiscal year 2009-10, which ended on August 31, 2010, the company's turnover was 71. 40 billion US dollars. Costco is at 24 rank in Fortune 500.

Customer Profile

Costco has a diverse customer base that edifice at their warehouses. A large chunk of Costco's customers are business houses. Start off businesses use Costco to do various purchases and supplies that will help do a business.

Costco also attracts individuals not

connected to any kind of organisation seeking quality products and services at good deals. Costco put on business from pretty much anyone who wants to shop for his daily products. Families large and small are all members of the warehouse club store. Various families are likely to be middle to upper class. People join the Costco if they believe that the perceived value they get from Costco's products and services will envelop the base fare of the membership that is \$50. More than one third of Costco's customers (498 million) have an annual household income over \$75, 000.

Business Model: Business to Consumer

Low Prices

Limited selection of quality merchandise

Wide Range of merchandizing categories

Rapid Inventory Turnover

Volume purchasing

Efficient distribution

Reduced handling of goods

No frills, self service warehouses

Operating efficiencies

Rapid Inventory Turnover

Operating efficiencies

Profit at a very low gross margin

Revenue Model

Costco's success is a consequence of its focus on merchandizing goods at substantially low prices, often at extremely lofty volume. These products are generally bulk-packaged and retailed principally to large families and small company owners' families. As a warehouse club, Costco deals with only its members and their guests, except for purchases of liquor, gas and drugs in some US states due to state government legislations. Memberships must be bought in advance; the base membership costs \$45 per year. Purchases done through Costco's website do not require any membership; however an additional 5% surcharge is charged to the purchases made by non-members. Purchases done via cash cards, called Costco cash do not necessitate any membership.

<https://assignbuster.com/history-of-the-costco-wholesale-corporation-marketing-essay/>

Costco is able to sell at relatively low prices by keeping its overhead low, returning savings to customers. Costco does not have a customer care department, believing it is not useful. The corporate aircraft is not used until it is filled to its capacity. Most of the products are delivered to the warehouses on shipping pallets, and these pallets are used to display goods for sale in the stores. Costco gains its profits on most products at 14%. Besides parsimony, Costco is also known for its characteristic inventory practices. Costco do not uphold a full range of product type and every brand within each of its product category. Rather, warehouses and retail outlets carry only the very popular categories and selected variants within each product category.

Taking into consideration the various products, Costco does not turn around products often, so consumer can expect certain brands of daily goods and various beverages to be in stock always. In various other categories the organisation constantly looks for the best deals available, so these goods appear to have short life cycle. This encourages customers to regularly visit their local retail outlets.

Since Costco generates huge sales volume and extremely rapid inventory turnover, it is able to generate cash from the retail of a large chunk of its inventory before it pays to its suppliers.

As of November 2009[update] base membership at Costco costs \$50 per year for a Gold Star (individual) or Business membership, which can be shifted to Executive membership for an additional cost of \$50 per year. With this the member can avail additional benefits than what is offered in the

base membership. Executive members also receive an annual “ 2% Rewards Check” of up to \$500. 00 from Costco on their purchases, excluding select items such as gas, liquor, and prescribed drugs.

Competitive advantages

Internet sales

The Costco’s web based electronic version, costco. com registered 61. 37 million visitors in 2009. Costco has three e-commerce web domains which include costco. com, costco. ca and costco. co. uk for the US, Canada and United Kingdom markets respectively.

Vast network of retail locations – cross-docking

IT has a huge network of 569 warehouses spread over 21 states in United States of America

10 years of revenue growth

Compound Average Growth Rate for the period is more than 10%

Cash 1. 5X debt

Debt for Costco is very less (\$800 million) as compared to stockholders’ equity (\$4. 8 billion).

Flow Ratio below 1. 25

Costco’s working capital management, as shown by the FFR, is extremely good, averaging 0. 81 over the last decade.

No frills warehouse

Efforts to cut costs

Only stock bargains

No bother return policy

Word of mouth – Advertising

Competitor's analysis

Costco sells more efficiently than its low-margin peers. It even outdoes plusher names like Nordstrom, and holds its own against higher-markup “category killers” like Best Buy.

Company (competitor)

Annual Sales per square foot

Target

\$307

Nordstrom

\$369

Home Depot

\$377

Wal-Mart

\$438

BJ's

\$445

Sam's Club

\$552

Costco

\$918

Best Buy

\$941

FY 2009 Costco vs. Competitors

Company

Revenue (Billions)

Net Income (Billions)

Operating

Margin

Comparable

Store Sales

(Decline)

Locations

Costco

\$70.9

\$1.3

2.7%

6.0%

512

Sam's Club

\$46.8

N/A

3.4%

4.8%

602

BJ's Wholesale Club

\$10.0

\$2.3

2.3%

9.4%

180

Marketing Strategy

Costco's is the third largest retail chain in the United States. It has categorised its market strategy into four strategic dimensions:

Survival and Dominance in the Retail Market

Collaboration and Expansion in the U. S. and International Markets

Creation of Positive Brand and Company Recognition

Branch Out into New Sectors of Retail

Costco's primary target market is small businesses and individuals. When Costco decides to open a new retail outlet in any area, they have marketing teams that contact local businesses trying to persuade them into purchasing a business membership.

Generic Competitive Strategy

Best-Cost Provider

Top-quality merchandise

Competitive prices

Kirkland Signature

High quality in house brand

Strategic alliances

Bulk packages for Costco

Kirkland brand

Website strategy

Brick and click

Conclusion

Even though Costco is a relatively young in the wholesale retail business, it is leading the wholesale retail industry. Overall, Costco's plan has been very effective because of its strategic focus on various aspects. The reason for Costco's success is the optimistic attitude they have towards their employees, which eventually affects their consumers in an optimistic way. This increases the frequency of the customer of visiting the retail outlet and also allows them to spread the word for new customers entering the market. It is like a chain reaction starting from the top executives that ends with the consumer. Nothing in the business is done without sufficient analysis; whether it is ordering products, pricing, distribution, the design of the warehouse, or the placement of a new one. Costco will continue to grow as long as they keep following their well thought out ideas and clear concepts.