

# Costco business model

Business



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In considering the type of business model used by Costco, it is important to first understand the concept of a business model, so as to make a good evaluation of Costco's business model. Though there is lack of a precise definition for a business model, this refers to the way in which an organization makes money. According to Manning (2003), there is need for a company to come up with an innovative business model as an improved way of making money, to ensure that a company stands to enjoy competitive advantage in the market over other business people. Established companies in the market have come up with new and innovative business models to compete against the increasing competition, and to fend off insurgents. It has also been the aim of many entrepreneurs to find new and innovative business models in order to expand their space in the marketplace.

The concept of business model is therefore an important unit in putting strategies in place, tailored towards the competitive business environment. It helps both the entrepreneurs and business executives to increase their capability in the management of continuous change and consequently adapt to the gradual changes in the business environment through injection of new ideas in their business model.

Costco's business model contains proper communication and distribution channels to enable the company reach clients and offer them value proposition. This is shown through various outlet stores which have been established in various countries owned by the company. Jim, the executive does ensure that all these stores are run by responsible managers, who he often visit. Jim gives the managers his entrepreneurial advise and <https://assignbuster.com/costco-business-model/>

encourage them to contribute their ideas and opinion. As a result, the company is able to produce quality products to meet the needs and requirements of the customers (Arthur & Thompson, 2007).

Costco has been able to establish a good relationship with its clients. This is made possible by the CEO who does this by making sure he is the one who receive phone calls and attends to his clients appropriately. Jim also ensures that there is a good relationship between him and his employees through creation of a friendly working environment. This attitude ensures that workers are free to make their contributions in terms of ideas in the making of important decisions for the development of the company. Such motivation on the workers also ensure that they put maximum efforts to realize success for the company. Costco has been able to generate maximum revenues through use of this strategy.

The kind of business model adapted by Costco is good because it ensures that the interest of all parties in the chain of production are met. This is done by ensuring that all stakeholders in the organization are actively involved in the implementation of the current business model. The CEO ensures that he discusses with the top managers about his personal ideas, he also gets ideas and allow criticism from them. The CEO is also friendly to his workers and ensures that there exists a good relationship between him and his clients.

#### Chief elements of Costco strategy

The major elements in Costco's strategies include ensuring that the company establishes and maintains a good relationship with its clients. The CEO

ensures that there is good interaction between employees and the senior managers, for the creation of a good work environment. Through this, the CEO and managers are able to get the advantage of gaining ideas and opinion from workers, concerning the needs of the market and how such needs can be met. Howard (2005) claims that it is also through this interaction that the top management is able to directly communicate ideas on the way forward to the employees.

Costco's strategy has been the secret behind the success of this business. This kind of strategy helps the company to determine both the current and future needs of the customers. This is only attained through creation of a good relationship between the company and customers. Studies have shown that, satisfying the needs and requirements of customers is the fundamental secret of success for any company. Satisfying customers ensure that even if other competitors emerge in the market, the company will still be able to retain its consumers and enjoy a competitive advantage in the market.

Establishment of various retail stores allow a wide market coverage throughout various outlets, to ensure that the company's sales are maximized. The company ensures that all its outlets are well managed and produce high quality products at a reasonable price to attract more consumers.

#### Jim Sinegal Performance as a CEO

Jim Sinegal has been one of the liberalized CEO while compared to other CEOs in the United States. From his appearance, he is a simple and friendly person who is easy to approach, unlike other CEOs who distant themselves

from the common man with the idea of maintaining high status in the company. Jim ensures that he keeps direct contact with the company's clients and attempts to create a good relationship with them. This in turn make clients feel important and well taken care of in the company. Such an approach is meant to win the client's trust and confidence in the company. Consequently, the company will win most of the customers in the market and enjoy a competitive advantage over other companies.

Jim ensures that he visits the company's stores personally without having to send a representative. This ensures that he gets first hand information on the company's progress and is able to take immediate action where necessary. Interaction with employees and managers also ensure that he is able to motivate his workers through the positive attitude he portrays to them, he also gives workers new ideas and share his opinions with them. The exchange of information and ideas enables making of rapid improvements and adjustments in the company, to ensure quality production and maximum profits (Fayolle, 2007).

From the findings above, Jim qualifies to be graded as one of the best CEOs in the business environment. He has been able to ensure continuous success for the company by establishing and maintaining a good relationship with clients, making sure he interacts easily with his employees and managers and that Costco produces high quality goods in the market. Jim Sinegal can however be criticized for failing to distribute senior responsibilities to other top managers in the company. He acts as the CEO, producer, and knowledge critique. A single person taking charge over many responsibilities is likely to be insufficient because he can get overworked, or

have limited time to attend to each department effectively. Being the CEO, Jim should give someone else the responsibility of knowledge critique. This will ensure that there is someone who is able to control his powers when he is moving to the wrong direction by giving him appropriate ideas which he can buy if he is of the opinion that such ideas are good.

#### Costco's Performance from a financial perspective

From the financial perspective, the achievements of Costco can be seen while it is compared with its main competitor in the market, Sam's club. Looking at the income figures in the company, it has also been established that Costco's income has been on the increase since 2006. The company's sales in the year 2006 totaled to around \$ 59 billion among 496 stores run by the company in 37 states. The company also realized about 26 million on households in various parts of Japan, Taiwan, Mexico and Korea among others. 5.2 billion was realized from membership and business cards, entitling people who held such cards to do their shopping at Costco. While this shows an increase in the company's income, it also shows how the company has been successful in winning many customers through the great number of people purchasing membership cards. Looking at the entire income annually, Costco was able to record an annual average income of \$ 128 million per store which amount of money almost doubles the income of its closest competitor Sam's club, who have an average income of \$ 67 million. Costco is therefore doing well in the financial area.

#### Costco's Market and Financial Success outside U. S

From the available data, it is shown that Costco has been successful in expanding its sales and income in several countries outside of the United States. Such countries include Canada, Mexico, Japan, Taiwan, Korea, Canada and in the United Kingdom. While data shows that the company has been able to expand sales in various stores within the country, such an increment is also recorded within other stores outside the company. Costco has been able to succeed in improving sales in the outside United States, through putting in place aggressive marketing strategies and establishment of outlet retail markets outside. According to Wilson (2004), this enables the company to ensure good management and production of quality products able to meet the needs and requirements of consumers within and outside the U. S.

Strategic Perspective for Costco and its Competitive Advantage over its Competitors

The company has been able to enjoy competitive market advantage over its competitors like BJ/s wholesale and Sam's club. This is seen from the great number of consumers who buy membership cards to get entitled to shop at Costco. This is also seen from the average annual income realized by Costco compared to income levels from its competitors.

The company has been able to come up with a winning strategy because its main focus has been to satisfy the needs and requirements of consumers. This is attained through creation of a good relationship between Costco and its clients. Jim, the CEO receives calls directly from consumers to address their concern. This has been a major strategy to make customers feel important and well taken care of. The company also has a good working

environment that allows interaction by all parties in the company from the executive, to the employees at the lowest level. This helps to motivate all people and ensure that there is production of good quality products and maximization of profits.

Costco does not sell much through fixing the lowest prices in the market. In setting up prices, the company considers a price that will be both comfortable to their clients and to the organizations in order to maximize profits. In doing this, at times such prices may seem low compared to those of Costco's competitors. The intention of the company however is to ensure that needs and requirements of customers are met and that the company realizes maximum profits. While it comes to employees remuneration and welfare, Costco has been able to pay its employees better than its competitors. Though it may be argued that the company has enough income to pay its employees, every company should be in a position to pay its employees an income that is comfortable. By paying its employees well, the company motivates the workers and as a result they give their maximum contribution to towards the company (Arthur & Thompson, 2007).

### Recommendations and Conclusions

From the above discussion, Costco's business model has helped in the development and expansion of the company's market. Specifically, the business model focus in satisfying the needs and requirements of consumers, hence winning a market advantage over other consumers. The parties involved in this process, including the CEO, senior managers and employees generally have been cooperative in the implementation of this business model. However, the CEO should ensure that more people are



involved in the top management of the company if it is to continue expanding in various markets in future. There is danger with monopolistic leadership, if the main leader dies, it would mean that the company goes down. The company should also do a good survey of future market needs, to ensure that it meets the changing tastes and preferences of the customers. In addition, there is need to adapt modern technology to make communication between various branches easy and to ensure high quality output (Howard, 2005).

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