

Cosco's strategy

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Cosco's strategy is a and deliberate strategy that concentrates on selling products at a lower price in order to gain market share. In order to achieve cost efficiencies they offer limited selection of products on a weekly basis and encourage their customers to buy products in large quantities, thus allowing them to achieve economies of scale across a smaller product range.

A further element of their approach concerns a "treasure-hunt" style shopping experience. This is very much a niche type approach that provides Costco with a unique strategy. They offer a product catalogue of 1,000 luxury items, which are changed on a weekly basis. This achieves the objective of encouraging customers to visit the store on a regular basis and also potentially increases the amount of money customers spend on each visit to the store; they are uncertain as to whether or not the product will be there on their next visit. You may also be interested in reading "Are entrepreneurs born or made essay"

Costco's strategy is serving them well. They have developed a value chain that affords them a unique operating model and a competitive advantage over their competitors. The high inventory turnover means that they do not experience as high inventory storage costs as some of their competitors and also do not lose money due to waste. Their purchasing processes and limited catalogue also enable them to purchase items on a grey market at a much cheaper price. They are able to pass these savings directly to their customers via reduced prices. Their competitors find this hard to compete with as they have larger volumes of products and cannot achieve the efficiencies that Costco are capable of. In addition they are often locked into supplier contract, which prevent them from taking advantage of special

circumstances that arise on the grey market. Read also about focused low cost strategy

If I were to make a recommendation to Jim Sinegal, I would encourage him to consider a further, online strategy for Costco. There are currently websites available that sell one single product per day. A prime example of this is www.woot.com. In many regards the strategy employed by Woot is similar to that of Costco. They access large volumes of products on the grey market and sell them for a limited period of time. Once the products are sold a new product is offered. Through offering a limited selection of their wholesale products online in a similar fashion to Woot, Costco could reach their customers via an additional channel and could potentially increase profitability further. This would be a model that fits within their current strategy but extends their reach to a further market.