

Retail market strategy



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Like any other company, Costco also has a marketing strategy to bring highest quality goods with services to benefit the customers at the lowest prices every day. The marketing strategy works towards inventory turnover, lowering handling cost of merchandize and also lowering operating costs which leads to the success of the company.

Costco marketing strategy contains focusing on the target market; by satisfy there needs effectively and efficiently the company is able to cater to customers needs. The companies target market consists of small businesses. Focusing on small businesses and using the marketing teams to full use by convincing the businesses to become the member of Costco and take advantage of there prices and services. They also target the market by using one of the ways of direct mail marketing which gets the company their potential customers that meet their customer profile. Another focus of the target market is the people that do not have businesses but still want the high quality goods and services at good discounted prices. Such as Large families that are from the middle to upper class. “ People will join the warehouse if they believe that the value they receive from Costco’s products and services will cover the \$50 dollar membership fee. More than a third of Costco’s 48 million customers have a household income over \$75, 000 and they average 22 visits a year” (Boyle 2006). Costco’s strategy consists of increasing the number of membership for the warehouse which will result in a higher chance of sales. They also rely on word of mouth to also promote the membership of the company.

Retailers such as Costco also use growth strategies to increase sales in the store. The specific growth strategy Costco uses is retail format development growth opportunity. “ It is a format with a different retail mix – for the same target market” (Levy Weitz). Costco offers online services for the target market which helps them purchase high ended products online on their available time any time. Due to the online services there was a positive outlook on the internet sales. The company has made the website customer friendly by making it easy to assess the price, image and the related information.

Another Growth Strategy is by Market Penetration; one of the aspect is by involving displaying “ merchandize to increase impulse purchases and training salespeople to cross – sell” (Levy Weitz). Costco uses cross selling as their strategy which means that one tries to sell two different merchandize together. Products from two different departments are aimed to sell together which results in cross selling. Examples of two merchandize together would be such as Flowers and sunglasses, travel products and kitchen appliances; all this is a set up for cross selling which promotes customer loyalty.

At the same time, Costco is also working on its capital strategy and has a sustainable advantage in the market due to that factor. Warehouses that offer membership work on a concept of offerings the members “ low prices on a limited selection of nationally branded and selected private label products in a wide range of merchandize categories that will produce high sales volumes and rapid inventory turnover” (). On the other hand as a competitive advantage, Costco has an ability to purchase in large amounts

from the vendors and sell the products in the same packaging that the vendors boxed the product in to sell. This offers the members to receive the high quality products at lower prices.

Merchandising Strategy

Merchandising strategy is one of the aspects of marketing which promotes sales of merchandise in the store and is the most effective means of selecting, pricing, displaying and advertising the items in a store for sale. Costco is a discount warehouse and operates as a membership retailer and by focusing on great prices, large amount of selection of products and the strategy of treasure hunting the merchandise, Costco has moved higher than their competitors.

One of the merchandising strategies that Costco follows is an assortment plan which “is a list of SKU’s that a retailer will offer in a merchandise category. The assortment plan thus reflects the variety and assortment that the retailer plans to offer” (Levy Weitz). Assortments of merchandise at Costco have a “broad spectrum” of items that vary from media, groceries and appliances. Costco has mixed products with great variety from foods to clothing’s to electronics. Part of the Merchandising strategy, they limit the total number of items that are on the shelves. Using this tactic the company can evaluate stock keeping SKU’s individually and can select both categories leaders and newest emerging brands to sell. By focusing on the Costco’s SKU’s selection, the operating costs are reduced by streamlining the supply chain and making in store management simple.

Retailers such as Costco make strategic decisions about mixing the national and private – label brands to offer to the consumer in their product category. National brands are products that are designed, produced, and marketed by a vendor and then sold to many other different retailers such as Costco. The company has direct relationship with the producers of national brand and ability to purchase from different sources with no damage to their operations. On the other hand, Private label brands are products that's are developed and managed by retailers; such as Kirkland Signature. Costco has a strong private label brand that can compete with other brands and provide consumers with a different, better economical option. Private label brand, Kirkland Signature has been a strong point for Costco and it generates 20% of their sales. By having a private label brand, Costco focuses on price and quality for their Kirkland Signature label. Kirkland Signature is well known and highly desirable private label which has enhanced Costco's image and drawn customers to the store. Kirkland Signature products are highly rated according to the consumer reports magazine which includes products such as batteries and home detergent. In addition, private label brands are lower in prices compared to national brands; about 10 – 18% less expensive than national brands in U. S. and about 25% cheaper in Europe. As a retailer, choosing a national brand or a private label brand has its benefits and losses. “ Vendors of national brands assume the expenses of designing, manufacturing, distributing, and promoting the brand, retailers typically realize lower gross margins from them compared with those for their private – label brands” (Levy Witz). One of many other losses about having a national brand is that the national brands are sold by other existing retailers too, therefore the competition is high.

Costco's Merchandise strategy is to also offer many free services such as their great return policy. A customer can return anything at the store with or without the receipt except computers, televisions, cameras, cam recorders and projectors whenever they want, the only exception being that these privileges are only to the customers which hold membership with Costco.

Costco does not except any form of payments at the store. In Canada and United States of America Costco in store only accepts American Express, cash, pin based debit cards and checks but if one is a guest and not a member of Costco they are not allowed to write the check. The reason for Costco to choose American Express as means of charge is because they charge low interchange fees. But if a customer is using there online services such as Costco. com, then they accept the American Express, Visa, Master card, and Discover cards. Part of the services that Costco provides is an automobile program where Ameriprise offers auto and home insurance. In addition, it also has photography printing lab that offers services at the store and online. The online services offers free unlimited digital file storage but then only with Costco membership. On the other hand, it also has an agreement with Mypubilsher. com for a calendar publishing giving customers and small businesses more reasons to become a member of Costco.

Costco's merchandising strategy is to buy products in handful from the vendors and that helps drive cost down for members and lets Costco sell in volume (Harris 2007). It does not mark up any of the products more than 14% compared to other supermarkets and department stores that mark upto 25% - 50%. Other retailers try to generate revenue from merchandise markups but Costco chooses to sell merchandise at close to break even

levels which gives them gain in majority of the profits through membership fees. Costco also sells products at low profit margins and uses its discounts to grow its customer base.