

**COSTCO**  
**WHOLESALE**

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# Summary



- Revenues of 71 Billion
- 550 Warehouses Today – Operates in:
  - 40 States
  - 9 Countries
- \$137 million average sales/warehouse
- 141,000 square feet/warehouse
- 143,000 employees worldwide
- More than 1.4 million transactions/day

**Colorado Springs, CO**

**2/20/08**





**Cardiff, UK**

**7/31/08**



# Background



CEO: James Sinegal

Headquarters: Issaquah, WA

Inception: Seattle, WA 1983

Stock Symbol: COST (NASDAQ)

Founders: James Sinegal & Jefferey  
Brotman



# Corporate Strategy



- Cost strategy
  - Penetration Pricing
  - Below the Line Promotion
  - No frills
- “Diversion” Buying Strategy
  - “Treasure hunt” shopping experience

# Customers (Who)



- Costco targets independent small business owners who have typically \$100,000 or more of personal income
- Actual average Costco customer is women in large householders with income of \$50,000 or more
- Most popular with Hispanic and Asian ethnic groups
- Typically customer visits 8-11 times per year

# Membership (How)

- Gold Star Member = \$ 50
- Business Member = \$ 50
- Executive Member = \$ 100
- Membership fees allow Costco to maintain *low margins*





# Industries



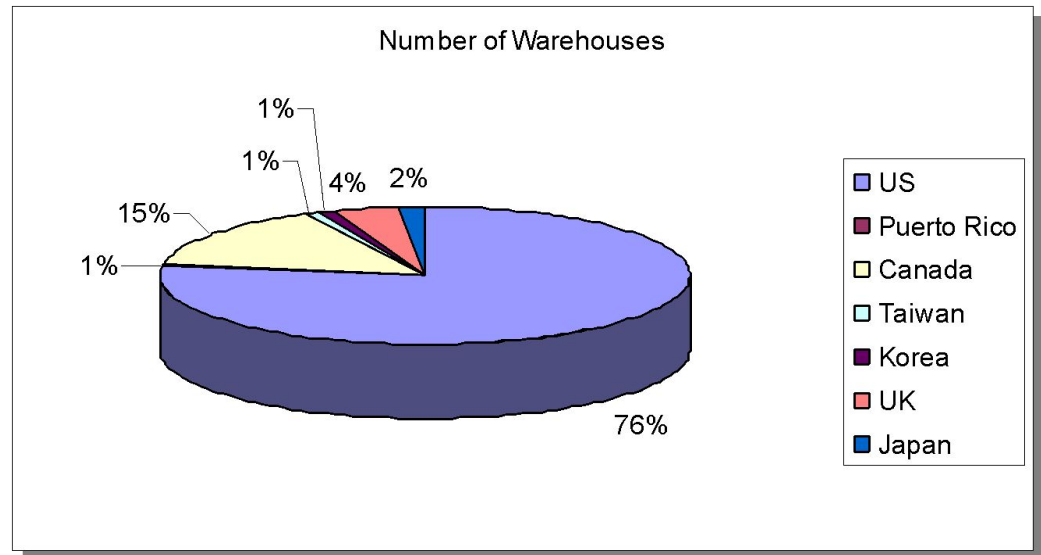
- Retail
  - Discount and Variety Retail
    - Warehouse Clubs and Superstores (primary)
  - Gasoline Retailers
  - Grocery Retail
  - Nonstore Retail
    - Internet Retail
- Consumer Services
  - Optical Services
  - Travel Agencies and Services
- Financial Services
  - Lending
    - Mortgage Banking and Related Services
- Insurance
  - Property and Casualty
    - Autos and Other Vehicles
    - Homeowners Insurance



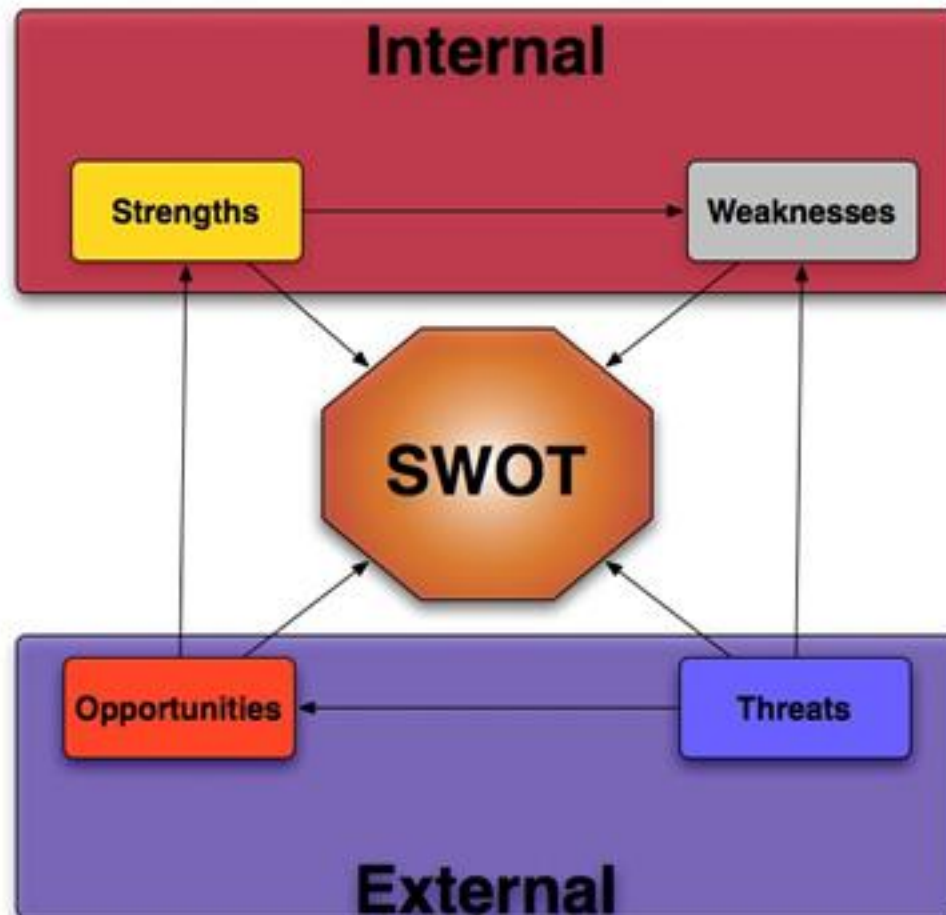
# Costco Today



- 550 warehouses Worldwide
  - 403 in US
  - 76 in Canada
  - 21 in UK
  - 6 in Korea
  - 5 in Taiwan
  - 8 in Japan
  - 31 in Mexico



# SWOT Analysis



# Strengths



- 54.1m loyal cardholders
- Strong member renewals
- Absolute pricing authority
- Exceptional employees
- Excellent merchandise
- Quality image

# Weaknesses



- Cannibalization
  - Costco's overexpansion domestically risks cannibalizing the sales of preexisting stores
- James Sinegal leave
- Maintaining high wages
  - Costco's average pay, for example, is \$17 an hour, 42 percent higher than its fiercest rival, Sam's Club
- Maintaining profit margins



# Opportunities



- Recession has allowed Costco opportunities for luxury-item deals, including the chance to sell prime-grade meat that used to go almost exclusively to restaurants. With people eating out less often, said Sinegal, "there are not as many steaks being sold in restaurants, and we're selling them."
- To take over, merge with, or form strategic alliances with other global retailers, focusing on specific markets such as Europe or the Greater China Region.
- The stores are currently only trade in a relatively small number of countries. Therefore there are tremendous opportunities for future business in expanding consumer markets, such as China and India.

# Threats



- Being a global retailer means that you are exposed to political problems in the countries that you operate in.
- The cost of producing many consumer products tends to have fallen because of lower manufacturing costs. Manufacturing cost have fallen due to outsourcing to low-cost regions of the World. This has lead to price competition, resulting in price deflation in some ranges. Intense price competition is a threat.
- Bad economic times (current recession)