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Global Strategic Management- Costco case study

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Abstract

Costco Wholesale Corporation is an American membership which is the only one membership warehouse club and provides a wide selection of merchandise. Otherwise, they are currently the largest membership club not only in American but also in global. Around the world, in this market, it owns the biggest branches. In Taiwan, it is the first membership-only warehouse club. With this advantage, customers in Taiwan tend to get all the necessities in one store. It's more convenient than before and the prices of their products are much cheaper. In addition, Costco has changed the consuming habit gradually. On this report, we would like to take Costco Wholesale Corporation as a case study, analyzing their strategies, advantages, disadvantages and so on. With the above reasons, we'd like to discover the reasons why it can succeed in a short period of time. By comparing with the rivals, we can do the strategy analysis and figure out the answer.

Key Words: Costco Wholesale Corporation, business strategy, strategy management analysis

1 Introduction of Costco

1.1 Global overview of Costco

The Price Club is the first concept of a membership warehouse. Costco's founders Sinegal had a working experience at Price Club, and in October 1997 the Price club and Costco merged into PriceCostco. In August 30, 1999 changed its name to Costco Wholesale Corporation.

Costco is the second largest retailer in the United States, the seventh largest retailer in the world, and the largest chain member storehouse in the United States. It is also 36th in Fortune's 2017 Fortune 500 list.

Costco Wholesale located in North America, Europe and Asia. In 2017, Costco operates 741 warehouses in the United States (514), Canada (97), Mexico (37), United Kingdom (28), Japan (26), South Korea (13), Taiwan (13), Australia (9), Spain (2), Iceland (1) and one in France.

Costco provides high-quality and bulk package products at low prices and carefully select their product. Costco also has their private label brand — Kirkland signature. Costco operates under the membership system and successfully cater to the preferences of business and large family.

1.1.1 Category Sales

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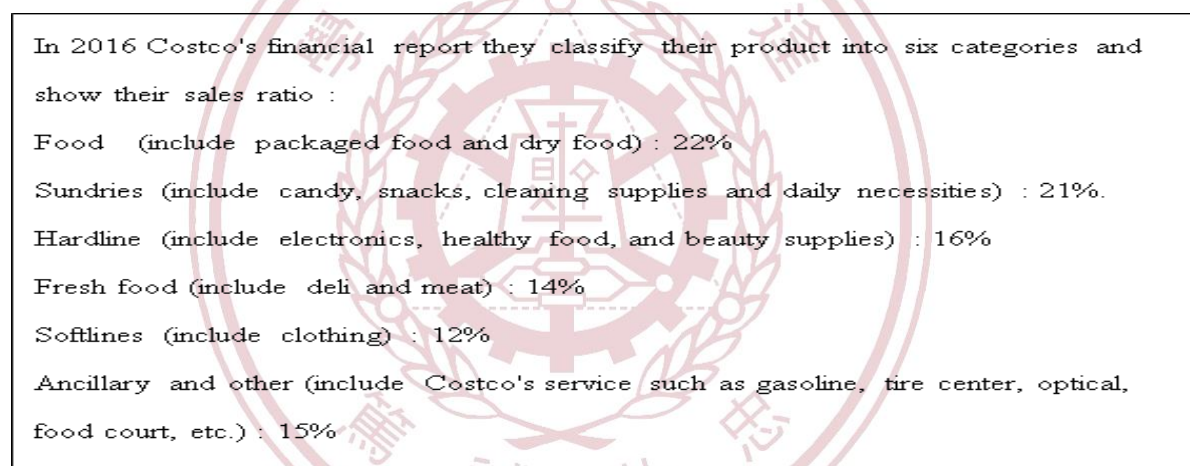


Figure 1 Categories Sales

1.2 The introduction of Costco in Taiwan

1.2.1 Locations in Taiwan

The first location of Costco in Taiwan was opened in Kaohsiung in 1997. They are now operating 12 warehouses in Taiwan, three in the Taipei market, one in Taoyuan, one in Hsinchu, one in Taichung, one in Chiayi, one in Tainan and two in Kaohsiung.



Figure 2 Locations in Taiwan

1.2.2 Membership in Taiwan

Costco is a membership club, dedicated to bringing their members the best possible prices on their merchandises. In addition, they also provide the convenience of specialty departments and exclusive services with their membership who can be satisfied with all necessities in one-stop destination.



Figure 3 Business membership includes household card

About the membership cards which were divided into two types of cards, one is business primary cards, the other one is gold star membership card. The reason of separating into two types of cards is because different customers can apply different types of card with different membership fee. In addition, there are also some of

limitations for each card as following.

Business primary membership is only available to business owner, or head of a non-profit organization or government agency. Up to six add-on cards are available for business primary at NT\$900 each. Business identification is needed to be shown when applying for Business Membership. The price of this card is about NT\$1150.



Figure 4 Gold star member includes household card

Gold Star membership is available to apply individuals age 18 and over. Personal identification is needed to be shown when applying for Gold Star Membership. The price of membership is about NT\$1350.

1.2.3 Operative performance in global for Costco

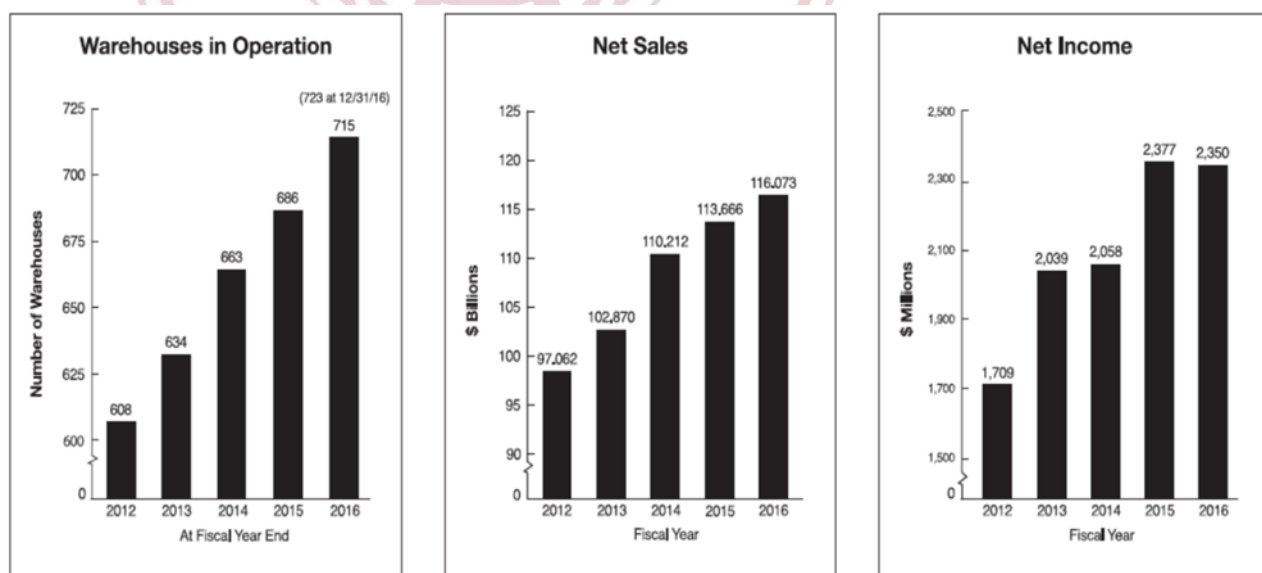


Figure 5 The financial highlight from 2012-2016

Year Opened	# of Whses										
2016	29										\$87
2015	23								\$83		85
2014	30							\$108	109		115
2013	26						\$99	109	113		116
2012	15					\$105	115	124	128		130
2011	21				\$103	120	130	136	139		139
2010	13			\$94	106	122	135	144	148		151
2009	20		\$100	107	130	146	155	157	158		155
2008	26	\$86	83	99	116	128	136	144	146		147
2007 & Before	512	\$130	140	135	144	151	160	168	175	175	174
Totals	715	\$130	\$137	\$131	\$139	\$146	\$155	\$160	\$164	\$162	\$159
		2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
		Fiscal Year									

*First year sales annualized.
2011 – 2016 results include Mexico.

Figure 6 Average sales per ware-house (sales in millions)

The net sales of Costco is about \$116.1 billion; besides the warehouses in operation are 715 in 2016. Therefore, the average of each warehouse was \$159 million in annual sales, and operating globally in several countries throughout the world. Otherwise, net income remained strong in 2016, coming in at \$2.35 billion.

1.3 Vision

Their operating philosophy is simple. Keep costs down and pass the savings on to our members. Our large membership base and tremendous buying power, combined with our never-ending quest for efficiency, result in the best possible prices for our members. Costco's mission to their corporation is lower cost as much as possible and then give their members those savings.

1.4 Value

1.4.1 Part1

- Low price with high quality of products
- Many benefits only for their membership
- Lots of imported merchandise^[1]
- Season sales activities randomly
- Treasure hunting of shopping

1.4.2 Part2

✓ On membership

Costco refunds your membership fee if you are dissatisfied and want to cancel your membership during the valid membership year.

✓ On merchandise

- Costco guarantees your satisfaction on each product with full refund but the following exceptions:

- Electronics: Costco will accept returns within 90 days from the date of purchase for Televisions and Projectors, Major Appliances, Computers, Touchscreen Tablets, Cameras, Camcorders, MP3 players and Cellular Phones.

- Diamonds: 1.00ct or larger: Members returning a diamond over 1.00ct must also present all original paperwork (IGI and/or GIA certificates). Within 3 business days, we will have a third-party Graduate Gemologist inspect for authenticity. [L]
[SEP]

- All tires sold and installed through Costco Wholesale are covered by a 5-year Road Hazard Warranty protecting customers against treadwear damage and tire failure. Please visit Costco Tire Center for details. [L]
[SEP]

- Special Order Kiosk and Custom Installed Programs: Custom product(s) manufactured to our member's personal and unique specifications cannot be returned or refunded, except for warranty repair/replacement due to failure to meet specifications.

2 Three level strategies

2.1 Purpose of corporate-level strategy

Making the company be much effective, such as the umbrella company must contribute to the efficiency, profitability and competitive advantage to each business unit.

2.1.1 Corporate level-Costco's SBUs:

- Costco merged Price Club

The company opened in 1976 only serving for small business in San Diego under the Price Club name.

The first Costco warehouse location was opened in Seattle in 1983. Costco became the first company ever to grow from zero to \$3 billion in sales in less than six years. When Costco and Price Club merged in 1993, the combined company, operating under the name PriceCostco, had 206 locations generating \$16 billion in annual sales.

- Kirkland-Costco's private brand

Kirkland is Costco's private brand providing their membership good quality products with lower prices than other brands' products. Such as tissue, candy, nuts etc.

In 1995, Costco created the Kirkland Signature label in 1995, named after the city of Kirkland, Washington, where the Home Office was located at the time. And, Kirkland Signature has been one of the most powerful private labels brands in the U.S.A. "We can do more with Kirkland Signature products than other private labels", says Tim Rose, Senior Vice President, Food & Sundries "because we move huge volumes, and with our standards for excellence and value, we impact other name brands' pricing, as well as their quality".^[1] Some of our most popular items include: Tissue Spring water Chocolates Assorted nuts Nutritional Supplements Meat Detergents Clothing

- **Tire Center**

Costco Tire Center Installation Package includes Lifetime Maintenance Services listed below.

Free nitrogen tire inflation

Flat repairs for the life of the tire

New rubber valve stem

Balance and rotation for the life of the tire

Inflation checks for the life of the tire

5-year Road Hazard Warranty

Stop by the Tire Center for professional installation of brand-name tires while you shop. You will enjoy our low warehouse prices on the tires of your choice.

Whether you drive a car or a van, you will find the right tires for your vehicle at a price that won't drive you away! It helps maximize vehicle handling, fuel efficiency, and tire life.

*Flat repairs must adhere to RMA standards and Costco tire policies.

- **Optical**

Free optical exam

Frame maintenance and adjustment

Lens cleaning

- **Pharmacy**

Help desk for members when they need explanations to medicine products.

- **Hearing Aid Center**

Free hearing test for their memberships

- **Food Court**

Quick snack at the Food Court after shopping. Foods include pizza, jumbo hot

dogs, hot soup, delicious smoothies, lattes, and refillable cold soft drinks.

- **Photo Center**

Costco develops film and provides services such as reprints, enlargements and more..

2.2 Business level-Kirkland signature

2.2.1 Background

In 1995, Costco created their private label brand — Kirkland Signature. Their private label brand emphasis on quality and value.

2.2.2 Kirkland signature means quality and value

Kirkland Signature accounts for 20% of the products in Costco. With Kirkland Signature, Costco can develop their product category as well as control quality, cost and price to compete with other brands.

- **Product categories**

body care 、 pet area 、 grocery clothing & luggage 、 home life 、 household & cleaning 、 diapers & baby 、 hardware office product 、 gasoline 、 other

- **Target consumer**

Costco through membership system to create the exclusivity and aim to their target customer groups who approve Costco's value to make Costco effectively communicate with their members.

Business: corporate procurement

Big family (middle class) : have the bulk shopping needs

Individuals: prefer quality goods with low prices, special product, treasure hunt shopping environment and understands the value of Costco membership.

- **Guarantee and Refund**

If consumers are not satisfied with the goods, Costco can let their member return

and refund until the last day become overdue.



2.3 Functional level

2.3.1 Marketing strategy-membership

Most of KIRKLANDs' products sell in Costco, members gain to know their brand by shopping in Costco. In addition, KIRKLAND is displayed directly next to other goods for members to choose. KIRKLAND is always at the lowest price with good quality. The reports of members even ranked Kirkland products in the sixth in the U.S.

2.3.2 Marketing strategy-bulk-packaged

With the high volume of products, goods are marketed primarily to large families and businesses. They don't need to buy many packages of goods or shop again in a short period of time.

2.3.3 Marketing strategy-one-stop shopping

There are 4,000 kinds of items in Costco. With the advantage, members can shop almost everything here. Costco even offer other services such as pharmaceutical consultation.

2.3.4 Marketing strategy- co-branding

Starbucks on KIRKLAND Signature blend house coffee. Furthermore, KIRKLAND is now trying to work with Kimberly-Clark in order to have own-branded diaper.

2.3.5 Marketing strategy-4P

- Product

Differentiation: Almost sixty percent of goods are imported from the U.S. To Taiwanese customers, those products are special and it's hardly for them to buy the same thing in different place, which made them stick to the unique products as well as continue paying the membership fee to Costco.

High Volume: Since there are many people in big families and a lot of staff in

companies, people such as they, are willing to shop in Costco. Those volume are suitable for what they need. Therefore, members don't need to shop for many times.

High Quality: Costco has selected at most four thousand products for its members and eliminate products which it thinks are not so good. The limitation of goods made Costco has a good reputation for its good quality of merchandise.

- **Price**

With a very big ordering quantity of Costco, they can provide members in lower price with every good. Furthermore, forty percent of Costco's products are domestic. These domestic products compete with other rivalries, they sell in lower prices.

- **Place-distribution in Costco**

This element of the marketing refers to the firm distributes or sells its products to customers. Costco's main places for the product distribution are as following: in-stores 、 online store 、 mobile app.

All the goods and services are typically available in its warehouse-style stores. However, consumers can also purchase products through Costco's e-commerce website. Mobile users may use the mobile app to access information about product and to make a purchasing. The shoppers may be suitable for having their online or mobile purchasing delivered to their house. Therefore, in this element, Costco has already reached a broad market.

- **Promotion**

Costco's main promotion strategies are as following:

Sales promotion

Direct marketing

Personal selling

Public relations

The form of sales promotions that Costco uses bulk discounts attract consumers to get into their stores. Members are guaranteed low prices for products sold per pack or in wholesale amounts. In addition, Costco uses direct marketing with sending emails to members monthly. Personal selling is also one of sales promotion that happens when sales personnel persuade customers to purchase certain products at the warehouses. Costco applies public relations to boost its corporate and brand image. For example, the company has sustainability programs for its supply chain, and gives donations to support programs for children, education, and health and human services.

You can see Costco is lack of advertising which separates Costco's marketing strategy from those of other retailers like Walmart. Costco does not advertise, and relies more on its low price and product value to attract consumers.

2.3.6 Financial strategy

The location of Costco may be big in size, but it makes the purchase decisions with small types for their shoppers. Rather than having to choose from 15-20 brands of each product, Costco gives them one or two brands to choose that make their customers decide quickly. Costco is not only a merchandiser but also a planner, they select from across the growing body of brands in any particular category and choosing the best options for their customers.

Increasingly, Kirkland is a pillar of the Costco's profitability and driver of sales that can make their customers buy their private label more easily. According to WSJ(The Wall Street Journal), Kirkland is accounted for about 25% of the company sales which is well above the average industry(17%). Costco shoppers are not only drawn to Kirkland brands because they are cheaper than other brands, but also they always promoted that Kirkland products have a quality that the consumers can rely on them.

- **The private brand-Kirkland**

A key traffic growth driver has been the success of Costco’s private-label brand-KS (Kirkland Signature). Costco makes about \$24.6 billion in global sales under this brand annually. According to the following figure, you can know that the revenue of Kirkland is much higher than Danone (\$12.7 billion) and Nestlé (\$10.3 billion) when they combined.



Figure 7 Global brand sales



3 Strategic map

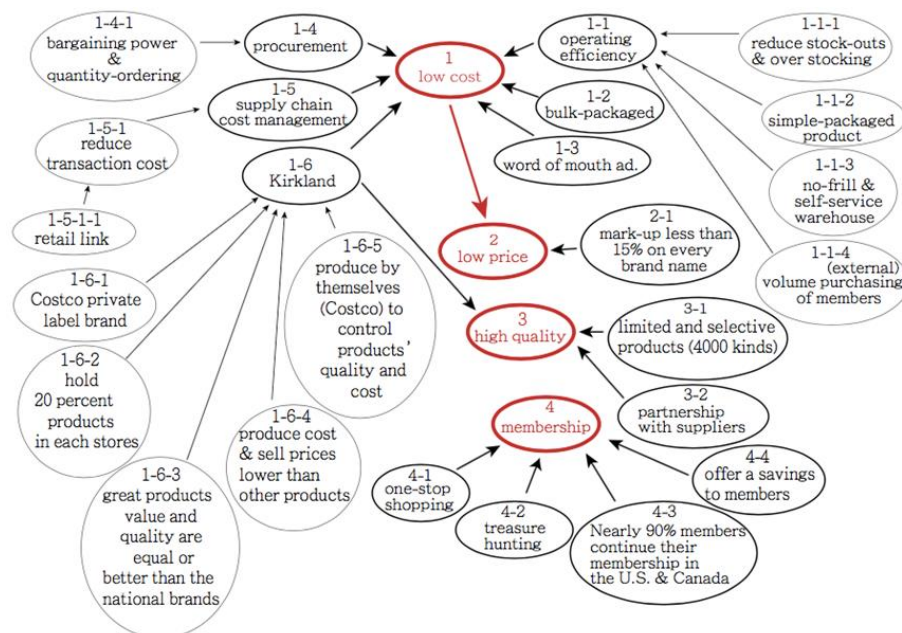


Figure 8 Strategic map of Costco

3.1 Low Cost

1-1 Operating efficiency

There are four small activities in operating efficiency, and operating efficiency is one of the big activities to achieve one of Costco’s goals, low cost.

1-1-1 stock-outs and over stocking

Reduce the volume of stock and over stock is one of Costco’s activity to extent its operating efficiency. If Costco have lots of stock, it needs bigger spaces to storage stock and cost will increase by managing stock.

1-1-2 Simple-packaged product

Costco use the way of simple-package to cut its cost on package. Packaging products need much cost and waste resources. Customers’ need are products themselves not package. Even, Costco’s customers most are family, they buy products for using

not for being as gifts. Therefore, simple-packaged is one way of Costco to extend its operating efficiency. And then making cost down.

1-1-3No frill, self-service warehouse

Costco is a warehouse store providing no-frill products and store. From this way, it has no extra or unnecessary expenses. Moreover, Costco is a store for self-service to reduce labor cost, this concept is alike IKEA. From these two activities, Costco can increase its operating efficiency even meet its goal, low cost.

1-1-4Volume purchasing of members

Costco's members are most of family and family need the large volume of products. Selling a big volume of products in one time saves Costco's labor cost owing to reducing the demand of cashiers. As the result, customers buy for huge volume makes Costco's operate efficiently.

1-2Bulk-packaged

The products in Costco are all in big volume. By this way, Costco can reduce its storage cost. If Costco sell merchandise by small package, it needs a bigger space to store goods. Consequently, Costco sells products by bulk-packaged can make its cost lower possibly.

1-3Word of mouth advertising

Costco does not advertise itself by TV channel or billboard. But it does not mean that Costco has no advertisement. Costco advertise by their consumers' mouth. For instance, Costco's members will tell their friends that buying commodities at Costco is great, no matter on price or quality. Accordingly, Costco has low cost on advertisement.

1-4Procurement

Procurement plays an important role in the part of decreasing the cost. And the following are two ways to help reducing the cost as much as possible.

1-4-1 Quantity-ordering and Bargaining power

With the quantity-ordering, Costco can bargain with the suppliers. Due to the big bargaining power, Costco have the ability to order the goods in low prices of cost.

1-5 Supply chain cost management, 1-5-1 Reduce transaction cost

1-5-1-1 Retail link

To Costco, supply chain is also a main factor to reduce its cost. In order to manage the supply chain more efficient, Costco negotiates the price of its cost with the retailer directly. By doing so, Costco has the partnership with suppliers. With this kind of supply chain management, Costco reduce the transaction cost.

1-6 Kirkland

1-6-1 Costco private label brand, 1-6-2 hold 20% products in one store

The one reason is because Costco has their own brand which is called Kirkland, they not only provide one merchandise of category with their members but also hold about 20% products in one store to attract their customers buy and know their private label brand deeply. Otherwise, Costco has introduced new products under the Kirkland brand each year in categories as diverse as food, apparel, optical, and pharmacy.

1-6-3 Great products value and quality are equal or better than the national brands,

1-6-4 Produce cost and sell prices lower than other products

Costco tries to let their members know that the quality of their products is equal to or better than other competitors. To attract more shoppers to buy their private products, Costco will put them in each category with each supplier instead of putting their private products in the same area. They let their shoppers to compare the price, quality, and ingredient with other suppliers generously.

1-6-5 Produced by itself (Costco) to control products' quality and cost

Why they could be so confident with their products when comparing with other

suppliers? The reason is because Kirkland is produced by itself. They clearly know each process of development and control their quality as well as lower price than others. Even though they reduce cost and price, they will not make their product's value low.

3.2 Low Price

2-1 mark-up less than 15% on every brand name

Costco doesn't mark up their price more than 15 percent on their every product and average markup price at Costco is 11%, which compares with other retailers such as Walmart (24%), and supermarkets (30-35%).

3.3 High Quality

3-1 limited & selective product

Costco control their product amounts below than 4,000 types which compares with other retailers such as supermarket (40,000 types) and Wal-Mart (125,000 types)

Costco's product selection is special and deliberated to create the product difference. And their product placement and price discount is not fixed and irregular (For example : Levi's pants has a discount, but if you don't buy it, next time maybe this pants sold out or restore to the original price) so it can trigger member to have a treasure hunting experience and also creates a sense of urgency to buy.

3-2 partnership with supplier

Costco cooperate with suppliers that have high quality and good reputation to manufacture product to satisfy member's needs and maintain Costco's reputation.

3.4 Membership

4-1 one-stop shopping

One-stop shopping is customer can buy all they need in one destination. Costco has a variety of product from sundries to boutique to let customer select and also have in-store service such as food court, tire center, gasoline to add the value of membership.

4-2treasure hunting

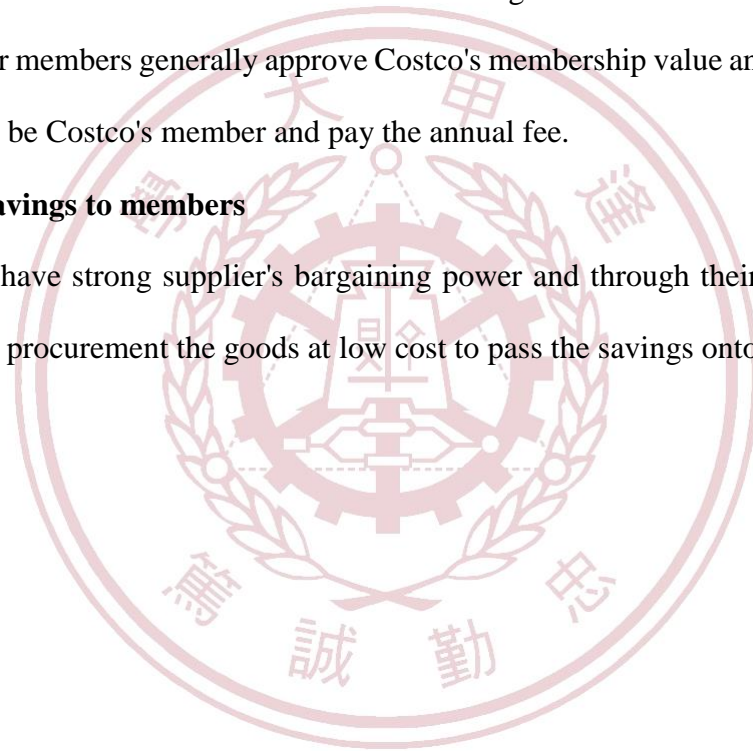
Costco's product selection is special and deliberated to create the product difference. And their product placement and price discount is not fixed and irregular (For example : Levi's pants has a discount, but if you don't buy it, next time maybe this pants sold out or restore to the original price) so it can trigger member to have a treasure hunting experience and also creates a sense of urgency to buy.

4-3Nearly 90% members continue their membership in the U.S. and Canada

Costco has 91% renewal rates in USA and average 80% renewal rates in the world, it means their members generally approve Costco's membership value and consider that it is worth to be Costco's member and pay the annual fee.

4-4offer a savings to members

Costco have strong supplier's bargaining power and through their economies of scale to bulk procurement the goods at low cost to pass the savings onto its members.



4 Five Forces analysis

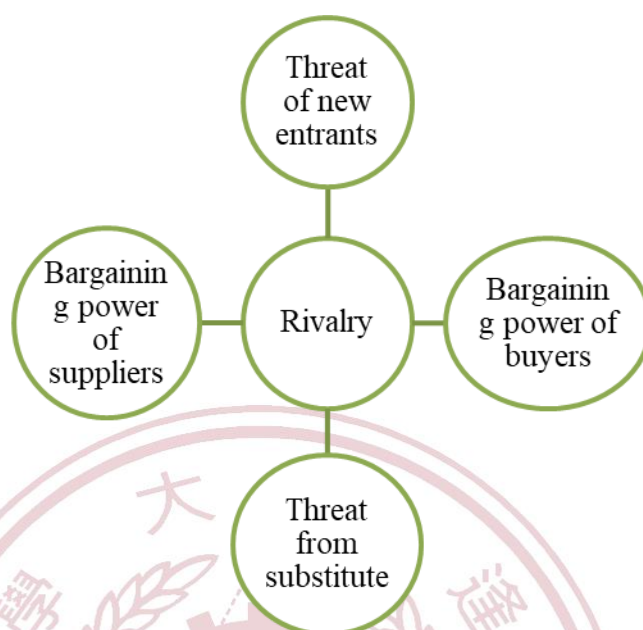


Figure 9 Five Forces of Costco

- Rivalry
- Bargaining power of suppliers
- Bargaining power of buyers
- Threat from substitutes
- Threat of new entrants

4.1 Rivalry: Carrefour/ RT-Mart/ A-Mart/ Taisuco/ Save& Safe: weak

In Taiwan, Carrefour has 104 stores, RT-Mart (22), A-Mart (16), Taisuco (10), Save& Safe (2). Carrefour is one of the largest hypermarket chains in the world (with 1,462 hypermarkets at the end of 2016). Carrefour operates in more than 30 countries. RT-Mart, A-Mart, Taisuco and Save& Safe are hypermarket chains in Taiwan

4.1.1 Product diversification: strong

Hypermarket offer variety of goods to meet lots of consumer demand. Compare to

Costco, Costco control their product amounts below than 4,000 types and select only 2 or 3 best seller for each category. (Costco's sales items are 1/10 of hypermarket)

4.1.2 Product differentiation and uniqueness: weak

Costco is deliberated to select their products to compete with other retailers through product differentiation to attract members such as imported goods, boutique (Coach, Prada, diamond, and so on), in-store service (food court, tire center, gasoline and so on). Costco's products are bulk-package and low prices and irregularly have a discounts to members.

Compare to their rivalry, their main product are daily necessities, groceries and fresh foods.

4.1.3 Capital requirement: weak

The hypermarket need to invest more capital to expand their size to compete with Costco.

Table 1 Capital of Each Retail Store in Taiwan

	Capital
Costco	64.4 billion (USD)
Carrefour	38 billion
RT-Mart	49 million
A-Mart	52 million
Taisuco	1.8 billion
Save & safe	45 million

4.1.4 Size: weak

Costco's size is bigger than hypermarket. Costco have economic of scale make them procure more bulk package products with low cost. The more goods Costco sells, the bigger the economic scale and cost advantage they have.

4.1.5 Cost condition: weak

Costco has economic of scale to enhance their bargaining power with suppliers and they bulk procure a large amount of products to generate cost savings. Costco's supply chain is different from other retailers. They directly buy the goods from suppliers through cross-docking transport to a big warehouse to allocate their goods and then deliver to Costco. The traditional method of delivery is first delivered to the wholesaler through the supplier, then to the warehouse, and finally to the retailer. So Costco have more supply efficiency compare to their rivalry.

Costco's store decoration is very simple, so it also can save the cost. About the product, they deliberate to select their goods and control the items below than 4,000 types. Thus, it can increase their inventory turnover and cut down the inventory management cost. And they also have private label brand to control the cost by themselves.

Overall, through their supply, inventory management, no-frills, product selection, private label brand and pricing strategy, it make them have an inventory and operating efficiency to create the cost advantage to compete with other retailers.

4.1.6 Overall

Costco's competitors in Taiwan are hypermarkets and they concentrate on different consumer groups. Costco's business model and strategy are different from Taiwan's hypermarket. In addition, Costco gain strength through internationalization. Therefore, it's hard to imitate and compete with Costco's model (supply chain, distribution system, product selection, pricing, marketing and membership system) and financial capital.

4.2 Bargaining power of suppliers

4.2.1 Large population of suppliers: weak

Because of the large population of suppliers, no single supplier can easily affect

its demands on Costco which means that a single supplier's action is unlikely to significantly impact the level of total supply available to Costco.

4.2.2 Place-product differentiation and large volume from suppliers: weak

Most of things in Costco are imported products. When comparing to the traditional retails in Taiwan, we can know that the Costco products in Taiwan are much more different than traditional stores. Thus, for importers, they only have one way to get into the Taiwanese market which way is trading with Costco. Otherwise, Costco orders large number of products from suppliers which means Costco control most of suppliers' place; thus, to suppliers, Costco has advantage of channel.

4.2.3 Forward integration: weak

In addition, most of Costco's suppliers have low forward integration, which means that they have minimal control on the distribution and sale of their products in Costco warehouses.

4.3 Bargaining power of buyers: strong

4.3.1 The differentiation of unique import: weak

Customers can only get some special products from Costco, which means that they cannot buy the same product in different place. Costco has become the only choose for them to shop. Therefore, buyers here have the low power of bargaining some unique merchandise.

4.3.2 Low switching costs: strong

Of the low switching cost for customers, they can easily buy the Same goods in different places such as Walmart's Sam's Club or other retail stores. In Taiwan, customers can also buy the same product in RT-MART or Carrefour.

4.3.3 High available of substitutes: strong

Because there are many shops for consumers to choose, therefore other stores can

substitute Costco. Beside from some unique items we talked above, other products such as vegetables, fruits or daily necessities with lower price will make customers not to shop in Costco.

4.3.4 Easily to get information: strong

Since nowadays the Internet has rapidly improving, customers can easily search the information on the Internet to see the quality among every retail stores. Once they think Costco doesn't satisfy their expectation, they can quickly transfer to another store to buy the same product.

4.4 Threat from Substitutes: strong

4.4.1 Same products from other rivalries or companies: medium

Costco's characteristic is full of imported products and more than other hyper-markets, such as Carrefour, A Mart, RT Mart. However, for instance, I MEI milk is not only sold at Costco but also other hyper-markets, Costco will be substituted easily. Because customers can buy the same products near their places, even at a lower price.
(weak)

Some products are imported only at Costco, customers cannot buy other stores, such as brands discount campaign. For example, Levi's, Timberland and Havaianas.
(strong)

4.4.2 Places: Online shopping-PC Home, momo shop: strong

- product diversification(strong)

Kinds of products on websites are more than our expectation so online shopping might substitute real stores, Costco.

- price differentiation(medium)

Shopping online can easily compare prices then buying on the price that customers accept. If customers shop at real stores, comparing prices within stores is more difficult

than online shopping.

- pick-up conveniently(strong)

After finishing shopping online, you can choose the place you want to pick-up, like convenient stores, parcel delivery from community management committee etc. You do not need to be the store then take products back.

4.5 Threat of new entrants: PX-Mart: weak

PX-Mart is a supermarket chain in Taiwan. In 2014, they announced they expect to expand their stores over than 1,000 and turnover increase from 70 billion to 200 billion in 3 years. And 2017, they have 900 stores in Taiwan and turnover is nearly 100 billion. So, their size is continuously increasing.

In 2006, PX-Mart took over 善美的超市 and learned fresh food processing skills from them. In 2007, they took over 台北農產 and learned vegetable and fruit logistics system. In 2014, they took over 全買超市 and opened 全聯二代店 to cooperate with peasant farmers and built a charitable platform. In the shop, they offer fresh goods account for 50%. In 2015, PX-Mart took over MATSUSEI to access into department store. Before, MATSUSEI is good at import and international procurement. Thus, PX-Mart make good use of acquisitions to strengthen their own development path.

And nowadays, in Taiwan have lots of small family, so most of consumers take distance and convenient as their consideration. So PX-Mart is a good choice for small families or who want to buy goods nearby their home and seek convenience. PX-Mart also make an effect to their ads and social networking apps promotion, in recent years the age of group gradually decreased.

But Costco's business model and strategy are different from PX-Mart. In addition, Costco gain strength through internationalization. Therefore, it's hard to imitate and compete with Costco's model (supply chain, distribution system, product selection,

pricing, marketing and membership system) and financial capital. And PX-mart now is a supermarket compare to Costco the size and economic of scale are different. Thus, for PX-mart have difficulties to enter into wholesale industry and compete with Costco.

4.5.1 Cost advantage: weak

Costco have bargaining power with suppliers but also reduce operating costs such as warehousing and inventory management. Their product is bulk package and also offer their own brand Kirkland to control their cost. So compare to PX-Mart, Costco have more cost advantage.

4.5.2 Product diversification: strong

PX-Mart is a supermarket. Their main product is daily necessities and fresh foods. And each product has kinds of choice to meet consumer demand. However, Costco take the opposite strategy they select only 2 or 3 best-selling products for each demand and to keep fewer than 4,000 sales items.

4.5.3 Product differentiation and uniqueness: weak

Costco attracts members by differentiating themselves from competitors through importing goods, private label brands—Kirkland, boutique (ex: LV, Rolex, diamond and so on) and service (tire center, pharmacy or hearing aid center). and their product is bulk package. Each product equal quality or better than their competitors with lowest possible price and irregularly steep discounts. Compare to PX-Mart, their product is daily necessities and fresh foods account for a large part.

4.5.4 Daily necessities: strong

About daily necessities, PX-Mart has more selection than Costco. Because Costco take the opposite strategy they select only 2 or 3 best-selling products for each demand and to keep fewer than 4,000 sales items.

4.5.5 Access to distribution channel: strong

In Taiwan, PX-Mart have 900 stores compare to COSTCO they have 13 stores. PX-Mart are opened in community, so it's near and convenient for residents. People can just walk, ride a bike or motorcycle to PX-Mart. If people have urgent needs to buy some product, they can quickly to buy what they want in PX-Mart. And PX-Mart don't have restriction about membership, so everyone can enter to there.

4.5.6 Overall

Costco's business model and strategy are different from PX-Mart. In addition, Costco gain strength through internationalization. Therefore, it's hard to imitate and compete with Costco's model (supply chain, distribution system, product selection, pricing, marketing and membership system) and financial capital. And PX-mart now is a supermarket compare to Costco the size and economic of scale are different. Thus, for PX-mart have difficulties to compete with Costco.

Costco's economic of scale enhance their bargaining power with suppliers and they bulk procure a large amount of products to generate cost savings. And through their supply, inventory management, no-frills, product selection, private label brand , pricing and add-value service strategy, it make them have an inventory and operating efficiency to create the cost advantage and differentiation to compete with other retailers.

Thus, for PX-Mart, the barriers to entry into the wholesale industry are high. It needs to invest huge costs include in imitating Costco's supply chain, distribution system, brand reputation, capital structure, membership system, service and so on.

5 Strategic Group Analysis

Since Costco is the only store in the group of warehouse, therefore, we chose different groups to see the difference between the branches and categories they have.

Table 2 Hypermarket

Name	Number of branches	Categories
Carrefour (家樂福)	114	43
RT-MART (大潤發)	23	38
a.mart (愛買)	16	46

Table 3 Supermarket

Name	Number of branches	Categories
Wellcome (頂好)	300	29
PX Mart (全聯)	900	30

Table 4 Convenience store

Name	Number of branches	Categories
7-11 (統一超商股份有限公司)	5161	14
FamilyMart (全家便利商店股份有限公司)	3105	14

Table 5 Department stores

Name	Number of branches	Categories
Pacific SOGO(崇光)	7	38
SKM(新光)	13	52
Far Eastern(大遠百)	11	66

Table 6 Warehouse

Name	Number of branches	Categories
------	--------------------	------------

Costco(好市多)	13	109
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Table 7 The Numbers of Categories That Every Group Sells

	Convenience store	Supermarket	Hypermarket	Department store	Warehouse
categories	Cookies/candies Wine/beverage Bread Necessities Fresh food Clothes Household cleaning Vegetables Dietary supplement Hardware	Cookies/candies Wine/beverage Bread Necessities Fresh food Clothes Household cleaning Vegetables Dietary supplement Hardware Appliances Accessories Furniture Infant supplies Electronics Computers Outdoor supplies Makeups Luggage Bikes Pet supplies	Cookies/candies Wine/beverage Bread Necessities Fresh food Clothes Household cleaning Vegetables Dietary supplement Hardware Appliances Accessories Furniture Infant supplies Electronics Computers Outdoor supplies Makeups Luggage Bikes Pet supplies	Cookies/candies Wine/beverage Bread Necessities Fresh food Clothes Household cleaning Dietary supplement Hardware Appliances Jewelry Accessories Furniture Infant supplies Electronics Computers Outdoor supplies Makeups Luggage Luxury Bikes Pet supplies	Cookies/candies Wine/beverage Bread Necessities Fresh food Clothes Household cleaning Vegetables Dietary supplement Hardware Appliances Jewelry Accessories Furniture Infant supplies Electronics Computers Outdoor supplies Luggage Bikes Pet supplies Tires

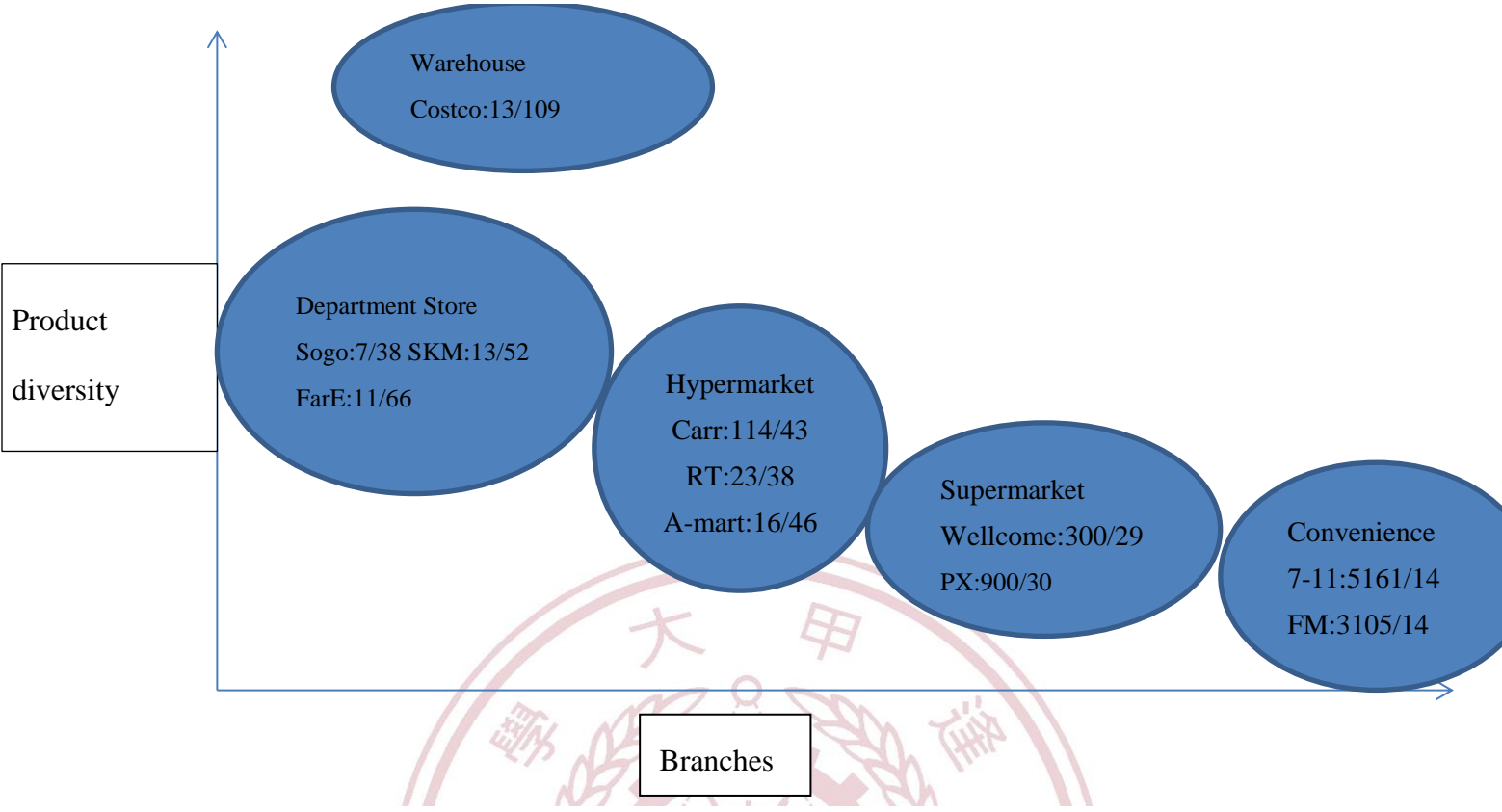


Figure 10 Strategy Group



6 Resource, Capability, and VRIS Analysis

6.1 Resource-Tangible

6.1.1 Finance-good sales and financial performance

In the beginning, because Costco has good reputation, they can create good sales. In addition, the good sales can be shown on financial performance. Two of their major revenues are product sale and membership fee. You can see their net sale is still increasing from 2012 to 2016 although their net income is steady between 2015 and 2016 (figure10 and 11). About the other major revenue of membership fee, the revenue of gold star membership keeps increased as well as the revenue of business member does (figure12). Otherwise, not only attract more customers to apply for the membership card, but also try to make their members apply the cards year by year. The figure 13 show the Costco's membership renewal rates as following. You can see the membership renewal rate in U.S. and Canada is much higher than global which accounts for 90 percent. Besides, even though the company still increases their stores in global, their sales revenue of per warehouse store remain increases year by year.

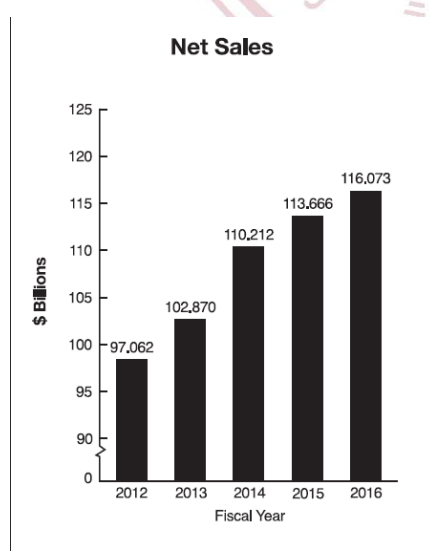


Figure 11 Membership Fee from 2012 to 2016

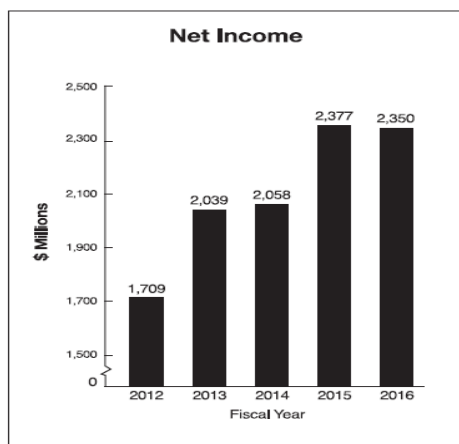


Figure 12 Net income

	2016	2015	2014
Gold Star	36,800	34,000	31,600
Business, including add-ons	10,800	10,600	10,400
Total paid members.....	47,600	44,600	42,000
Household cards.....	39,100	36,700	34,400
Total cardholders.....	86,700	81,300	76,400

Figure 13 The Total Members from 2014 to 2016

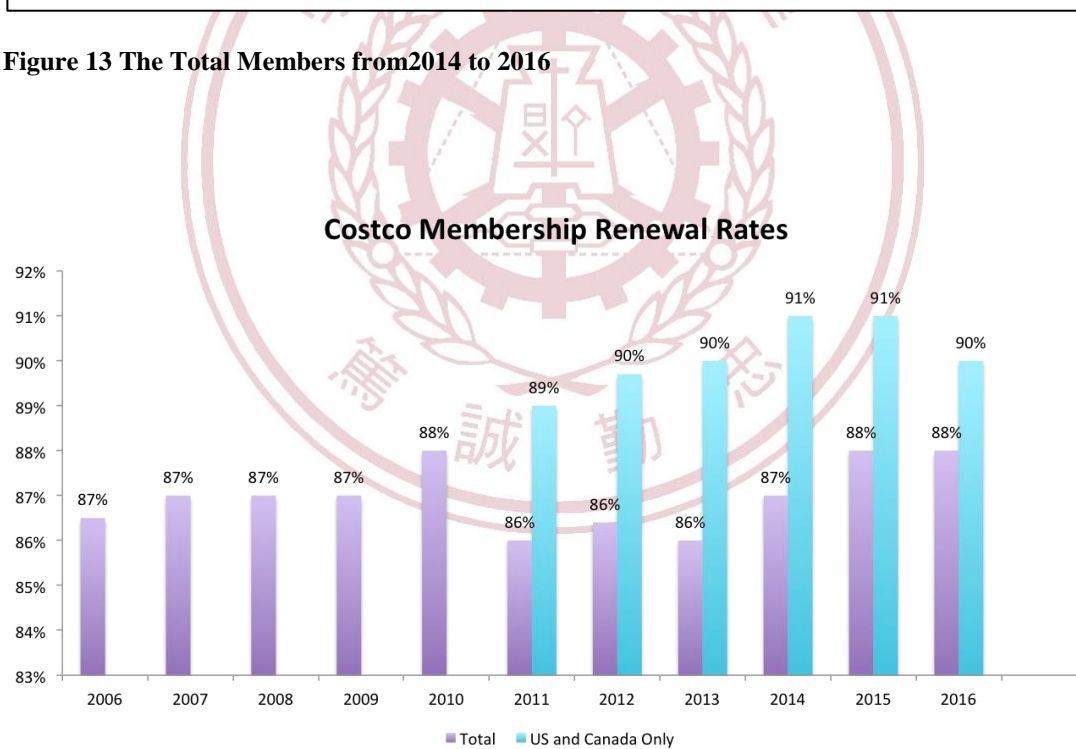


Figure 14 Costco Membership Renewal Rate

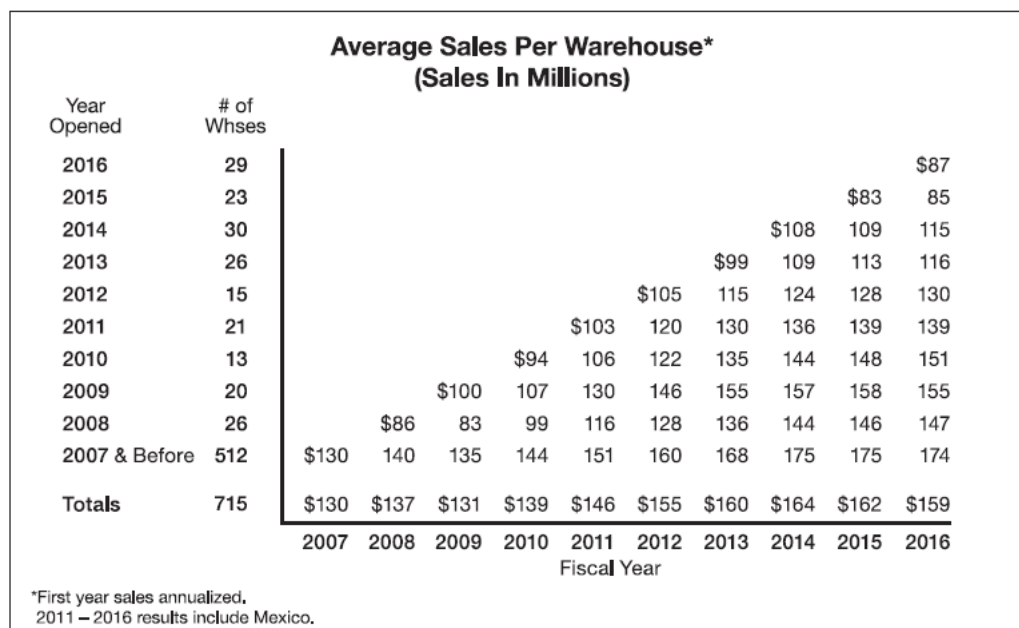


Figure 15 Numbers of Warehouse and Average Sales Per Warehouse

6.1.2 Physical-Location and Equipment

One of their targets is to create more profit, and they have already attained this goal; the other target is open more warehouse stores. Therefore, they try to operate more warehouse steady in global every year. In 2016, there are 29 new locations in global, 21 stores are in the U.S., including four Costco Business Center, and two new locations were opened in both Canada and Japan; and one new warehouse was opened in the U.K., Taiwan, Australia and Spain. In 2017, they decided open 31 new openings, and extending their global footprint into two more countries: France and Iceland. It brings them to nearly 750 warehouses in global. Besides, about their equipment in stores, they don't have so many decorations in their stores. Therefore, that way makes them minimal the maintenance cost for their equipment.

6.2 Resource-Intangible

6.2.1 Intangible-Technology

- CRS system

The introduction of the CRX system by Costco enabled Costco's supplier to conveniently track and check the current stock and provide the overall operation of the supplier's global operations at COSTCO,

- IRI system

Provide the inventory of individual retail sales.

6.2.2 Intangible-Service

- In-store services

"What we're trying to do with the business is to make the product more appealing and the product is the warehouse." — Jim Sinegal, CEO, Costco, April 2002.

Costco - Ancillary <i>Fiscal Sales</i>	2012	2013	2014	2015	2016
Pharmacy	544 \$4,350	565 \$4,391	589 \$4,650	606 \$4,784	632 \$4,989
Optical	589 \$890	614 \$910	641 \$985	662 \$1,017	689 \$1,059
One-Hour Photo	591 \$315	622 \$325	649 \$365	656 \$369	665 \$374
Food Court	602 \$945	628 \$955	657 \$1,035	680 \$1,071	709 \$1,117
Hearing Aid	469 \$202	502 \$210	549 \$245	581 \$259	616 \$275
Print and Copy Centers	10 \$8	10 \$8	10 \$8	11 \$8	15 \$9
Gas Stations	394 \$10,761	414 \$11,100	445 \$11,448	490 \$10,678	508 \$9,588
Car Washes	7 \$0	7 \$0	7 \$0	7 \$0	7 \$0
Total Sales (thousand)	\$17,471	\$17,899	\$18,736	\$18,187	\$17,411

WCF Research, Club Web Sites, Club Annual Reports, Sales in Millions.

Figure 16 In-store services

Costco offers a range of services to its members include :

Pharmacy (Pharmacy's sales accounted for 2nd in Costco's in-store services)

Pharmacies have private consultation so their member can not only buy their product also consult.

Gas station (Gas station's sales accounted for 1st in Costco's in-store services)

Costco's gas station products and services generate about 10% of Costco's total merchandise sales (excluding membership fees). Their gasoline price is lower than other competitors.

Food court (Food court's sales accounted for 3rd in Costco's in-store services)

There have pizza, hot dog, smoothie, hot soup and soft drink.

Optical

Costco offer a wide variety of eyeglass, frame and contact lenses

1 hour photo

Members can upload their picture to Costco's website in advance and directly go to Costco photo center to print out.

Hearing aid center

They offer free hearing test and hearing aid cleanings.

Tire center

Their professional staff test tire pressure and also offer installment.

Print & copy center

After-sales service

If consumers are not satisfied with the goods, Costco can let their member return and refund until the last day become overdue.

6.2.3 Intangible-Reputation

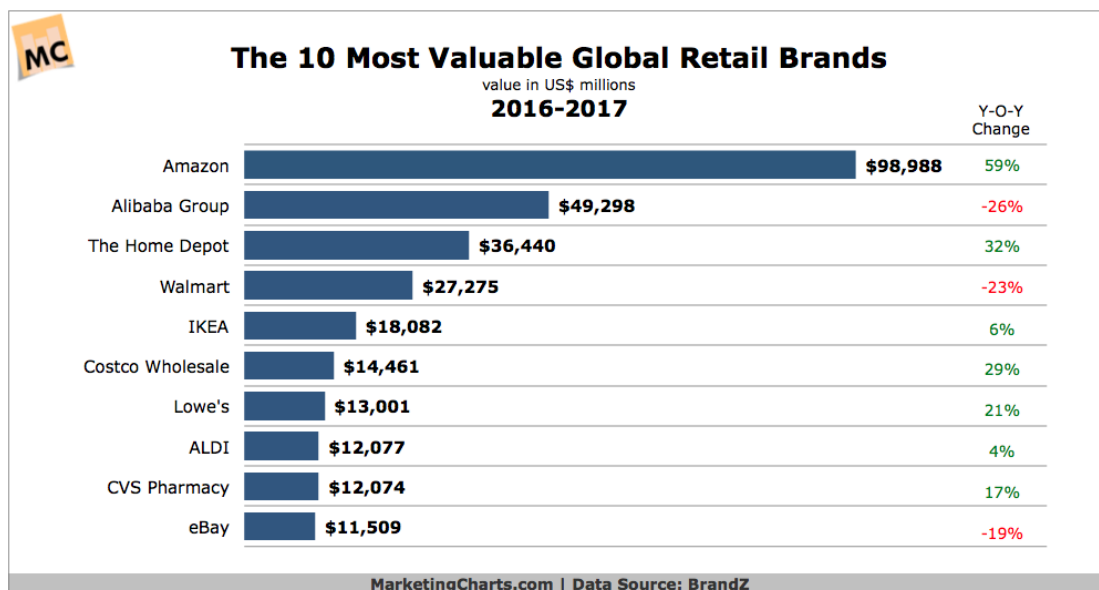


Figure 17 Brand Reputation of Costco

- Customer Loyalty
- ✓ Membership Retention Rate

The following figures about membership revenue and renewal rates for Costco are remained high. In other words, for Costco’s members, they have high loyalty to Costco; in addition, the membership fee has already become one of major revenue for Costco. Costco is a low margin business because they mark up the price not over than 15% compare to Walmart is 24% and supermarkets are 30%. Thus, Costco's success factor is from their membership fee and it also is their source of revenue.

About Costco's membership renew rate, Costco has 91% renewal rates in USA and average 88% renewal rates in the world, it means their members generally approve Costco's membership value and consider that it is worth to be Costco's member and pay the annual fee.

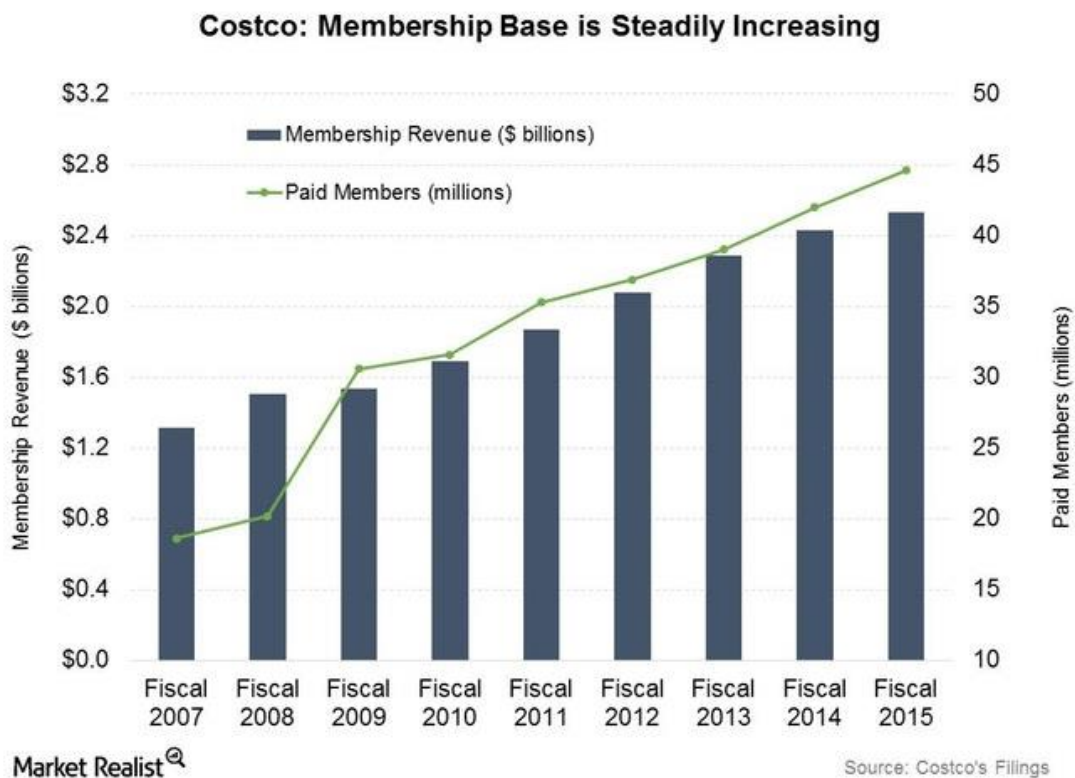


Figure 18 Membership Revenue



Figure 19 Membership Renewal Rates

	FY12	FY13	FY14	FY15	FY16
Gold Star Members (Thous.)	26,700	28,900	31,600	34,000	36,800
Business Members* (Thous.)	10,200	10,100	10,400	10,600	10,800
Household Members** (Thous.)	30,100	32,300	34,400	36,700	39,100
Total Members (Thous.)	67,000	71,200	76,400	81,300	86,700
Renewal Rate: US and Canada	90%	90%	91%	91%	90%
Renewal Rate: Worldwide	86%	86%	87%	88%	88%
Total Membership Revenue (USD Bil.)	\$2.1	\$2.3	\$2.4	\$2.5	\$2.6
Total Membership Revenue as a % of Net Sales	2.1%	2.2%	2.2%	2.2%	2.3%
Annual Membership Fee (USD)	\$50/\$100	\$55/\$110	\$55/\$110	\$55/\$110	\$55/\$110 ⁹

**Including additional cardmembers (add-ons)*

***Costco renamed additional members as household members in its financial statements starting in FY15.*

Source: Company reports

Figure 20 Membership Data

6.3 Resource-Human Resource

The key to Costco's continuing success and growth is its employees. Consequently, everywhere they do business, they provide competitive wages and benefits. An important reason for the success of Costco's business model is the attraction and retention of great employees.

Costco also has long-tenured workforces in the other locations where they do business, particularly in more mature markets in Canada, the UK, Mexico, Japan, South Korea and Taiwan. They feel that the experience level and loyalty of our employees is a significant advantage in our business operations.

It pays its employees better than the other retailers. In 2016, it raised its base wages further. It raised the least wages from \$11.5 an hour to \$13 an hour. The average wages at Costco have also grown and the best paid workers there make more than \$22.50. In 2016, it employed 205,000 people out of which 117,000 were full time workers and 88,000 were part time workers. However, it is not just about paying higher wages than the competitors but Costco has focused on other things too. It provides its employees with better health benefits and other benefits too. All of this is done to keep the employees happy.

Costco hire employees equally, no matter on gender or race. Besides, they show

their employee information report to everyone means that Costco is doing this thing seriously. An American company can do this matter equally is not quite easy because there are lots of racial discrimination in America.

CO= M141182 u= M141182	EQUAL EMPLOYMENT OPPORTUNITY 2016 EMPLOYER INFORMATION REPORT CONSOLIDATED REPORT - TYPE 2														
SECTION B - COMPANY IDENTIFICATION							SECTION C - TEST FOR FILING REQUIREMENT								
1. COSTCO COMPANIES, INC 999 LAKE DRIVE ISSAQUAH, WA 98027							2.a. COSTCO COMPANIES, INC 999 LAKE DRIVE ISSAQUAH, WA 98027								
SECTION D - EMPLOYMENT DATA							SECTION E - ESTABLISHMENT INFORMATION								
							c. Y NAICS: 452910 Warehouse Clubs and Supercenters								
HISPANIC OR LATINO		NOT-HISPANIC OR LATINO													OVERALL TOTALS
		***** MALE *****							***** FEMALE *****						
JOB CATEGORIES	MALE	FEMALE	WHITE	BLACK OR AFRICAN AMERICAN	NATIVE HAWAIIAN OR PACIFIC ISLANDER	ASIAN	AMERICAN INDIAN OR ALASKAN NATIVE	TWO OR MORE RACES	WHITE	BLACK OR AFRICAN AMERICAN	NATIVE HAWAIIAN OR PACIFIC ISLANDER	ASIAN	AMERICAN INDIAN OR ALASKAN NATIVE	TWO OR MORE RACES	
EXECUTIVE/SR OFFICIALS & MGRS	4	0	33	0	0	1	0	0	1	0	0	0	0	0	39
FIRST/MID OFFICIALS & MGRS	1401	621	5126	607	41	467	43	103	2218	308	32	233	25	46	11271
PROFESSIONALS	149	212	1667	83	12	413	11	47	1804	131	15	535	12	50	5141
TECHNICIANS	292	720	1056	104	12	306	6	29	2530	271	24	526	24	80	5980
SALES WORKERS	3835	4346	8333	1644	141	1094	87	296	9524	1902	176	1043	107	325	32853
ADMINISTRATIVE SUPPORT	464	876	1521	198	15	249	10	40	2959	346	20	301	22	77	7098
CRAFT WORKERS	143	4	357	32	2	20	3	5	12	0	1	0	0	0	579
OPERATIVES	5937	1784	7522	1884	182	1195	76	307	2321	329	55	397	28	82	22099
LABORERS & HELPERS	6113	4617	11388	2978	306	1471	142	707	7782	1465	196	934	101	427	38627
SERVICE WORKERS	2968	2964	4405	1158	120	767	46	264	4034	809	112	722	56	239	18664
TOTAL	21306	16144	41408	8688	831	5983	424	1798	33185	5561	631	4691	375	1326	142351
PREVIOUS REPORT TOTAL	20354	15327	40284	8432	758	5725	411	1617	32429	5364	584	4413	370	1194	137262
SECTION F - REMARKS															
DATES OF PAYROLL PERIOD: 08/01/2016 THRU 08/14/2016															
SECTION G - CERTIFICATION															
CERTIFYING OFFICIAL: EEO-1 REPORT CONTACT PERSON: EMAIL: PCALLANS@COSTCO.COM				PAT CALLANS PAT CALLANS				TITLE: SENIOR VICE PRESIDENT TITLE: SENIOR VICE PRESIDENT TELEPHONE NO: 4253136563				CERTIFIED DATE[EST]: 09/15/2016 05:32 PM			

Figure 21 Equal Employment Opportunity Report

6.3.1 Costco's culture

Happier employees are always more focused and deliver with dedication. If Costco has been able to sustain its low prices and customer centered strategy then somewhere its organizational culture has played a very important role in it.

The company's focus on employee satisfaction has paid in the long run. Not just are its employees highly satisfied but they are more productive and highly dedicated too. Costco strengthened its promise further by raising the wages in 2016. Focus is on collaboration and not pushing the employees to deliver more than they can. This was known to be the norm at Walmart where employees were made to work much more than they were paid for. Continued assault from various groups has made Walmart

make changes and it has also increased the minimum wages for its employees. However, still in terms of having an employee oriented culture the brand is years behind Costco.

6.4 Capabilities

6.4.1 Tangible-operating management: Finance

Why they can success in the retail business, we think that it is because they have strong business model as well as strong management team. Let me explain the strong business model first.

- Costco's business model is predicated on providing its members the lowest prices for high quality goods. This doesn't mean the cheapest or lowest priced products in a given category. You can find cheaper unbranded toilet paper or laundry detergent elsewhere. Rather it means providing the lowest relative price for a name brand or high quality item. For example, a member can purchase name brand Tide detergent for the lowest price on a per ounce basis at Costco. In fact, the prices are so good that Costco essentially breaks even on the merchandise they sell to their members and makes their money on the memberships. As the result, the low price means the unit price
- The low prices on merchandise can't really be matched by competitors because competitors need to actually make money on selling the merchandise while Costco doesn't really have this "problem". The incredible value drives very high membership renewal rates among existing members and persuades new members to join so they too can benefit from the low prices. In recent years Costco has sustained renewal rates ranging from 88% to 90% - very high for any industry especially retail.
- At the same time, Costco continues to add more verticals and categories that members can save on if they purchase

- the greater scale helps Costco negotiate better price from suppliers

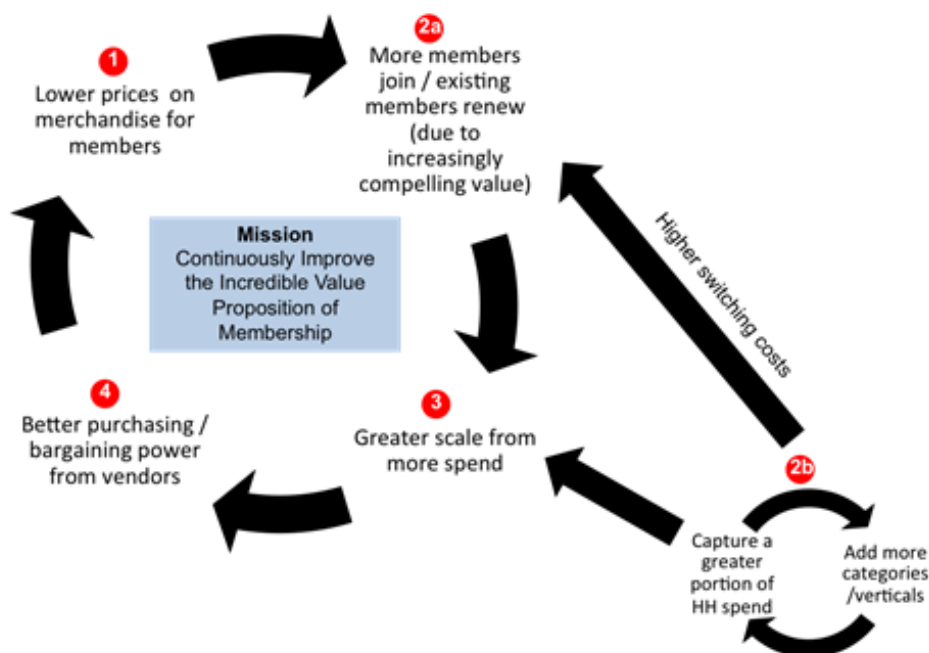


Figure 22 Operating Management

The second point is strong management team. The key elements of Costco’s operating strategy is because they have strong team who has clear understanding of the retail business and know what their membership want.

6.4.2 Tangible-Expansion

Because they have the high profit in each warehouse stores in global, they can extend their stores year by year. So far, their stores still concentrate in U.S. which accounts for 506 stores, and the stores in U.S. are still increased now (figure7). Otherwise, they extend the warehouse stores not only in U.S., but also in global. You can see the figure 8 which show every country has already been extended the Costco’s warehouse stores. Therefore, we think they have capability to extend their stores.

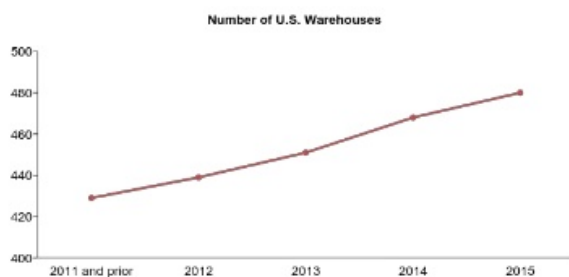


Figure 23 Numbers of U.S. Warehouse

Costco Warehouse Geographical Summary	# Stores Q3 2017	# Stores Q3 2016	# Stores Increase
United States and Puerto Rico	510	493	17
International Markets	222	212	10
Canada	95	90	5
Mexico	37	36	1
United Kingdom	28	27	1
Japan	25	25	0
Korea	13	12	1
Taiwan	13	12	1
Australia	8	8	-
Spain	2	2	-
Iceland	1	-	-
Total	732	705	27

Figure 24 Geographical Summary of Costco's Warehouse Stores

6.4.3 Intangible-Marketing

Every element of Costco’s business model is aimed at one thing – increasing and improving the value proposition of a membership. This is done through both improving prices on products and services (ex: adding gas stations, optical, photo centers, insurance). This ultimately makes (1) switching costs higher; (2) the membership stickier and (3) generate some additional operating margin on the additional items sold.

- **Membership**

The key differentiating aspect of these warehouse clubs versus other retailers is that you must be a member to shop there. They charge an annual membership fee in exchange for lower prices. Costco's renew rate in USA is 90% and average 80% around the world. It indicate that member approve the value of Costco.

- **Low price, large quantities and limited featured product**

Costco doesn't mark up their price more than 15 percent on their every product and average markup price at Costco is 11%, which compares with other retailers such as Walmart (24%), and supermarkets (30-35%)

Costco control their product amounts below than 4,000 types which compares with other retailers such as supermarket (40,000 types) and Wal-Mart (125,000 types)

Costco's product selection is special and deliberated to create the product differentiation. And their product placement and price discount is not fixed and irregular (For example : Levi's pants has a discount, but if you don't buy it, next time maybe this pants sold out or restore to the original price) so it can trigger member to have a treasure hunting experience and also creates a sense of urgency to buy.

- **Treasure Hunt & drive consumer frequency - discovery and exploration**

About 25% of Costco's products are called "treasures". These items from luxury brands to seasonal products. Costco has embraced what they often call the "Treasure Hunt" – their quantity and discount time are limited and irregular to trigger customer's desire and provide member a fun shopping experience.

6.4.4 Intangible-Human Resource

- **Automated System (Maintains Scheduling)**

Sinegal has played a central and instrumental role in making and maintaining

a valuable culture at Costco. For him retail was a people business and therefore it was important to get the people part of the story right. It is the most valuable and important part of the equation and getting it right meant having solved the most important part of the puzzle. How happy your people are would decide how happy your business is. Therefore, Sinegal's focus was on winning people's dedication by keeping them happy and satisfied. At Costco, they hire good people and thereafter train and pay them well. Apart from it, the opportunities of advancement are also better at Costco. In return, what Costco gets is higher dedication and productivity from its employees. However, all this investment is at last worth it because it all translates into sales and profits. Therefore, their check the bill service is pretty fast and employees will check the situation whether needs more employees to do check the bill with self-motivation. Moreover, employees put customers' goods orderly not making mess or confusing. Employees work fast and accurately..

- **Training**

Employees in Costco have training courses to their working content. Costco not only wants their workers do well but hopes they can grow when they work. Include great wage, benefits, safe environment, challenging work etc

6.5 Strategies analysis

High	Superfluous Strength: <ul style="list-style-type: none"> ➤ HR ➤ Diversified service ➤ Co-branded ➤ No advertising 	Key Strength: <ul style="list-style-type: none"> ➤ Return & Refund ➤ Membership fee ➤ Private brand ➤ Supply chain ➤ Inventory ➤ Negotiation ➤ Product selection ➤ Low price & Big volume
Relative Strength	Zone of Irrelevance: <ul style="list-style-type: none"> ➤ Membership system ➤ Product selection ➤ Low price & Big volume 	Key Weakness: <ul style="list-style-type: none"> ➤ Branches ➤ Technology
Low	Low	High

Strategic Importance

Figure 25 Strategies- key strength

6.5.1 Tangible strategies analysis

✚ Tangible-Inventory (Finance): Key Strength

For this group of area, Costco tries its best to reduce the cost of hiring staff. First, it uses pallets and forklift to carry and put products in the shelves. As a result, there only may be a few staff of controlling the equipment. Also, the company displays goods in their shipping pallets, instead of arranging individual items on shelves.

✚ Tangible-Supply Chain (Finance):Key strength

With the efficiency supply chain management, Costco directly order as well as negotiate the price of the products with the local suppliers or manufacturers. Then, merchandise will be sent directly to Costco since it has the cross-docking strategy. By

use this strategy, Costco can decrease the time for storing goods and instantly distribute all the products in one place in the logistic center. It doesn't need to spend other time for suppliers to distribute products to different logistic center. Therefore, we think good management of supply chain also helps the inventory system in Costco.

Negotiation with supplier (Finance): Key strength

In the strategies of international management of Costco, as what we mentioned above, it directly sources and cooperates with the suppliers locally. Consequently, Costco can have the lower prices of importing goods. This can not only benefit Costco but also the manufacturers worldwide. Costco therefore purchases the most of their merchandise directly from manufacturers. The greater scale helps Costco negotiate better prices from suppliers that are in turn passed back on to their members.

Product selection-featured products: Key strength

A typical Costco warehouse store stocks only 4,000 types of items per store. With this kind of selection, Costco helps its members to choose good qualities items on every category, and avoid importing goods that the quality is not so well or no branding products.

Product Selection - small variety of goods (Zone of Irrelevance)

As the most powerful competitor of Costco, Walmart sells almost ten thousands of products. However, Costco only selects 4,000 products as same as supermarket. However, with the limitation of merchandise, Costco cannot compete with other rivalries because other stores sell a variety of goods than Costco. Perhaps some of customers would like to shop and select items by themselves.

Product- low price and big volume: Key Strength 、 Zone of Irrelevance

Finance: Key strength

The company's supply chain management is focused on low prices. By doing so,

it competes the unit low price with a very big volume with other rivalries. Bulk sale is suitable for big companies or several big families in Taiwan.

Nevertheless, for the individuals or single nowadays, they wouldn't prefer goods in big volume. For example, it's hard for them to finish a big package of potato chips within a short time. Besides, there aren't so many big families in Taiwan now. Most of families only have three to four people.

Private brand (Finance): Key Strength

The Kirkland Signature products allow Costco to earn higher margins versus similar branded products they sell while also differentiating their offerings from other retailers. In recent years, an increasing percentage of Costco's total merchandise sales are derived from their Kirkland Signature products with a strategy of increasing penetration of Kirkland Signature sales, given higher margins on these products versus other branded products. About 25% of Costco's sales profit comes from Kirkland.

Expansion (Physical-branch) :Key Weakness

Although Costco now has extended their stores to many countries around the world, it is still carefully considering about open another new store in different places. High geographic concentration of stores makes Costco doesn't gain extra profits from other countries since other rivalries have more branches worldwide than Costco. According to the survey, about 30 % of Costco's sales came from California in the U.S.

6.5.2 Intangible strategies analysis

No advertising: Superfluous Strength

Costco doesn't have advertising so as to cut down the advertising cost. They through member's mouth advertising to marketing. If their members have a good shopping experience in Costco, Costco hopes their member recommend their friends to come to store.

Co-branded: Superfluous Strength

Starbucks on KIRKLAND Signature blend house coffee. Furthermore, KIRKLAND is now trying to work with Kimberly-Clark to have own-branded diaper.

Membership: Key strength, Zone of Irrelevance

Membership model - membership fee: Key strength

The concept of membership model let Costco become successful clubs. Costco through membership system to create the exclusivity and aim to their target customer groups who approve Costco's value to make Costco effectively communicate with their members and increase consumer loyalty. In the store, Costco's member can not only have a one-stop shopping experience, but enjoy the service which Costco make an effort on to add the value of membership.

Costco has 91% renewal rates in USA and average 80% renewal rates in the world, it means their members generally approve Costco's membership value and consider that it is worth to be Costco's member and pay the annual fee.

Membership model-limited market: Zone of Irrelevance

Membership model will select their customer who support and approve Costco's core value and Costco can efficiently communicate with their members. But at the same time, Membership model will limit their market and consumer who just buy fewer products or small package products.

Diversified Service: Superfluous Strength

New and Fun Offerings Increase Stickiness

Costco has multiple ancillary products and services, from pharmacies to gas stations. They offer a wider array of services that cannot be replicated online, such as optical, pharmacy, food court and so on. They boost the perceived value of club membership and consider that it is worth to be Costco's member and pay the annual fee.

Return and Refund Policy: Key Strength

Guarantee and Refund

If consumers are not satisfied with the goods, Costco can let their member return and refund until the last day become overdue.

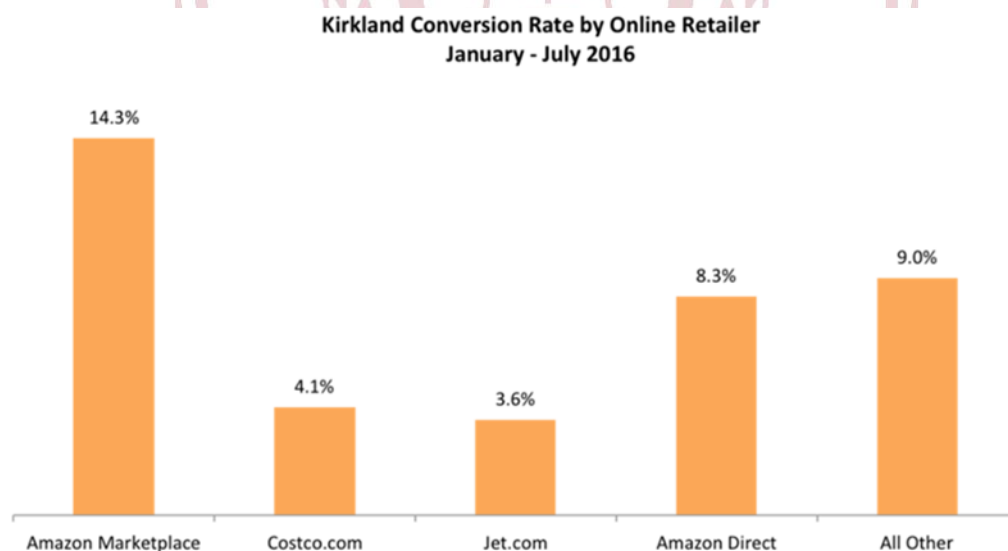
Website- online shopping: Key Weakness

Nowadays, E-commerce is rising and is a kind of trend. In 2016 financial report, Costco earn just 4% of its overall revenues through e-commerce sales and the result of online shopping is also under the expectation. Take the Costco’s private label for example; the online sale of Costco for Kirkland is much lower than Amazon. And the figure is indicated that Costco still relies and focus on its in-store sales.

	FY12	FY13	FY14	FY15	FY16
Revenue (USD Bil.)	\$2.1	\$3.1	\$3.3	\$3.4	\$4.6
Percentage of Total Revenue	2%	3%	3%	3%	4%

Source: Company reports/Fung Global Retail & Technology

Figure 26 The Percentage of E-commerce Revenue for Costco



Source: 1010data Market Insights

Figure 27 The Sales of Kirkland by Online Retailer

Check the Bill Efficiently: Superfluous Strength

Because the workplace environment in Costco is really good, not only on benefits

but also on salaries, employees are more willing to do more for their company, Costco. Moreover, the checkout machines are many in one store and can do checking the bill efficiently, not need to wait too long. And, employees work efficiently to make customers' merchandises orderly not confusing.



6.6 VRIS

6.6.1 Resource-VRIS analysis

- ✚ Financial: The financial performance of Costco is a valuable tool for them to make decisions or create strategies. However, it is easy to substitute because there are a lot of companies that are richer than Costco. Thus, it is not rare and can be imitated.
- ✚ Physical: Costco only use equipment like forklift or pallet to deliver the merchandise. So, those facilities are all easy to buy and does not cost a lot of money. We think in the part of physical resource, Costco does not fit into any group.
- ✚ Reputation +Service culture +HR: These three points are all intangible and it's the most important keys for Costco to go succeed. With the good mouth-advertising, Costco earn good reputation as well as good service of refund. Therefore, we defined them as sustainable competitive advantage.

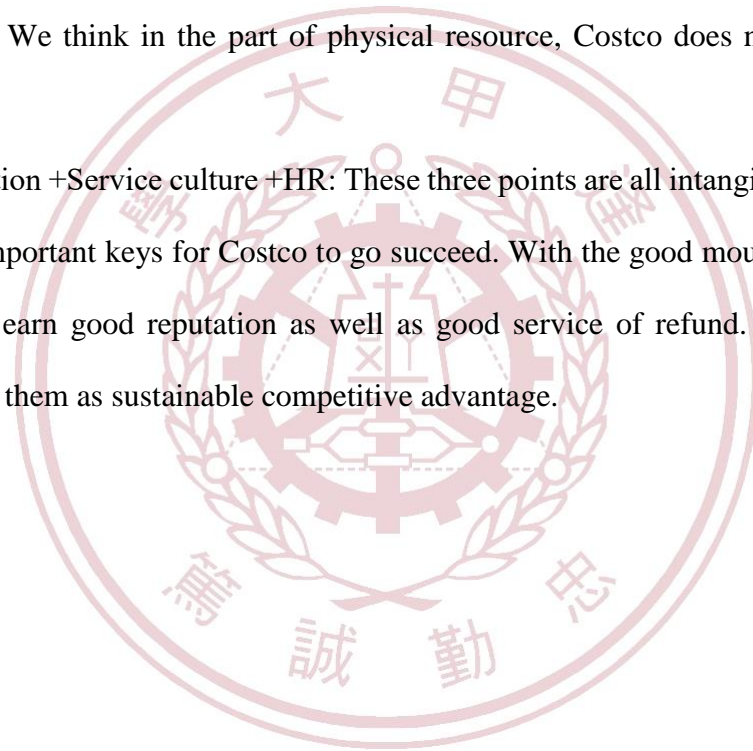


Table 8 VRIS-Resource

Resource	Valuable	Rare	Imitate	Substitutable	Competitive Consequence	Performance Implication
Financial	v	x (financial performance)	x	x	Competitive disadvantage	Below average returns
Physical	x	x	x	x	Competitive disadvantage	Below average returns
Reputation	v	v	v	v	Sustainable competitive advantage	Above average returns
Service	v	v	v	v	Sustainable competitive advantage	Above average returns
Culture	v	v	v	v	Sustainable competitive advantage	Above average returns
HR	v	v	v	v	Sustainable competitive advantage	Above average returns

6.6.2 Capabilities-VRIS analysis

✚ Operating management +Marketing+ Automatic system: In this area of capabilities, Costco make a lot of efforts on their supply chain management. As a result, good operating, management can give Costco a good marketing and the efficiency automatic system.

✚ Expansion: Since Costco works carefully on expanding branches all over the world, other competitors such as Walmart has a lot of branches. Consequently, we do not think that Costco's capability of expansion gets any value and it also does not rare. Other rivalries can copy and substitute it easily.

✚ Training: The training system in human resources in Costco works successfully because of the good HR system and company culture, so we put it as sustainable competitive advantage.

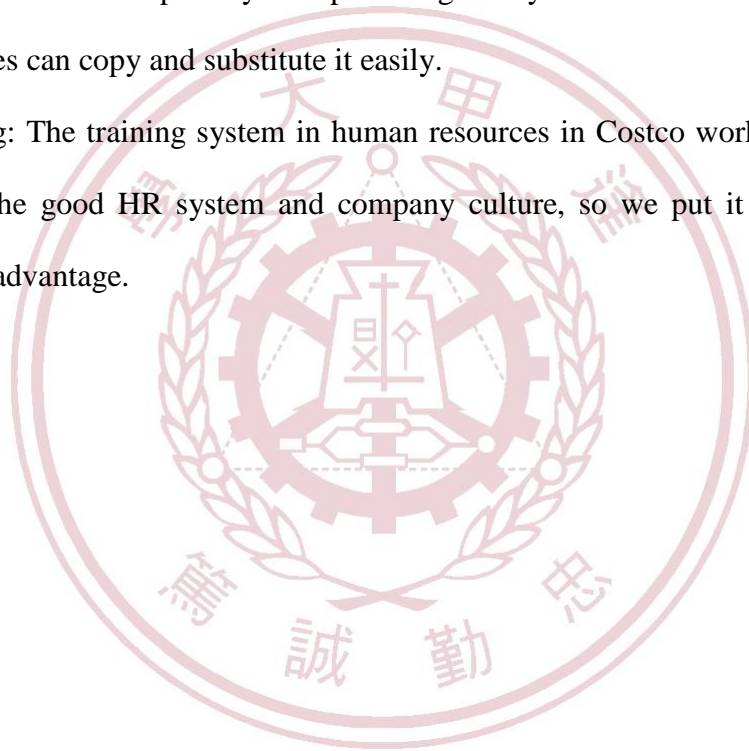


Table 9 VRIS-Capabilities

Capabilities	Valuable	Rare	Imitate	Substitutable	Competitive Consequence	Performance Implication
Operating management	v	v (supply chain)	v	v	Sustainable competitive advantage	Above average returns
Expansion	x	x	x	x	Competitive disadvantage	Below average returns
Marketing	v	v (membership strategy)	v	x	Temporary competitive advantage	Aver./above average returns
Automatic system	v	v	v	x	Temporary competitive advantage	Aver./above average returns
Training	v	v	v	v	Sustainable competitive advantage	Above average returns



7 Value Chain and Low Cost strategy



Figure 28 Value Chain

7.1 Primary Activities

7.1.1 Inbound Logistics

✚ Partnership with vendors

As what we mentioned in chapter six before, Costco tries its best on negotiating and gain resources from local manufacturers as much as possible. Thus, it can get the lower price on every product.

✚ Supply chain

The supply chain includes buying products directly from manufacturers. As in the before chapter, we mentioned about the strategy of cross-docking. It is different from the traditional one. Before, retailers ordered goods from different suppliers. So, products will be sent into different logistic center. Then, goods will be distributed into different trucks and sent to warehouse stores. With cross-docking strategy, all of the

merchandise will be sent to the same logistic center. They can only be classified once and can quickly be distribute to the store directly. As a result, Costco reduce the cost to store goods. Costco has a supplier diversification strategy for this decision area of operations management. Costco's supply chain differs from the traditional supply chain because it has fewer steps with fewer hands touching the merchandise. In a traditional supply chain, goods will be moved from the manufacturer to the distributor, then a warehouse, and finally, the retailer. At each of these locations, multiple workers handle the merchandise for stocking, loading, unloading, and then additional transportation. All the steps add to the cost. Costco's supply chain eliminates many of the steps by trucking their products directly to their stores.

Inventory

The products in Costco are all sold in the last-in, first-out system in the cost of accounting. Since Costco has believed that by doing so, it is more fairly. Besides, the results in the operations will be more close to the current cost

This also enables higher inventory turnover as product can be put on the floor as soon as it comes in from the distribution center.

7.1.2 Operation

Management-managing the operating equipment

Using warehouse style to manage their retails; thus, they don't have so many decorations in their stores that way makes them minimal the maintenance cost for their equipment.

Operating management

For Costco, one of the major revenue is membership fee. Therefore, they use the revenue of membership fee to expand more branches. After expanding more branches, they can also attract more customers with joining membership system. So we think that

it likes the circle operating strategy.

✚ Efficiency -big volume+ simple-packaged+ big volume

Costco reduce the volume of stock and over stock is one of Costco's activities to extent its operating efficiency. If Costco has lots of stock, it needs bigger space to storage stock and cost will increase by managing stock. Therefore, they repackage the same products into a large package to save the inventory cost, and in that way, Costco will reduce the price per unit of product.

✚ Membership system

We all know that Costco is a membership warehouse club, dedicated to bring their members the best possible price on quality as well as their private label brand merchandise. However, the benefits which give to their members is not only providing those types of products but also providing exclusive member services, like diverse service in one retail, after-sales services and so on.

✚ Private brand strategy –Kirkland

Costco not only provides the products from suppliers who are their cooperative partners but also creates their own brand-name with subcontractor. In addition, Kirkland, their private label brand is a pillar of the Costco's profitability and become one of operating strategy in Costco.

✚ Co-branding

They also use co-branding strategy to let their members see the familiar brands in their retail, like Starbucks and Pampers.

7.1.3 Outbound Logistics

✚ forklift and pallet

✓ In Costco's store, they use forklift and pallet to deliver their goods so that they can save their labor cost and time.

7.1.4 Marketing and Sales

✚ Word of mouth advertisement

Costco does not advertise itself by TV channel or billboard. But it does not mean that Costco has no advertisement. Costco advertise by their consumers' mouth. For instance, Costco's members will tell their friends that buying commodities at Costco is great, no matter on price or quality. Accordingly, Costco has low cost on advertisement.

✚ Co-branding

Starbucks on KIRKLAND Signature blend house coffee. Furthermore, KIRKLAND is now trying to work with Kimberly-Clark in order to have own-branded diaper.

✚ Promotion

✓ Costco's main promotion strategies

✓ Sales promotion

✓ Direct marketing

✓ Personal selling

✓ Public relations

✓ Seasonal activities

✓ Luxury selling

✓ Treasure hunting

Costco uses bulk discounts as a form of sales promotions to attract consumers to its warehouses/stores. Members are guaranteed low prices for products sold per pack or in wholesale amounts. In addition, Costco uses direct marketing through emails to members monthly. On the other hand, personal selling happens when sales personnel persuade customers to purchase certain products at the warehouses. Costco applies public relations to boost its corporate and brand image. For example, the company has

sustainability programs for its supply chain, and gives donations to support programs for children, education, and health and human services.

You can see Costco is lack of advertising which separates Costco's marketing strategy from those of other retailers like Walmart. Costco does not advertise, and relies more on its low price and product value to attract consumers.

Moreover, Costco also holds seasonal promotion activities such as gift box for Christmas or Halloween. And there are some sales activities, including Black Friday or sales product randomly. Costco sells luxury product as diamond, too.

Costco's product selection is actually very deliberate. Three-quarters of Costco's products are what it calls "triggers" - staples such as paper towel, detergents, and cereals. The remaining one-quarter are "treasures" - items that make shopping an adventure. These items change frequently: one day you can find a luxury watch offered at a ridiculous discount and the next day, it's gone. This creates a sense of urgency and the thrill of shopping that hooked people on.

✚ Pricing

With a very big ordering quantity of Costco, they can provide members in lower price with every good. Furthermore, forty percent of Costco's products are domestic. These domestic products compete with other rivalries, they sell in lower prices.

✚ Build brand reputation



Figure 29 From 2016 to 2017, Costco Is The Most Valuable Global Retail Brands, Ranking at 6th

Membership Retention Rate

The number of paid members is extremely important to shareholder value. If the retention rate of memberships was to fall, that would affect valuation for Costco.

There are rumors of a potential membership fee increase coming in 2017, which could have a negative effect on new member sign-ups and retention rates.

For FY 2016, Costco reported a 90% US and Canada retention rate along with an 88% rate, internationally. This has led to the number of cardholders per store to continually increase, as the stores add more members than they lose.

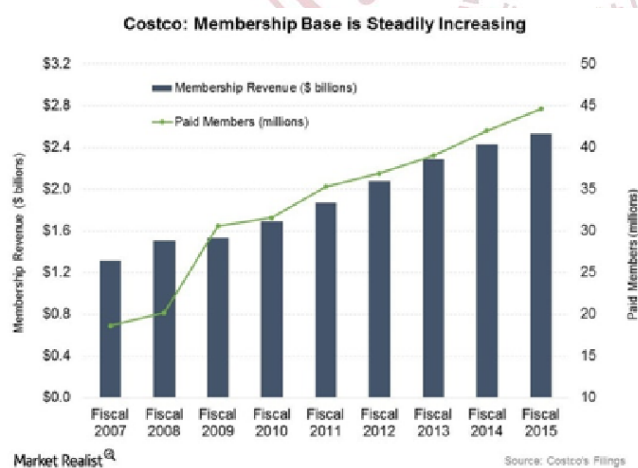


Figure 30 Membership revenue of Costco

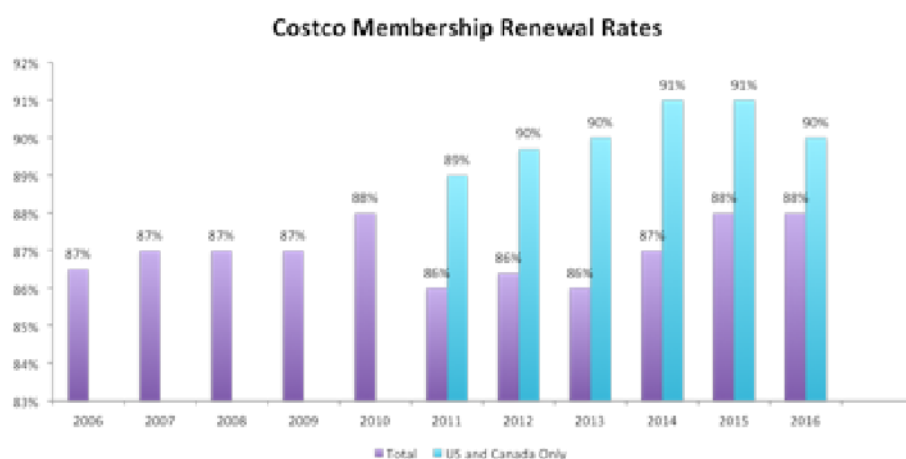


Figure 31 Membership Renewal Rates

Membership renewal rates remain high as a result of constant product innovation and value perception. The membership model of Costco works and, by rewarding loyalty, Costco has generated industry-leading comparable-store sales. In a low-margin business, success is achieved by increasing the frequency and average purchase of each club member.

7.1.5 After-Sales and service

Service

Return and refund

If consumers are not satisfied with the goods, Costco can let their member return and refund until the last day become overdue.

Diversification service (in-store service)

Costco offers a range of services to its members include :

續 Pharmacy (Pharmacy's sales accounted for 2nd in Costco's in-store services)

Pharmacies have private consultation so their member can not only buy their product also consult.

續 Gas station (Gas station's sales accounted for 1st in Costco's in-store services)

Costco's gas station products and services generate about 10% of Costco's total

merchandise sales (excluding membership fees). Their gasoline price is lower than other competitors.

縉 Food court (Food court's sales accounted for 3rd in Costco's in-store services)

They offer pizza, hot dog, smoothie, hot soup and soft drink.

縉 Optical

Costco offer a wide variety of eyeglass, frame and contact lenses

縉 1 hour photo

Members can upload their picture to Costco's website in advance and directly go to Costco photo center to print out.

縉 Hearing aid center

They offer free hearing test and hearing aid cleanings.

縉 Tire center

Their professional staff test tire pressure and also offer installment.

縉 Print & copy center



Ancillary Business	Description
Pharmacy	Offer brand-name or generic prescription drugs as well as a wide variety of over-the-counter products. (Also available at costco.com) Fills 13 million prescriptions per year (720 per unit per week)
Gas Station	High-volume, self-serve gas stations are safe, clean facilities offering low prices, pay-at-the-pump convenience, high-speed pumping and extra-long, flexible hoses to make filling your tank quick and easy.
Food Court	Fresh pizza, hot dogs, frozen yogurt and cold soft drinks right at the warehouse. Many locations also offer specialty foods like churros, soft pretzels and more.
Optician	Optical Department with an Independent Doctor of Optometry. Featuring a wide variety of contacts and designer frames.
1-Hour Photo	State-of-the-art 1-Hour Photo processing labs feature high-quality processing of 35mm, Advanced Photo System film and digital media. Also offer passport photos, photo announcement and holiday cards, photos on CD, reprints and enlargements.
Hearing Aid Center	Costco's Hearing Aid Centers offer traditional, programmable or 100-percent digital hearing aids, with on-site custom computerized programming.
Tire Centers	Professional staff install your tires while you shop. Featuring brand names like Michelin at low warehouse prices. One low price for installation and lifetime service.
Print & Copy Centers	Offers professional printing services, print finishing, custom promotional products, and color and black-and-white photocopies. It's your one stop print and copy shop!

Figure 32 The Range of Service Which Costco Provide

7.2 Support Activities

7.2.1 Firm Infrastructure

One of their targets is to create more profit, and they have already attained this goal; the other target is open more warehouse stores. Therefore, they try to operate more warehouse steady in global every year. In 2016, there are 29 new locations in global, 21 stores are in the U.S., including four Costco Business Center, and two new locations were opened in both Canada and Japan; and one new warehouse was opened in the U.K., Taiwan, Australia and Spain. In 2017, they decided open 31 new openings, and extending their global footprint into two more countries: France and Iceland.



Figure 33 Average Sales Per Warehouse

Costco's culture

With a lot of competition coming its way, Costco has preserved its edge by building a unique culture. Culture is at the root of everything. The most successful organizations of the 21st century have the greatest cultures too. Costco has also created a distinct culture and that has led to higher productivity and better performance from the employees. A focus on employee excellence has resulted in two things.

First of all, it has led to satisfaction and happiness for the employees and second it has led to better performance and higher productivity. Happier employees are always more focused and deliver with dedication. If Costco has been able to sustain its low prices and customer centered strategy then somewhere its organizational culture has played a very important role in it. Costco leaders themselves attribute its financial success and growth to the organizational culture and the important role that employees play in the execution of its strategy.

Important highlights of Costco's organizational culture:

- Focus on employee satisfaction
- Focus on internal collaboration
- Focus on employee training and growth

- Low pressure related to productivity and performance
- A learning environment that provides best opportunities of learning and growth.

The company's focus on employee satisfaction has paid in the long run. Not just are its employees highly satisfied but they are more productive and highly dedicated too. Costco strengthened its promise further by raising the wages in 2016. Focus is on collaboration and not pushing the employees to deliver more than they can. This was known to be the norm at Walmart where employees were made to work much more than they were paid for. Continued assault from various groups has made Walmart make changes and it has also increased the minimum wages for its employees. However, still in terms of having an employee oriented culture the brand is years behind Costco.

Despite the pressure from other retail and e-retail brands, it has not deviated from its norm and sustained its culture where the employees and customers are at the center. Employees do not feel any pressure related to performance and are given ample space to work and grow. They can learn from each other and serve their customers happily and without any pressure. It is also why the customer retention rates at Costco are higher. The employees are promoted from within and due to the opportunities of growth they last long at the organization. The senior officials at Costco even claim that people will bang their doors down to work at Costco. This is also why the competitors are generally unable to steal Costco's workers. It is not difficult to come across people at Costco who have been working there for more than ten years.

Check-out efficiency

Because the workplace environment in Costco is really good, not only on benefits but also on salaries, employees are more willing to do more for their company, Costco. Moreover, the checkout machines are many in one store and can do checking the bill

efficiently, not need to wait too long. And, employees work efficiently to make customers' merchandises orderly not confusing.

✓ **Taiwanese**

- The first and only company adjusting wages automatically by computers. Hourly-rated employees' wages will be adjusted by computer when their working hours are enough to company's regulations, will not be caused by other reasons, such as employers.
- All employees are hourly-rated except for managers. Wages rates are from NT\$170 to NT\$280. Full-time staffs need to work 40 hours weekly and hourly staffs need to work 20 hours at least per week.
- Free staff group insurance, including Term life insurance, Personal injury insurance, Injury medical insurance, Hospitalization medical insurance, Cancer insurance, Occupational injury insurance (employees' spouse and children under 23 years old can have free Hospitalization medical insurance and Cancer insurance)
- Employees can take off two days a week without deducting wages.
- Benefit for free optical examination- Getting NT\$2,500 optical coupon per year (Employees' spouse and children under 18 years old can get it free)
- Physical examination
- Four membership cards for free per employee
- Pension funds
- Labor/ health insurance
- Night duty allowance

7.2.2 Technology Development

- CRS system

The introduction of the CRX system by Costco enabled Costco's supplier to

conveniently track and check the current stock and provide the overall operation of the supplier's global operations at COSTCO,

- IRI system

Provide the inventory of individual retail sales.

7.2.3 Procurement

- ✓ Parking lot
- ✓ Forklift and pallet
- ✓ Check-out machines
- ✓ Carts
- ✓ Picnic tables
- ✓ Shelves for products
- ✓ Price cards
- ✓ Lamps for stores

7.3 Costco is cost leadership



Figure 34 Cost leadership

7.3.1 Economies of scale

Costco have economic of scale make them procure more bulk package products with low cost. The more goods Costco sells, the bigger the economic scale and advantage they have.

7.3.2 Product design: simple-packaged + big volume products

Costco uses the way of simple-packaged to cut its cost on packaging because packaging products is wasting time and resources. In addition, the demand for customers is merchandise rather than packing. Besides, most members are family, the purpose of buying things is not sending for someone as gifts. Therefore, simple-packaged is one way for Costco to extend its operating efficiency which way also makes the cost down.

7.3.3 Input cost

Firstly, Costco bargains with local vendors with lower prices of goods. Besides, make the private brand has the partnership suppliers. By doing so, the supply chain management works efficiently.

Second, about its inventory system, select at most 4,000 items for members to pick up things that it thinks with good quality.

Last but not the least, the warehouse stylish stores make its cost lower. Costco can use pallets to store merchandises. Don't need to pay extra cost on hiring staff to do so.

7.3.4 Private label brand-Kirkland

Costco cooperates with other subcontractor to create Kirkland. In this strategy, it can make company save the circulation cost which is included transport cost, procurement cost and so on.

7.3.5 Geographic locations

Costco mostly establishes new branches on big cities. For instance, they set locations in Taipei, Taoyuan, Hsinchu, Taichung and Kaohsiung etc. Because there are big populations in big cities and the more people the inventory turnover is higher, products will be sold fast. In this way, Costco can make their operation cost lower as much as possible. If they open stores in countries, few people go shopping, their inventory will be stored longer.

7.3.6 HR management

Employees work in Costco are more willing to do more for their company. Therefore, the checkout machines are many in one store and can do checking the bill efficiently, not need to wait too long. And, employees work efficiently to make customers' merchandises orderly not confusing.

7.3.7 No advertisement

By choosing not to advertise, Costco doesn't incur some of the typical marketing expenses associated with a retail chain. Instead of seeing a weekly flyer in your Sunday paper, Costco hopes that you'll hear about their great deals from your friends and want to come and see for yourself. They also maintain a few loss-leaders, such as the famous \$4.99 rotisserie chicken or the \$1.50 hot dog and drink combo, to bring people into the store on a more regular basis.

8 BCG Analysis and Synergy



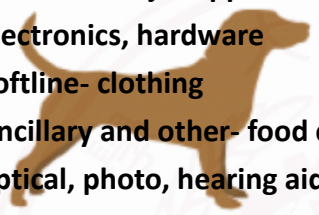

Annual real rate of market growth	High	Question Mark : 1. Ancillary and other- gasoline 2. Hardline- health & medicine 3. Fresh food- meat, cooked food 	Star : 1. Sundries- snacks, beverage, cleaning product and daily necessities 
	Low	Dog : 1. Hardline- major appliances, electronics, hardware 2. Softline- clothing 3. Ancillary and other- food court, optical, photo, hearing aid, tire center 	Cash Cow : 1. Food- dry food, packaged food 
		Low	High

Table 10 Costco's Sales Rank

Figure 35 BCG Matrix

In Costco's financial report they classify their product into six categories :

Food (include packaged food and dry food)

Sundries (include candy, snacks, cleaning supplies and daily necessities)

Hardline (include electronics, healthy food, and beauty supplies)

Fresh food (include deli and meat)

Softlines (include clothing)

Ancillary and other (include Costco's service such as gasoline, tire center, optical, food court, etc.) - Softline (including apparel)

- Ancillary and others (including gas station, pharmacy, food court and optical)

8.1 Question mark

8.1.1 Ancillary and others – gasoline

Table 11 Costco-Ancillary (Fiscal Sales)

Costco - Ancillary <i>Fiscal Sales</i>	2012	2013	2014	2015	2016
Pharmacy	544	565	589	606	632
	\$4,350	\$4,391	\$4,650	\$4,784	\$4,989
Optical	589	614	641	662	689
	\$890	\$910	\$985	\$1,017	\$1,059
One-Hour Photo	591	622	649	656	665
	\$315	\$325	\$365	\$369	\$374
Food Court	602	628	657	680	709
	\$945	\$955	\$1,035	\$1,071	\$1,117
Hearing Aid	469	502	549	581	616
	\$202	\$210	\$245	\$259	\$275
Print and Copy Centers	10	10	10	11	15
	\$8	\$8	\$8	\$8	\$9
Gas Stations	394	414	445	490	508
	\$10,761	\$11,100	\$11,448	\$10,678	\$9,588
Car Washes	7	7	7	7	7
	\$0	\$0	\$0	\$0	\$0
Total Sales (thousand)	\$17,471	\$17,899	\$18,736	\$18,187	\$17,411

Costco's gas station products and services generate about 10% of Costco's total merchandise sales (excluding membership fees). Their Gas station's sales accounted for 1st in Costco's in-store services. Compare to other competitors, their gasoline price is lower. For example, 95 unleaded petrol in Taiwan, Costco is 23.4 NTD/liter, CPC Corporation is 26.4NTD/liter, and Formosa Petrochemical Corporation is 26.3 NTD/liter.

8.1.2 Hardline - Health & Medicines

- Costco's health and medicine product are imported and in a bulk package. And their prescription drug prices can't be beat. Compare with CVS, a big chain pharmacy in USA, Costco's drug is cheaper than CVS. For example, Lexapro in Costco is \$7 vs. in CVS is \$126, Lipitor in Costco is \$17 vs. in CVS is \$150 and Plavix is \$15 vs. in CVS is \$180.

8.1.3 Fresh food - meat and cooked food

Now Costco's sales revenue of fresh food is accounted for 14%. In future, they still have a big growth space. Costco have their beef processing plant and they test their meat every 15 minutes to keep its freshness.

In Costco, they also offer free food sample. People in Costco can try their food

sample even have a free lunch in there. It would remind consumer about the exact taste and given them a particular desire for something so that it not only make member know their product, but build the consumer loyalty.

And Costco also actively increase the types of food and create a buying trend like strawberry mille crepe cake, strawberry mochi, Sushi and chocolate brownie.

8.2 Star

8.2.1 Sundries - snacks, beverage, cleaning product and daily necessities

Costco's nuts, diaper, toilet paper, beverage, milk and yogurt are best sellers. And in Taiwan, recently 厚奶茶 also is a popular beverage. The most of Costco's products are imported and it create the product difference. And their product is bulk package, it can offer their members a cheap price and meet the customer's needs.

Costco versus the high street supermarkets

Bulk product	Costco price	Cheapest alternative/ equivalent price	Size of discount
Johnson's Baby Extracare Wipes (6-pack x 64 per pack)	£5.86 or 98p per pack	£1.14 per pack, Asda	14%
Huggies 'Giga' box	£16.49 or 11.5p per nappy	13p per nappy, Tesco	11.5%
Tresemme 2-pack x 1.3 litre shampoo	£6.68 or 26p per 100ml	38p per 100ml, Tesco	32%
Nescafé Original 12-pack x 100g jar	£23.95 or £2 per jar	£2 per jar, Asda	Same
Diet Coke, 30-pack x 330ml	£7.22 or 24p per can	30 per can, Sainsbury's	20%
PG Tips Pyramid tea bags 4-pack x 160 bags	£11.29	Ocado, £15.36	26%
Fairy Active Lemon Dishwasher Tablets, 90 tabs	£6.87 or 8p per tab	14p per tab, Sainsbury's	43%
Toilet Duck cleaner, 3-pack x 750ml	£2.80	£2.25, Asda	N/A, 20% more expensive
Flash All Purpose Cleaning Liquid Fresh Lemon 2-pack x 2 litre	£4.99 or £1.25 per litre	£1 litre, Tesco	N/A, 25% more expensive
Persil Biological Powder 8.5kg box	£11.97 or 1.41 per kilo	£1.68 per kilo, Sainsbury's	16%
Weetabix cereal, 4-pack x 24g	£4.99	£7.12, Asda	30%
Heinz Tomato Ketchup, 2-pack x 1.35kg	£4.89 or 18p per 100g	30p per 100g, Sainsbury's	40%
Hellmann's Real Mayonnaise, 3.78 litre jar	£8.99 or 24p per 100ml	22p per 100ml, Sainsbury's	N/A, 8% more expensive
50-inch Panasonic Freesat TV	£1,057.48	£1,269, www.soundandvision.co.uk	17%
D&G fashion watch	£99	£161, Amazon	39%

Figure 36 Costco Versus The High Street Supermarket

8.3 Dog

8.3.1 Hardline- major appliances, electronics, hardware

Because hardline products are not daily necessary, their sales rank in Costco becomes lower a little from 2011 to 2016. Moreover, hardline products can use for

long time once buying, customers will not consume often.

8.3.2 Softline-clothing

Clothing in Costco is most over season styles so few people want to buy them only for those who do not care fashion style, such as Levi's and Havaianas.

Otherwise, people will buy clothes at department stores or fashion clothing shops, such as Zara, H&M etc.

8.3.3 Ancillary and other-food court, optical, photo, hearing aid, tire center

Although Costco provides lots of free service for its customers, it is just only services. If you want to buy glasses or change your tires, you absolutely need to pay for products. Costco just use those "free" service to attract customers come their stores to "buy" products.

Therefore, the above products are low market growth and low market share. However, Costco use these products or service to attract consumers come then consume merchandises. It is Costco's way to attract customers, such as sales products and some special products only selling in Costco.

8.4 Cash Cow

8.4.1 Food-dry food, packaged food

Food is almost always ranking at the first state of Costco's sales rank. For instance, packaged food include potato chips with big packages, candy with large bags etc. Costco use these low growth rate but high market share's products to maintain their revenues. In addition, most of customers usually go to Costco to buy these products; other products are not consumed often or used frequently.

8.5 Synergy

8.5.1 Operating Synergy- Costco+Kirkland

1. Kirkland operating efficiency

About the Kirkland, this brand didn't show up in the beginning when Costco started to operate. At first, the operating way for Costco is only cooperating with regular suppliers; however, Costco didn't be satisfied with the limited revenue which only cooperates with suppliers then sells the product to earn the low spread of price. Therefore, they found that they can use this operating strategy with creating their own brand with suppliers which way can make them control the cost of product. In addition, the beginning of this strategy was originated in 1995, Kirkland started to cooperated with Kimberly-Clerk, Starbucks and so on.

At the beginning, Costco would observe the sales amount of each category, and if one of the categories had high sales volume, then Costco will create the products of their own brand with their suppliers in the same categories. After that, they will put them together in the same categories with other suppliers to let their members compare the price, volume and so on; take the product of tissue for example. Kirkland helps Costco arrive the goals with low price and high profit.



Figure 37 Types of Tissue Sales in Costco

8.5.2 Financial Synergy

1. Eliminate risk

Just I told before, Costco will put their products in the same categories with other suppliers who provide their products to let Costco sell them. In addition, they not only put together but also put the Kirkland next to the best-selling products to attract more members to buy their product with lower price. If they found that their brand sales more than other suppliers in one categories, and they would kick off the suppliers who didn't sell very well in the retails then put their products into the top, just like the nuts. In addition, if the products of Kirkland sold badly, then they would remove them from the store shelves to eliminate risk.



Figure 38 Nuts Which Sales in Costco

2. Produce and shipping directly

The brand of Kirkland is cooperated with regular suppliers directly which makes Costco save the circulation cost without intermediate trader.

3. The markup of Kirkland is higher than other brand

Costco typically marks up its goods a maximum of 14% over its cost; most items have an 8% to 10% markup; however, the Kirkland Signature brand has a 15% markup. In other word, the revenue of Kirkland is accounted for one-four revenue of Costco.

8.5.3 Marketing Synergy

1. 20% sales from Kirkland

Costco's private brand Kirkland is another opportunity Costco can increase its sales. More than 20% of Costco's sales come from Kirkland products. This has made Kirkland have more power and money to invest on different categories.

2. Website selling

Amazon Marketplace is the top online seller of Costco's private-label brand, Kirkland Signature. They're now even available in China on Alibaba's Tmall site, where international brands sell to Chinese consumers.

3. Co-branding

- 鯽 Kirkland Signature/Starbucks coffee
- 鯽 Kirkland Signature/Jelly Belly jelly beans
- 鯽 Kirkland Signature/Quaker cereals
- 鯽 Kirkland Signature/Tyson in chicken
- 鯽 Kirkland Signature/Hanes in underwear

It's a win-win-win proposition. The national brand gets its product into Costco stores. Costco gets its higher-margin, store-brand product placed next to the national brand. And consumers get more choices. It builds legitimacy for Kirkland Signature across more categories. The brand accounts for 12 percent of the 4,000 SKUs in a typical Costco store.

4. Displaying next to the leading brand

Kirkland Signature is equal to or better than national brands and the standards is higher than industry norms. While putting Kirkland Signature products next to the leading brand, members can compare the prices clearly. They may tend to give Kirkland Signature a try because of the lower price. Kirkland Signature's success is putting

increasing pressure on national brands, which are having trouble maintaining position on Costco shelves.



9 Vertical Integration/ Outsourcing Strategy and

Diversification strategy

Table 12 Vertical and Outsourcing Integration Strategy

Inbound Logistic	Operation	Outbound Logistic	Marketing & Sales	Service
1. Partnership with vendor + procurement. 2. Inventory	1. Management: operating management + operating equipment 2. Efficiency: bulk package + simple package + cheap price	1. Pallet & forklift	1. Mouth ad. 2. Promotion: gift box/ black friday/ luxuries/ treasure hunting 3. Pricing 4. Co-branding	1. Refund + Return 2. In-store service

9.1 Outsourcing Strategy

Depends on the value chain of Costco, for inbound logistics, Costco uses strong

supply chain management in this area. Since the main operating activity of Costco is to import things vendors. Therefore, it tends to negotiate the price with suppliers in order to sell products with lower prices. With outsourcing to suppliers, Costco can manage the procurement and select the products for members.

As for the strategy of cross-docking, it can directly decrease the route of transfer products. While outsourcing in logistic, cross-docking helps Costco to distribute products efficiently.

9.2 Vertical Integration

Costco uses bulk-package on products with low prices and simple ware-house style to have efficiency operational management. In the area of outbound logistic, goods are sent in pallet to store things and forklift to put them on shelves. Thus, Costco doesn't need to spend money on hiring staff on handling stuff.

About their marketing, Costco doesn't have advertising so as to cut down the advertising cost. They through member's mouth advertising to marketing. If their members have a good shopping experience in Costco, Costco hopes their member recommend their friends to come to store.

With a very big ordering quantity of Costco, they can provide members in lower price with every good. Costco doesn't mark up their price more than 15 percent on their every product, which compares with other retailers such as Walmart (24%), and supermarkets (30-35%). Costco control their product amounts below than 4,000 types which compares with other retailers such as supermarket (40,000 types) and Wal-Mart (125,000 types). Costco's product selection is special and deliberated to create the product differentiation. And their product placement and price discount is not fixed and irregular (For example : Levi's pants has a discount, but if you don't buy it, next time maybe this pants sold out or restore to the original price) so it can trigger

member to have a treasure hunting experience and also creates a sense of urgency to buy. Costco also have their own private label brand - Kirkland to control their quality and cost which cooperate with other strong brand such as Starbucks to increase their own brand's popularity and quality to compete with other competitors.

In stores, they have seasonal and festival sales activity such as Thanksgiving, Christmas or Black Friday. Therefore, Costco sells a variety of goods from daily necessity to boutique or gift box. They also offers in-store services to members such as food court, pharmacy, optical, tire center, gasoline and so on. Costco's service can boost the perceived value of club membership. And if consumers are not satisfied with their goods, Costco can let their member return and refund until the last day become overdue.

9.3 Kirkland-Vertical and Outsourcing

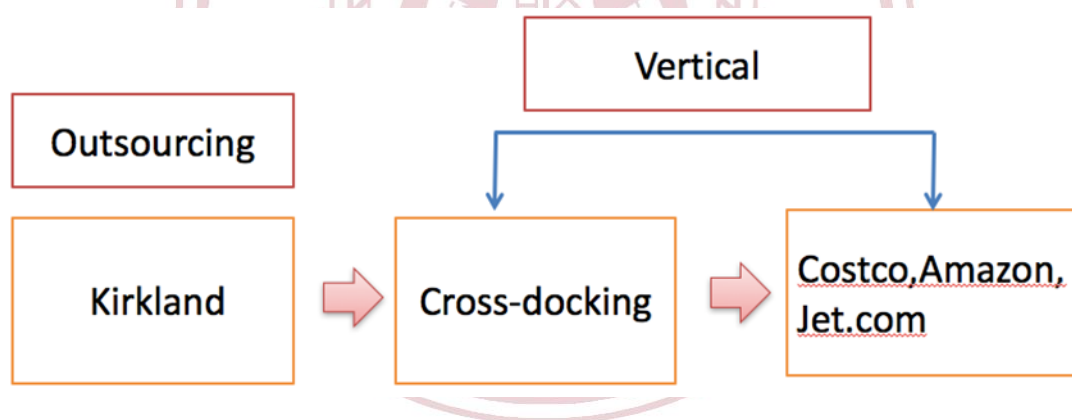


Figure 39 Vertical, Outsourcing for Kirkland

9.3.1 Outsourcing strategy and vertical integration for Kirkland

Costco always promotes that Kirkland is their private label brand and creates by them, but if check the information on the website, you can realize that there are so many cooperated manufactures to help Costco create the products of Kirkland, which means Costco only has the brand, and the products are created with other suppliers. After understanding the whole process, according to above figure, you can see the private

label brand-Kirkland, we considered that “outsourcing” is suitable for Kirkland, and the reason I have mentioned before. After that, the products of Kirkland put into every channel, Costco will assign each location of products by using cross-docking. Especially, Costco will put their private label brand into other sale channels which means the products for Kirkland signature can buy from other sale channels, including Amazon, Jet.com. As a result, the last two stages; we think cross-docking and sales channels are vertical.



However, when we collect the information for Kirkland, we find if one of products was soled very well in Costco. Costco would remark “Kirkland” on products which way can make costumers think Kirkland is a good brand in quality, price and volume. In fact, if you want to search every material for Kirkland or who helps to make these products of Kirkland, there is a lot of information that you cannot get. In other words, we can say that Kirkland is a secret in many aspects, such as cost, suppliers, manufactures and so on.

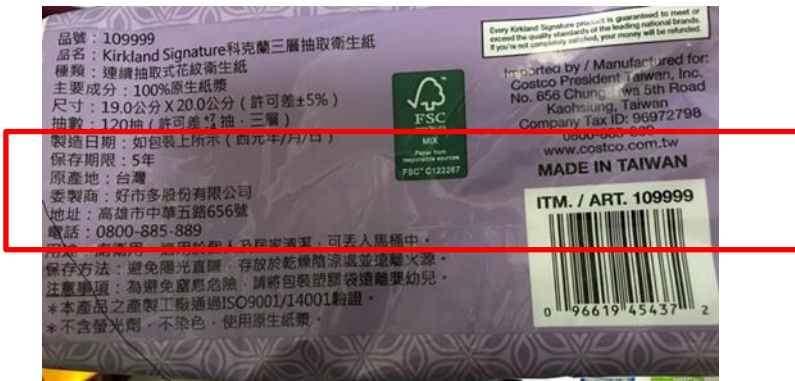


Figure 40 Tissue Made from Kirkland



9.4 Diversification Strategy

Table 13 Diversification Strategy

Diversification Strategy	
Related	Unrelated
1. product selection 2. membership 3. service- refund and return 4. sales activities 5. treasure hunting 6. Kirkland	3. service- in-store service

9.4.1 Related

1. product selection

There are only 4,000 kinds of products sold in Costco. Because Costco only wants to sell popular products in its store, they only select 4,000 kinds of products sold. Imported products and jewelry are also selected in these 4,000 kinds. If any product sold not good, Costco will put it under the shelf.

2. membership

Costco use membership to make profit and attract customers be more willing to go into Costco. If Costco does not use the way of membership, Costco might not make lots of profit and cannot control numbers of people go into Costco.

3. service- refund and return

Refund and return keep customers eyes because they can return products only when they do not like that products. This way also makes Costco be successful because customers know that they do not need to worry about whether the products they do not like and cannot return or get refund.

4. sales activities

Costco has lots of random sales activities, such as sales on products, gift boxes, and seasonal sales. Customers sometimes like to buy products on sales, they do not care that whether the style of products are fashionable. Moreover, when customers want to buy gift boxes as gift to their families or friends, Costco also provides these products.

5. treasure hunting

Costco randomly put products at different places, it makes customers find products whenever they go to Costco. Because Costco wants to let people buy things more than they plan originally. For instance, product A originally put at place A, next time when you want to buy product A, it might be put at place B or C. So that you will see more products than before and might buy more products.

6. Kirkland

Costco's private brand is Kirkland. Kirkland can produce popular products by lower cost than other brands and sell cheaper, such as tissue, food. By this way, Kirkland can make more profits than importing products of other brands.

9.4.2 Unrelated

1. service- in-store service

Such as gasoline station, tire center, optical, pharmacy etc. Costco also provides these services when customers come to Costco. However, few people will buy glasses or medicine in Costco because people also can buy those produces at other places. Moreover, those products are not produced by Costco itself so products are not cheaper than other stores

10 National Diamond

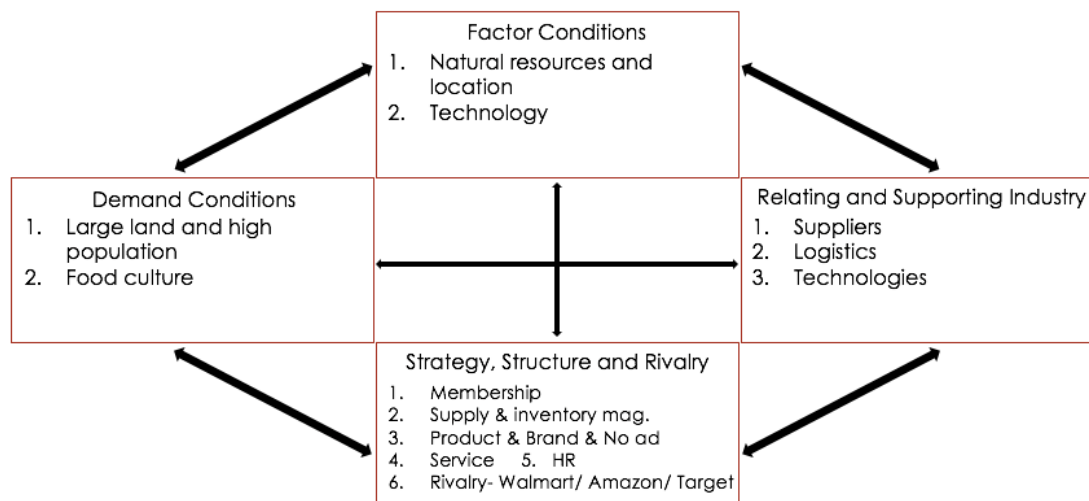


Figure 41 National Diamond

10.1 Factor conditions

1. Natural resources, Location

American urban area is characterized by higher population density and vast human features in comparison to areas surrounding it. Urban areas may be cities, towns or conurbations, but the term is not commonly extended to rural settlements such as villages and hamlets. Urban areas are created and further developed by the process of urbanization and do not include large swaths of rural land, as do metropolitan areas.

Costco has existed since 1983 and has been the first one of warehouse store in the U.S.A. Because the land in the U.S. is large and warehouse store needs a huge land to be built, Costco can operate there. And, the demand of commodities in America are huge amounts, it helps Costco be successful there. The following map is distribution of Costco in the U.S., it can get that Costco opens many stores at East and West Coast respectively. Since population of these two coasts are large, the needing of merchandise is more. Costco is not only convenient to customers one- stop shopping but also makes

lots of opportunities of working for residents. Additionally, people live in East and West coast are richer or business, their needing to buy big volume products is much.

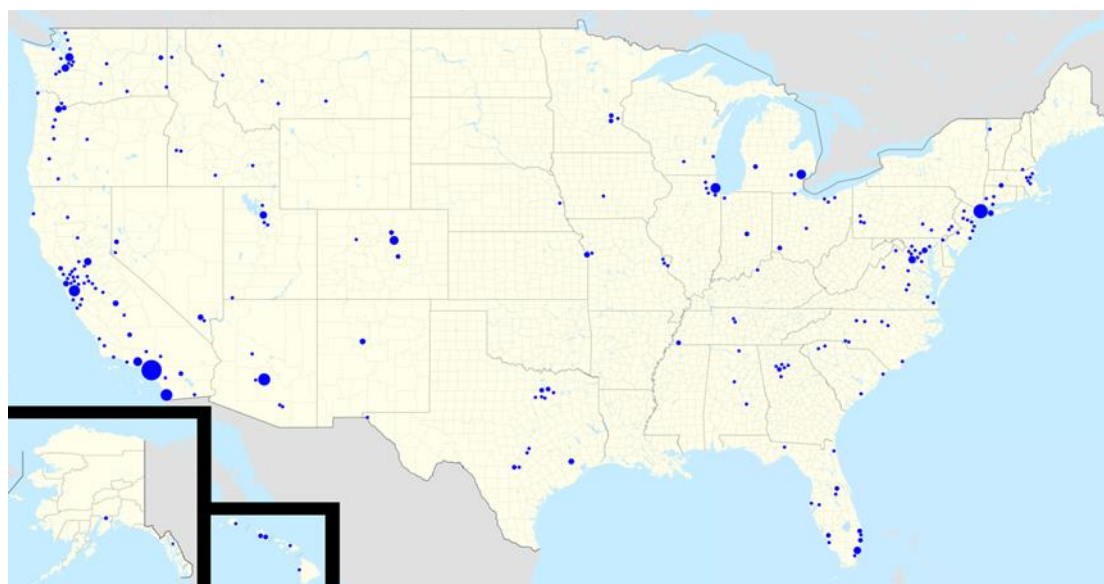


Figure 42 Distributions of Costco in America

2. Technology

Technology in America is almost the top one in the world. Such as Amazon, it can record your spending habit and deliver products you need on key timing. Costco also use technology like recording which product consumes quicker then replenishing that product as soon as possible.

Costco's daily sales and inventory data deliver the previous day's sales metrics for all items in all stores to the manufacturer community. From this way, Costco can control the amounts of products to their stores respectively.

10.2 Demand condition

1. Large land and high population

歷 In the area, we all know that when they go outside and buy their things, it took a lot of time for driving to the destinations to buy their things. American always buys things with big volume; therefore, Costco also use its way to let their members buy their

product with bulk-packaged.

歷 The local retail stores in American who operate their stores with large storefronts and parking lots because of high population and large land. You can see the following figure which shows that at square feet of retail space per 1000 people, the USA has 8 times the retail of Spain, 9 times the retail of Italy, 11 times the retail of Germany, 22 times the retail of Mexico, 51 times the retail of China and 400 times the retail of India! Overall, it is remarkable; thus, to cater local people, Costco also use its way to get into the market and decorate their stores.

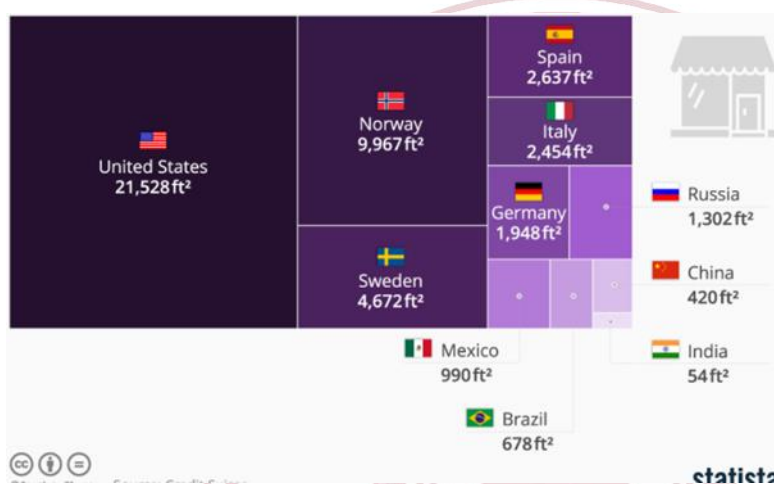


Figure 43 Space of Retail Stores in Each Country

2. Food Culture

歷 We all know that American people like to eat fast food, and they eat fast food in every meal and day. As a result, for American people who driving a long way, Costco provide a food court in each retail store with catering the taste of American.



Figure 44 The United States Local Food

10.3 Relating supporting industries

10.3.1 Retail Industry

According to the statistics, with the top ten retail companies in the world, five of them comes from the U.S. With the reason that retail market in U.S. is still growing, it gives Costco continue to expand their global reach by opening stores in countries throughout the world.

The main activity of Costco is importing a variety of product from suppliers and selling. Since Costco is a retailer and it sells a variety of products, from high-class jewelries to daily necessities, therefore, there are a lot of industries related to Costco, which includes manufacturing, IT industry or fabric industries and so on.

For Costco, it cares more about the quality of its products. It works hard to negotiate with all the suppliers and select good quality products with brands for its members. In America, if members bought goods that are not in a good quality, they may sue Costco for cheating. Thus, in order to not to pay for the legal fee and the money for hiring lawyers, Costco need to keep all the merchandise in a good quality.

10.3.2 Logistics

Because America is a big country, it has the big hinterland for Costco to import products into stores. Due to the big hinterland, Costco can control the distribution to its merchandise in their own logistic center. Cross-docking can reduce time as well as the cost of storing goods inside. The inventory turnover will be higher, which means that within 24 hours, products are ordered, sent into the store and put it on the shelves.



Figure 45 Costco's Hinterland in The U.S

10.3.3 Technologies

Costco emphasizes more staff at the check-out, with the efficiency system and clerks helping beside, it can decrease the time of lining up.

With the trend of E-commerce and online shopping nowadays. The giant e-commerce company in America is Amazon. With the high popularity of Amazon, Costco also sell some of the products in Amazon website to grow its revenue.

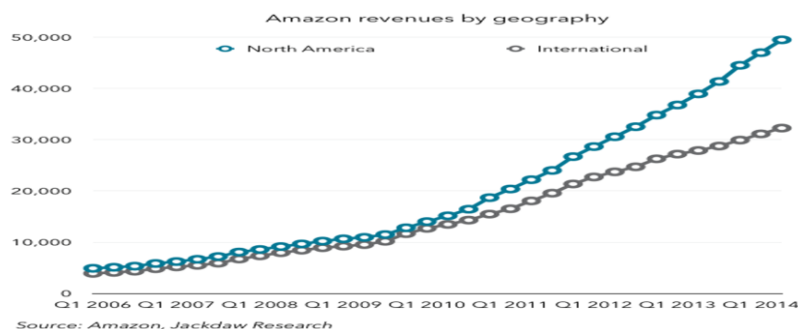


Figure 46 Amazon Revenues by Geography

10.4 Strategy, Structure and Rivalry

10.4.1 Structure

Hierarchical structure - centralized

Functional structure

Co funder & CEO – James Sinegal

Co funder & Chairman of Board – Jeffrey Brotaman

CFO – Richard Galanti

HR & risk mag. – John Matthews

Northern Division – John McKay



Figure 47 The Structure of Pyramid

10.4.2 Strategy

Membership

The concept of membership model let Costco become successful clubs. Costco through membership system to create the exclusivity and aim to their target customer

groups (business and middle class family) who approve Costco's value to make Costco effectively communicate with their members and increase consumer loyalty. In the store, Costco's member can not only have a one-stop shopping experience, but enjoy the service which Costco make an effort on to add the value of membership. In Costco's financial report, Costco has 91% renewal rates in USA and average 80% renewal rates in the world, it means their members generally approve Costco's membership value and consider that it is worth to be Costco's member and pay the annual fee.

類型	獲利模式
傳統零售行業	利潤 = 銷售價格 - 成本 - 費用
服務仲介	利潤 = 商品價格 × 服務費率 - 服務成本
Costco	利潤 = 會員數 × 會員費單價

Figure 48 The way of Making Profit

Inventory Management

Costco's products are bulk package and product types are below than 4000 types so it can increase the inventory turnover and cut down the inventory management cost. In store, they through forklift and pallet to delivery their good to storage and place their product to reduce labor cost and time. Thus, they have more inventory efficiency than other retailers.

公司	Costco	Walmart	Amazon
庫存週轉天數(天)	31.36	45	44.88
銷售毛利率	10.55%	25%	35%

Figure 49 Inventory turnover and gross margin profit of retail stores in U.S.

Negotiation with supplier

Costco cooperates with suppliers who have high quality and reputation to build themselves reputation and satisfy member's needs . Costco has economic of scale to enhance their bargaining power with suppliers and it make them procure more bulk package products with low cost. The more goods Costco sells, the greater economic scale and cost advantage they have..

Supply Chain

Costco's supply chain is different from other retailers. They directly buy the goods from suppliers through cross-docking transport to a big warehouse to allocate their goods and then deliver to Costco. The traditional method of delivery is first delivered to the wholesaler through the supplier, then to the warehouse, and finally to the retailer. So Costco reduces lots of processing of delivering and generate supply efficiency.

Product Selection

Costco's product selection is special and deliberated to create the product difference. Costco control their product amounts below than 4,000 types and select only 2 or 3 best seller for each category. (Costco's sales items are 1/10 of hypermarket). Their product category from daily needs to boutique to offer a variety of special products to members.

Product - low price and big volume

Costco doesn't mark up their price more than 15 percent on every product which compares with other retailers such as Walmart (24%), and supermarkets (30-35%). In USA, the proportion of middle classes are high. Thus, their target customers are large family and business. And bulk-packaged products not only cater to the needs of big family and business but can reduce Costco's operating and unit cost and improve inventory management efficiency.

Private label brand - Kirkland signature

Costco's private label brand - Kirkland allow Costco control cost and quality compete with similar branded products while also differentiating their offerings from other retailers. About 25% of Costco's sales profit comes from Kirkland.

In recent years, an increasing percentage of Costco's total merchandise sales are derived from their Kirkland Signature products with a strategy of increasing penetration of Kirkland Signature sales.

Co-branded

Starbucks on KIRKLAND Signature blend house coffee. Furthermore, KIRKLAND is now trying to work with Kimberly-Clark to have own-branded diaper

No-advertising

Costco doesn't have advertising so as to cut down the advertising cost. They through member's mouth advertising to marketing. If their members have a good shopping experience in Costco, Costco hopes their member recommend their friends to come to store.

Diversified Service

New and Fun Offerings Increase Stickiness

Costco has multiple ancillary products and services, from pharmacies to gas stations. They offer a wider array of services that cannot be replicated online, such as optical, pharmacy, food court and so on. They boost the perceived value of club membership and consider that it is worth to be Costco's member and pay the annual fee.

Return and Refund Policy

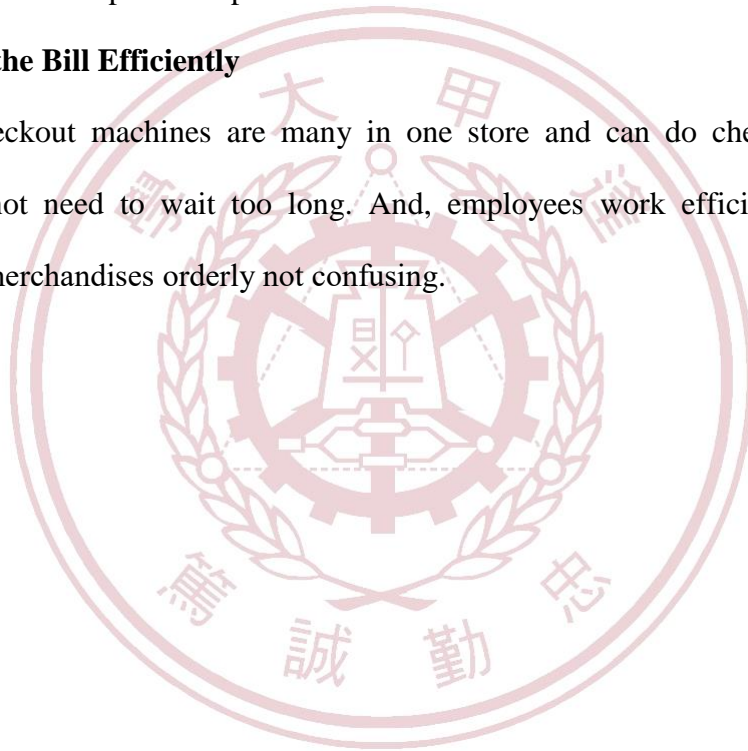
If consumers are not satisfied with the goods, Costco can let their member return and refund until the last day become overdue.

Human Resource

- Costco offers benefit for their employee such as :
- Health Care
- Dental Care
- Retirement
- Employee and Family Assistance Program^[SEP]
- Disability^[SEP]
- Insurance^[SEP]
- Employee share purchase plan

 **Check the Bill Efficiently**

The checkout machines are many in one store and can do checking the bill efficiently, not need to wait too long. And, employees work efficiently to make customers' merchandises orderly not confusing.



10.4.3 Rivalry-Walmart/Amazon/Target

Table 14 Comparison of the top retailers in the world in 2016

	Walmart	Costco	Amazon	Target
Revenue	\$485.873 billions	\$116.073 billions	\$114.424 billions	\$73.79 billions
Locations	11,695	715	34	1828
Country	28	9	13	1 (USA)
Employees	2.3 million	218,000	341,400	341,000

Walmart

M&A - Jet.com, Bonobos and ModCloth

Jet.com

Jet.com, which founded in 2014, has a rapidly growth. They have about 3.6 million users, with a total of 12 million products from 1,600 merchants with annual sales of about \$ 1 billion. In 2016, Walmart took over Jet.com. In future through Jet.com's accession, Wal-Mart will make up the lack of territory in the e-commerce part to challenge the position of Amazon, America's e-commerce leader.

Bonobos

Bonobos has a decade-long history. They have 35 offline stores nationwide and online store. In addition to high-quality products and shopping experiences, Bonobos has drawn on Wal-Mart with its outstanding online channel. In 2017, Walmart took over Bonobos.

ModCloth

ModCloth is a women's clothing website. In 2012, website sales exceeded 100 million US dollars. In 2017, Walmart took over ModCloth

1. Online orders and pick up at store

Customers can buy the goods on Walmart's website and choose the Walmart store and time to pick up the orders. Walmart also has "curbside service". As long as the consumer choose the pick-up time and Walmart's parking lot. And informs the store's staff, Wal-Mart will deliver the fresh food order to the customer's car. This service combines online shopping and physical storefront to extend the use of platform.

2. Walmart Pay

Walmart Pay is bound with the credit card payment is similar to the function of Apple pay. Walmart Pay also has another feature. Consumers can type in their shopping receipt number. The app will compare the price with other retailers. If the result of shows that other retailers have cheaper price, Wal-Mart will provide a gift card equivalent to the price difference.

3. Overall

Wal-Mart's strategy of opening up new markets is imperative. It has been looking for ways to enter the field of e-commerce. Fashion and young users are key words in Wal-Mart's strategy to enter the Internet.

Over the past two years in the field of fashion, Wal-Mart and Amazon have launched M&A. Wal-Mart in the past two years to 51 million NTD to acquisition of outdoor supplies retailer Moosejaw and 70 million acquisition of footwear retailer ShoeBuy and other areas in the performance of excellent fashion brand.

Amazon

The following figure is Amazon growth rate is faster than U.S. e-commerce market. Amazon through their low cost structure, 536 million of product selection and cooperation of third party sellers to become a largest e-commerce retailer in the world.

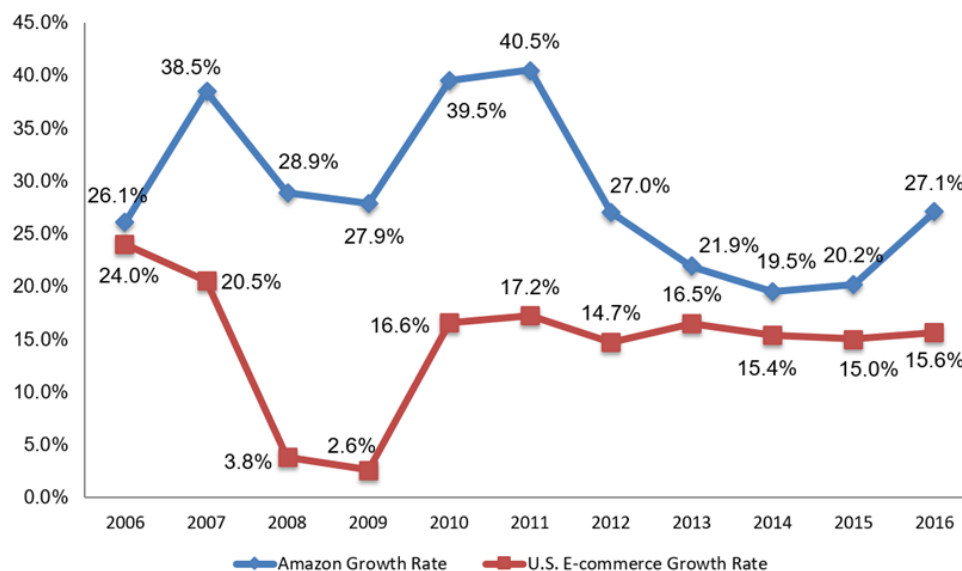


Figure 50 Amazon growth rate compared to e-commerce sales growth in U.S.

1. M&A whole food market

Whole food market has 460 stores in USA. The purchase of fresh food accounted for 30% of the total personal spending in the United States, but in all groceries online shopping behavior, fresh goods online shopping only accounted for a few percentage points. But Amazon loves to march into large markets because they can subvert tradition and innovates, and fresh areas are a suitable choice.

In 2017, Amazon acquisition of Whole Food market and make Amazon can combine with fresh food advantage and own the physical store to realize the one-stop shopping to satisfy the customer's needs.

2. Amazon fresh

Customer can select the product on Amazon, then drive to the parking spot at Amazon Fresh Pickup, where an employee will deliver your goods to put in customer's

car.

3. Amazon Prime

To be Amazon's membership have to pay \$99 annual fee. And their member will have lots of benefits such as free shipping, free cloud storage service, free movie, music and E-book. In USA, there is 30% is membership of Amazon Prime and their member consume more than twice as many other consumers. The membership's renew rate is 80-90%. For e-commerce, the membership system screen out those people with high purchasing power or high purchasing potential, which will benefit the marketing afterwards and offer value-added services to make users more loyal.

Target

Target has 1828 stores in USA. Target has roughly \$70 billion in sales are scattered nearly equally across its various businesses. In 2016, household essentials generated 22% of its sales; food generated (22%), apparel and accessories (20%), furnishings and decor (19%) and hardlines (17%).

Contribution to Comparable Sales Change	2014	2015	2016	Q1 2017
Stores channel comparable sales change	0.7%	1.3%	-1.5%	-2.2%
Digital channel contribution to comparable sales change	0.7%	0.8%	1.0%	0.8%
Total comparable sales change	1.3%	2.1%	-0.5%	-1.3%

Figure 51 Contribution to Comparable Sales Change

Target also makes an effort on developing digital channel to increase their sales and also compete with Walmart.

1. Online orders and pick up at store

Target also have a similar service to Walmart. Customers can buy the goods on website and choose the time and Target store to pick up their orders.

Target said that consumers place the orders on the website, when they go to store

to pick up their goods, one-third of consumers will buy other products on their physical stores. Therefore, in this way it can increase the sales on e-commerce and physical store at the same time.

2. Overall

Nowadays, the retail industry types are changed. Amazon subverts the traditional consuming behavior and also traditional retail industry types. They combine with their technology expand their field from digital market to physical stores.

Costco has planned to gradually improve their shopping website, but they don't take the online consumption as a threat, "We are not sell convenience. The key to our success is price, value and quality." Costco CFO, Richard Galanti said. And according to the data, consumers actually enjoyed the physical shopping experience in Costco. Not only the frequency of visits has increased from once every three weeks to the present once a week. Even before Costco worried about the young consumer groups, but now it become the fastest growing group of Costco members and driven the overall average age of members to decline.

For other traditional retailers such as Walmart and Target are actively expand their e-commerce to compete with Amazon. Overall, retail types continues to evolve through the integration of digital and physical consuming experience would be defined the future of retail industry.

11 Conclusion

We think Costco is trying to perform extremely well from a strategic perspective, and they also have a lot of strategies to get over the difficulties in this market. Because we all know that in global, there is one business is rising rapidly which is called e-commerce; especially the Amazon. Amazon tries to expand their business anywhere that makes Costco has to cooperate with them for selling their private brand- Kirkland on their website. So far, the success of its strategy is invisible.

However, according to detail discussion of the other strategies, Costco Wholesale Corporation is still insisting on expanding physical stores, the branches in global is increasing currently. Why they can continue to successfully expand its operation? The reason we think is having strong customer loyalty. About the membership renewal rate of Costco, the data shows nearly 90 percent in America which way makes a large profit for Costco. Besides, it is able to deliver quality product with affordable price and appeal more consumers to get into their retail stores. Even, Costco has weaknesses and threats, but, so far, management is taking the right steps to lead the company into the future.

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