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Costco Question #7

While Costco is the ranked second largest retailer in both the United States and the world and with a total annual sales of $16 billion dollars, it’s competitors namely BJ wholesale club and Sam’s club while making up less than half of Costco’s wholesale market share has produced profits exceeding Costco (Thompson JR., 2016, page1). Looking at Costco’s wholesale financial and Operational data (exhibition 1) it’s clear to see Costco’s Business Model. Costco’s total revenue for 2016 caps around $116,199 Million dollars and operating expenses total to $101,065 Million dollars. Costco Mission is clear to see (Thompson JR., 2016, 3). It is to provide the lowest possible price for customers. This translates for Costco worldwide business to operate at slightly above or below break even basis which makes Costco exceptionally competitive when compared to other warehouse wholesalers which is shown through Costco topping 59% of warehouse wholesale retailers. Costco makes due through high volume purchasing, efficient distribution, excellent customer service and low inventory turnover which gives it a huge competitive edge, but pales in comparison to the net revenue of BJ’s and Sam's club given their market position( BJ wholesale stands at 7% and Sam’s club at roughly 34 percent market share). Given Costco’s stance in the marketplace Costco has a long term competitive sustainable strategy for its survival but financially it can be improved.

Financially Costco operates at a breakeven basis which has been a major cause of concern and drew criticism from Wall Street analysts suggesting Costco’s management are going all out to please the customer at the expense of the shareholders, for its Costco's markups and prices being factionally above the level needed to cover operating cost and interest expenses(Thompson JR., 2016, 6). Sinegal’s (Costco CEO) response to Wall street analytics criticism was “We’re trying to build an organization that's going to be here for 50 years”. Meaning Costco’s concern was not in the short term of making money monday through friday, but to continue to be an ever present company. While this may be deemed as a weak response to serious allegations of purposely not making profits, Costco's extremely low markup philosophy has made it very competitive and sustainable in the warehouse wholesale market. While Costco's low markup philosophy makes it barely break even financially, in comparison to its competitors BJ wholesales club and Sam’s club Costco’s Financial performance is superior shown by the stock market and investors value place on each Stock. A single share of Costco can be obtained around $190 usd while its competitors BJ wholesale club can be obtained roughly at $50 usd and Sam’s club at $100 usd(market price as of January 5th 2018). In conclusion While Costco’s low markup philosophy makes it breakeven Costco’s Financial performance is superior to Sams and BJ wholesale club in the sense of having the market place and investors valuing the company to almost double that of its nearest competitor and having a long sustainable competitive advantage against Costco’s competitors through pricing at exceptionally low markups.

References

Arthur A. Thompson Jr., “Costco Wholesale corp in 2016. Mission, Business Model, and Strategy” NY: University of Alabama, 2016, pp. 1-21.