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Costco Wholesale Corporation: Market Expansion and Global Strategy[[1]](#endnote-1)

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Costco Wholesale Corporation (Costco) became the world’s second-largest global retailer (see Exhibit 1).[[2]](#endnote-2) In 2016, the company had been successfully established in eight countries. It was clear that Costco’s next steps would have to build upon this momentum and that the company would have to expand operations. For any retailer, selecting new countries and an appropriate entry mode was of utmost importance, as different markets presented different challenges and considerations. Before the company could create an expansion plan, it was necessary to analyze the entry methods it had used in its prior expansions to understand the factors that had contributed to each success. What would be the best method for entry based on existing barriers in terms of culture and operational constraints?

Costco Wholesale Corporation

Headquartered in Issaquah, Washington, Costco was the largest membership warehouse club in the United States, with 481 warehouses in 43 states and Puerto Rico. Costco had more than 80 million members and employed more than 200,000 full- and part-time employees around the world. The company sold brand name products at low prices and high volumes and offered ancillary service departments such as gas stations, pharmacies, food courts, optical centres, one-hour photo services, hearing centres, and travel services at its warehouse locations. Costco also offered its own private label brand, Kirkland Signature, at its warehouses. Some of Costco’s global competitors were Walmart Inc. (Walmart); Walmart’s membership club, Sam’s West Inc. (Sam’s Club); Amazon.com Inc. (Amazon); Metro Inc. (Metro); Carrefour Group (Carrefour); the Home Depot Inc. (Home Depot); and Best Buy Co. Inc. (Best Buy).

Global Expansion to Date

Costco’s 2014 sales totalled US$112.6 billion,[[3]](#endnote-3) of which $32.1 billion was from international operations.[[4]](#endnote-4) That year, the company’s international operating income saw more growth than Costco’s total operating income (see Exhibit 2). In the five-year period ending in 2014, sales from the company’s international branches showed a significant increase compared to its U.S. branches (see Exhibit 3).

Costco’s international expansion began with its entry into Canada in 1985; by October 2015, Costco had established 206 warehouses in eight countries outside the United States, as well as online storefronts in Canada, the United Kingdom, Mexico, and China. Several other retailers, such as Carrefour, Walmart, and Tesco PLC (Tesco), boasted a larger global presence than Costco, but the success the company had managed to achieve in all eight of the international markets it had entered was noteworthy (see Exhibits 4 and 5). Costco employed a variety of global expansion strategies in each of the eight markets, as detailed below.

Canada

Costco entered Canada in 1985, opening a company-owned warehouse in Burnaby, British Columbia.[[5]](#endnote-5) Costco’s major competitor from the United States, Price Club, opened its first warehouse in Montreal in 1986, after reaching a joint venture agreement with Steinberg Inc., a grocery chain in the French-speaking province of Quebec, in Eastern Canada.[[6]](#endnote-6) Price Club and Costco merged in 1993.[[7]](#endnote-7) By 2015, Costco had expanded its operations to 90 locations across nine provinces in Canada.[[8]](#endnote-8)

Costco initiated a dual strategy in Canada that was an extension of the company’s strategy in the United States. Firstly, Costco mimicked its U.S. growth strategy by expanding geographically into the largest metropolitan areas on the country’s east and west coasts.[[9]](#endnote-9) Secondly, owing to cultural similarities, Costco stocked its Canadian warehouses with products that closely resembled the product selection available in its American warehouses. Fascinated by this American-style shopping experience, Canadian consumers were increasingly drawn to Costco, and the company expanded to 24 Canadian warehouses (including Price Club warehouses). In 1992, Costco and Price Club had 12 warehouses each in Canada.A growth in consumer preference towards lower priced, higher quality products brought increased competition. Loblaws Inc. (Loblaws), the country’s largest supermarket retailer, opened its first membership warehouse, the Real Canadian Wholesale Club, in 1991; this was soon followed by Walmart, which entered the market in 1994.

Canada’s appeal as a key international base increased after the signing of the Canada–United States Free Trade Agreement (CUSFTA) in 1987, which eliminated many trade barriers between the two countries.[[10]](#endnote-10) After the agreement came into effect, several retail chains, including Costco, increased their presence in Canada, growing competition in the Canadian retail industry.[[11]](#endnote-11) This competition resulted in lower prices, to the benefit of Canadian consumers. Given Canadian consumers’ desire to save money, Costco’s commitment to low prices was a convincing argument; consumers invested in the company’s memberships and maintained their loyalty, year after year. According to Costco’s 2014 annual report, the membership renewal rate in Canada was 91 per cent, on par with its American rate during the same period.[[12]](#endnote-12)

Mexico

Costco (Price Club) entered Mexico in 1992 through a joint venture (JV) with one of the largest Mexican supermarket chains, Controladora Comercial Mexicana SAB de CV (CCM). In 2012, Costco purchased CCM’s stake in the JV, and as of October 2015, the company owned and operated 36 stores in 18 Mexican states.[[13]](#endnote-13)

Mexico had a history of protectionist trade policies that limited the amount of cross-border trade with U.S. companies. As negotiations for the North American Free Trade Agreement (NAFTA) progressed, major retailers in Mexico started approaching U.S. retailers about possible partnerships. NAFTA was signed by Canada, Mexico, and the United States to remove trade barriers among the three countries. The agreement came into effect in 1994. Attracted by Mexico’s large, urbanizing population and a growing middle class, large U.S. retailers such as Costco and Walmart capitalized on the opportunity to establish a presence in Mexico.[[14]](#endnote-14)

In Mexico, Costco was in direct competition with Sam’s Club, which had aggressively expanded to 22 locations in the three years following its entry in 1991.[[15]](#endnote-15) Costco’s strategy was to open its warehouses in locations where Sam’s Club had no presence and win memberships through a first-to-market advantage. These shoppers were enticed by Costco’s guaranteed lower prices, which led to an increase in the volume of purchases they made during each visit. These consumers associated foreign-made items with positive attributes such as better quality and reliability, displaying a strong preference for them over locally made counterparts. This encouraged Costco to adapt its offerings and import non-food items. As the prices of imported goods dropped following NAFTA, Costco’s warehouses became a principal source of American-made products.[[16]](#endnote-16)

United Kingdom

Costco entered the United Kingdom in 1993, opening its first store in Essex after reaching a JV agreement with French multinational retailer Carrefour. Price Club also entered the market by forming a JV with a privately-owned retailer Littlewoods Organisation PLC in 2000; Littlewoods’s stake was sold to Costco. In 2003, Costco purchased Carrefour’s stake in the JV, and by 2015, Costco operated 27 locations across the United Kingdom.

As a wholesaler, Costco’s entry into the United Kingdom, an industrialized and developed nation with wealthy citizens, gave the company significant leverage to operate at a cost base lower than its local rivals. As it had in other countries, Costco operated its U.K. stores as strictly no-frills-style warehouses that contained only essentials and avoided facilities such as dressing rooms, which wasted floor space.[[17]](#endnote-17) Costco did not invest in a paid advertising strategy; however, the local media extensively publicized several aspects of the company, such as its lower-than-average markup of 11 per cent, building a positive image of the company for consumers. Such publicity also attracted the attention of local retailers, who began slashing prices in anticipation of a price war.[[18]](#endnote-18) Conventional supermarket markups ranged from 21 to 40 per cent, making the British some of the highest-paying consumers in the Western hemisphere.[[19]](#endnote-19) However, the recession of 1991 resulted in a substantial reduction in consumer confidence,[[20]](#endnote-20) which in turn made the UK consumers more price conscious.[[21]](#endnote-21) This was the perfect opportunity for Costco to lure UK shoppers by its low price guarantees for bulk purchases.[[22]](#endnote-22)

Costco faced strong resistance during its entry into the United Kingdom. The three big local retailers—Tesco, J. Sainsbury PLC (Sainsbury’s), and Argyll Group PLC—filed a lawsuit that questioned Costco’s wholesaler status and its qualification for less stringent planning controls, which included access to commercial and industrial land at lower cost than the higher priced land allocated for retailers.[[23]](#endnote-23) Costco’s warehouse-style set-up and bulk product supply at discounted prices convinced the High Court to regard Costco as non-retail and to clear Costco to open its first store in the country.[[24]](#endnote-24)

South Korea

In 1994, Costco granted a licence to Shinsegae Department Store (Shinsegae), a major South Korean retailer, to open and operate a warehouse club store in Seoul.[[25]](#endnote-25) This became Costco’s first store in Asia. In 1998, Costco purchased the warehouses from Shinsegae and subsequently formed a 94 per cent JV with the same partner.[[26]](#endnote-26) By 2015, the company had expanded to 12 locations in South Korea.[[27]](#endnote-27)

Costco introduced local shoppers to the lower price, higher quality value model, supplying a limited range of products in bigger quantities. South Korea’s relatively large households favoured Costco’s wholesale approach over the prevailing *harin* (discount) store format.[[28]](#endnote-28) Costco granted an exclusive licence to Shinsegae to run daily warehouse operations, and the warehouse adapted products to the tastes and preferences of affluent and well-educated shoppers, who valued product quality, products with health benefits, and customer service.[[29]](#endnote-29) This localization meant that Costco was more successful in this market than most other foreign retailers. In 2014, *Fortune* reported that Costco’s warehouse in Seoul had recorded the highest sales of any Costco worldwide and had earned the title of “busiest Costco in the world.”[[30]](#endnote-30)

Between the early 1960s and the late 1990s, South Korea had one of the fastest-growing economies in the world.[[31]](#endnote-31) Foreign retailers, however, were largely barred from this growing market—primarily because of government controls over land development, zoning regulations, and restrictions on foreign direct investment (FDI).[[32]](#endnote-32) Liberalization attempts during the 1990s led to the entry into the South Korean market of foreign retailers such as Walmart, Carrefour, and Tesco, but the government’s continued preferential treatment of local retailers proved costly for foreign players. Walmart and Carrefour exited South Korea in 2006. Tesco announced its departure from the market in September 2015.

The South Korean government implemented several policies to protect the interests of smaller retailers in the country: these included mandatory store closures on alternating Sundays, restrictions on store operating hours, and zoning restrictions that affected big box retailers. Although other local retailers, such as E-Mart and Lotte Mart, had successfully won court injunctions against the Sunday closures, Costco suffered adverse media criticism, store boycotts, and fines when it kept its stores open on Sundays.[[33]](#endnote-33)

Taiwan

Costco entered Taiwan via a JV with the nation’s largest department store chain, President Group, opening its first store in Kaohsiung in 1997.[[34]](#endnote-34) By 2015, Costco had expanded to 11 locations in the country.[[35]](#endnote-35)

Costco positioned itself as an American retailer with a distinct fondness for local tastes. The company offered products such as Kirkland brand beef steak, cut into thinner slices to meet the buying preferences of local shoppers who used beef steak in hot pot, a staple Taiwanese dish.[[36]](#endnote-36) Such localization strategies enabled Costco to compete against traditional wet markets. Wet markets sold fish, meat, fruits, and vegetables, usually in the early mornings. Costco capitalized on its foreign retailer image and imported about 35 per cent of its products, which attracted the country’s younger population.[[37]](#endnote-37)

After Taiwan liberalized foreign investment in 1986 and became a member of the World Trade Organization (WTO) in 2001, several international retailers entered the Taiwanese retail market.[[38]](#endnote-38) The retail market became highly competitive, and this led some foreign retailers to exit; Makro exited the market in 2003.[[39]](#endnote-39) In 2005, Carrefour took over Tesco’s stores in Taiwan after both companies agreed to an asset swap agreement.[[40]](#endnote-40) Even with Costco’s best efforts, the company registered losses during its first five years of operation in Taiwan.[[41]](#endnote-41)

Costco’s return policy was a major hit with Taiwanese shoppers. Unlike local retailers, Costco encouraged its shoppers to return any items that they were not happy with; even a half-eaten watermelon could be returned if it was not sweet. This lenient return policy created free word-of-mouth advertising that helped the company recruit new customers. More importantly, the loyalty of existing customers increased, as illustrated by a sharp rise in customer retention rates, from 45 per cent in 1998 to more than 80 per cent in 2010.[[42]](#endnote-42)

Japan

Costco established its first warehouse in Japan in 1999; the wholly owned subsidiary was in Hisayama.[[43]](#endnote-43) By 2015, the company had expanded to 24 locations in Japan.[[44]](#endnote-44)

Few thought that Costco would be successful in Japan, where the average house was only 60 per cent of the size of a house in the United States and rooms averaged a 40 per cent higher occupancy rate. This raised concerns that Japanese houses lacked sufficient storage space for the bulk merchandise Costco planned to supply.[[45]](#endnote-45) Japanese customers tended to favour quality over price.[[46]](#endnote-46) General merchandise stores and supermarkets were easily accessible within short distances, so Japanese customers did not expect to travel long distances to a Costco warehouse for frequent purchases.[[47]](#endnote-47) Considering these concerns, the Japanese people questioned the suitability of the warehouse club format to Japan.[[48]](#endnote-48)

In Japan, Costco targeted the wealthy segment of the population, people who had access to private transportation and made less frequent shopping trips. Costco enticed these consumers by stocking Japanese staples—several varieties of fish, green tea, and seaweed—as well as imported goods and brand name merchandise that resonated with brand-loyal, quality-conscious consumers.[[49]](#endnote-49) Costco also targeted small and medium-sized enterprises (SMEs) that purchased in bulk for resale. Several SMEs preferred Costco’s approach to low pricing over the quantity-based discounts that other Japanese wholesalers offered. By offering excellent customer service and a generous return and refund policy, Costco focused on developing trust with these SMEs to ensure their continued loyalty. Such measures ensured that Costco continued to grow in the Japanese market while other international retailers had to exit the country. Carrefour and Tesco announced their exit from the market in 2005 and 2012, respectively.[[50]](#endnote-50)

Australia

Costco’s first company-owned warehouse store in Australia opened in 2009 in Docklands, a suburb of Melbourne. By 2015, the company had expanded its operations to 8 locations in the country.[[51]](#endnote-51)

Costco effectively recognized several attributes that were important to Australian consumer groups. It offered multiple payment options, including cash, electronic funds transfer at point of sale (EFTPOS), and credit cards.[[52]](#endnote-52) In order to keep costs down, Costco strictly restricted payment options available to its customers in other countries. As Australian consumers favoured Australian-made products over imports, Costco strategically included several local products in its offerings.[[53]](#endnote-53) This openness and flexibility provided Costco with an early advantage in penetrating the duopoly that had previously characterized the Australian food retail market.

However, for the five-year period ending in 2014, Costco accumulated losses of $44.5 million in Australia.[[54]](#endnote-54) Several factors were involved. Restrictive Australian planning and zoning laws delayed the approval and building of Costco’s first store.[[55]](#endnote-55) Next, local regulations prohibited Costco from providing some of its typical services, such as insurance and pharmacy. Lastly, Costco suffered a major setback with coupon promotions: Australian shoppers did not understand or appreciate coupons, and so Costco was forced to roll back most of its major coupon offers.[[56]](#endnote-56)

Spain

In May 2014, Costco’s first wholly owned warehouse opened in Spain, in the city of Seville. The company opened its second warehouse in the capital city of Madrid in October 2015.[[57]](#endnote-57)

Costco’s entry into Spain was well received by the local population thanks to extensive local media coverage of the company’s anticipated product offerings, unique business style,[[58]](#endnote-58) and employee welfare schemes.[[59]](#endnote-59) Costco also gained the attention of suppliers at both local and national levels who were eager to forge business links with the warehouse giant. While it met its domestic product needs in Spain, Costco also planned to use these suppliers to supply products to its other locations worldwide.[[60]](#endnote-60)

Costco’s entry into Spain occurred during a period of economic uncertainty. Spain’s economic recovery from the recession of 2008 began in late 2013. However, as regional economic problems continued in the European Union, Spain’s high unemployment rate posed a substantial threat to Spain’s recovery. In mid-2015, Spain’s unemployment rate was 22.4 per cent, compared to the U.S. unemployment rate of 5.3 per cent.[[61]](#endnote-61) If disposable income remained low, the purchasing power of Spanish shoppers would be hindered, and they would not approach bulk wholesale purchasing with the same enthusiasm as shoppers in other markets. Furthermore, Spain’s old-age dependency ratio was projected to hit 48.7 per cent by 2035.[[62]](#endnote-62) As the country’s fertility rate was also considered low,[[63]](#endnote-63) Costco would have to adapt its offerings to grow profitably in this market.[[64]](#endnote-64)

Costco’s Global Strategy: Key Success Factors

Increasing Member Recruitment and Retention

Costco was a pioneer in the membership warehouse club model, which required customers to purchase yearly memberships to shop at warehouses. Members benefited from Costco’s lower prices, and an increase in customer savings offset the cost of the membership fees. Costco offered two basic membership types: Gold Star memberships for individuals and Business memberships for businesses. For an additional fee, each of these memberships could be upgraded to the Executive level, which guaranteed shoppers 2 per cent cashback on valid purchases made throughout the year. Although Walmart’s Sam’s Club also offered cashback to its customers, it set a yearly cap of $500 per customer. Costco’s no-cap cashback presented a convincing incentive for frequent shoppers to purchase Costco memberships. Moreover, Costco allowed its customers to cancel memberships at any time during the year and offered reimbursements of the unused portion of the membership fee. This hassle-free membership model allowed Costco to record a high membership compound annual growth rate of 7.1 per cent in the five years from 2010 to 2015. Complementing the high membership renewal rate in the United States and Canada, Costco’s international operations saw a significant 88 per cent increase in its membership renewal rate in 2015.[[65]](#endnote-65) As revenues from membership fees contributed more than 75 per cent of Costco’s gross profit, recruiting and retaining members was a key focus.[[66]](#endnote-66)

Leveraging the Kirkland Signature Brand

Kirkland Signature was Costco’s in-house brand, introduced to offer premium quality products at prices that were 10–20 per cent lower than those of other national brands.[[67]](#endnote-67) In 2014, Kirkland Signature products contributed 25 per cent of Costco’s sales, a significantly higher penetration rate than other warehouse club house brands (18.1 per cent). Without the need to invest in promotional activities, Costco was able to strengthen the Kirkland Signature brand by introducing several new products across a broad range of categories every year. As of 2014, Costco typically earned a profit margin of 15 per cent on its in-house brand products, compared to 7–10 per cent for other brands.[[68]](#endnote-68) Costco began to use third party e-commerce channels such as Google Express and InstaCart, seeking to make Kirkland Signature products available to a larger consumer base.[[69]](#endnote-69)

Limiting the Range of Products to Enable Operational Excellence

Costco’s primary business model was built around the strategy of stocking a limited number of stock keeping units (SKUs), promoting sales of a limited range of products. A typical Costco warehouse stocked approximately 3,700 SKUs, less than many other big box retailers.[[70]](#endnote-70) This strategy offered Costco several advantages. First, it allowed Costco to assign a greater area of the warehouse to each employee, which established higher productivity rates and increased overall profitability.[[71]](#endnote-71) Second, it allowed Costco to focus on a smaller number of suppliers, which resulted in lower transaction costs. Costco’s transaction cost savings came from lower negotiation costs and reduced policing and enforcement costs.[[72]](#endnote-72) Lastly, it meant that Costco had a higher inventory turnover than its competitors. In August 2015, Costco’s inventory turnover ratio was 11.64.[[73]](#endnote-73) Costco was able to sell inventory to its customers before having to pay its suppliers for those products, which significantly reduced the level of working capital it needed to maintain.[[74]](#endnote-74)

Applying a No-Frills Wholesaling Approach

Typically, retailers set aside a sizeable portion of their budgets for marketing, store layout, and decor. Costco minimized its operating costs through its warehouse store format, distribution system, and marketing. Costco’s warehouses had a minimalist design, with bare cement floors and high, sparse ceilings. Floor plans were designed for economy and efficiency, ease of product handling, and inventory control;[[75]](#endnote-75) and products were displayed on industrial type pallets to facilitate stacking and stocking.[[76]](#endnote-76) To reduce electricity costs, Costco installed many skylights, sensibly placed throughout the store to utilize natural light.[[77]](#endnote-77)

Costco avoided intermediaries in distribution; it purchased its merchandise directly from manufacturers. Goods were typically delivered to cross-docking consolidation points (depots) or directly to its warehouses, which resulted in significant cost savings.[[78]](#endnote-78) Although the company had direct purchasing relationships with many national, brand name merchandisers, it did not rely extensively on any one supplier as it followed a supplier diversification strategy.[[79]](#endnote-79)

Costco did not employ public relations staff.[[80]](#endnote-80) The company used free word-of-mouth advertising to promote its value proposition.[[81]](#endnote-81) The company’s promotional materials typically took the form of coupons for existing members and direct emails to potential new members, and stayed away from traditional marketing methods to keep costs low.[[82]](#endnote-82)

Meeting Local Consumers’ Needs and Wants

Costco adapted well to each country it entered. The success or failure of its entry ultimately depended on understanding the needs and wants of customers in each given market. In countries such as Taiwan, where there was high retail competition,[[83]](#endnote-83) Costco partnered with a strong local retailer to gain its first foothold in the market. This allowed Costco to study the unique tastes and preferences of Taiwanese customers and then adapt its product offerings to meet the demands of this local consumer base.[[84]](#endnote-84) Costco succeeded in keeping its customers happy, making it easy to retain them year after year. Its “no questions asked” return policy allowed Costco to stand out.

Implementing Human Resources Policies that Foster Employee Retention

Employee retention was widely recognized as a major problem in the global retail industry. Costco’s employee turnover rates, however, painted a more positive picture. The company’s average turnover was generally low, around 17 per cent, and this rate dramatically dropped to just 6 per cent for employees who had completed the first year of their tenure at the company.[[85]](#endnote-85) This was a direct result of Costco’s generous human resources policies. In 2006, Costco paid an average hourly wage of $17.00—72 per cent higher than the wages offered by its rival Sam’s Club in the United States. These wages were also supplemented by generous benefits: 82 per cent of Costco’s employees were covered by health insurance, and 91 per cent were covered by retirement plans. The company’s contributions towards these benefits were also typically higher than those of its rivals. As a result, Costco’s employees were more engaged in the workplace, and this contributed to increased employee loyalty, job performance, and productivity, and to better customer service.[[86]](#endnote-86)

Key Issues and Strategic Options

Increasing the Share of Total Revenue from International Operations

Despite international success, Costco’s share of revenues from operations outside of its home country continued to be insignificant. In 2014, just 29 per cent of the company’s net sales came from its international operations. A further cause for concern was that Canadian operations contributed 16 per cent of Costco’s total revenue. The United States and Canada, therefore, continued to be dominant markets for Costco. In comparison, Carrefour, the French multinational retailer, earned 65 per cent of its revenue in 2014 from its international locations, which spanned 32 countries through Latin America, Asia, and Europe.[[87]](#endnote-87) Costco’s dependence on its U.S. and Canadian markets made it vulnerable to regional uncertainty and could significantly affect the company’s revenue growth.

Some of Costco’s challenges included increased competition and changing government regulations in international markets. Mature markets such as Japan presented intense competition and a lack of growth opportunities for Costco. In Japan, the shifting preferences and lifestyles of consumers led to an increased preference for convenience stores over department stores and supermarkets.[[88]](#endnote-88) As a result, Costco also competed with convenience store chains such as 7-Eleven, Lawson, and Family Mart. Furthermore, political and legal changes in international markets had generally been unpredictable. This was exemplified by the South Korean government’s laws protecting small, family-owned shops at the expense of international big box retailers; non-compliance posed reputational as well as monetary risks.[[89]](#endnote-89)

Finding, Entering, and Expanding into New Markets with the Intention of Diversifying Risk[[90]](#endnote-90)

According to the AT Kearney 2015 Global Retail Development Index (GRDI), China was ranked as the best country for retail growth in 2014. Despite slower overall growth in 2014, the country’s retail sector continued to show rapid growth, at 11.6 per cent. Forecasts put China’s retail sector on track to grow to $8 trillion by 2022, encouraging major multinational retailers to expand into the country. Although Costco successfully entered the Chinese market in late 2014 and had opened an online store, its presence in the country was only minor. Furthermore, stiff competition from both local and international retailers suggested it would be risky to pursue aggressive expansion in China, due to a loss of significant revenue and income-earning potential.

Mexico was the only other country on the GRDI list where Costco had established a presence. The Mexican retail sector showed a relatively lacklustre growth rate of 2.4 per cent in 2014. Without organic growth, the existing players in the industry sought ways to grow their revenue through diversification. Although Costco had a strong presence in Mexico, with 36 stores, further expansion could be difficult due to market saturation.

The GRDI list included 28 other countries with significant retail sales growth potential, but Costco was unfortunately absent from these markets. These countries presented both opportunities and challenges for Costco to explore new markets and identify the most attractive options for its next market entry.

Increasing Investments in Multi-channel Retailing to Attract Tech-Savvy Consumers

In the last two decades, the retail sector had witnessed several major technological innovations, one of the most significant of which was multi-channel or omni-channel retailing—providing customers with the convenience of shopping through a variety of channels: physical stores, social media, and websites.[[91]](#endnote-91) Several big box retailers including Walmart had invested heavily to prepare for multi- or omni-channel retailing. Costco, on the other hand, had lagged. For example, South Korea had the highest smart phone penetration in the world: more than two-thirds of the population owned a device, and consumers increasingly used their mobile phones to purchase products online.[[92]](#endnote-92) Although the company had an online presence in five countries (the United States, Canada, Mexico, the United Kingdom, and China), its online activities were separate from its warehouse operations.

What was Next for Costco?

With a global presence established in eight distinct markets, how could Costco establish itself as a leading transnational retailer? Costco had managed to build upon successes and grow despite turbulent economic conditions. The company had successfully positioned itself as a market leader, broken stereotypes, and followed unconventional business strategies. As the global retail industry experienced intensified competition, top global retailers faced challenges to operate and expand. Although Costco had climbed the global retailer ranking, the company faced challenges and uncertainties.

In 2017, Costco had selected specific modes of entry for each of its expansions. Walmart still held the top international retailer position,[[93]](#endnote-93) and future countries of interest included France[[94]](#endnote-94), Iceland[[95]](#endnote-95), China[[96]](#endnote-96), and India[[97]](#endnote-97). Costco could not afford to be viewed as hesitant on the international stage and faced some key questions for the future: How could Costco leverage its experiences and continue its expansion successfully? What would be the best method for entry, based on existing barriers and culture and operational constraints in these countries? Based upon Costco’s business model and the potential for a large consumer base, should Costco enter densely populated Asian countries, such as China and India?

The authors would like to acknowledge the research assistance of Janine Scott.

Exhibit 1: Top 10 Global Retailers Worldwide, 2013

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Top 250 Rank** | **Name of Company** | **Country of Origin** | **Retail Revenue (USD million)** | **Retail Revenue Growth (%)** | **No. of Countries with Operations** | **Retail Revenue from Foreign Operations (%)** |
| 1 | Walmart Inc. | USA | 476,294 | 1.5 | 28 | 28.9 |
| 2 | Costco Wholesale Corporation | USA | 105,156 | 6.1 | 9 | 28.2 |
| 3 | Carrefour SA | France | 98,688 | −2.4 | 33 | 52.7 |
| 4 | Schwarz Unternehmens Treuhand KG | Germany | 98,662 | 9.5 | 26 | 58.2 |
| 5 | Tesco PLC | UK | 98,631 | −2.0 | 13 | 32.3 |
| 6 | The Kroger Co. | USA | 98,375 | 1.7 | 1 | 0.0 |
| 7 | Metro AG | Germany | 86,393 | −2.5 | 32 | 62.3 |
| 8 | Aldi Einkauf GmbH & Co. oHG | Germany | 81,090 | 4.7 | 17 | 59.2 |
| 9 | The Home Depot Inc. | USA | 78,812 | 5.4 | 4 | 10.8 |
| 10 | Target Corporation | USA | 72,596 | 0.9 | 2 | 1.8 |
| **Top 10** | | | **$1,294,698** | **2.0** | **16.5** | **32.5** |
| **Top 250** | | | **$4,354,562** | **4.1** | **10.2** | **23.4** |
| Top 10 Share of Top 250 Retail Revenue | | | 29.7% |  |  |  |

Source: Deloitte, *Global Powers of Retailing 2015: Embracing Innovation*, 2015, accessed July 11, 2018, www2.deloitte.com/content/dam/Deloitte/global/Documents/Consumer-Business/gx-cb-global-powers-of-retailing-2016.pdf.

Exhibit 2: Costco Operating Income and Warehouse Count

Source: Created by case authors based on data from Costco Wholesale Corporation, Annual Reports, 1998–2014, accessed December 3, 2018, http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-reportsannual.

Exhibit 3: Costco Sales Revenue

Source: Created by case authors based on data from Costco Wholesale Corporation, Annual Reports, 1998–2014, accessed December 3, 2018, http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-reportsannual.

Exhibit 4: Costco’s Market Entry Mode and Current Level of Ownership by Country

|  |  |  |  |
| --- | --- | --- | --- |
| **Country** | **Year of Entry** | **Market Entry Mode** | **Current Level of Ownership** |
| Canada | 1985 | Wholly Owned Subsidiary | 100% by Costco |
| Mexico | 1991 | Joint Venture | 100% by Costco |
| United Kingdom | 1993 | Joint Venture | 100% by Costco |
| South Korea | 1994 | Licence | JV: 94% by Costco, 6% by Shinsegae |
| Taiwan | 1997 | Joint Venture | JV: 55% by Costco, 45% by President DaTong Group |
| Japan | 1998 | Wholly Owned Subsidiary | 100% by Costco |
| Australia | 2007 | Wholly Owned Subsidiary | 100% by Costco |
| Spain | 2014 | Wholly Owned Subsidiary | 100% by Costco |

Note: JV = joint venture.

Source: Created by case authors based on data from Costco Wholesale Corporation, Annual Reports, 1998–2014, accessed May 2, 2018, http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-reportsannual.

Exhibit 5: Costco Wholesale Corporation 2015 Key Facts

|  |  |
| --- | --- |
| Number of Warehouses | 698 |
| Areas of Retail Operation | 488 locations in 43 U.S. states & Puerto Rico  90 locations in nine Canadian provinces  27 locations in the United Kingdom  11 locations in Taiwan  12 locations in Korea  24 locations in Japan  8 locations in Australia  36 locations in 18 Mexican states  2 locations in Spain |
| Membership Data | 81.3 million total cardholders  36.7 million household cards  34 million Gold Star memberships  7.1 million Business memberships  3.5 million Business add-ons |
| Warehouse Size | Average 144,000 square feet |
| Annual Revenues | $113.7 billion |
| Number of Employees (Worldwide) | 205,000 full- and part-time employees |
| Fiscal Year-End | August 30, 2015 |

Note: Warehouse numbers were as of December 31, 2015.

Source: Created by case authors based on data from Costco Wholesale Corporation, Annual Report,2015, accessed May 2, 2018, http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-reportsannual.

Endnotes

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