

Joshua Ortega-Vega
Abisek Raut
Jessica Ng
Jason Nguyen
Josh Ponce

BUS 690: Final Report

6.1. Problem Statement

- *Costco's increasing competition*
- *Costco faces technological issues*
- *Costco's memberships are subject to change*

Costco's ever-increasing competition - The magnitude of Costco's competition is a major one. This is an issue that Costco needs to account for. Costco has been expanding in other areas of the world, but it still heavily competes in the US where a large amount of its sales volume comes from. Costco's most significant competitors include Sam's Club (Wal-Mart) and BJ's Wholesale Club in the warehouse club segment as well as Target, Kroger, and Amazon with respect to general merchandise retail competitors, which could eat at Costco's market share. Overseas it also must compete with international companies such as Aldi and other US based companies like Amazon. The ever increasing competition could force Costco into a price war with other companies and could lead to customers not shopping at Costco locations.

Costco faces technological issues - The magnitude of Costco's technological issue is a major one. Costco's R&D is currently not large enough to be counted in its financials, it is currently not investing heavily into new processes that help improve the business. Aspects of this would be improvement to processes such as its meat cutting and storage and its inventory planning systems. They currently do collaborative planning, where data on suppliers is shared so that inventory and replenishment is fluid. This is an area of improvement where Costco might want to invest in as sales trends can change, which can leave Costco with an overstock situation at its warehouses. If this issue isn't immediately addressed Costco can face the near-term possibility of other companies creating a better process and more efficiency in their systems to keep customers coming back. (*Anthony Smoak*) Costco should do an evaluation of where in its business inefficiencies are being had and invest into a team that could eliminate it.

Costco's memberships are subject to change - The magnitude of Costco's membership issue is a minor one. Costco membership has increased seven times in the US, it's currently priced at \$60 and this was an increase implemented in 2017. Roughly every five or six years the price has increased \$5. This can be seen as a barrier to entry and a premium compared to other shopping

destinations which are free. Consumer preference plays a large role in membership and if consumer behavior changes this can negatively affect the revenue generated by Costco. Currency is a minor issue since customers have been historically loyal to Costco. If this were to change Costco would need to find a solution to keep their customers happy.

6.2. Strategic Priority

Since competition within the retail industry has grown very quickly, Costco has had difficulty with gaining a sustainable competitive advantage in the retail industry. As a result, other large retail companies such as Walmart (Sam's Club), BJ's Wholesale, and Target have taken away some profits from Costco. Costco faces various strategic issues which involves issues with Costco struggling to deal with the increased competition within the retail industry, such as Costco struggling to expand their geographic/operational reach in order to compete with their competitors (due to not having enough physical land resources to build new operating facilities around the world), expand the overall company within the retail industry, increase their revenues/profitability, gain financial sustainability, and gain a sustainable competitive advantage due to increased competition from large, well established companies such as Walmart(Sam's Club), BJ's Wholesale, Target, and Amazon. The increased competition among retail companies has resulted in Costco's profitability/revenue gain slowly starting to flatten, which can eventually lead to losses in financial sustainability and losses in sustainable competitive advantages for Costco.

For example, because of increased competition, one specific strategic issue that Costco is currently facing is determining how to compete with large competitors, such as Walmart(Sam's Club), Target, and Amazon, who are offering alternative, low-priced products of their own, which takes away some of Costco's unique features, such as Costco's low-price bargains, and can ultimately result in decreasing Costco's customer base, profits, and revenues(*Statistic*). In addition, some online retail platforms such as Amazon and eBay have also threatened Costco since consumers are more willing to buy products online today, further increasing the salience and urgency of competitive pressure on Costco. Furthermore, Costco does not have enough physical land resources to operate on. This leads to Costco having fewer operating locations and a smaller operational reach than its competitors, causing Costco to have an overall smaller consumer base compared to its competitors. Costco's competitors, such as Walmart (Sam's Club), Target, and Amazon, have many operating locations around the world, with Amazon operating internationally as an online retailer, and this leads to these competitors having an increased consumer base and their public image being spread to reach more customers.

This strategic issue of Costco facing increased competition is urgent and should be immediately addressed as competitors are beating out Costco in terms of profitability/revenues. For example, based on both theoretical and empirical evidence, Costco has "800 + total locations and yearly revenues of approximately \$149 billion compared to a popular Costco competitor,

Walmart (Sam's Club), which has 11,000 + total locations and yearly revenues of approximately \$524 billion" (*Nasdaq*). Costco will ultimately need to formulate new strategies that can help them compete with their competitors and the increased competition within the retail industry, increase their operational reach, and broaden their public image to attract more consumers.

7.1 Strategic Options

Strategic Option 1: Improving Their E-Commerce

When it comes to providing products for customers looking to shop online, Costco is lagging by a huge margin compared to its competitors Walmart and Amazon. "In the second quarter of 2017, Walmart's e-commerce revenue grew 63%; even Target saw a 22% increase as compared to Costco's 11%" (*Ecommerce Case Studies*). If Costco invests in an e-commerce research division to help boost their expertise, this would be a great strategy. This means acquiring some data scientists and software engineers to focus on improving Costco's digital and technology. With this strategy, it will allow them to increase in areas of functionality, order tracking and predictive analytics. Another service they could install is drive-through stations where members could choose to pick up their purchases at Costco warehouses or other dedicated facilities. This would be a great way to attract customers who would prefer to "pick up and go" especially if they are in a rush and do not want to park their vehicle and walk around the store to grab what they already decided on what products they only need to purchase. If this solution fails, these methods will cut into their profits for trying to experiment from research and tech installations.

Strategic Option 2: Expanding Kirkland Signature Brand

Besides being known as a store where bulk products can be bought at low prices, Costco is also recognizable by their own in-store brand, Kirkland. Kirkland Signature products range from food/drink, to liquor, to clothing. Even though Kirkland is a substitute product to brand names, the quality is known to be exceptionally good. As a result, Costco can take advantage of their own product and use it to expand. So far, the only place to buy Kirkland products is through Costco, but if the company can create partnerships with other retailers, then consumers would be able to see Kirkland products on the shelves of their local grocery or retail stores. Doing this gives Costco a chance to expand their name as well as products, giving them a more sustainable competitive advantage, and at the same time, the ability to create more revenue for themselves. One of the advantages of a competitor, such as Walmart, is that the average consumer can go into their store and buy exactly what they need and can also go to Sam's Club if they need to buy in bulk. Therefore, having these options for Costco, through their Kirkland products, can help equalize the competition in the retail industry. Costco can also use their source of competitive advantage regarding their possession of economically profitable resources and specialized machinery to further create increased amounts of their Kirkland products at efficient rates, leading to increased distribution and potential increased revenues/profitability from their products reaching and supplying more consumers. If this solution fails, there will be an overstock

of Kirkland signature brand products all over the world that not many consumers are interested in purchasing.

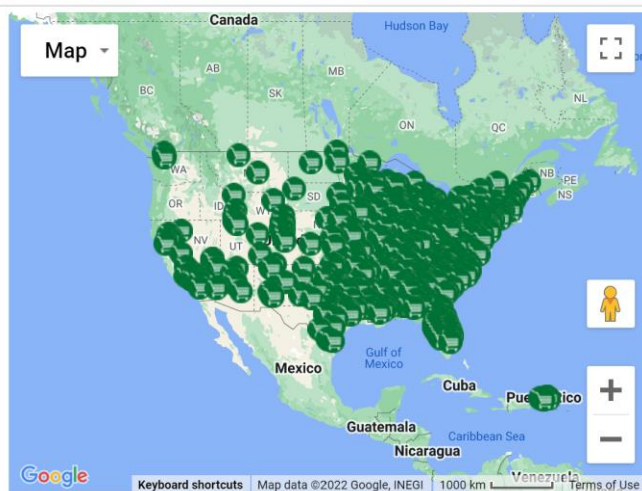
Strategic Option 3: Making Memberships More Worth It

Since many Costco members shop during the weekends and peak hours, it might not be a bad idea for Costco to retain some control of how many customers are allowed in the store to avoid overcrowding the store. Like the coronavirus pandemic, they could implement a system where the employees at the entrance and exit keep track of how many customers are coming in/leaving by using a tally counter that connects to everyone's devices so numbers are always updating on the spot. This method requires customers to wait outside the store for a few minutes, but it greatly helps with safety, less crowded aisles, and shorter lines when purchasing their items in line. It also provides a more pleasant shopping experience for customers who want to avoid being more aware of dodging others at the store, especially carts, wheelchairs, and big families. Peak hours include weekends, weekday morning and lunch hours, and Mondays and Fridays when people are trying to stock up for the week ahead. The best time to shop is from 3pm-5pm on weekdays (after the lunch rush but before people get off work) (*Reader's Digest*). If this solution to prevent overcrowding fails, there might be a small amount of profit loss to purchasing the tally counter devices and connecting them to one another.

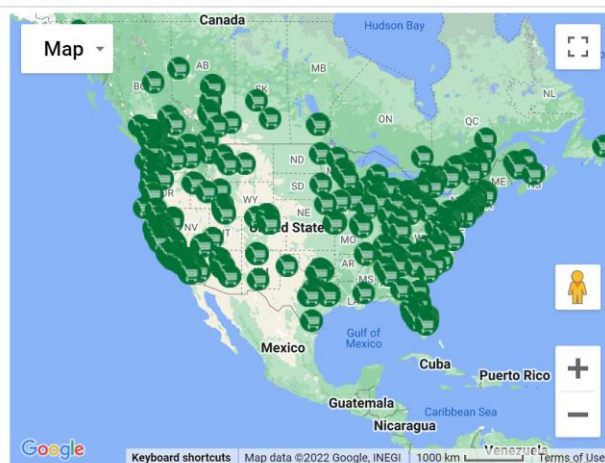
7.2 Strategic Recommendation

Costco hardly spends a dime on marketing/advertisement, and they're able to attract a loyal fan base through their memberships, the recommendation we would like to focus on is the expansion of their operations. If you compare the map of locations between Costco and Sam's Club, you'll notice Costco has fewer warehouses on the east coast compared to Sam's Club. To completely run the warehouse industry, Costco should operate their business in areas where there is a Sam's Club. Comparing Costco prices vs Sam's Club prices, Costco items tend to be more affordable than Sam's club giving Costco a bigger advantage. With prices in the Bay Area increasing, it's leading to more residents to move out of the city/state to locations where Costco is nowhere near sight. If Costco were able to operate in all major cities, as well as neighboring cities, they'll be able to maintain current members, as well as acquire new members.

SAMS CLUB MAP BY LOCATION



COSTCO MAP BY LOCATION



7.3 Implementation Plan

First part of our plan is to evaluate the company's current performance, what is their Mission, their Goals, their Objectives, and their strategies. Finding out how they function in and out of their company will let us know what could be improved on. So, we would need some type of evaluation and analysis so we can push the market for the company, bringing in someone who is knowledgeable in this field would benefit Costco as of right now most of their profit comes from the membership rather than the products. With a team of professionals evaluating and innovating new strategies for the company every month or every quarter, we could see a turnover for Costco.

Second part, Costco is known to be a bigger than normal grocery store where their products are in bulk, but what consumers have yet to take advantage of is their ecommerce. Costco does have an online website where consumers can order but not many take advantage of this. What they

can do to improve on this is either hire a team that their main goal is to modernize Costco's online experience. Somehow apply the similar customer experience that consumers experience in stores into their online store in a presence of live chat or a seamless mobile experience.

Third part, Costco heavily relies on their consumers renewing their membership and being loyal to their brand. They would need to change this so those that are current members are more inclined to stay and new members become interested. On top of the already low prices and bulk items they provided, Costco can also start to innovate strategies on distribution of their products to consumers, such as improved delivery or curbside pickup.

Timeline

May – Long Term	<p>Hire new staff, train current staff on updated procedures, set up new department for online/ technology</p> <p>Maintain status with consumers and further research to maintain and attract new consumers.</p>
May	Establish a group that will evaluate and report every month or quarter on the performance. Have senior officer's oversee operations in each department.
June	Present new strategies to the team and execute them. Set up a new ecommerce profile and explore the area's market.
July	End of quarter report on findings and maintain what worked, keeping in mind what is being cost-effective or not.
2022	Investing in ecommerce capabilities, different delivery methods and keeping up with the trends in the area.

2023	Continuation in delivery or ecommerce, whichever favors the company more.
2023-	More research and development into other departments while maintaining qualities that consumers look forward to.

Resources or Capabilities Needed

First, Costco would need the right people for this plan, having someone that knows the inner and outer workings of Costco would know what the company needs to keep it running and growing.

Second, transparency. The CEO of Costco, Jim Sinegal, has a philosophy of his company that is going to be on a first name basis. Treating his employees like they are family.

Third, keeping up with trends. As we saw during the pandemic, consumers resorted to grocery delivery from other rivals. If Costco can compete in this department, they can see potential gains.

Fourth, do not give up. There will be failures along this journey but let that not hinder the performance. Keep moving forward on strategies and models so that Costco can be efficient everywhere.

Assessments of costs involved

Some of the costs involved in this plan would be towards hiring a new team to work on the evaluation and the ecommerce team to set up their online presence.

The organizational/structural changes required

Senior members of the company could look over the evaluation since they would have the most knowledge of the company.

Back-up Plan

If Costco does not follow through with having a new delivery system, they can invest more in ecommerce and expand into the online shopping that the world is accustomed to.

Conclusion

Costco needs to think more about the long term and that is what the strategic plan that we have put together offers. It looks at macro-economic trends happening. The shift of consumers from one location to another or even their spending needs to be further evaluated if Costco would want to succeed. Changes would have to be made over the next few years to keep up with the recommended plans.

During our time researching we also found some facts about Costco, including its competitive advantages with other retailers, human resources and its target customers were interesting to learn in depth throughout the semester. It makes us realize as consumers how Costco has impacted the lives of many families, households, employment opportunities, and lifestyle adaptations from the products that Costco sells.

In the next 12 months there doesn't seem to be much change that will be happening to Costco, it is a large company, and processes will take some time. Currently they are in the process of expanding and using that as their growth engine to keep revenues high. This will work for some time but eventually they will need to get more efficient in their processes to keep cost low and customers returning. Costco is currently on a stable path to growth with new emerging markets but if it implements some of the strategic plans mentioned above, they would have more opportunity to grow.

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