

Five-Year Marketing Plan

Costco for College



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EXECUTIVE SUMMARY

Costco Wholesale Corporation operates a worldwide chain of membership warehouses that sell “quality brand name merchandise at substantially lower prices than are typically found at conventional wholesale or retail sources” (Costco Corporate Profile, 2015). Warehouses stock some of the “largest and most exclusive product category selections to be found under a single roof” (Costco Corporate Profile, 2015). Because of this, a Costco card is a valuable asset. However, Costco usually targets a more mature population, as membership cards are expensive and require a stable income. For these reasons, we chose to introduce a Costco for College card which would help Costco expand its market reach and ultimately increase sales. College students represent 36.2% of the population, which is a large portion of consumers who are not being addressed in Costco’s target market (NCHEMS Information Center, 2015). As college students get ready to leave home for college and are learning to provide for themselves, they are introduced to many things they are not used to. One of the biggest things they have to deal with is grocery shopping on their own. College campuses tend to have an unhealthier assortment of food, but with this card, students will be able to shop for healthy, fresh ingredients. Furthermore, students can purchase various college living essentials in bulk, ultimately lasting them significantly longer than smaller-sized products that are available at competitor stores such as Walmart or Target. This opens Costco to a new target market of a younger age group that does not tend to buy memberships.

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COMPANY DESCRIPTION

In the year of 1976, Sol and Robert Price raised \$2.5 million from friends and family to open a store called Price Club and introduced the membership warehouse concept. Constructed inside an updated airplane hangar in San Diego, California, the retail warehouse focused on serving small businesses and shoppers. Over time, the company expanded and offered memberships to the general public in order to enlarge profits. In 1983, the first Costco was founded and opened in Seattle, Washington by Jim Sinegal and Jeff Brotman. Costco's breakthrough in the warehouse industry skyrocketed them to become the first company to achieve \$3 billion in sales within a 6 year period. In 1993, a milestone event occurred in which Costco and Price Club, two mega-retailers, merged together and began to operate under the name of PriceCostco. In 1997, the Price Brothers left PriceCostco company to form Price Enterprises, which soon changed to Costco Companies Inc. Finally, in 1999, Costco relabelled itself as Costco Wholesale Corporation and jumped straight into the global mega-retailer business. A mega-retailer is a company that provides a large range of products, and Costco is the holy grail for those who love to find everything they desire. From the kitchen to the technological areas of the household, consumers are able to find what they want under one roof and are able to buy it in bulk (Costco About, 2015).

To this day, Costco is still evolving as they become larger and more globalized. In 2006, Costco celebrated its 25th anniversary and was named one of the “most admired” companies by Fortune magazine. Two years later, Costco became the 5th largest retailer in the United States and the 8th globally with over 53 million membership holders. Furthermore, Costco issued over

1.7 million transactions per day in 2010 and had average sales per unit at 160 million dollars in 2013. In 2014, Costco sales exceeded 110 billion dollars making it the 2nd largest retailer in the United States. Soon after, in 2015, Costco was crowned the 2nd largest retailer globally. Hence, Costco is a retail giant that is continuously evolving its brand name globally through ethical actions that benefit the ultimate consumer who shops at their warehouses (Costco Wholesale Corporation, 2015).

STRATEGIC FOCUS AND PLAN

Mission

Costco's mission statement is "to continually provide our members with quality goods and services at the lowest possible prices" (Costco Wholesale Corporation, 2015).

Goals

The goals of Costco Wholesale Corporation are to provide a high-quality selection of merchandise, convenience of specialty products, and exclusive member services (Costco Wholesale Corporation, 2015).

Core Competency and Sustainable Competitive Advantages

The core strengths Costco exhibit go beyond fulfilling their promises to customers. Costco is one of the largest providers in the warehouse food providing industry, which inevitably puts the company in an arena of advantages and disadvantages. The strengths of a company of this type generally resonate with its ability to provide bulk food items at reasonable prices for large families or just for people who like to stock up. However, Costco is set apart from competitors due to its dedication to greatness in all aspects of its business, especially maintaining loyal and dedicated customers. An explanation of such dedication comes from some of the basic principles Costco follows.

Costco obeys the law, takes care of its members, takes care of its employees, respects its suppliers, and finally, it rewards its shareholders. These are prominent examples of the core

strengths that the Costco brand embodies. The satisfaction of the core competencies of Costco occurs through an inside-out approach of both customer and employee benefits. For example, Costco promises and delivers high-quality goods to its customers as a benefit for their convenience shopping in its stores. From the opposite perspective (an employee standpoint), Costco gives them benefit for working there by keeping employee turnover rates low (Dinesh, 2011).

With respect to the sustainable competitive advantage of Costco, their system has been recognized as one of the most efficient. Costco employs a sustainable business model that integrates the *Immigrant Perspective on Business Leadership*. Costco's efforts in remaining a dominant force include taking risks and promoting new trends. Costco also utilizes a circular vision which helps them to deliver innovative strategies to adhere to changing markets and deals. Costco stays true to the warehouse industry—the community where they began and what they focus on improving. Additionally, Costco has an undeniable entrepreneurial spirit, meaning they understand first hand the needs of their customers and how to continuously deliver a fresh shopping experience. Last but not least, Costco stays true to their promise: to deliver honest and true value to their customers and all stakeholders (Llopis, 2011).

SITUATION ANALYSIS

The situation analysis evaluates Costco Wholesale Corporation in its current position as a part of the warehouse club and supercenter industry. Following a SWOT analysis, an overview of the company's industry, competitive landscape, business model and strategies, and customer characteristics will be profiled.

SWOT Analysis

This analysis summarizes the significant internal and external factors that either positively or negatively impact Costco as an organization. A SWOT analysis conventionally aims to evaluate Costco's strengths, weaknesses, opportunities, and threats by outlining key points associated with each category (included in Figure 1). Examination of each trait will result in a better understanding of the company's position within the industry.

Figure 1. SWOT Analysis: Costco Wholesale Corporation

<i>Internal Factors</i>	Strengths	Weaknesses
Management	Highly efficient supply chain management that minimizes costs	Lack of advertising may create barriers for attracting potential customers
Offerings	Quality image, brand, and products offered at low prices resulting in high customer loyalty	Limited product and brand selection
Market	Possesses a major percentage of the industry's market share	Distribution of market share is stiff due to its competitive environment
Personnel	Employee wages, benefits, and high satisfaction	Maintaining high employee wages as part of its ethical principles
Finance	Steady, recurring revenue stream due to membership fees and high renewal rate	High geographical dependence on its North American locations

External Factors	Opportunities	Threats
Consumer/Social	Sales growth in different retail sectors (i.e. internet sales, e-commerce)	Rising labor and healthcare costs
Competitive	Attracting a younger customer base	Intense price competition from its rivals
Economic	Rising disposable income for middle-class consumers	Performance highly influenced by economic environment

Essentially, one of Costco's strengths lies within its leadership of price positioning.

Costco inherently maintains its competitively low prices with a supposed maximum 15% markup on all of its branded or private label products provided within the wholesale distributor. With this sort of pricing authority over its competitors, Costco has gained a reputation of great pricing and value creation that has resulted in an extensively high rate of customer loyalty. As of 2014, it has been estimated that 91% of its U.S. and Canadian consumers and 87% worldwide have renewed their exclusive membership associated with the retailer. Furthermore, the opportunities of this corporation are primarily found in its potential growth relative with its online retail sector. Costco's online growth can potentially attract a younger customer base since younger customers are more experienced with e-commerce and internet shopping. Costco's established reputation for great discounts and low prices can appeal to the younger generations, and the company's new sign-up rates can likely increase from this younger target market. With Internet sales accounting for 11.2% of Costco's total retail sales (disregarding automotive fuel sales), Costco's e-commerce channel was expected to grow an approximate 17% during 2015, fueling a substantial portion of its retail sales (Costco Wholesale Corporation SWOT Analysis, 2015).

In contrast with its strengths as a corporation, there are also aspects of Costco that have a likely negative impact. Firstly, limited product choice is a relative weakness as other similar competitors, such as Walmart, offer a considerably larger product selection in comparison with Costco's average of 3,700 in-store products retailing at any given time. Less product variation and a limited selection can predominantly act as a competitive disadvantage since consumers cannot spend money on particular products or brands that are not present on Costco's shelves. Regarding threats, Costco operates in a moderately competitive environment. External threats from other large retailers, such as Walmart and Sam's Club, are extant as there is ongoing competitive pressure for the industry's market share (Costco Wholesale Corporation SWOT Analysis, 2015).

Industry Analysis: Warehouse Clubs and Mega-Retailers

Industry Overview. Costco fundamentally operates in the warehouse club and supercenter industry. The following are typical elements of the warehouse club and supercenter industry: large shopping facilities, merchandise purchased in bulk from suppliers, discounted prices, and wholesale packaging. Paid membership programs and fees are typically characteristic for warehouse clubs, as members can enjoy exclusive discounts and bargains passed on by these retailers. Supercenters, however, do not require customer eligibility as memberships and exclusivity are more distinctive of warehouse clubs. Merchandise generally ranges from a miscellaneous assortment of products such as groceries, pharmaceuticals, tech-products, clothing apparel and more. As a built-in consequence, the industry is highly prone to shifting natures of demand for the various types of goods offered (which can have a profound impact on sales).

With the industry's revenue reaching close to \$500 billion as of 2013, the warehouse club and supercenter industry has witnessed rapid growth over the years. Growth, maturity, and decline are all stages associated with an industry's life cycle. However, the warehouse club industry's life cycle stage is now in its maturity. Slowing contributions to the nation's GDP, a slowdown in technological change, and a decline in the number of new establishments are some relevant indications regarding the industry's mature life cycle phase (Everett, 2013).

Industry Landscape. The industry's external environment is also important to consider. As of 2013, the industry's market share is largely attributed to two main companies, Walmart and Costco, with both businesses constituting 80.3% of the industry's revenue (Everett, 2013). The large portions of market share distributed primarily between the two organizations signifies that there is a high level of market concentration. Essentially, the high market concentration level acts as a difficult barrier to entry as any new entrant would likely face formidable competition on top of massive initial start-up costs. The most successful companies in this industry are the pre-existing companies that have reaped its benefits from first-mover advantages (the competitive advantages received when being the first to venture into a new industry). By being first-movers in the warehouse club industry, Walmart and Costco have both gained distinguished brand recognition and customer loyalty since the time of each company's creation. This has allowed Walmart and Costco to retain their dominant positions by allowing their industry expertise to further develop and maintain their success (Farabi, 2012).

Competitor Analysis: Strategic Pricing and Limited Product Choice

Strategic Pricing. With respect to its competitors, Costco generally competes on a basis of competitive pricing within a price-sensitive market. Elasticity of demand is highly considered when it comes to Costco's pricing. In order to keep its strong reputation of a bargain wholesale retailer, there is a significant amount of pressure on Costco to keep its prices low in competition with other retailers such as Walmart or Sam's Club. Costco has implemented a strict pricing policy that does not allow the company to mark up its general goods by more than 14% while its private label Kirkland-brand items are put at a cap of 15%. Costco has enabled itself to provide low prices for its consumers in order to proactively compete in the industry's competitive environment (Cascio, 2006).

Limited Product Choice. Costco's marketing strategy of a limited selection differentiates itself from similar competitors that can usually provide a much larger number of different product offerings and brand names. In "How Costco Became the Anti-Walmart," the article states that, "Walmart typically stocks more than 100,000 types of items and may carry 60 sizes and brands of toothpastes." Although it may be considered by some to be a weakness for the company, the warehouse retailer intentionally chooses to limit its product variety in order to increase its sales volume. As a result of narrowing down its products and building trust with its chosen suppliers, Costco's deep-rooted and strict business relationships customarily provide a guaranteed discount to the company's consumers (Greenhouse, 2005).

Company Analysis

Costco's strengths and overall success derives from key factors such as its low markups that drive a loyal customer base and highly efficient supply chain management that effectively reduces costs. In order to keep itself successful in the industry, Costco implements its limited selection, low price philosophy as its peculiar business model that allows it to achieve its stated mission and goals. With its policy of a 15% markup cap on its products, it becomes questionable as to how Costco can find its pricing strategy profitable. Low prices create excitement for Costco's customers but render low profitability for the company's revenue. Real revenue for the company does not primarily stem from selling its merchandise, but from another critical element of warehouse clubs—membership fees. As of its fiscal performance in 2005, \$1.1 billion in profit was generated entirely through the company's membership fees, which were \$50 per year at that time (Boyle, 2006). In 2013, an approximate 80% of Costco's gross profit is credited towards membership fees with renewal rates for memberships estimating close to 90%. These recurring rates emphasize the company's strong loyalty from its customers (Stone, 2013).

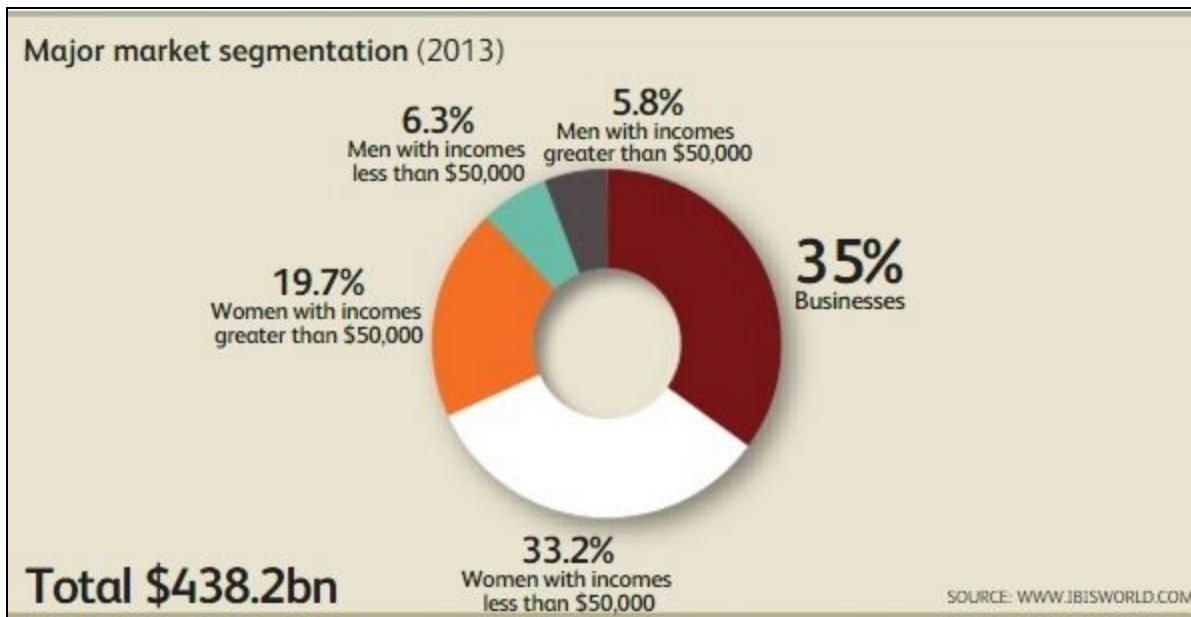
Secondly, the company's streamlined supply chain is another successful characteristic that sustains its pricing leadership within the industry and enables Costco to align itself with its mission and goal for low prices. Costco implements and practices *cross-docking* methods in order to increase operational and inventory efficiency. This means that Costco practically purchases its goods from the manufacturers and ships the merchandise directly to stores (via cross-docking facilities) ideally within a day, establishing the shortest route for products to hit store shelves and eliminating the need of a middleman or distributor. This contrasts with other

organizations' supply chains that commonly employ multiple steps in order to stock its shelves, inadvertently adding operational costs and expenses along the way. Operating expenses and internal processes are minimized as a result of Costco's strategy, with only 10% of sales revenue distributed to Costco's SG&A (sales, general, and administrative) expenses as of 2013. Costco's spending on its SG&A expenses is "one of the lowest retail spending rates out there," with Walmart at 19.3% and Amazon at 22.2% for comparison (Wulfraat, 2014).

Customer Analysis

This customer analysis delineates (1) the economic characteristics typical of consumers in the warehouse club and supercenter industry and (2) consumer behavior and trends that have a major impact on company revenue.

Customer Characteristics. Those with lower-income (earning less than \$50,000 annually) account for the largest portion of the target market in the industry, aside from businesses. The subsequent share mainly consists of middle-class consumers (earning greater than \$50,000 annually), generating approximately 25.5% in industry sales. The demographics of the market are broken up into five different categories of these consumers, as illustrated in Figure 2: men or women with incomes less than \$50,000, men or women with incomes greater than \$50,000, and businesses.

Figure 2. Statistical Data for Market Segmentation (Everett, 2013)

However, market statistics indicate that sales derived from lower-income segments are declining as the market segment for middle-class consumers is increasing due to a rise in disposable income for the latter middle-class consumers. The target market for the warehouse retailer industry is generally aimed at lower-income consumers, but is slightly shifting towards the middle-class distribution as the segment's share is expected to expand. Businesses also constitute a notable share of the market segment at 35% since warehouse clubs are able to stock inventory typically for smaller businesses (Everett, 2013).

Trends in Customer Loyalty. Consumer behavior is a significant subject matter regarding the characteristics of Costco's customers. Trends in customer loyalty have a major impact on Costco's profitability and revenue. The reason why there is a high renewal rate (averaging close to 90%) for Costco membership is because of the pricing the retailer provides to its members. According to an article within the magazine Shopping Centers Today, "Costco shoppers spend

nearly 150% more per visit than those at the typical retailer." On top of discounted prices for normal products, it is also typical for Costco to offer products in high quantities at reasonable prices to make the customer believe that purchasing above their normal demand requirements (purchasing in bulk) would amount to larger savings. In essence, customers are fundamentally shopping at Costco with the intent that their purchases are bought at an extremely great deal, thus justifying their actions. Shopping within Costco stores can ultimately acquire higher savings since consumers can salvage as many discounts as possible in their single-bundled purchase, which equates to more spending alongside each individual visit (Big Spenders, 2015). Costco memberships, in return, are more likely to experience a continually high renewal rate. This can essentially be seen as how Costco can lock customers in its grasp with attractive discounts that are highly valued by the consumers in this elastic market.

MACRO-ENVIRONMENT SITUATION

Political Conditions

Depending on the political environment of the country and region of operations, it can influence the company's profitability and costs. These include laws and guidelines set by federal or state governments that the company must abide by. While Costco strives to offer low prices, certain state legislation may require minimum markups to products such as tobacco, alcohol, and gasoline. Another main political factor relates to climate change as increased United States and international government regulations can limit emissions of greenhouse gasses and disposal of hazardous waste of the operating facilities (Costco Annual Report, 2014, p. 18).

Economic Conditions

Commodities sold, like gasoline and certain food products, can fluctuate in costs due to changes in the domestic and international supply and demand, foreign exchange rates, labor costs, and market speculation. Because of the large mix of various merchandise, the change in prices can, therefore, affect sales and profits. Economic factors that can affect demand for products and services include high energy and gasoline costs, inflation, disposable income, and levels of unemployment. Shopping habits are influenced by the economic situation and consumers will find ways to save money during a recession and low employment rate (Costco Annual Report, 2014, p. 17).

Sociological Conditions

While wealthy, older adults who live in the suburban areas is a large, original consumer base for the company, the Baby Boomers are aging and there is growing urbanization in North America. Younger consumers, such as the millennial generation, will become increasingly important to the bottom line as they will shape and drive the economy (Tuttle, 2014). Other socio-cultural factors that the company should focus on includes consumer preferences and the changes in consumer lifestyles. One significant attitude change in lifestyle for consumers is that they are becoming more health conscious. According to the U.S. Department of Agriculture, there is an increasing growth in demand for organic foods (Appendix Figure A).

Technological Conditions

Multichannel retailing is evolving in the everyday retail environment as there is a general trend towards online shopping. Especially for younger consumers, the Internet is an important shopping medium. Digital devices, such as laptops, tablets, and mobile phones, has allowed multiple online and mobile channels for customers. Many members are digital shoppers who research, check reviews, and do price and product comparisons online, which increases competition for the company (Costco Annual Report, 2014, p. 17).

Environmental Conditions

Adverse weather, such as hurricanes or earthquakes, can negatively affect operations and financial performance. In addition to causing physical damage to properties and closures of warehouses, it can also affect the company's workers and cause a lack in workforce.

Furthermore, natural disasters can disrupt transportation or delivery of goods by suppliers and therefore cause a reduction of goods. Climate change can significantly change the way distribution and warehouses operate due to the use of resources such as natural gas, diesel fuel, electricity, and gasoline. Moreover, since the company sells a great amount of gasoline to consumers, the demand can be affected as there is more concern and awareness about climate change (Costco Annual Report, 2014, p.18).

MARKET-PRODUCT FOCUS

Marketing and Product Objectives

Costco Wholesale's marketing intent is to take full advantage of an age group that does not use Costco warehouses as much as older generations. Costco will do this by offering a discounted card solely created for college students. This will provide a base from which other revenue sources can be mined—adding school supplies to Costco inventory, selling merchandise from local colleges, and offering ticket packages to college sporting events and local events in combination can promote total sales.

Target Market

The primary target market for Costco's new membership card is college students mostly aged 18 and over that dorm or live off-campus. This particular group attends higher education classes and are often in need of new school supplies the beginning of each semester as well as personal needs, such as toilet paper, laundry detergent, and paper towels for those who live on or nearby their college. This can be useful for students as the bulk products can be shared with roommates in dorms and apartments. Students are always looking to find ways to eat healthier, lower-priced food items, as most universities provide food on the unhealthier end of the spectrum. This can be difficult for many students, as they are just beginning to live on their own and do not have the funds to continually purchase healthy, well-made products frequently and in small portions. Because college students have to spend on a budget, Costco's new student card can assist them in keeping within that budget. Furthermore, Costco's technology can attract

college students whose classes often require access to the Internet and other technology, like laptops, tablets, and phones. Also offering pharmaceutical services for reasonable prices and other benefits, like health insurance, an optometry, automotive services, and a food court, any college student can find Costco Wholesale to be an all-service-inclusive store.

Points of Difference

The points of difference characteristics that make Costco Wholesale's student membership unique relative to competitors fall into these important areas:

- It is a card exclusive to college students, which provides equivalent access to the Costco services and benefits as the Gold Star membership (excluding the free Household card)
- It can be upgraded after college to a regular Costco membership card for a one-time fee
- The yearly membership costs less than the standard amount
- Students are aware of Costco's Kirkland Brand and its quality
- Food in bulk, free samples, and a low-priced food court are appealing to hungry college students
- Periodically distributes coupons and discounts

Positioning

In the past, Costco has catered to large families and an older demographic. Now, Costco provides students aged 18 and older with lower prices on school supplies, food, and other needed goods in bulk with the purchase of an affordable student membership other wholesale retailers do

not offer. We do this with the establishment of customer loyalty by having high-quality and affordable priced products for every customer's diverse needs and wants.

MARKETING PROGRAM

Product Strategy

The market Costco is targeting includes college students who are looking to save money, but still yearn to buy quality products and food. What makes this product unique is that Costco provides a wide range of fresh and specialty goods available for customers to choose from. The value Costco provides to their customers is both a commitment to quality and a discounted option that still includes full membership perks.

Our marketing strategy for the “Costco for College” card mirrors the points-of-difference marketing strategy. The mere fact that we offer a full membership to college students at a discounted price sets us apart from competitors. Retailers like Smart and Final, Walmart, Target, etc., have yet to implement perks and discounts targeted towards college students that take into consideration their needs and how they can be met. For other retailers, like Sam’s Club, which do have similar membership cards for college students, Costco emphasizes their points of difference through our services; a wide variety of services—like a food court, a pharmacy, an optometry, health insurance, automobile services, and gasoline stations—are offered at each Costco warehouse for, often, very low prices.

Price Strategy

Our pricing strategy for ensuring profit while delivering benefit to our target market is to discount the Gold Star Membership, which is priced at \$55 annually. The Costco for College card will be priced at \$40, which is \$15 less than the least expensive standard member card. This

enables a more affordable option for college students but still includes great benefits. The value provided for our customers with our discounted pricing strategy will steer our consumers away from competitors like Sam's Club. However, the revenue goals of Costco will still be met because we are implementing a system that will cause more demand. With the demand of this new service, Costco will only have to supply the additional needs of its consumers without adjusting or changing the existing supply systems. Being that we are a warehouse of goods, there will be little to no increases necessary for an increased amount of consumers. With that said, our price strategy will be to the benefit of our new target market, as well as to our profit goals because it only adds to our current strategies.

Promotion Strategy

Our promotion strategy will include specific forms of outreach and mainly of which Costco is already utilizing. As the oldest and most successful forms of promotion for Costco, we intend to let our product speak for itself through word of mouth messages by our current members and prospective customers. Furthermore, in order to get our card to be recognized as beneficial to our target market, we will encourage parents and families who are current or potential Costco members to purchase the college card for their children—prospective college students or those who might need assistance in their current collegial standing. For example, parents can buy the membership as a gift to send their child away. Stepping away from the traditional promotional methods used by Costco, we will seek more independent students by directly interacting and promoting the service to them by setting up booths on college campuses.

After becoming a Costco for College member, further promotions include the use of paper and online coupons for existing customers. We will gear advertisements with goods that call for simplicity and convenience towards the needs of college students. Examples of these would be special advertisements for easy-to-make foods (e.g. instant noodles), school and office supplies, dorm room furniture, and other college living essentials. Once college students sign up for the card, they will have given us their contact information which becomes one of the most efficient ways for us to reach out to our customers. As one of the most convenient forms of communication for college students, we will also advertise for new sales and deals through email, our website, and our smartphone and tablet app. Another method of promoting our new service is through direct mail to members. Although paper mail takes longer to be sent out and can be more expensive, our goal is to reach every potential customer in our target market. Particularly, it is for those who might not utilize the Internet or electronic devices as much as others for online specials, coupons, and alerts. All in all, the college card will be advertised and promoted as the best service every college kid needs for quality and convenient goods.

Place (Distribution) Strategy

We plan to begin implementing this card in California, to observe the successes and weaknesses with our service. With over 120 stores located in California, there is a wide assortment of warehouses available for a diverse student population to use their card (Costco Annual Report, 2014, p. 5-6). We are choosing to begin our service in California because of California's prestigious university system. With an assortment of state, private, and UC

campuses, California provides an abundance of students to test strengths and weaknesses of the student membership.

We will provide applications for our Costco for College cards through the general warehouse locations and online at costco.com. Students must present a valid Student ID number and university (.edu) email address at the time of sign-up for verification. Furthermore, membership numbers will be emailed within 48 hours of purchase. The cards will arrive between 7-10 business days via standard shipping to the address provided. New members may begin purchasing on Costco's online website after completing their application (Costco Wholesale Memberships, 2015).

FINANCIAL DATA AND PROJECTIONS

Over the past five years, Costco's growth has been increasing in many of their sectors. According to Costco's Annual Report (2014), in the year of 2010, Costco was directing more of efforts internationally in comparison to domestic expansion. As seen in Figure 3, in 2010, Costco had increased their warehouses by 19% with an 8% increase in international warehouse sales. While Costco did increase their membership rates by 10% in September 2011 due to the operating margin shrinking, their total revenue increased 17% to \$28.18 billion in comparison to the increase in fees (Stynes and Talley, 2015). Thus, as the years progressed, memberships rose significantly with the increase in warehouses in the global markets. This can be seen in Figure 3 when comparing membership fees to warehouse percentages. With the addition of new overseas stores, the net sales increased by 10,000 (in millions) from 2010 to 2011. Furthermore, net sales increased by 6% from 2012 to 2013 (Costco Annual Report, 2014).

Moving onto the most recent year of 2014, Costco's Annual Report (2014) illustrates many financial advancements. One advancement was the introduction of 30 new warehouses domestically in North America while only opening ten warehouse locations internationally compared to the 26 locations that were added in 2013. Additionally, net sales in millions were \$110,212, a 7% (7,342 in millions) increase from previous year. However, changes that occurred in foreign currency in Canada and Japan at that time negatively impacted the total amount by 1,336 dollars in millions. Moreover, Costco increased selling, general, and administrative expenses in 2014 in order to invest in the implementation of new modern information systems (Costco Annual Report, 2014).

As a result, all the increases in different sectors over the years indicates that Costco is in good financial health. With an increase in net sales and warehouses, it indicates that the company is exploring and establishing in newer customer markets and still building an international presence. Additionally, with a constant increase in gross margin, it indicates that with every following year, Costco will be able to pay operating and other expenses while being able to fund the need to continue expanding globally.

Figure 3. Costco 2014 Financial Statement (Costco Annual Report, 2014)

As of and for the year ended	Aug. 31, 2014 (52 weeks)	Sept. 1, 2013 (52 weeks)	Sept. 2, 2012 (53 weeks)	Aug. 28, 2011 (52 weeks)	Aug. 29, 2010 (52 weeks)
RESULTS OF OPERATIONS					
Net sales.....	\$ 110,212	\$ 102,870	\$ 97,062	\$ 87,048	\$ 76,255
Merchandise costs	98,458	91,948	86,823	77,739	67,995
Gross margin	11,754	10,922	10,239	9,309	8,260
Membership fees	2,428	2,286	2,075	1,867	1,691
Operating income.....	3,220	3,053	2,759	2,439	2,077
Net income attributable to Costco ⁽¹⁾	2,058	2,039	1,709	1,462	1,303
Net income per diluted common share attributable to Costco.....	4.65	4.63	3.89	3.30	2.92
Cash dividends declared per common share.....	\$ 1.33	\$ 8.17	\$ 1.03	\$ 0.89	\$ 0.77
Increase in comparable warehouse sales ⁽²⁾					
United States	5 %	6 %	7 %	7 %	4 %
International	3 %	6 %	6 %	16 %	19 %
Total	4 %	6 %	7 %	10 %	7 %
Increase in international comparable warehouse sales in local currency	7 %	6 %	8 %	10 %	8 %
BALANCE SHEET DATA⁽³⁾					
Net property and equipment.....	\$ 14,830	\$ 13,881	\$ 12,961	\$ 12,432	\$ 11,314
Total assets.....	33,024	30,283	27,140	26,761	23,815
Current portion of long-term debt.....	—	—	1	900	—
Long-term debt, excluding current portion	5,093	4,998	1,381	1,253	2,141
Costco stockholders' equity	\$ 12,303	\$ 10,833	\$ 12,361	\$ 12,002	\$ 10,829
WAREHOUSE INFORMATION					
Warehouses in Operation ⁽⁴⁾					
Beginning of year ⁽⁴⁾	634	608	592	572	527
Opened ⁽⁵⁾	30	26	17	24	14
Closed ⁽⁵⁾	(1)	0	(1)	(4)	(1)
End of year.....	663	634	608	592	540

Five-Year Projections

The Costco Student Membership will be exclusive to college students and will be offered at \$40. Statistically, there are over 460,000 California State University students who can be eligible for this membership card (Term Enrollment Summary, 2015). With this number, we only currently considering CSU students. However, if we factor in community college, University of California, and other university students, then the amount of students eligible exceeds tremendously. Furthermore, as we will tailor the product exclusively in California for the first five years, we expect that at most, 70,000 students to sign up during the first year of release. This will increase at a 20% rate based on the previous years numbers. The reason for a 20% increase is that the public will become addressed to this promotion through email, direct mail and through their parents. So, we estimate one out of five people initially will agree to the program and more will increase over time as seen below in Figure 4. We estimate that by the end of the five years, we will have over 520,000 people enrolled in the program and over 20 million dollars.

Figure 4.

5 YEAR PROJECTION OF ENROLLMENT AND PROFITS

Years	Price of Membership	Enrolled in Membership	Total Revenue (Before Taxes and other deductions)
1	\$40.00	70,000	\$2,800,000.00
2	\$40.00	84,000	\$3,360,000.00
3	\$40.00	100,800	\$4,032,000.00
4	\$40.00	120,960	\$4,838,400.00
5	\$40.00	145,152	\$5,806,080.00
Total After 5 Years	\$40.00	520,912	\$20,836,480

The marketing department for this project will be given a starting budget of \$250,000 in dollars to use in order to promote the product. This will grow over the years at a 10% rate contrary to membership rates and then decline after maturity of the California trail. The idea behind this rate is that since it is a trial period is in California, a large increase in the budget would not be needed based on the targeted population. Thus, it leaves the option of increasing the rate after the trial period once it expands outside of California.

Figure 5.

5 YEAR MARKETING BUDGET FORECAST						
Years	1	2	3	4	5	
MARKETING OPERATING BUDGET	\$250,000.00	\$275,000.00	\$302,500.00	\$332,750.00	\$336,025.00	

Next, we will determine that total income total for each of the next five years. In order to calculate this we will take the earnings of 2014 from the Costco annual report, and based on previous year's growth in net income we can see from the data that total net income, before taxes and other expenses, increases by 1% each year so, for our next five years we will increase net income by 1% as each year passes by. The numbers taken for the report are in millions and before any taxes and expenses have been deducted. For consistency and ease, the following costs will all be in millions. The process to forecast each year's net income is a two step process. The first step was to take the total income from the previous year and multiply that with the next year's percentage to get the next year's net sales. For instance, 2014's \$112,640 (in millions) is multiplied by 8% to get \$121,651 (in millions) and so on. The second calculation is for membership fees. This is done by taking the last years membership fees and then adding in the

total revenue from the membership sign-up calculations (Figure 4). For instance, for year 1 after calculating the net sales (\$121,651) we take the 2014 membership fees which are \$2,428 (in millions) and add in the total revenue \$2,800,000 from year 1 that calculated in the five-year projection of enrollment and profits chart. Thus, for year 2 the two calculations together would be taking total income from year 1 times 9% to find year 2's net sales, and year 1's membership fees plus total revenue from year 2 which are \$3,360,000 obtained from the five-year projection of enrollment and profits chart and then, adding the net sales to the membership fees to find total income. Hence, this process is conducted throughout for all five years to illustrate the forecast.

Figure 6.

5 YEAR FINANCIAL FORECAST (*ALL AMOUNTS IN MILLIONS)

Year	2014	1	2	3	4	5
Percent Increase every year		8%	9%	10%	11%	12%
Net Sales	\$110,212.00	\$121,651.00	\$135,248.00	\$151,449.00	\$170,793.00	\$194,023.00
Membership Fees	\$2,428.00	\$2,430.00	\$2,433.00	\$2,437.00	\$2,442.00	\$2,448.00
Total income (before taxes and expenses)	\$112,640.00	\$124,081.00	\$137,681.00	\$153,886.00	\$173,235.00	\$196,471.00

Moreover, the 5 year forecast illustrates a positive relation between profit and an increase in student memberships. The forecast expects that every year, the total income before taxes and expenses should increase by 10,000 (in millions) or more. This expresses that if the product was to expanded throughout the rest of United States in the future, the revenue gains would be exponential as each year, new college students will continue to enroll in the service and, afterward, become lifelong members.

IMPLEMENTATION PLAN

Obtaining Resources

The plan will require sufficient funds and time to support the implementation phase.

Activates the require funds to implement will be funded through the money that is given to the team in order to carry out the plan. This includes a starting budget of \$250,000 that will increase over time. Additionally, time is another resource required to implement the plan successfully. We have taken each task and broken it down into segments that each receive sufficient time to perform and execute their task.

Designing the Marketing Organization

As an existing organization, Costco Wholesale Corporation already has a organization chart for their marketing team. The team has appropriate lines of authority that trickle down to the employees in order to establish efficient communication and workflow.

Defining Precise Tasks, Responsibilities, and Deadlines

To successfully execute our program, we have devised a very precise action item list which can be seen below in Figure 7. The list specifies different tasks and the department or departments responsible for completing such task. To maximize efficiency, the deadlines are set in fiscal month increments, although sometimes spanning more than one month. The guidelines given will help keep the company on task from month-to-month with time to spare for monthly

evaluations, and the time-spans are long enough to ensure accuracy and efficiency in completion but short enough to avoid neglecting the goals of the marketing plan.

Executing the Marketing Program

To execute our marketing program, we plan to adhere to specific promotion and logistic techniques. Promotions will include word of mouth messages, email, paper and online coupon offers, and direct mail. By utilizing the above techniques, we will be able to efficiently reach more of our target market and successfully introduce our new service to college students . With regards to the logistics of how our marketing program will be executed, we will implement the initial cards throughout California, targeting the college students across California's campuses. Because there are over 120 Costco locations in California alone, our consumers will have ample locations to both sign up for the card and shop. This logistical plan will allow for a testing field to see how easy or challenging it is to execute such a service.

Figure 7. Action Item List

Task Descriptions	Department(s) Responsible for Task	Time Range in Fiscal Months
PHASE 1: PLANNING		
❖ Define business vision ❖ Identify available skills and resources, estimate overall costs ❖ Research the market (market analysis) ❖ Evaluation of target market (pretest target market subjects with surveys and research)	Marketing	1-2
❖ Define sales goals ❖ Identify needed resources and overall costs	Sales	1
❖ Decide whether to proceed	Administration	1

PHASE 2: IMPLEMENTATION		
❖ Set marketing objectives and performance standards	Administration	1
❖ Estimate market and make more exact marketing message ❖ Determine creative concept and identify press release requirements ❖ Determine product specification materials	Marketing	1
❖ Narrow down sales goals ❖ Establish sales channels	Sales	1
❖ Create product specification materials ❖ Create marketing presentations ❖ Transmit product launch details to internal organization	Marketing	2
❖ Create product prototypes ❖ Fulfill production orders as specified	Production	2-3
❖ Establish methods of data evaluation ❖ Establish product maintenance mechanisms ❖ Complete and test product ❖ Create/train sales, local, and product support groups	Research and Development	5
❖ Update product forecasts based on market feedback and analysis ❖ Update launch plan based on forecast ❖ Prepare distribution channel	Marketing and Administration	1-2
PHASE 3: EVALUATION		
❖ Carry out plan after implementation phase	All Departments	N/A
❖ Collect data from sales	Sales	5
❖ Determine deviations between objectives and actual sales	Marketing, Research and Development, and Sales	2-3
❖ Act on deviations (exploit, correct, or drop plan)	Administration	1

EVALUATION

As a part of the strategic marketing process, the evaluation phase is a very important process to prevent divergence from marketing plan objectives as well as to monitor and identify any possible obstacles before they become impossible to overcome. The evaluation phase is, thus, divided into two sections: identifying deviations by comparing actual results with target objectives and taking corrective action based on said deviations (Kerin, Hartley, & Rudelius, 2014, p. 44-45).

Comparing Results with Plans to Identify Deviations

Actual sales of the Costco for College membership card will be compared with the projected goals to identify any substantial differences. For keeping each department on task, a Gantt chart or action item list can be used in both the implementation phase (to organize work objectives) and the evaluation phase (to monitor the carrying out of work objectives and prevent work lag).

To maximize efficiency when it comes to comparing sales data, this data will be collected from the sales and marketing staff at every month's end and then evaluated at the end of the fiscal year. A graph would help a comparison of these data sets, with a data plot for the actual sales revenue and a data plot for the projected sales revenue goal (adjusted by and based on factors such as pretest and posttest promotional surveys as well as past marketing promotions). This would best help visualization of company progress by being combined with a marketing

dashboard that shows more sales data in depth, including but not limited to general sales numbers, sales by geographic location, and sales by gender.

However, while it is important to attempt to stick to the objectives and goals of this marketing plan, it is stressed that the big picture should be viewed and not just the simple, intermediate objectives. Furthermore, if the plan causes the company more strife than it does prosperity, marketing managers should decide between alterations, corrections, or even cancellation of the entire idea.

Acting on Deviations

If it is found that these deviations exceed the expectations and the sales of the new membership card is above the projected target profit, then these opportunities will be exploited through new marketing actions to maximize sales. For example, if this new membership card promotes overall Costco sales, it could lead to research into potentially providing either a cheaper price for this service to attract more consumers or create a different—yet similar—product or service altogether, such as a premium-priced membership plan for college students who live together.

If these deviations differ from expectations in a negative way, marketing managers must take immediate corrective action. First, however, the reasons for such a deviation must be identified before making alterations or corrections. Below is a list of a few possible reasons for deviations:

- Failure to focus on wants and needs of target market - Not enough demand to attract target market

- Shortcomings of the marketing mix - The product, place, promotion, or product itself are not appropriate for this particular product-service
- Cannibalization - Costco for College membership cards eating up sales of regular Costco membership cards

Once the reason for the negative deviation is realized, the company can then decide the best course of action to maximize profit efficiency.

CONCLUSION

From the gathered research, it is apparent that Costco Wholesale is in the maturity stage of the product life cycle. Though Costco is very profitable, the company is experiencing a slower growth in sales. Costco has strong brand image and awareness. This is accomplished by supplying customers with high-quality products in bulk that they might not find while shopping at a normal grocery store. Costco also shares the market with established competitors such as Sam's Club and BJ's Wholesale Club. Sam's Club is the only Costco competitor that offers a discounted membership to college students. Costco is more successful than Sam's Club, so by adding this product, we can further compete with them. By implementing this new product, Costco hopes to establish a target market within a younger generation who has not bought Costco memberships in the past, also taking college age consumers away from Sam's Club. By adding the Costco for College card as an option, Costco hopes to see an increase of profit and a more diverse age range of customers. If the Costco for College card is successful the five years that it is in California, we plan to slowly spread it to the rest of West Coast. After the card is implemented in all of the Western states, we will begin to spread the card to the more populous Eastern states. From this project, we have learned how much work goes into developing new products. There are so many facets and small details that go into thinking of new ideas and making said ideas come to life. If we were to prepare another marketing plan for a B2C marketplace, we would pick a product that has a larger target market. This way, we would have a larger variety of groups to work with, and larger statistical amounts to work with.

APPENDIX

Extra Exhibits

Figure A. Macro-Environmental Factors (USDA, 2013)

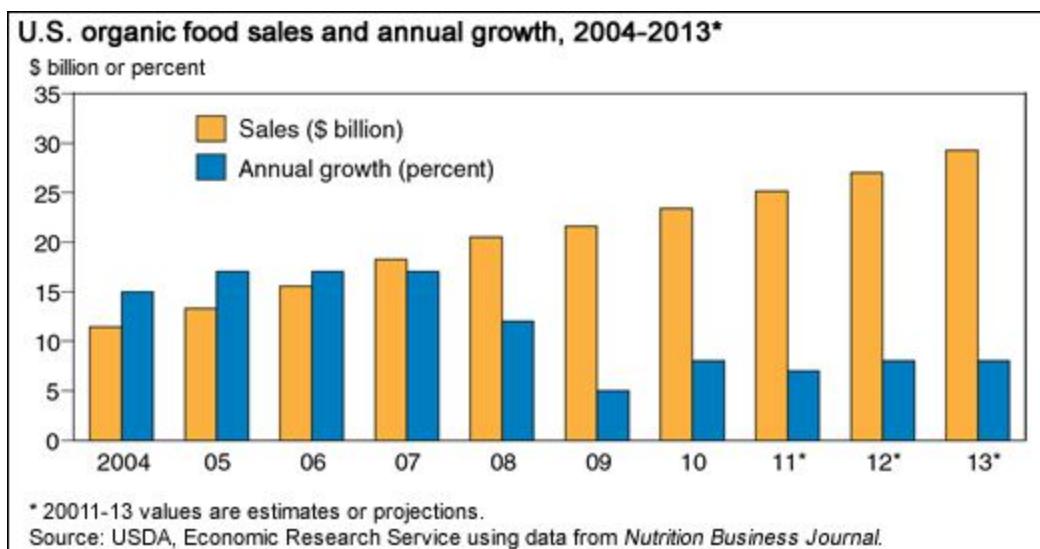


Figure B. Map of Costco Warehouse Locations (Costco Annual Report, 2014, p. 5-6)



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