



CEO Project- Costco Wholesale

Bus 109 Competitive & Strategic Analysis

Dr. Sean Jasso

TA: Garri Rodriguez

Section 032

Written by:

Angela Gonzalez

Jasmit Tamber

Evan Ortega

Carlos Perez

Marco Muniz

Crystal Mierly

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1. Current Situation

A. Current Performance

Costco is recognized as one of the leading retail stores in the world. In 2019 the store generated sales of about 149.35 billion and was operating 782 warehouses. In 2019 alone Costco's average sales per warehouse was about 182 million. (Statista). Jeffery Brotman, the store's founder, was able to break away from other competitors in the market around 1983 by being one of the few retailers that were able to provide an array of items at an incredibly low and affordable price. Brotman started off in small towns, but soon recognized that that wouldn't be enough to compete with the larger stores. Therefore, he made his investments and focused his attention on the production and operation of the company; this led to adopting a bigger warehouse. Since he decided to reform and make certain changes for the benefit of the company, Costco has really adopted the use of technology in order to attain and develop strong inventory systems. Since he decided to reform and make certain changes for the benefit of the company, Costco has really adopted the use of technology in order to attain and develop strong inventory systems. Walton also is very aware of the status of the global economy, using it to his advantage every time the opportunity was present. When the economy was at an all-time high Costco was able to create more relations with producers and bargain for lower prices when it came to negotiating with the price for the product from production.

Costco currently sits comfortably at the top as a leading competitor mainly because of their optimal use of their technological advancements which gives them the opportunity to improve operations frequently. Investing in new informational technology systems has opened

new doors, and currently lets them see the products at their distribution centers instantly. It also creates better communication between distribution and suppliers and above all stating accurate inventory for restocking.

B. Strategic Posture

1. Mission

Developed in 1983 Costco's mission statement is "to continually provide our members with quality goods and services at the lowest possible prices" (Costco Mission & Vision). The company takes pride in being a leading store that supplies customers with goods and services at a very low cost and in doing so Grantham the feeling of great savings. One of the ways they have successfully been able to keep the prices low has been through the efforts of negotiating prices at an operational level that are also low (distribution and supplier costs). Being able to sustain overhead costs that are minimum has given them the reputation of low cost operation and a place where everything is affordable. The way that the company does this is By buying their products directly from their producers and sellers. by buying their products directly from their producers and sellers. Having our own distributors, trucks that the company has invested in, plays a huge role in the logistical side of creating savings. Having our own distributors, trucks that the company has invested in, plays a huge role in the logistical side of creating savings. This type of efficiency has illuminated the cost of outsourcing in order to attain the products of conception and has a direct relation and affects that reflects on the lower pricing in stores. This is something that has been developed over the years, and is a result of Costco's strategic managers who price

check other competitors in order to see how they can improve pricing; making them a model for operational efficiency.

2. Objectives

The following are the different areas that the company has created objectives for:

Employment: hiring great people, treating them well, giving them good jobs, doing right by them. ***Management:*** Always promote from within, training happens constantly, grow our own talent, model what you want from you employees. ***Business:*** Don't try to be too much to too many, know on what level you compete, know your customers (why they do business with you), Stay focused on your core business. ***Growth:*** Run the business for long term sustainability, Open new stores (50-60 locations per year), keep internet sales growing. ***Marketing:*** Word of mouth (no PR department). ***Ethics:*** Obey the law, treat customers right, treat employees right, treat suppliers right.

3. Strategies

Their competitive strategy is pretty generic; they have aimed and developed a strategy that puts them in a position to be the best cost provider. They've managed to produce top quality merchandise, all at low pricing, they've also implemented treasure hunt items and top quality in-house brands. All of that has been made possible through their cross dock distribution strategy and financing strategies. Costco has also recognized the importance in alliances; this can be found in their bulk packages and the relation that they have with the Kirkland brand.

Their brick and click website strategy hopes to continue focusing and making further advancements on obtaining a platform that provides more for customers. Developing their online channel has been difficult only because of how her house is like Amazon or also in the same market and providing the same goods and services. Therefore, while they are leading competitors, it is important to continue reiterating their pursuit including customer convenience in the inclusion of tire pricing within shipping and handling.

1. Strategic managers

A. Board of Directors

i. Twelve Board of Directors- Directors are to manage all the business affairs of the company. It is expected that, if in a Board of Directors position, you are able to spend the necessary time and attention to issues and responsibilities. Three, of the twelve, are in charge of meeting requirements that deal with legal issues, as well as, notating relevant stock exchange requirements. Board members have the right to switch positions in the board if there are vacancies. They are also able to vote people out of positions based on majority consensus (this is done quickly and on pure voting). One member of the committee is appointing the position and title of “Committee Chair.” This person is to govern and preside at every meeting. Meetings are to be attended regularly in order to go over points discussed in previous meetings and provide solutions or methods for sustainability. If for whatever reason or for any circumstance the chair cannot be present at the meeting the committee is to appoint a new chair for that particular meeting.

ii. Responsibilities-

1. Assist the Board in identifying individuals qualified to serve as members of the Board and evaluate input from shareholders concerning potential candidates; approve all candidates for director to be nominated for election by the shareholders or to be elected by the Board.
2. Recommend to the Board directors for appointment to its committees and, as appropriate, recommend removal of directors from Board committees.
3. Recommend to the Board policies on Board composition and criteria for Board membership and continuation on the Board.
4. Periodically review and recommend changes to the corporate governance guidelines as appropriate.
5. Be knowledgeable about and exercise reasonable oversight concerning the implementation and effectiveness of the compliance and ethics program.
6. Provide minutes of Committee meetings to the Board, and report to the Board on any significant matters arising from the Committee's work.
7. Review and reassess this Charter and, if appropriate, recommend proposed changes to the Board.
8. Receive communications directly from the Chief Compliance Officer (or such other individual or individuals with operational responsibility for the Company's compliance and ethics program), who is expressly authorized to report personally: (a) promptly on any matter involving criminal conduct or potential criminal conduct by Company employees, and (b) periodically on the implementation and effectiveness of the Company's compliance and ethics program.

9. Lead the Board in its reviews of the Board's and its committees' performance.

*-Costco Wholesale Corp. Nominating and Governance Committee Charter
(Investor.Costco)*

B. Top Management

i. Principle and Sustainability Committee-

a. *Principle committees:* are there to come up with different initiatives and proposals for Costco's philanthropic participation. The company is very much about giving back to the world; especially doing their part in reducing their carbon footprint. The committee is dedicated to honing in on a few issues where their business can really make a meaningful and long-lasting positive impact.

b. *Sustainability committees:* are primarily focused on the needs of customers and the different ways that they can take care of the customer. The company understands that employees are the cornerstone to a successful execution of strategy; therefore, Costco has dedicated them to improving the lives of their employees. They do this by supporting the communities that their workers live in. While it is important to keep striving for more, Costco is aware and dedicated to not crossing the boundaries that compromise the safe practices that protect our earth. Reciprocating that message to customers has been one of the key contributors to the value that has kept them competing in the market. They are also in charge of coming up with strategies that revolve around the most effective way to source their merchandise.

ii. Selection of the Chairman of the Board (Lead Independent Director)-

a. This is dependent on the time and the circumstances, as well as, the current state of the company. Due realities of the fluctuating dynamics members are voted in or out based on the best judgment and consensus of the other present board members. This rule is also backed and regulated by a set of Bylaws that the company has. The board is allowed to remove the existing chairman at any given time. With regard to the company and its shareholders, chair directors must fit the qualifications that show they are the best fit to manage and govern these two areas. There are also votes to see if the chairman will be independent or if they will be accompanied, in title and work, by a chief executive officer.

III. External Environment (EFAS Table; see Exhibit 1)

A. Natural Environment

Costco's natural environment analysis reveals threats and opportunities for the company. Climate change represents one of many challenges facing the company today. Unfortunately, their most popular item is contributing to this issue. Costco's toilet paper is made with 100% forest fiber that is found in the climate-critical Canadian boreal forest (Vinyard, 2020). This location is the most carbon-dense forest in the world. Clearcutting in Canada's boreal forest is at a rate of one million acres per year to produce products such as paper, lumber, and throwaway tissue products. American companies such as Costco fuel this demand, consequently driving the destruction of this globally important forest.

The decisions the company makes about what products to sell are having an enormous impact in fueling the climate crisis. By choosing to offer products that are harmful to the environment, they are complicit in the destruction of the planet. Costco has a lot of influence because they are one of the leaders in the retail industry. The decisions they make often have ripple effects among competitors (Morgan, 2020). Also, the company influences the buying choices of consumers. People can only purchase what is available to them, so having environmentally harmful products as the only options is irresponsible.

The items they offer on shelves provide a wide variety of options for customers to buy and many of those items are manufactured using ecologically devastating practices like deforestation. Costco limits consumers to choose between only tissue products such as toilet paper that feed into the tree to toilet paper pipeline. Including its own brand, Kirkland, along with other brands that are made without any recycled materials (Vinyard, 2020). Therefore, customers really do not have a choice and are forced to support companies that do not care about the environment. Such organizations should be exposed, and Costco should stop encouraging their practices.

Consumers are becoming aware of the challenges created by climate change. Now more than ever, they are changing their behaviors and it includes their shopping habits. They are beginning to look for more environmentally friendly products from established brands. Retailers are also facing backlash by supporting brands which have been exposed as contributing negatively to the fight against global warming. Support for U.S. tissue manufacturers to change their production practices is continuing to grow. Activists have begun focusing their efforts on Procter & Gamble, the maker of Charmin and Bounty. Those brands are the largest toilet paper and paper towel

producers in the United States. Activists are demanding those brands to change to more environmentally friendly practices.

This focus will soon change to Costco because they have been enabling these brands. Activists say, by giving these brands shelf space, the company is contributing to their terrible actions. It is hard for Costco to move to other brands or products because their current toilet paper options are making them millions of dollars each year. From a business perspective it would be foolish to get rid of best-selling products. However, long-term the company must make a change before consumers see them as bad actors.

These concerns about Costco go beyond toilet paper. There are more products that share the same concern. Meat and clothing production are just a few segments that need a reevaluation. Some multinational companies that sell their meat products to Costco have production locations near where the Amazon fires started last year (Vinyard, 2020). The practices of these companies have accelerated the destruction of forests. Since toilet paper is Costco's most popular item, it is reasonable to start the change there. Once the best-selling product can be modified to be more environmentally friendly, then it is easier for other products to go through a similar change.

Costco has the opportunity to make things right. Their internal motto is "do the right thing." The company has a reputation for being ethically sound. They are always looking to do the right thing on so many fronts. A bold stand against climate change is another step in the right direction. They can protect the environment by supporting products that are environmentally friendly. Doing so will set a high standard and will lead the charge for change by offering items that do not contribute to the destruction of important forests.

Changing to recycled materials will help protect Canada's boreal forest which is home to wildlife and indigenous communities (Vinyard, 2020). It will also put pressure on companies such as Proctor & Gamble to get on board with making the change. The tissue industry needs a major overhaul. Committing to more recycled material will have a huge impact on the conservation of the forest. As an initial step, Costco can switch to 50% post-consumer recycled materials. The forest is an important component to fighting climate change. Twenty-eight million acres of Canadian boreal forest had been cut to toilet paper for the past twenty years. There are companies like Seventh Generation that make 100% post-consumer recycled toilet paper, so switching to 50% should not be an impossible task for the company the size of Costco (Vinyard, 2020). They have the production resources and money to make the change immediately to stop the destruction. Toilet paper made from 100% recycled content has one-third the carbon footprint compared to those made from 100% forest fiber.

B. Societal Environment

Economic: The current state of the economy has hurt a lot of businesses and threatens Costco. Many have closed and others have filed for bankruptcy. The pandemic has caused a recession and has revealed how essential Costco is to consumers. Today the warehouse is one of the few places people go to if they leave their house. Consumer trust is at an all time low. People find it hard to support companies who are not doing the right thing in such critical times (Morgan, 2020). A disconnect has developed and many are being selective as to where they choose to spend their money.

Despite the mistrust, Costco is doing its best to welcome people into its stores. They have done their best to open their doors and accommodate customers who are desperate for essential household items. Over the past years the company has been known for having exceptional customer service. They are continuing that practice by doing their best at trying to make sure they are fully stocked on items customers need the most. One such item is toilet paper. The pandemic has for some reason caused people to hoard toilet paper which has led to a shortage (Morgan, 2020). The company is working with suppliers and is limiting customers to one package per membership. It is doing its best to provide a safe environment for its customers by making sure their shopping experience is safe and easy to do.

Costco has taken multiple steps to protect customers in stores. It is no longer offering its coveted free samples (Morgan, 2020). This is to reduce the number of gatherings amid social distancing. Along the same lines, they are limiting the number of customers that can go inside the store to shop at any one time. It has also increased the frequency of sanitation in its stores. This involves wiping down shopping cart handles for every new user. Following advice of government officials, they have opened their stores earlier to only allow their sixty and older customer to shop for an hour on Tuesdays and Thursdays.

Technological: Demand for online delivery groceries and other essentials has increased significantly due to the pandemic, so an opportunity has appeared. Costco has partnered with online delivery service Instacart to help shoppers purchase items that get shipped to their home. Among food necessities, the company has begun to deliver prescription-drugs (Schwartz, 2020). Costco now gives consumers the option to order over the counter medicine online and have it

delivered within days. For now, the service is available in seven states and the District of Columbia. This is a great option for customers who want to reduce their risk of illness by limiting the number of times they need to leave the house for important needs. From groceries and household items to prescription-drugs, consumers can now complete their entire shopping trip online.

Costco and Instacart have created a contact-free delivery service for participating Costco pharmacies (Schwartz, 2020). Customers receive their medications in a tamper-proof bag and must show identification upon delivery. Currently, there are only select locations offering this method, but it will soon be available in the coming months. For now, shoppers who are interested in the service can enter their zip code on Instacart's site or app to see if their local Costco is included.

Political-Legal: There is new legislation that threatens the way Costco operates. The current pandemic has closed many businesses, but Costco has been able to remain open because it is considered essential. This also means that Costco employees are now considered essential workers (Hanbury, 2019). Employees are working amid a contagious virus that has been affecting everyone. They have been risking their health by working in an environment where so many people gather in close proximity on a daily basis. Politicians have discussed giving hazard pay to essential workers because they have been put in a dangerous position. Many argue that Costco should not wait for federal action and instead take matters into their own hands. The company is being pressured to voluntarily offer their workers hazard pay. This will be an enormous cost for Costco if they accept those demands.

New regulations can be a threat to the type of food products Costco can sale. New policies will require more accurate GMO labeling for its food products. Costco must work with brands to find a solution to this new threat. Some may have to conduct new GMO testing that will be more accurate (Hanbury, 2019). It will be expensive so Costco may lose some brands if they cannot make the switch.

Sociocultural: Costco has the opportunity to attract younger customers by improving their online platform (Hanbury, 2019). The increase of online shopping has hurt many businesses who have traditionally operated within their physical stores. Those who have been able to adapt have benefitted tremendously by the wider audience. They can now reach more people outside of their local market. Costco can increase its memberships by attracting customer through a better online experience. Consumers who enjoy the online platform have a higher chance of shopping in store. This opens a new segment for the company to target. Young consumers will eventually make up the majority and will expect all their shopping destinations to offer an easy to use website.

C. Task Environment

Rivalry is high and threatens Costco's revenue. There are a large number of firms in the retail industry (Maverick, 2019). With so many firms, a high variety of stores means customers have more options. The switching costs are low, so customers have the ability to easily go to a competitor if they would like to. The retail industry is inundated with firms competing against Costco for market share.

Buyers' power is moderate, and it is a threat to Costco. The company's business model is to offer products at low prices. This means that if the company cannot reduce prices compared to other

retailers, people will most likely look elsewhere. Its membership is the only thing protecting them from being at the mercy of buyers (Maverick, 2019). Since people must buy a membership to shop at Costco, they have invested in the company and going to another store would feel like they wasted money on the membership fee. So, they are not as likely to switch to other retailers, but they could split shopping trips.

Power of stakeholders is moderate. Third party delivery apps have the ability to cut into Costco's profit margin (Schwartz, 2020). Currently, Costco is relying on them to satisfy online customer purchases. The company must create their own platform to prevent this from happening. Companies such as Instacart can raise their prices too high and customers will not be willing to purchase items online from Costco.

Bargaining power of suppliers is weak, so Costco has many opportunities. There is a large population of suppliers and the majority offer the same products (Maverick, 2019). No single supplier can easily make demands and force Costco to make changes. Their power is weakened because Costco can choose from an array of companies that offer similar products. They have so much influence that most suppliers play by their rules. A single supplier's action will not have a significant impact on Costco's operations. The majority of suppliers have low forward integration, so they have low control on the sale and distribution of their products.

The threat of substitutes is strong in the retail industry. Online retailers like Amazon have expanded the competition (Hanbury, 2019). Consumers can now shop in stores and online for the same products. Often, online retailers are able to offer lower prices because they have reduced overhead costs compared to companies that need to pay rent or purchase land. Substitutes are

available at no added expense in switching retail brands. Food products and related commodities have many substitutes that can please customers' expectations, so the threat of substitutes is strong.

Entry barriers are moderate for Costco's competitive environment (Maverick, 2019). The low switching costs will mean that consumers will easily support new competitors. Customers can transfer easily from one retailer to another. However, the costs of doing business can protect Costco from new entrants. High economies of scale make it difficult for new competitors to directly compete with Costco. Thus, the barriers to entry are moderate and the threat of new entrants is a significant issue.

IV. Internal Environment (IFAS Table; see Exhibit 2)

A. Corporate Structure - *Weak Matrix Organizational Structure*

Costco's Corporate Structure is based on a weak matrix organizational structure which involves a strong functional organization structure and a secondary divisional structure. Costco's aim with the functional organizational structure is to gather similar job titles together, like accounting and managers. With the divisional structure, Costco is able to gather all the business components together in regards to the location of the market. With this, Costco is able to use *Functional Grouping* and *Geographic Divisions* as the main features of their organizational structure.

(S) Costco's *Functional Grouping* revolves around the warehouse and all its day-to-day activities. All the functions are created and executed from top executives and trickle all

the way down to front-line employees that deal directly with consumers and products. The actual groups of these functional groupings consist of risk management and operations to name a few and tend to handle everything within the warehouse in order to continue running smoothly. This, in turn, allows Costco to place organizational control throughout all its locations. Should new tactics, policies or anything need to be applied or changed, Costco is able to do so in all their locations, all at once.

(S) Costco's *Geographic Division* tends to be based on the physical locations of where Costco Warehouses are placed. These locations are chosen to strategically place warehouses in areas of high loyalty/demand of Costco's consumer market. Similar to how Starbucks places their stores strategically throughout an area, Costco follows a similar pattern in order to reach as many consumers as possible. Costco currently has 18 main geographic divisions they monitor and spand off into many different countries, Mexico and the United Kingdom to name a couple. Since Costco is able to divide their geographic locations into 18 divisions, each division is able to handle different regional expectancies that might not be necessary in other regions. Divisions like Mexico and Korea might demand different products from one another and this division allows them to cater to those consumer needs.

B. Corporate Culture

Costco's is the second biggest global retailer. This achieved success is partly due to Costco's corporate structure. Usually, corporate structures are based on a firm's values, mission and traditions aligned with their employees. (S) Costco is no different and they

are able to achieve this by aligning their vision, mission and goal alongside their employees in order to work together in reaching one goal. This allows Costco employees to apply themselves in offering the firm the best version of themselves knowing that Costco will reciprocate the same in terms of what benefits Costco offers them in return. This allows Costco and their employees to work in uniform to reach one goal rather than have two agendas for each. Alongside strong competitors, like Walmart, that have entered Costco's original blue ocean strategy of warehouse membership bulk shopping, Costco has been able to create a distinction between them and the competitors. Their corporate culture has been able to propel them higher than Walmart's direct competition to Costco: Sam's Club.

Costco has been able to maintain this corporate culture through few different features that play in favor of both sides: Firm and Employees. 1. Their shared goal allows them to achieve excellence and efficiency. 2. The positive attitude that team members maintain is a reflection of the corporate culture that Costco maintains and allows team members to work in a stress free environment. 3. Since the inventory turnover rate is relatively high in reflection of the low product sku count (3,600 compared to Walmarts 360,000), the work is completed in a relatively fast manner since most products are stored in bulk on a pallet for easier storage and movement of products. 4. The firm, itself, is oriented in providing the best customer experience possible to its customers. This, in turn, creates an environment within the warehouse that allows tasks to be completed efficiently alongside assisting consumers with their questions or needs. 5. Lastly, without communication and teamwork, completing tasks between one another inside the warehouse and throughout

the firm would make efficiency difficult. Creating a sense of comradery between employees allows them to communicate and work more efficiently with one another within their functional groups.

C. Corporate Resources

1. *Marketing* - Costco's Marketing department and focus on their marketing mix (Four P's), allows them to remain competitive within the market. Unlike its competitors, Costco's marketing mix is rather unique, considering their direct competitor, Walmart, has a strong market share that allows them to almost direct the market. **(S)** The first P, Product, Costco offers a wide range of products and services. Costco is able to enter the market and tackle different products and services that other competitors might not necessarily have a market for. Although the actual product within Costco's inventory is only 3,600, they are able to show that less is more. From bulk grocery items, to clothing, appliances and tire service, Costco's product line-up is diversified enough to meet the demands of the consumer. **(S)** The second P, Place, showcases Costco's strategic placing of each warehouse and how they are all placed into different divisions throughout the globe. Without oversaturating the market with their warehouses, they are able to drive up demand and make each warehouse location cover a certain geographic distance between them and the next Costco warehouse. This puts the consumer in driving distance of the warehouse. Their mobile app and online store also play a major role in this topic as well. **(W)** The third P, Promotion, is something that is not seen too much by Costco. This section showcases Costco's four main tactics

that are employed in order to reach their consumers: Sales promotion, Direct marketing, Personal selling, and Public relations. The idea behind Costco's marketing is less advertising and more word of mouth. This means that Costco wants the consumer to advertise the firm for them. While this is a great pitch, it does not necessarily reach the amount of consumers that Walmart can generate.

(S) The last P, Price is what makes Costco the competitor they are. They are able to provide bulk style products at a competitive price compared to its competitors. This places them in a league of their own where other competitors struggle.

2. *Finance* - Costco's Financial metrics help place the firm under a microscope that showcases why they are second to Walmart.(W) From 2015 to 2019, we can see a steady growth in their warehouse memberships. Although the increase was only a 2-3% increase from year to year, we can see that Costco is showing a growth in memberships. Yet, the statements do not show the amount of cancelled memberships between those years. These reports are only showcasing one aspect of memberships, but not the complete report.(W) Similar to the growth in memberships, we see this growth in the average number of warehouse sales. Yet in 2016, we see a decline that raises a red flag as to why this decline happened.
3. *Research and Development* - (W) Costco is more invested in selling products from other manufactures. Their company's brand, Kirkland, is also manufactured by an outside firm as well. While the firm seems to invest more into their supply chain management, investment into actual research and development of products is relatively low.

4. **Operations and Logistics - (S)** This is where Costco seems to shine. Their inventory turnover is impeccable due to their product storage, quantity and style. Since Costco is a bulk style wholesaler, they are able to sell products in large quantities allowing them to move products in and out of their warehouse with ease. Their product, itself, is stored onto pallets that allow them to be stored and maneuvered throughout the warehouse with ease. Lastly, since Costco is run like a warehouse, they are able to remove any distribution centers that might be holding products in storage for the warehouse. This means a cost deduction for the firm in their logistics.
5. **Human Resources** - Costco is well-known for their firm's environment and benefits offered to their employees. Typically, firms that tend to have employees working alongside the firm's goals and objects are employees that are pleased with the firm. They are able to acknowledge the firm's vision and goals and align theirs with it. In turn, Costco's Human Resource offers very competitive pay that tends to be above the federal and state minimum wage. They also offer their employees great benefits programs. This allows their employees to work in a stress-free environment.
6. **Information Technology - (S & W)** With the further development of their online store and mobile app, Costco has been able to connect customers with products in real time. The app allows the consumer to manage their account and browse their inventory. Yet, at the same time, there is no promotion of these features. In-store

associates are still not pushing these features to the consumer. Although the convenience is there, the consumer has yet to be informed and given reason to utilize this feature.

V. Analysis of Strategic Factors

A. Strengths

Costco has a number of strengths that work together to create the successful Fortune 500 company that we know today. Costco runs on a membership business model which means that customers who want to shop at the store must buy a membership to do so. These members pay an annual fee of about sixty dollars. It is only these paid members that are allowed to shop at Costco. However, Costco is not just offering products, they provide a service to allow people to buy large quantities of goods at low prices in bulk and sell back to customers for cheaper. Costco works with a low-cost strategy which is a major strength for them. They have a strategy of stocking high-quality items and are sold in bulk-size at low-profit margins. Costco wants to be seen for its high quality and low price. Costco works with an average mark up of about eleven percent whereas Walmart works with twenty-four percent. The loyal customer base at Costco is another strength for them. By 2019, they had five million cardholders across the world and as each year passes the number of cardholders increases. Costco has about an average renewal rate of about ninety percent. Costco does not waste money on advertising. Unlike Costco, Walmart spends two point nine billion dollars in 2018. This frees up money for Costco to put into other areas such as research and development.

B. Weakness

Even with Costco's strength, it works with its own set of weaknesses. Costco has a high cost of transportation especially when you buy items in bulk. This makes it so the consumer has to cost more compared to other online retailers like Amazon. This is a major weakness for Costco.

There is a lack of global presence and high dependence on some markets. Costco may have many warehouses spread throughout the world, but most of the warehouses that Costco has are located in the U.S. and Canada. The U.S. and Canada make up for eighty percent of Costco's revenue with six hundred and forty-three warehouses out of seven hundred and eighty-two total warehouses in the U.S. and Canada. Another weakness of Costco is its aging customer base.

They have a limited eCommerce presence which means they are unable to attract younger customers who prefer quick shopping or goods delivered to their doorstep. Costco needs to focus on millennials to ensure that they have future consumers. There is a limited product selection at Costco. There is a wide range of items like clothing to electronics, but the selection of brands within Costco is very limited. Walmart has a selection of one hundred fifty thousand products whereas Costco only has three thousand seven hundred.

C. Opportunities

There are many opportunities to expand Costco. The first is eCommerce. There are many people who use the internet for shopping which is a great opportunity for Costco to expand its eCommerce platform. Costco already has taken steps towards making its online presence larger such as smarter shopping or delivery service. Costco's overall revenue from eCommerce in 2019 was only four percent. They need to do more for their online presence. Advertising on social media is another opportunity for Costco. Social media has become incredibly large with it growing by the day. This could be a great opportunity to reach potential consumers by

advertising through sites such as Facebook or Twitter. Costco can promote its products and services greatly if they started this form of advertisement. Another benefit is that it does not cost much to do so. The transportation industry has begun to change itself. This could be another opportunity for Costco to save on pricing. The transportation industry is starting to use more advanced technology in their shipment consolidation. This would reduce the cost of transporting these bulky products. In turn, it would save more for Costco and for the consumer. Costco can reduce the transportation cost, reduce the number of trucks on the roads, and reduce their carbon footprint. The coronavirus outbreak provides both opportunities and challenges for Costco. There is a threat to the supply chain, however it can also be seen as the potential to become a huge opportunity. Costco has seen a twenty percent increase in sales since the start of the virus. Consumers are purchasing in bulk to ensure that they do not run out of everyday items needed to continue normal living. Overall, the pandemic has increased business for Costco.

D. Threats

Costco is under a number of threats. The first of these is its technological development. Costco has not kept up with technological advancements that it should have. Its competitors have posed a serious threat to Costco. Everything is now digital including shopping. People want easier means of shopping like having products ready when they arrive or having it delivered to them. Costco has been slow to move on its online presence such as delivery or online shopping. Its negligence to do so may have serious repercussions. Competition is another serious threat for Costco. They are facing large companies such as Walmart and Amazon who are constantly trying to make themselves better to gain an advantage. Amazon has a monopoly on the internet retail industry. Walmart is the largest retail conglomerate in the world and has invested heavily

in eCommerce sites. Costcos security is another potentially devastating threat. Costco gives the information of its employees and of its customers to a third party for safekeeping. If this information was to be leaked it would be devastating to Costco.

VI. Strategic Alternatives and Recommended Strategy

Strategic Alternatives

Costco has held back on many of its options to expand their market and increase revenue. By slowly tapping into those markets, it is possible that they may be able to establish themselves as a more global thinking, accessible company. To start, Costco can begin to advertise on local channels for communities it will be opening up in. This can help bring awareness of it's new locations without compromising too much in financial assets towards a marketing budget. As previously mentioned, expansion on their online presence can help to bring their products, goods, or services to a larger audience that lacks a brick-and-mortar location . Allowing customers to purchase a membership online and have their bulk goods shipped from a retail to consumer bases might help to utilize their mission of increased sales volume while helping to cycle products from store shelves quicker. In order for Costco to fully realize their mission statement and strategy, it is important for them to embrace the changing times. While their stellar record of customer service and offerings of quality and quantity is enough to bring back repeat customers year after year, it would be beneficial for them to recognize the changes in the market for bulk shopping. With the advent of Covid-19, many consumers were unable to enter physical locations to purchase much needed necessities. Those that were able to leave their homes and risk exposure were left waiting in long lines with no certainty of obtaining the goods they were

seeking. If Costco had taken a more curb-side purchase approach or even moved their local inventory to an online space, it would have been more beneficial for consumers, employees and public safety. While this current example is unprecedented and may not happen for another one hundred years, it is showing the holes in the current system that Costco has. Companies like Amazon struggled to keep up with the demand it's customers had for basic products like toilet paper, paper towels and cleaning supplies. Had Costco been at the ready to supply these items through an online portal, they could have increased sales significantly for those who were unable to obtain needed items from Amazon while aiding their homebound customers who were too high risk to wait in line for desperately needed goods.

Recommended Strategy

As mentioned, Costco could expand on their strategy to increase sales volume by creating an online store that members can access and purchase bulk goods from the safety and comfort of their homes. These goods can be sourced from warehouses across the country as well as local stores. If a member inputs their location they can elect to have a curb-side pick up option or ship to home from their local Costco. This will help move stock from stores while aiding the customers unable to leave or who's busy lives prevent them from visiting stores during operating hours. Currently, it is possible to purchase a Costco membership online but the cards need to be picked up in store. If this service were to be partially automated then it would be possible to have a purely online experience for customers unable to make it into a store. Open an online membership division where photos and ID scans can be e-mailed in and verified by an individual. Then a card can be mailed out or picked up at a store, depending on preference, and

the consumer can begin shopping online right away. As it stands, Costco's online store is limited by warehouse availability. There is no option to pull inventory from local establishments, therefore members who enjoy items that are typically available in store must hope for that same availability in the warehouse for them to make a successful online purchase. This is why the method of offering limited local stock online will benefit consumers who are unable to visit the location. This idea is supplemented by the fact that, while a large portion of members are "Gold Star", Costco does offer Business class memberships that aid in the supplying of bulk goods for resale purchases to Costco Business and Business Executive members. Offering online purchase options from local stores will assist in the procurement of these goods without the need of shopping in store. The purchasing manager can order the needed supplies and elect curb-side pickup and send a runner to retrieve them.

VII. Implementation

Costco wholesale has consistently implemented its generic cost leadership strategy aligned with its membership warehouse club business model. However, several new opportunities have been revealed for Costco; such has to expand an online e-commerce platform to meet the market demands and enter foreign markets. To align operations in the new intended direction, Costco's management team needs to perform extensive research to develop a new strategic method supported by the company's business model. Administrators must acknowledge the company's strengths, identify its weaknesses, recognize any potential threats, eliminate any defects, establish potential targets, and capitalize on the opportunities available in the new intended direction. As the firm's management team will be required to perform extensive

research and development for this new strategic method, Costco's lower management teams will be carrying out the strategic plan. It is highly imperative for Costco's administration to properly train and communicate amongst their employees for a smooth transition. Performance evaluations are to be conducted quarterly to determine whether management's new strategy is effective. Being fully aware and having full control of all business operations will help Costco achieve its newly established goals and stimulate sustainable growth.

VIII. Evaluation and Control

Costco Wholesale has established itself as a top competitor in the retail industry, operating in 782 locations worldwide. While the United States is home to the majority of Costco's retailer warehouses, the retailer has expanded into 11 new markets, including China, France, and Iceland (wallstreetjournal.com). There is a sizable market potential for the company in foreign markets, as its generic cost leadership strategy aligned with its membership warehouse club business model is highly attractive to all consumers. However, its long-term success will highly depend on how well the company can adapt to foreign market dynamics. Therefore, to do so effectively, Costco's administration must have a thorough understanding of foreign market dynamics, local consumer behaviors, and analysis of the competitive upbringing within the foreign market. For example, Walmart is Costco's top competitor in the retail industry. The company entered the Chinese market in 1996 and has established over 23 stores since entering the foreign market. Walmart "plans to roughly double that by the end of next year. It counts more than two million members" (Forbes, 2019). However, Walmart is one of the few western organizations that have been relatively successful in the Chinese market. Western multinationals such as Home Depot, Marks & Spencer, and many European retailers tend to close their doors

relatively soon after penetrating the market just a few years ago. Organizations have found it quite difficult to transition business models from culture to another. Conversely, Walmart's management team has been able to successfully transition the company's business model from one culture to another by strategically evaluating, controlling, and improving any defects within their strategic intent. For Costco Wholesale, the company's challenge will consist of finding a place in the market aligning with local consumer behaviors and traditional Chinese market trends.

Evaluating a company's new strategic method is imperative for business operations to continue in any market, foreign and domestic. Evaluations can provide crucial information about whether management's new strategy is effective and if it will continue to work long-term. While there are traditional methods of evaluations that focus on the firm's financial accounts, there are alternative methods such as the Balanced Scorecard method that takes into account four different perspectives for evaluation: Learning and Growth, Internal Business Processes, Customer Perspectives, and Financial Data. Customer perspective could be exceptionally beneficial for Costco when expanding into foreign markets like China. Understanding customer's desires, consumer behaviors, and availability of products or services all contribute to developing an effective strategic method. Financial data could consist of Costco measuring productivity at warehouses through "revenue per square foot, stockout rate, and prints per day" (Panmore, 2018). Part of Costco's financial strategic objectives is to minimize all costs through economies of scale. If the firm were to apply the Balanced Scorecard method, management could gauge financial objectives by evaluating the company's internal business process. Costco can utilize this perspective by assessing how well products are being cataloged, warehoused, and released when

consumers have shown significant interest in those products or services. Learning and growth simply measures how well Costco properly educates, trains, and communicates with its employees daily. The Learning and growth perspective could also be an alternative method to measure how well management relays objective measures regarding the firm's new strategy and how effectively employees interpret the useful information to carry out the company's strategic plan.

Although Costco has established itself as a top competitor in the U.S. market, the company is continuously researching and developing new strategic methods that could potentially elevate business operations in foreign and domestic markets. While the company has shifted to utilizing technology as a resource to improving business procedures, Costco's board and management teams are repeatedly focused on maintaining the company's status quo and defending its position in the market.

Appendices

Costco's Five-Year Financial Overview

Account Details	2020 (As of 6/10/20)	2019 (As of 8/31/2019)	2018 (As of 8/31/2018)	2017 (As of 8/31/2017)	2016 (As of 8/31/2016)
Stock Price (In dollars)	305.55	274.10	220.31	156.65	167.70
Total	160,876,000	152,703,000	141,576,000	129,025,000	118,719,000

Revenue (In thousands)					
Net Income (In thousands)	3,710,000	3,659,000	3,134,000	2,679,000	2,350,000
Assets (In thousands)	50,100,000	45,400,000	40,830,000	36,347,000	33,163,000
Stockholders' Equity (In thousands)	16,400,000	15,243,000	12,799,000	10,778,000	12,079,000

Exhibit 1: EFAS Table for Costco 2020

External Factors	Weight	Rating	Weighted Score	Comments
Opportunities				
<input type="checkbox"/> Reduce carbon foot-print	.20	4.0	.80	Well positioned

<input type="checkbox"/> Expand online platform	.25	4.5	1.13	Improve website
<input type="checkbox"/> Groceries deemed essential	.05	1.0	.05	Consumer traffic increase
<input type="checkbox"/> Medication delivery	.10	5.0	.50	Well positioned
<input type="checkbox"/> Expand Globally	.10	3.7	.37	Well positioned
Threats				
<input type="checkbox"/> Amazon and Walmart are strong industry leaders	.05	3.0	.15	Well positioned
<input type="checkbox"/> Government	.05	2.5	.13	Possible implications

Regulation				
<input type="checkbox"/> Unstable Economy	.10	3.0	.3	Few segments have experienced negative impact
<input type="checkbox"/> Growth of E-commerce	.05	1.0	.05	More competition
<input type="checkbox"/> Climate change activism expanding	.05	4.0	.2	Well positioned
Total Scores	<u>1.00</u>		<u>3.68</u>	

Exhibit 2: IFAS Table for Costco 2020

Internal Factors	Weight	Rating	Weighted Score	Comments
Strengths				
<i>Functional Grouping</i>	.10	5	.50	Job titles divided into divisions
<i>Geographic Division</i>	.10	5	.50	Warehouse locations divided into divisions
<i>Aligned Vision & Goals</i>	.15	5	.75	Firm & Employees work together
<i>Product</i>	.05	3	.15	Product/Service Diversity

<i>Place</i>	.05	3	.15	Warehouse strategically located
<i>Price</i>	.05	3	.15	Bulk pricing competitive to other competitors
<i>Operations & Logistics</i>	.15	3	.45	Warehouse removes distribution centers from equation
<i>Wages & Benefits</i>	.05	3	.15	Competitive wages and benefits
Weakness				
<i>Promotion</i>	.05	2	.10	No advertising, Strictly word of mouth
<i>Membership Growth</i>	.05	2	.10	No information on cancelled memberships
<i>Warehouse Sales</i>	.05	2	.10	Sharp decline in certain years raises caution
<i>Research & Development</i>	.05	1	.05	No products offered by Costco to invest in R&D
<i>App & Online Store</i>	.10	3	.3	Great features, yet no marketing for them
<u>Total:</u>	<u>1.0</u>		<u>3.45</u>	

Exhibit 3: SFAS Table for Costco 2020

Strategic Factors	Weight	Rating	Weighted Score	Short	Intermediate	Long	Comments
Strengths							
<input type="checkbox"/> Aligned Vision & Goals	.15	4.2	.63			X	Clear Goals
<input type="checkbox"/> Product	.10	2.9	.29		X		Many Products
<input type="checkbox"/> Operations & Logistics	.10	3.3	.33	X		X	Subscription business model
Weakness							
<input type="checkbox"/> Promotion	.075	3.7	.1875		X		Need to move to social media
<input type="checkbox"/> Research & Development	.05	4.0	.2	X	X		Expand on this
Opportunities							
<input type="checkbox"/> Expand online platform	.10	3.9	.39	X		X	Move online
<input type="checkbox"/> Groceries deemed essential	.075	2.6	.195		X		More consumers

<input type="checkbox"/> Expand Globally	.075	3.2	.24	X	X		Well positioned
Threats							
<input type="checkbox"/> Amazon and Walmart are strong industry leaders	.15	4.5	.675		X		Strong competition
<input type="checkbox"/> Government Regulation	.075	2.9	.2175			X	Less control
<input type="checkbox"/> Unstable Economy	.05	3.5	.175	X		X	Not controllable
Total Scores	<u>1.00</u>		<u>3.52</u>				

Exhibit 4 - Ratio Analysis for Costco 2019 - 2018

1. LIQUIDITY RATIOS	2019	2018
Current ratio	1.0	1.0
Quick (acid test) ratio	0.74	0.72
2. LEVERAGE RATIOS	-	-
Debt-to-asset ratio	0.0036	0.0031
Debt-to-equity ratio	72.6	70.1
3. ACTIVITY RATIOS	-	-

Inventory turnover—sales	0.32	.305
Asset turnover	3.51	3.22
Fixed Asset Turnover	35.43	32.55
4. PROFITABILITY RATIOS	-	-
Return on investment (ROI)	46.3%	45.5%
Net Profit Margin	28.7%	26.1%
Return on Equity	46.2%	45.2%

Exhibit 5: Common Size Income Statements for Costco 2020

	2019	2018	2017
Net Sales	100%	100%	100%
Cost of Sales	87.02	86.99	86.71
Gross Profit	12.98	13.01	13.29
Selling, general/admin. Expenses	9.87	9.85	10.10
Reorganization expenses	--	--	--
Operating Income	3.10	3.16	3.19
Interest expense	(.0001)	(.0001)	(.0001)
Other - net	.00001	.00001	.00001
Income before accounting changes	3.12	3.13	3.13

Income taxes	.69	.89	1.02
Effect of accounting changes for postretirement benefits other than pensions and income taxes	--	--	--
Total operating costs and expenses	86.42	85.0	84.8
Net Income	2.4	2.24	2.08

Exhibit 6: Implementation, Evaluation, and Control Plan for Costco 2020

Strategic Factor	Action Plan	Priority System (1-5)	Who Will Implement	Who Will Review	How Often Review	Criteria Used
E-commerce	Expand e-commerce platform	5	Head of Business Development	COO	Quarterly	Sales volume and product turnover
Foreign markets	Expand into the foreign market dynamic	1	Head of International affairs	CEO	Quarterly	Market impact and interest
Membership	Increase membership		VP of Business	COO	Annually	Membership

	numbers	3	Development			numbers
Marketing	Venture into local marketing	2	Marketing VP	CEO	Quarterly	Membership numbers at new stores
Customer Service	Decrease customer wait time/faster service	5	Head of Member Services	COO	Annually	Member feedback surveys

Balanced Scorecard

Financial: “To succeed financially, how should we appear to our shareholders?”

Objectives	Measures	Targets	Initiatives
<ul style="list-style-type: none"> • Increase Memberships by adding value through additional perks and saving 	<ul style="list-style-type: none"> • Membership growth rate 	<ul style="list-style-type: none"> • Increase growth rate from 4% to 6% 	<ul style="list-style-type: none"> • Scale online grocery delivery • Expand cash back on qualified purchases
<ul style="list-style-type: none"> • Increase dividend 	<ul style="list-style-type: none"> • Dividend yield 	<ul style="list-style-type: none"> • Increase dividend yield from .85 to .95 	<ul style="list-style-type: none"> • Buy back shares to decrease the number of stocks that mandate a dividend payment
<ul style="list-style-type: none"> • Increase profitability 	<ul style="list-style-type: none"> • Profit margin 	<ul style="list-style-type: none"> • Increase profit margin from 13.1% to 13.5% 	<ul style="list-style-type: none"> • Increase third party partnerships with third party delivery services

<ul style="list-style-type: none"> • Increase Long-term debt to take advantage of low interest rates in order to expand globally 	<ul style="list-style-type: none"> • Debt ratio 	<ul style="list-style-type: none"> • Increase debt ration from 0.59 to .70 	<ul style="list-style-type: none"> • Build new locations in more states and around the world
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Customer: “To achieve our vision, how should we appear to customers?”

Objectives	Measures	Targets	Initiatives
<ul style="list-style-type: none"> • Support the community 	<ul style="list-style-type: none"> • Gave \$43 million to charity in 2019 	<ul style="list-style-type: none"> • supporting children, education, and health and human services 	<ul style="list-style-type: none"> • Support organizations like United Way, Children's Miracle Network Hospitals, Costco Scholarship Fund, disaster relief, and many programs
<ul style="list-style-type: none"> • Give the customer more than they expect 	<ul style="list-style-type: none"> • Leading 20 most valuable retail brand 	<ul style="list-style-type: none"> • Provide best customer experience in the industry 	<ul style="list-style-type: none"> • Smarter shopping
<ul style="list-style-type: none"> • Provide the best possible customer service 	<ul style="list-style-type: none"> • 83% satisfaction rate avg customer satisfaction is 78% 	<ul style="list-style-type: none"> • Ensure that customers have a pleasant experience 	<ul style="list-style-type: none"> • No hassle returns
<ul style="list-style-type: none"> • Operate efficiently and environmentally responsibly 	<ul style="list-style-type: none"> • 95 million paid cardholders in 2018 to 99 million in 2019 	<ul style="list-style-type: none"> • To have more solid showings in quarters to come. • Gain customer loyalty 	<ul style="list-style-type: none"> • Instant gratification

Learning & Growth: “To achieve our vision, how will we sustain our ability to change and improve?”

Objectives	Measures	Targets	Initiatives
<ul style="list-style-type: none"> • To deliver to 	<ul style="list-style-type: none"> • Maintain high 	<ul style="list-style-type: none"> • The 12 week 	<ul style="list-style-type: none"> • Doing more

customers an array of quality products at the most effective price point.	efficiency in its supply chain management.	quarter ended May 12, net sales rose 7.4% (\$31.62 to \$33.96 billion).	business via Instacart (an online grocery provider).
<ul style="list-style-type: none"> Management: Always promote from within, training happens constantly, grow our own talent, model what you want from you employees. 	<ul style="list-style-type: none"> Inventory Turnover in order to prevent inventory shortages or shrinkages. 	<ul style="list-style-type: none"> Membership fees increased 5.3% to \$776 million. 	<ul style="list-style-type: none"> Costco offers private-label specialty items.
<ul style="list-style-type: none"> Growth: Run the business for long term sustainability, Open new stores (50-60 locations per year), keep internet sales growing. 	<ul style="list-style-type: none"> Sustaining overhead costs that are minimum has given them the reputation of low cost operation 	<ul style="list-style-type: none"> To have more solid showings in quarters to come. 	<ul style="list-style-type: none"> Manufacturing in-house brands: "both with food and nonfood as well as organics in fresh and shelf-stable products...this is value added that has resonated with customers."

Internal Business Process : "To satisfy our shareholders and customers, what business processes must we excel at?"

Objectives	Measures	Targets	Initiatives
<ul style="list-style-type: none"> To achieve the highest possible quality even with low costs. 	<ul style="list-style-type: none"> Revenue per square foot Stockout rate Prints per day 	<ul style="list-style-type: none"> Motivate customers to come back 	<ul style="list-style-type: none"> No-frills approach and doesn't advertise Costco sells a limited number of items Selling fewer items increases sales volume and helps drive discounts

<ul style="list-style-type: none"> • Emphasize speed and efficiency for maximum capacity 	<ul style="list-style-type: none"> • Quality assurance program 	<ul style="list-style-type: none"> • Fresh Produce • Toiletries • Household furniture/products 	<ul style="list-style-type: none"> • Ensure all products are placed under the same stringent according to Costco quality guidelines • Maintain high quality control over products and services
<ul style="list-style-type: none"> • Maximize market reach 	<ul style="list-style-type: none"> • Revenue per facility 	<ul style="list-style-type: none"> • Popular urban centers • Near densely populated cities 	<ul style="list-style-type: none"> • Maintain high revenues per facility/warehouses • Increase Costco's membership status quo • High revenue per facility/warehouses contributes to the organization's overall profitability
<ul style="list-style-type: none"> • Educate and maintain excelling leaders 	<ul style="list-style-type: none"> • Highlight fast-paced jobs • Leadership development programs 	<ul style="list-style-type: none"> • Decrease employee turnover rate from 6% to 3%. • Promote within their current staff 	<ul style="list-style-type: none"> • Motivate employees to continue producing high quality work • Promote employees to leadership positions • Benefits and wages

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