Strategic Analysis of Company Assignment

Costco

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In a pool of retail giants that include superstars like Wal-Mart, Target and Big Lots, there are none that run leaner than Costco Wholesale Corp. On paper, Costco operates membership warehouses based on the concept of providing its members low prices on a limited selection of nationally branded and private-label products across a range of merchandise categories(Mergent Online). Furthermore, Costco operates in The US Retail sector with food included. This sector of the US economy generates around 4.2 trillion in sales annually and Costco’s revenue totaled around 116 billion of that in 2014, second only to Wal-Mart. When looking at the big picture though, especially through the lens of financial markers, Costco scores the knockout in just about every pound for pound contest. They operate 474 warehouses domestically and 200 spread out globally, which is a relatively small physical footprint. Although sales for Wal-Mart are about 3 times higher, sales per employee for Wal-Mart in 2014 were around 220 thousand vs. around 550 thousand per employee for Costco, a testament Costco’s efficiency and ability to squeeze every ounce of production from each worker. The key competitive advantage for Costco is their distinctive competence at running a tight, bare bones ship that rewards its workers with above average compensation resulting in high moral and an increase in a tillable customer base that grows every year. Costco runs only one brand by the name of Kirkland Signature and by offering this private label side by side on the shelves, they are able to widdle down popular brands’ pricing even further. Surprisingly, there are no carbon copies of Costco’s business model demonstrating that its overall cost leadership strategy is effective in a “bulk purchasing” sense, at least when looking at the bottom line. Because of its price leverage with manufacturers due to volume purchases coupled with big box and bulk offerings, they are able to offer a lower per unit cost than competitors. This model would be seemingly effortless to duplicate but this has not happened. One might then be able to tie Costco’s success to the more organic intangibles that the upper management utilizes that can be summarized with a generally high employee moral.

Mission statement

Costco’s mission is to continually provide our members with quality goods and services at the lowest possible prices. In order to achieve our mission, we will conduct our business with the following Code of Ethics in mind:

* Obey the law
* Take care of our members
* Take care of our employees
* Respect our vendors

If we do these four things throughout our organization, then we will realize our ultimate goal, which is to reward our shareholders.

There are examples galore of how Costco continues to implement these effective strategies to achieve its ultimate goal and there is mention that the company’s mission statement is well understood throughout the firm. Customer suggestion boxes are at every exit of every Costco indicating a willingness to take care of member’s needs and requests. Employees are well compensated, well above the average employee salary of a national retail store at an average of 20.89 dollars per hour; a figure recorded in a sagging economy where industry equivalents were actually laying off employees. (Stone, 2013) Suppliers are considered partners and Costco’s policy is to protect their property assigned to Costco as if it was their own. The upper echelon of the business refers the mission statement as guidelines to follow but absolutely want their employees to leave room for common sense and case-by-case scenarios. The returns on these philosophies are stockholder rewards in the amount of 200% in just 15 years.(yahoo finance)

Costco’s competitive advantage lies in the simplicity of their model and a by-product of keeping things simple is low overhead. The warehouse sells a fraction of the number of product that a grocery store or Wal-Mart sells. This strategy increases sales volume and drives discounts. Natural lighting is used in warehouses. On any given sunny afternoon in the middle of any Costco store, the lights are completely off. Pouring millions of dollars into marketing is a non-existent phenomenon and the customers do not receive “paper or plastic” at the checkout. All of these savings are poured right back into the company in the form of dollars towards workers. It’s a no frills self-service operation focused on function not fashion. Their business model relies on three fundamentals; Inventory and pricing, employee empowerment and retention, and membership rewards for consumers. (Ton, 2012)

Costco’s Key Players

**W. Craig Jelinek - president and CEO**

* During College, Jelinek worked for Fed-Mart, founded by Sol Price who later started the Price Club chain of warehouse discount stores
* He joined Costco in 19845 and when Costco merged with Price Club in 1993, Jetliner was appointed Senior VP, NW Region
* February 2010, promoted to COO
* January 2012, became President and CEO
* Is a Costco customer to this day
* 2014 Salary was $699,810

Jelinek is a big fan of Costco’s $1.50 hot dogs and is a donor to the College Success Foundation, which helps men, and women obtain a college education.

**Richard A Galanti - EVP and CFO**

* Earned his B.S. at the University of Pennsylvania’s Wharton School
* He earned his MBA at Stanford University’s Graduate School of Business in 1982
* After college, Galanti provided a variety of financial-related services to both public and private corporate clients
* Galanti joined Costco March 1984
* 2014 Salary was $712,888

Galanti started working in grocery stores at the age of 10 and is instrumental in holding margins of Costco product at between 13 and 15 percent. He is quoted in saying during the Q3 earnings call “So we do what we do when we do it when it is the right thing to do for our Company from a competitive standpoint.”

**Paul Moulton - CIO**

* Before joining Costco in 1985, Moulton worked at Safeway, Target and Fed-Mart
* Store Manager in Portland
* Held VP Finance and Cooperate Treasurer positions
* Head of IT
* CIO since 2010
* 2014 Salary was $602,519

Moulton says he prefers non-technical venders and likes to see a PowerPoint presentation that’s not too technical and uses more business terms.

All three of these men adhere to a general behavioral management perspective and do indeed regard their employees as the biggest assets at Costco.

**External Environment/PESTEL Analysis**

*Political*

This pertains to how Costco does business inside and outside of the United States. In the US, Costco abides by the rules of law for importing and exporting, fiscal reporting as a public company etc. One business related item that might affect Costco would be customer perception of product from vendors and manufacturers, specifically animal ethics to do with resold meats and environmental issues of other vendors’ manufacturing processes, not excluding food. Costco is aware of a local wage for workers outside of the United States and chooses to compensate its workers with higher wage rates despite what local political policies might recommend. Another political consideration outside of the US might be expansion on the company’s part that may influence storefront locations dependent on government regulations.

*Economic*

As mentioned earlier, Costco was able to weather the worst economic downturn with actual pay increases of its employees. Annual Membership continues to have a 90% repurchase rate. There is potential for long term economic grown in both the international market as well as e-commerce.

*Social*

The social external environment for Costco mirrors the environmental and animal rights aspects of the political analysis. One opportunity to capitalize on customer perception might be to implement charging stations for electric vehicles in the store parking lots and to utilize the EV technology for small business deliveries especially in areas with bad air quality.

*Tech*

E-commerce sales should be at the forefront of discussion when preparing and planning for growth at Costco Wholesale. Technology available should be utilized to further streamline the checkout process and inventory tracking. The opportunity cost of investing into new computer capital can be easily weighed and should be seriously considered to maintain increasing efficiencies in the future.

*Environmental*

Climate change, more than ever, should be considered as a reseller of more than 4000 different products at any given time. Costco should not promote products that are environmentally destructive and/or unethically manufactured. Doing so would be unwise and might hurt the company’s image and negatively affect sales. Costco uses a lot of cardboard and it would be irresponsible not to dispose of or recycle these packing materials in the most environmentally friendly way available.

*Legal*

There are products that may contain genetically modified organisms to but laws do not dictate labeling on packaging for GMO foods. Costco should take initiative and go beyond the law to let it’s customers know exactly what they might be buying with GMO and other untested materials and ingredients that may be in question.

Overall, Costco does a great job addressing issues addressed in the PESTEL analysis but policies and procedures should be liquid and fine-tuning of SOP’s within Costco is always recommended for any company.

SWOT Analysis

Strengths

* Strives to provide the most competitive prices on a wide array of products
* Pursuit of carrying high quality products at great prices and build customer base on brand loyalty
* Volume sales over margin philosophy
* A great company to work for

Weaknesses

* Dependent of US and Canada for Revenue especially California where sales amount to 32% of total revenue
* The customer base includes a lot of baby boomers that, as they age, buy fewer products.
* Attention to a younger generation is necessary for future growth
* 97% of sales are in the brick and mortar stores, only 3% online

Opportunities

* Attention to environmental trends like organic foods will attract younger, more health conscious shoppers
* More stores outside of North America including China where margins are higher

Threats

* There are plenty of companies with the warehouse membership model that would be glad to swoop up Costco Sales
* E-commerce is a huge factor and if there is no growth in online sale, growth overall may become stagnant

Costco is a retail juggarnaught that operates efficiently by offering a product line that is a fraction the size of its competitors. They rely on sales volume, not high margins, for profit. It is at least notable that Costco’s greatest internal strength is its employees. The company’s upper management believes that the monetary savings in eliminating a lot of the standard perks that other retailers utilize including advertising, post sale packaging and aesthetically pleasing displays can be passed on to it’s staff in the form of outstanding retirement and health benefits and above average compensation. They will continue to bode well in the public eye with sturdy employee relationships and a positive community presence. Costco’s awareness of environmental and health issues have contributed to overall customer satisfaction and membership renewals. Costco would benefit by implementing more of a vertical integration strategy over the present horizontal mindset. By concentrating on what and how it leads the retail market, Costco would fair well by expanding its presence with more stores and expansion of its online sales. Also continuing to stay its course on environmental responsibility and encouraging transparent product packaging by its vendors, local and abroad will increase its appeal as both a good place to shop and to work.

# Works Cited

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Ton, Z. (2012, January 1). *Human Resource Management*. Retrieved February 17, 2016, from Harvard Business Review: https://hbr.org/2012/01/why-good-jobs-are-good-for-retailers