



Digital Transformation Strategy

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Introduction



Who is Costco?

Why study Costco?

A longstanding brick and mortar store but how will they keep up?

Where are they located?

US: 558 Warehouses
International: 246 warehouses

What are they known for?

Top quality national and regional brands

What do they do?

Multinational corporation which operates a chain of membership-only warehouse club.

How big is Costco?

#10 in Revenue of US Fortune 500
5th largest retailer in the world

What products do they sell?

Wholesale retail items and consumer goods/commodities



Current Company State



Current Operations



Supply Chain Management



Current Projects



User Base

- **“Don’t Touch” Strategy**
 - Few Manufacturers and Direct Purchases
 - Cross Docking in Storage
- **Less Product Diversity**
 - 3700 SKUs vs 100K Average
 - Lean and Efficient
- **High inventory turnover and low shrinkage**

- **Average shopper has median-high income**
- **Cardholders**
 - Executive
 - Gold Star
 - Business
- **Growth Drivers**
 - Kirkland Signature
 - Ancillary Services

- **Covid-19**
 - Vertical Integration
 - Innovel Solutions Acquisition
 - Instacart Partnership
- **International Expansion**
 - 27% of Sales are International
 - Recently opened store in China
- **Slow move into e-commerce compared to competitors**

Financial Measures and Analysis



For the 16-week quarter ended Aug. 29, net sales totalled **\$61.44 billion**, up 17.5% from \$52.28 billion a year earlier.



Membership fee income rose 11.7% to \$1.23 billion, more than doubling the 5.3% gain recorded in the prior-year period.



Total paid member households increased 18.2% to 61.7 million since the previous quarter, while the total cardholder count grew 16.4% to 111.6 million quarter-to-quarter.

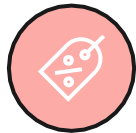


Overall comparable sales in the quarter climbed 15.5% year over year.

Current Digital Transformation Strategy



Costco's traditional strategy to drive customers to their stores by enrolling them and offering members low prices on commodities.



Business model based on in-store purchases and customer memberships that join and renew annually.



Costco's technological laggard and not adapting to digitization is affecting their business functions and revenue.



Costco's grocery sector is heavily impacted after Amazon's acquisition of Whole Foods.



SWOT Analysis

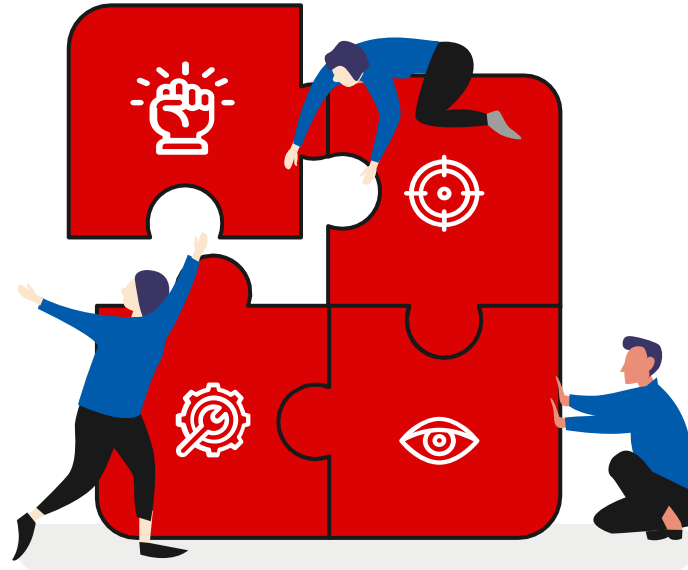


Strengths

Low prices
Product Quality
Low Marketing Costs

Opportunities

Digital Products/Services
International Expansion



Weaknesses

Limited Products
E-Commerce Adoption
Customer Demographics

Threats

Competition/Substitutions
Exclusivity Business
Approach

Strategy Recommendation



Desired Business Outcomes



Continued Market Expansion

Domestic Markets and International Expansion

Create Robust E-Commerce Product

Address Online Presence with E-Commerce

Increase Diversity Of Products

Address Domestic Competition With Expansion Of Products

Improving Supply Chain

Differentiate with Inventory Turnover and Lead Times



Recommended Solutions

Name of Digital Strategy

E-Commerce Accelerator

Using packaged solutions and outsourced partners build on current E-Commerce platform and develop more robust mobile application

Acquisition

Acquire companies that offer technology products/solutions that are supplemental to Costco's current offerings

Customer Segments

Using marketing team focus on viral promotion to capture younger audiences. Implement analytics to gauge customer preferences and interactions

Technology

Implement RFID to track merchandise movement. RFID will be needed as Costco expands internationally and includes more products

Processes To Change



Procurement

- Costco lacks product diversity compared to competitors
- Implementing a product procurement process using analytics provided by market demand and customer feedback



R&D

- Emphasis on Research & Development
- Expand on in-house products and services that will match Competitors (Amazon, Walmart, Kroger's)



Checkouts

- Continue to expand on customer checkout with self-checkout, but include instructions and training method to help it's older customer base

Resources Needed



Budgeting

Implement new cost allocation
Capital expenditure increase
Annual cash flows will lower for some time



Contracts

Digital Solutions startups and companies to acquire as subsidiaries



Packaged Solutions

SaaS and Outsourcing Web/Mobile Development



Modern Marketing Team

Build on current team to meet upcoming customer segments



RFID Technology

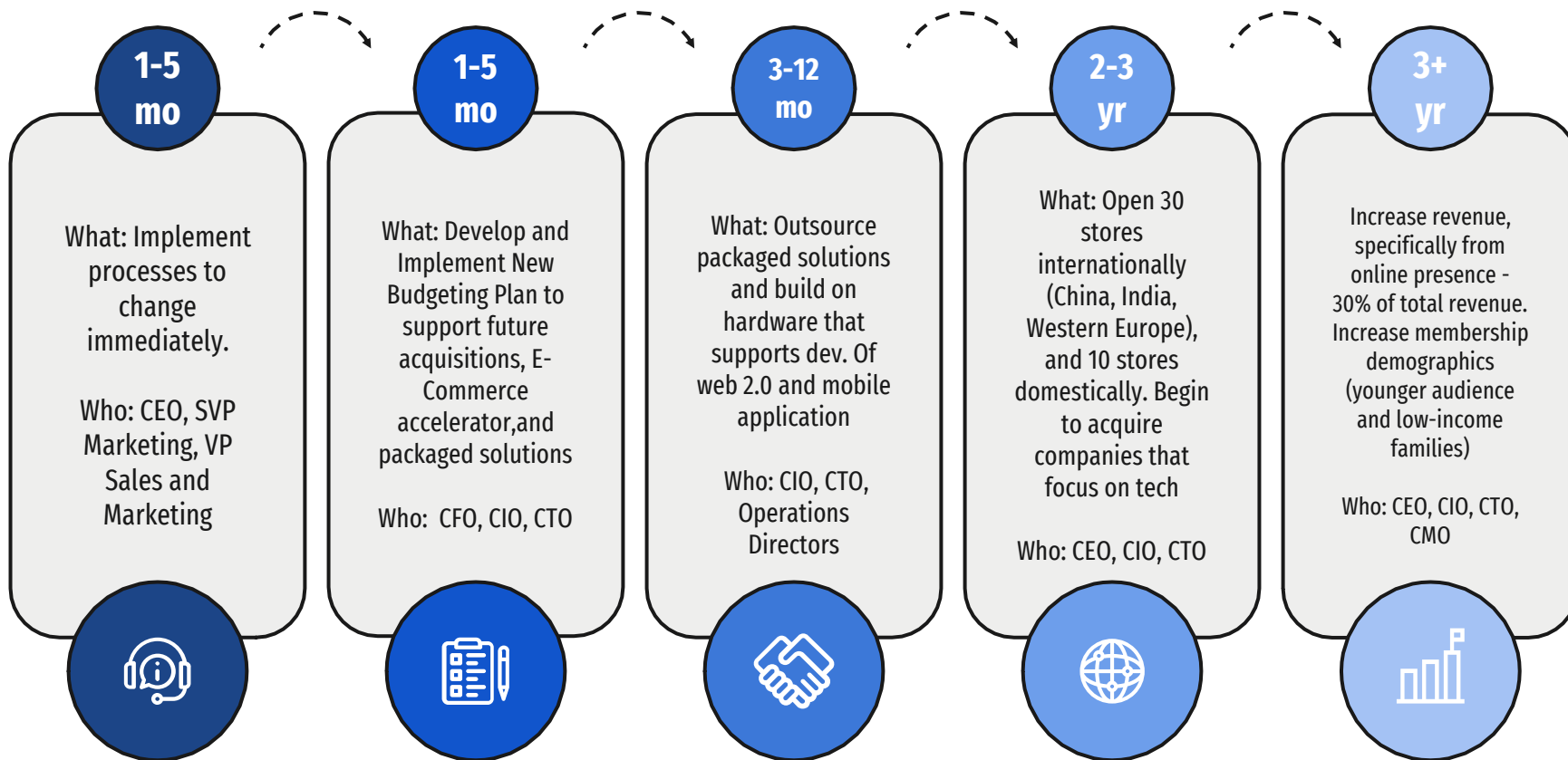
Analytics teams
Supply chain alterations



Hardware/Software

Drive solutions to problems and inefficiencies

Roadmap



Thank You!

A photograph of a Costco Wholesale store at dusk. The building is a large, modern warehouse-style structure with blue corrugated metal siding and stone pillars. The entrance is brightly lit, and the Costco logo is prominently displayed above the glass doors. Several people are visible entering and exiting the store. Red bollards line the walkway in front of the entrance.

COSTCO
WHOLESALE

Any Questions?