Costco – Strategic Plan

Prepared For:

Costco Wholesale Corporation

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**Executive Summary**

It has been recently noted that Costco Wholesale Corporation does not implement a marketing budget towards advertising and growing their membership mass. If Costco were to implement even a small budget towards marketing costs, they could grow their sales revenue exponentially at least 5% for the next five years. The proposal provides a detailed, yet brief overview and explanation of how this conclusion has been made, and proof upon how to develop it so that it is accurate.

Marketing is a basic business fundamental that is used in both small and very large businesses to help boost sales and gain success. Costco’s CEO prides himself in how large and successful Costco is without using any of these simplistic marketing functions. However, when all the other competitors in the same industry as Costco are in fact using these strategies, it puts Costco at a disadvantage.

In this report we outline what Costco can do, why they should do it, and the probable outcome of implementing a marketing strategy.

**1. Costco shouldn’t take their size and market saturation for granted.**

Costco is a big company but if you don’t continue to grow, you die, and other competitors are catching up.

1. **Reviewing other close market competitors helps provide insight on what works for this specific industry.**

Seeing other companies budget and marketing strategies (specifically BJ’s Wholesale) can help guide Costco on a path to increased sales.

1. **Evaluating what advertising process will best fit for marketing Costco.**

I break down and evaluate what Costco should do to get their name and business model more known to people who aren’t currently members.

1. **Is it worth it in the end?**

By doing simple math it can be estimated that Costco can grow their sales on an average of 5% per year by implementing a marketing strategy.

**Understanding the Background**

Founded in 1983 in Seattle, Washington bye its founders Jim Senegal and Jeffrey Broman. Costco’s business model is about selling high quality and volume but low cost. Walmart’s founder Sam Walton initially attempted to merge with Costco but due to differences in business models and pricing structures they became top competitors instead. Costco is known for their top of the line return policy, which allows extremely lenient returns and even allows returns for up to 2 years on products such as electronics.

Costco has been expanding and growing very rapidly during the past years, especially since 2007. In 2007 their membership count was 50 million, while at the end of 2010 their membership count had jumped to 64 million and now as of Feb 2013 they have a membership count of 68.2 million. At the end of the year 2013 Costco’s financials show that they had an incredible sales at 105 billion dollars. These numbers show that Costco has a pretty stable idea of what they’re doing and how to run a company (Hoover’s & Investor Edge).

**Costco’s Strengths**

One of Costco’s many strengths is how they treat their employees.Costco pays higher salaries than their competition, the company offers more generous benefits like health care and 401-K plans, and it provides more opportunities for professional growth and promotion to employees of different levels. In the words of the company's CEO, Craig Jelinek, as quoted in a BusinessWeek interview: "We know it's a lot more profitable in the long term to minimize employee turnover and maximize employee productivity, commitment and loyalty“

Costco is also very financially and economically strong. They have a smart and fairly unique business model, the company makes most of its profits from membership fees as opposed to gains on merchandise sales. This allows the company to sell its products at razor-thin profits, or even at a loss. Costco has a P/E ratio of 27 versus 15.3 for Wal-Mart and 15.4 for Target. Also, while Wal-Mart and Target pay dividend yields of 2.4% and 2.7%, Costco´s yield of 1% is substantially lower. Since profits depend mostly on fees which the company collects in advance, this provides Costco with higher stability when it comes to sustaining cash flows through the ups and downs of the economic cycle.

Another strength is how Costco manages their information systems. Costco has a separate website for stores in each of its international regions. They also offer special online deals each week titled, “This Week’s Treasure Hunt.” Costco’s website show cases the quality of the product it offers and lets the customer view the product from various different angels.

**With Strengths, There is also Weakness**

**We have outlined several reasons why Costco is ranked number 2 in their industry. They have a lot of strengths. After performing a SWAT Analysis we have discovered to help their sales grow even higher, we recommend Costco implement marketing and grow globally.**

**Even “Great” Can Become “Greater”**

Although Costco’s numbers in sales, memberships, and growth are definitely able to hold their own, as they are remarkably high and distinguishable, they still are not the best in their industry and market leaving them with room to grow. Costco is currently ranked 2nd in the race to the top when compared with its competitors. Currently, at the top of the industry is Walmart. Walmart Stores showed a net revenue of $469.16 billion. Costco is currently at a 105.16 billion revenue while BJ’s Wholesale Club Inc. is trailing behind with a $105.16 & Target at a $73.3 billion revenue (Lexis Nexis).

Although Walmart and Target are in direct competition with Costco, one of the most aggressive competitors currently in the wholesale industry is BJ’s Wholesale Club Inc. BJ’s has half the amount of stores as Costco does in the United States (BJ’s with 200 warehouses and Costco has 445) but is speedily growing with such saturation that if they keep up their pace will soon time pass up Costco store in saturation and inevitably, sales.

**What Others Are Doing**

How is BJ’s Wholesale Club growing and expanding at such a fast rate? They are doing several things that promote rapid growth and expansion such as: expanding their private-label products by 300 percent. BJ’s jumped from 2,000 SKU’s to 6,000 SKU’s by increasing their private-label products and adding variety within those products. BJ’s has also been dropping and placing a lot of warehouses and stores along both coasts and have several more clubs than Costco along the southeastern coast, which is highly populated. When starting out, this plan was estimated to more than double their sales over the next 5 years (from the years 2000 – 2005). This goal was reached, and then surpassed (Business Library).

BJ’s gives a lot of this credit on their growth to their ‘Health and Beauty’ promotion they launched in 2001. The ‘Health and Beauty Campaign’ was a campaign that they ran and released that focused on their own private labels. It advertised how their quality was superb and competitive with name-brand logos and how their prices were still 20% less than the leading name-brand competitors. This communicated to their customers that they can have quality and a lower cost. This is just one example of another mass-market warehouse wholesaler who used marketing to promote new products and the company itself, which in the end raised their sales.

**Costco’s “Bare Bone’d” Problem**

When asked about Costco’s marketing strategy, Jim Senegal, Costco’s CEO describes it as “bare bones.” He goes on to state they don’t put a lot of effort into marketing because they are so focused on “boosting sales by simply having lower costs than the next guy.” What Costco doesn’t realize, is they could increase sales even more by advertising those low costs. When all the directly competing companies in this industry are choosing to use market themselves, this puts Costco at a loss and behind the leading competitors.

Senegal states the reason for choosing not to advertise is because they, “want to keep it simple.” (“Costco Sticks to Business Basics”) Without any marketing strategy Costco is choosing not to put money towards advertising and are choosing to simply rely on word-of-mouth.

**Spread The Word**

“Word-of-mouth is the most significant form of marketing for us. We depend on it. Why wouldn’t we depend on word-of-mouth relative to the success of our company in the financial and editorial communities?” says Senegal (Johnson, Jay L.). While word-of-mouth is definitely one form of promoting Costco’s warehouses (and one can appreciate Costco’s reputation in the sense that this alone, has gotten them extremely far) and it is, in fact, a respected marketing strategy in the corporate-business world, Costco needs to change up, and step up.

Continuous, positive word of mouth that will naturally happen with Costco’s quality and success like it already has proven to and it will continue to grow and spread. If Costco were to implement a marketing strategy for outside their stores, to customers unfamiliar with their business model, stores, and reputation, this would now take that word-of-mouth Costco has been relying on, and expand it greatly.

This is because now word-of-mouth won’t be going only from current members to current members of Costco, or maybe even members to non-members of Costco. And since typical gossip (word-of-mouth) chains don’t tend to travel beyond a two-mouth set (it usually stops after two or three person have spread it). So adding advertising can help word-of-mouth increase between people who aren’t members or don’t even know a member, thus boosting membership numbers which will raise revenue and profits.

**Let’s Add Some Marketing and Advertising!**

It is significant that Costco starts implementing a marketing strategy and setting aside a budget for advertising, although Costco does do well without implementing marketing or advertising costs, their competitors do have a budget set aside for those things and are using them to their advantage to get ahead in the competitive race. In order to not only keep up, but to get and then stay ahead, Costco should apply one of the main, key business fundamentals, marketing. As of now the only marketing Costco really does outside of sending magazines to their members, is all in-store and consists of them displaying their private label (as previously pictured). Costco should start advertising their stores and more importantly, advertising their Kirkland brand line of products outside the store to draw people into the store, such as BJ’s did.



**Sales Will Grow, It Will Work**

In 2001 while BJ’s Wholesale Club was expanding and promoting their warehouses they implemented a small $10 million budget to help get their name out there. This let the public know what their company was about, what the company offered, what types of goods they sold. From this, BJ’s growth average over the next five years was 16% per year! If Costco could match these numbers their sales would be through the roof and they would take first in line versus all their competitors.

However, we must take into account that BJ’s currently only has about half the amount of stores in the United States than Costco does, which leaves a lot more room for BJ’s to be able to grow and expand. Considering Costco’s already heavy market saturation with almost 600 warehouses dotting the United States, their growth-rate percentile may not be realistic due to Costco’s already expansive size. It’s easy to go from small amounts of stores to big, but harder to go from already a large amount of stores to even a larger amount of stores (Business Library).

**Proof By Numbers**

If BJ’s is able to expand and grow exponentially by an average 16% a year with only a $10 million marketing budget having only half the amount of stores Costco has, if Costco simply matched and met that budget, even with their saturation in the market they too would be able to grow their sales exponentially by 5% on average for the next 5 years. This growth would be only on advertisements and promotions alone, this would put Costco in the running for first place in their market industry with a sales total of about $134 Billion, falling right behind Walmart. This isn’t taking into account the growth Costco can expect just from being an established company, this is simply the growth Costco could experience by implementing the marketing budget alone. The graph on the next page illustrates the projected sales with this an implemented marketing budget.

**The Roll-Out Plan**

Since Costco is heavily saturated along both sides of the cost, but tends to fade and trickle in as you head more center of the United States, Iwe suggest they begin their implementation of advertisements through the mid-strip (North Dakota, South Dakota, Nebraska, Kansas, etc.). I understand these areas may not be heavily populated in a lot of their areas but as of now they are completely Costco-barren so it would be a good test to very first start in one of these states, build a Costco, and then advertise the 20 mile radius of where it sits. As you can see by the map, a lot of these people may have never heard of a Costco so strategic marketing will be vital. The

 (Costco Saturation in the U.S.)

best way to go about this is to start advertising for the warehouse that is coming to the community the year before construction ever breaks ground.

Best ways of advertising for these new, up and coming warehouses would be commercials, billboards, mail-outs. Having big signs where the Costco store is going to be built and hosting tail-gates and advertising cookouts to bring members of the community to the ground where the new store is going to be would get people involved and help build excitement and curiosity about this new upcoming store.

**Let’s Get Rolling On This Roll-Out**

Now that I have given an estimation of where Costco sales could be in 5 years, again, that growth is just off of promoting Costco brands alone not added with the already estimated growth of the company. The first step would be acquiring a specified section of the budget for marketing and advertising costs, finding that money and setting it aside especially for this new project I had suggested a total of $10 million for all of the Costco stores nation wide. Then, pick out a good location to break ground for a new Costco warehouse somewhere in the mid-west of the country since this is a broad area of the nation that doesn’t have any Costco’s, this area is also bare of BJ’s so this would give Costco the upper hand by not having such direct competition in these new areas as they begin to expose themselves.

If these steps are followed, and marketing is implemented with excellent advertising, Costco’s sales can be at about $134 billion by the end of 2018. We understand that Costco is currently satisfied with their sales and relying on only word-of-mouth, but with these projected sales numbers of where Costco could potentially be in only 5 years from now, it leaves little room for dispute. Costco needs start with this plan by the beginning of January 2014, which leaves a month for preparation before their big roll-out plan should begin.

**New Horizons – Going Global**

To make Costco more profitable and improve its status, Costco should expand abroad. It would do well to go to new fast developing countries markets. For example, the countries of BRICS organization. BRICS is an abbreviator of 5 countries – Brazil, Russia, India, China and South Africa. Those countries are leaders of economic growth between large developing counties. They have about half of the population of Earth and take 30% of world economy. If Costco will place its business in those countries it might get a big market share of increasing middle class in those countries.

**BRICS**

China is the second largest economy on the planet after the United States. By 2025 it will be number 1. China shows 9% growth of economy but the most interesting part is that the Chinese people have increased their real income 15 times in the past 15 years (they still show that they will increase in the future). Many people can afford to buy products that are sold in Costco. That’s make China very favorable to place for Costco’s business. With the growing middle class of China, Costco will increase it profits immensely.

Brazil is second largest economy in west hemisphere and the first in Latin America. It has 5% growth of economy and it has a big middle class, which are Costco’s main customers. With the right advertisement Costco can take a good piece of the Brazilian market and have a base to expand in South America.

India is another potential target of Costco – India’s middle class is around 250 millions people. And is very fast growing – almost like China. Costco can put up one store in India to see how well it actually does. If it does do well Costco can expand business and take large market share.

Russia is the 8th largest economy and has the second greatest numbers of millionaire in the world. After 70 years of isolation Russians like to copy the western way of life and placing Costco’s business in the big cities Costco can become very profitable. For example, the first MacDonald’s that was opened in 1989 in Moscow, Costco got its money back only after two days. The video shows the line to first MacDonald’s.

Costco has great opportunity to make money in Russia. Going abroad can promise big profits, however Costco should be aware that there are many risk especially Corruption, Culture Differences and Unpredictability.

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