

A Comprehensive Analysis of The Retail Giant: An In-Depth Study of Costco

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Abstract. As a leader in the US membership-based warehouse retail chain, Costco provides consumers with high-quality and low-price goods through high-volume procurement and a streamlined supply chain and cultivates a loyal customer base through the membership fee model. This study provides an in-depth analysis of Costco's market performance, competitive advantages, SWOT analysis, and risk assessment to evaluate the company's operating conditions and development prospects comprehensively. The financial data shows that Costco's revenue continues to grow, and profitability is solid. However, it still faces increasing competitive pressure from online retailers and risk factors such as economic volatility and supply chain disruptions. According to the study, Costco should actively invest in digital transformation, explore multichannel retail strategies, and focus on expansion opportunities in emerging markets. At the same time, companies must continue to focus on cost control and operational efficiency and strengthen cybersquatting and sustainability initiatives. Through internal and external training, Costco can consolidate its leading position in the retail industry, navigate the rapidly changing market environment, and achieve long-term stable growth. Based on empirical analysis and case studies, this study aims to objectively evaluate Costco's strengths and weaknesses and provide reference suggestions for its future development.

Keywords: Costco; competitive advantage; risk assessment; digital transformation; multichannel retail.

1. Introduction

Costco Wholesale is a leading company known in the United States for operating a members-only chain of warehouse-style stores. It started in 1983 with a warehouse in Seattle, Washington, and has since grown into a multinational company with 833 warehouses in 12 countries as of 2023. Its business strategy provides its affiliates with many products sold at meager prices due to excellent purchasing power and almost zero fees. Some of these are First Groceries, Fresh Food, Emotions and Tenderness, Hard Wires, Hard Wires and Apparel, Home Appliances and Appliances, Costco Car Care, Seventh Pharmaceutical, and Travel [1]. Costco provides service/repair and various products [1]. As Costco is a company primarily engaged in membership storage clubs and tire retail, the business, among other automotive services, has reported impressive financial results, with revenues currently exceeding \$226 billion as of the end of fiscal 2022 [1]. The growth experienced by the company in terms of performance has been outstanding, mainly because of its efficiency in providing low-priced, high-quality products and seeking a variety of goods (Wang, 2024). Nevertheless, today, with such a solid material foundation and a tenacious consumer customer base, Costco is trying to consolidate its position as one of the leading key players in the wholesale and retail sector.

2. Costco Market Performance Analysis

2.1. Market Share and Industry Position

Of all the businesses operating warehousing clubs in the US, Costco was ranked the largest in 2022, with a market share of 58.1% [1]. This advantage may be due to its tight focus on providing value-added services and products, a wide range of products, healthy and quality services, and a good shopping experience [1]. The company's activities on an international scale further expand its

excellent industry coverage. The company operates in 12 countries [2]. Analyzing Costco's performance in expanding into new markets, its primary market penetration strategy is linked to the needs of local customers and remains true to the basic concept of low prices and high-quality products [2].

2.2. Revenue and Profitability Trends

Costco's financial performance is excellent based on the following financial analysis: annual revenue continues to grow yearly, and the income statement shows its profitability [3]. Specifically, the company experienced five sensational performances in fiscal 2022, setting a record of \$226.9 billion, far exceeding the previous year's sales and an increase of 16%, driven by the massive demand for a wide range of products offered in stores, from groceries and clothing to home appliances [3]. In addition, Costco reported an excellent net income of \$5.8 billion, indicating a healthy operating margin of 3.4%, showing how the company is adding top-line growth to its bottom-line earnings stream [4]. This profitability may be due to the business's excellent operational efficiency and cost leadership and the flexibility in enabling consumer loyalty programs, which are a source of continuous sales and traffic [4].

2.3. Stock Performance and Valuation Metrics

Costco's gains have led to good stock performance, making it one of the most popular stocks for investment purposes [5]. Costco's stock has been on the right side for the past decade, growing by more than 20% per year, which is much money [5]. Costco's price is slightly higher, with a current price-to-earnings ratio of 36.2x as of June 2024 [6]. What makes shareholders and corporate investors invest in Costco is the company's potential to maintain its current competitive advantage and further growth in the future [6]. This valuation corresponds to year-over-year revenue growth, with consistently high profitability and a strong niche competitive position, allowing Costco to occupy the high-premium segment of the market [4]. Costco's revenue is also expected to grow at an annual rate of about 10% over the next five years due to its growing market share and the added value of membership fees and more stores nationwide [4].

2.4. Competitive Advantages and Challenges

Costco's unique advantages include the ability for customers to purchase products at low prices due to its vast purchasing power, efficient logistics, and lean supply chain system [4]. The company has also launched its brand, Kirkland Signature, which offers premium and affordable goods, accounting for about 30% of its total revenue [4]. In addition, Costco's membership model keeps customers returning and inhibits competition by using passive income as a consumer loyalty weapon [7]. The threat to Costco is increased competition through the expansion of online marketplaces by companies such as Amazon [7]. Consumer behavior is dynamic and has shifted to online shopping, accepting other purchase channels such as electronic devices [7]. In addition, the membership fee basis is a vulnerable source of income, as membership growth rates may slow or decline due to economic conditions or competition [7].

3. Costco Analysis

3.1. Main Competitors

Although Costco has a sizable market share in the warehousing club segment, it is fiercely competitive with many competitors [7]. As of 2022, Sam's Club, which is affiliated with Walmart, has a market share of 41.9%, making it Costco's main competitor in the United States [7]. Key threat issues include Walmart having more capital, numerous stores, and low prices, which could hinder Costco's expansion plans [7]. In addition, merchandise retailers such as Target are not far behind, threatening Costco's dominance, primarily through price controls and the availability and density of

convenience stores across the United States [1]. Another giant that has disrupted traditional retail is the online giant Amazon, which offers its customers simple, cheap, and affordable goods, especially electronics, household goods, and books, delivered directly to their doorstep [8].

3.2. Business Strategy Comparison

Costco's business model is designed to buy and sell a limited range of goods and services widely considered attractive and inexpensive for its members [5]. The company uses an editorial classification strategy to stock only a few carefully selected products to meet specific quality standards [5]. This strategy allows Costco to gain absolute bargaining power from purchases, which allows it to obtain discounts from suppliers and lower prices for its member customers [9]. Another cornerstone of Costco's business model is its focus on private labels, especially the Kirkland Signature brand, which it believes can offer products of higher quality and lower prices than branded goods [9]. Since every aspect of the supply of these private label items is managed by Costco, they can best control their fees to provide members with unbeatable prices [9].

On the other hand, Walmart and its subsidiary, Sam's Club, focus on APOP, a low-cost leader, as the company provides customers with a wide selection of goods and services at the lowest possible price [10]. It seeks to adopt a strategy targeting the masses, including members and the public [10]. Walmart and Sam's Club leverage their vital purchasing power, substantial sourcing capabilities rooted in the global market and streamlined business models to offer a wide range of items, including fresh food, home goods, electronics, clothing, and accessories, at lower prices than their competitors. This helps appeal to consumers looking for convenience and one-stop shopping [9].

Subsequently, Target claimed to be a high-end discount store with additional distribution channels for fashion, home furnishings, and apparel, providing customers with a more unique shopping experience than Walmart's generic approach to low-income customers [2]. The sales strategy employed by Target is to sell the right products that are considered fashionable and popular [2]. The company also emphasizes private solid-label brands, with designers and brand exclusivity to help drive the differentiation and exclusivity engine [2]. In addition, Target has put much effort into the product layout, store layout, and staff attitude to make the in-store atmosphere more exciting and appealing to attract customers looking for a better customer experience than just the lowest price [2].

4. SWOT Analysis

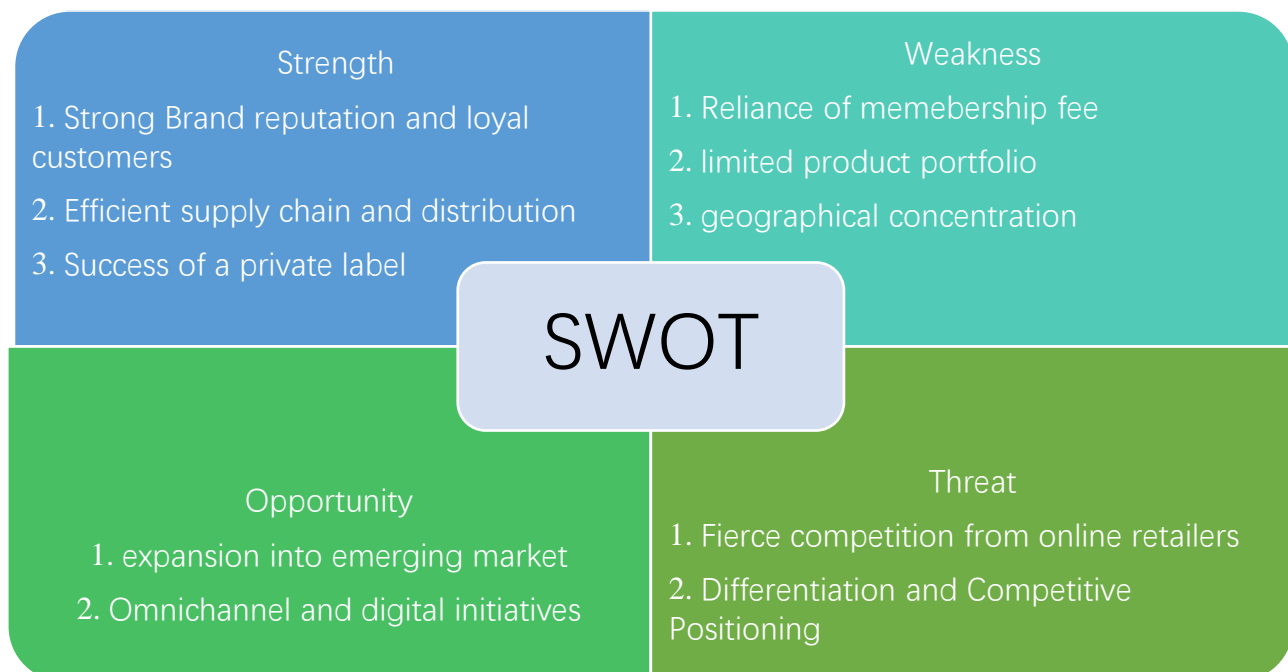


Fig. 1 SWOT analysis

4.1. Strength

4.1.1 Strong brand reputation and loyal customer base

In the Figure 1, Costco has a good brand image based on loyalty, high quality, and customer service [6]. Reputation has fostered a loyal customer base that appreciates the value Costco provides consumers and the shopping experience's reliability [6]. The company's belief system of stocking high-quality goods at unbelievable prices fosters a robust organizational commitment among its members [6].

4.1.2 Efficient supply chain and distribution

Costco's established supply chain management and distribution promotes corporate social responsibility to keep costs to a minimum and pass these savings on to members [4]. As a large organization that needs to provide members with many high-quality products, Costco can force suppliers to lower prices and avoid adding additional costs to their logistics [4].

4.1.3 Success of Private Labels

A significant portion of the company's successful products come from the company's brand, Kirkland Signature, which provides customers with higher value [4]. It has become more than just a name for those customers who use it regularly, contributing to the company's profitability and building a competitive advantage [4].

4.2. Weakness

4.2.1 Reliance on Membership Fees

Despite the efficiency of the business model, Costco's primary source of revenue is membership fees, which can be considered a disadvantage as they depend on the customer's willingness to pay and may decrease during an economic crisis [7]. Suppose membership renewals are likely to decline if the recession period is extended or disposable income declines and membership renewals are a direct source of Costco's revenue [7].

4.2.2 Limited Product Portfolio

Costco's strategic choice of offering a limited number of products, most considered high-quality, may be seen as a disadvantage by some seeking one-stop shopping across a wide range of items [1]. Such a small range of products may not be able to meet the differentiated needs and desires of consumers in different market segments [1].

4.2.3 Geographical concentration

The bulk of the wholesale company's operations are recorded in the United States and Canada, while the international business of record is limited [2]. This concentration can limit a company's expansion and expose it to economic fluctuations or legal changes in these regions [2].

4.3. Opportunities

4.3.1 Expansion into emerging markets

Globalization, especially in developing countries with growing middle-class populations, including India, China, and Brazil, is how Costco can achieve growth [7]. These markets must be further developed into the company's proposed warehousing club model, as rising disposable incomes and demand for better-priced products are trending [7].

4.3.2 Multichannel and Digital Initiatives

This allows Costco to capture the more frequent online shopping trend and consider the best multichannel solutions: curbside pickup, home delivery, and a great e-commerce website [6]. Adopting digital/IT strategies and data analytics can improve customer satisfaction, optimize business processes, and expand the customer base [6].

4.4. Threats

4.4.1 Fierce competition from online retailers

The biggest threat to Costco is the growing online competition led by Amazon [7]. These players offer many products, affordable price levels, and location delivery solutions that, if not correctly managed, threaten to dilute Costco's selling proposition [7].

4.4.2 Recession and changes in consumer behavior

Due to its reliance on inventory and close correlation with the macro environment and consumer behavior, Costco's performance was heavily influenced by economic conditions [5]. Costco may feel the pressure of the current poor economic environment, recession, or changes in people's preferences, leading them to choose something cheaper [5]. This can lead to fewer people buying renewals and fewer buying the products that Costco is marketing [5].

4.5. Differentiation and Competitive Positioning

Costco's competitive advantage stems from providing differentiated value through a membership club and unmatched operating cost value [1]. Another factor that sets the company apart from other retail companies is the Omega model of store management, which ensures that, unlike most retailers, the company only deals with quality items, most of which are managed under private label brands [1]. The regular sale of various random goods, or "treasure hunts," allows customers to find exciting and unique things at very reasonable prices, which only adds to the company's positive aspects [3]. It helps to create anticipation for the next sale [3]. Through the membership model and focus on cost advantages, Costco has established a proper niche in the retail environment, thereby providing customers with some of the privileges that come with membership by creating the image of a club that appeals to cost-conscious consumers at a reasonable price [3].

5. Risk Assessment

5.1. Economic and Market Risks

Costco's performance is linked to the overall economic operation and the spending power of consumers. Unemployment, the high cost of living, reduced income-earning opportunities, and other factors of financial instability can potentially affect the public's confidence and purchasing power to purchase luxury goods such as fashion, accessories, electronics, and household goods [1]. This situation can seriously undermine the company's sales and profitability, as the goods sold by Costco, including those in the SWOT analysis, contain necessities and luxury goods. In addition, changes in the prices of imported goods, especially those used in food production and other inputs, can affect a company's ability to maintain low prices. If prices are raised to meet new costs, prices can erode their profit margins [2]. In addition, it also poses a threat due to its penetration into mature markets such as the United States, as well as competitive threats from traditional market competitors and online retail market players such as Amazon. As a result of increased competition, only costs can be reduced or focused on strategic clinical care functions, which can hurt operating margins or cash flow.

5.2. Operational and Supply Chain Risks

Costco's business model relies on an efficient supply chain, sourcing and distributing products to various warehouses to maintain its low-cost model. Specific factors affecting the supply chain include strikes, transportation congestion, delays or inability to use transportation such as trucks, hurricanes, and even earthquakes, which can lead to out-of-stock and additional costs, leading to lost sales [3]. The risk of supply disruption is well demonstrated when a company sources only a portion of its products from a few suppliers and relies on certain suppliers for specific goods, such as groceries and household products, is exceptionally high. Most critically, the company's brand, Kirkland Signature [4]. In addition, since most of Costco's stores are located in mega-building's, operational risks, such

as the cost of operating and maintaining real estate, can become operational risks determining the company's profitability.

5.3. Regulatory and Legal Risks

Costco is a global company located in more than one country; therefore, legislation covering industrial relations and standards, product problems and recalls, environmental matters, and consumer rights affects the company. If these regulations are invalidated or modified, and if the rules are not adhered to, severe consequences like fines, lawsuits, and tarnishing of the company's image, which in turn impacts its business and customers, may occur [5]. Also, companies are likely to encounter product complaints and defects, which may attract financial losses and damage the image of the business if it is not well controlled [6]. Other legal risks include violating and stealing intellectual property and the possibility of lawsuits resulting from employment policies and antitrust laws; Costco has the additional risk of class action lawsuits [6]. They may end up paying hefty damages, reasonable attorney fees, and all other related costs to the victims, thus affecting the proper running and growth of the company.

5.4. Technical and Cyber Security Risks

In the current world, one of the major outside dangers that Costco has to check is that it is always at a higher risk of experiencing either hacking or other cyber-criminal activities whereby funds, customer information, and financial and manufacturing systems can so easily be attacked. This may cause massive losses, hefty fines for legal matters, and erode the consumers' confidence, which proves fatal for the firm [7-10]. Based on the existing threats, Costco needs to spend considerable sums to develop sound IT security and data protection to the company's networks and customers' data. Furthermore, the ability to alter the strategy due to high levels of innovation or shifting customer preferences especially in online buying and use of mobile applications and technological advancement could either enhance the position and growth of the company or not. The absence of sufficient e-business efforts and digital strategies like e-tailing systems, mobile commerce, and omni-channel retail deters companies from maintaining a superior response to disruptive threats coming from innovative digital selling firms with synchronized online and offline selling propositions. Moreover, as the consumer base increases its demand for convenience and personalized products, Costco may require further investment to enhance analytic and data-driven tools, especially, as tools to analyze the customer behaviour and needs as well as products and promotions. Not capitalizing on these technologies appropriately is likely to dampen a firm's customer base not to mention a new customer generation in a completely different generation that is deemed to be more technological.

6. Conclusion

6.1. Conclusion

In conclusion, by implementing a value proposition model, operating efficiently, and maintaining absolute customer loyalty, Costco is strategically positioned as a strong competitor in the retail sector. The company has always enticed consumers to buy its products at unbeatable low prices, picked only the best quality items for its items, and provided shoppers with a superior shopping experience, cultivating loyalty and repeat purchases. Costco's financial position is excellent in revenue and healthy profitability, complemented by an excellent share price rise that has outpaced the overall market index, making Costco a good investment option for long-term investors. However, due to changes in customer behavior, technological developments, and increasing competition from traditional brick-and-mortar stores and virtual companies, the above findings should not be over-reprimanded, as the retail landscape is dynamic.

6.2. Recommendation

6.2.1 Investing in digital transformation

Digitalization is another area that companies need to address in the coming years. This involves effective e-commerce platforms, mobile apps, data analytic, and incorporating artificial intelligence to help improve consumer satisfaction and company management. The modern, functional online shop will allow Costco to expand its customer network beyond its large warehouses for the convenience of its customers. Mobile applications may have features such as digital loyalty cards, mobile payments, and geolocation promotions for geographically mobile customers. The extensive implementation of data analytic and artificial intelligence in business processing enables Costco to understand customer characteristics, trends, and consumer behaviors, provide them with recommendations, and adjust product offerings accordingly.

6.2.2 Expansion into emerging markets

This is an opportunity for Costco to expand into emerging markets with a growing middle class, such as India, China, and Brazil, where purchasing power continues to grow. There is also a demand for high-quality and affordable products. These regions have been identified as untapped markets that may drive the success of the company's warehousing club concept. However, this should be considered per local consumer preferences, culture, and food regulations.

6.2.3 Maintaining a focus on cost control and efficiency

Costco's competitive advantage can be attributed to its insistence on keeping costs low and passing these low-cost benefits to customers, effective supply chain management, and the growth and development of its branded products. Maintaining and updating supply chain management, the ability to purchase in bulk, the ability to demand better deals from suppliers, and the efficiency of distribution and warehousing will be required.

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