Competition with both quality and quantity – a case study

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ABSTRACT
As the worldwide economy experiences growth and globalization in marketing, the competition among the retail industry and related companies becomes more intensified with a new focus – looking for new market while improving operating efficiencies through those traditional performance measures like low cost and better quality. This paper presents a case study – how an international retail club company should compete in such a new international environment through their operational functions with some meaningful insights and managerial implications.

Keywords: Retail Industry, Operation Management, Competition in globalization
INTRODUCTION

Costco is a wholesale warehouse club based out of Issaquah, Washington. The firm has been in operation since 1976 with the first warehouse club opening in 1983 in Seattle. In the past thirty years the company has grown to operating 634 warehouses including 189 international locations. Costco offers its members a variety of products and services such as boxed grocery items, perishable grocery items, appliances, electronics, jewelry and tires along with several health care options including optometry and pharmacy. Costco has grown its market share tremendously through e-commerce, offering many of the same products and services sold at warehouse locations, along with additional products and services such as travel and photo printing. Such a wide array of high quality products and services truly defines Costco as a retailer servicing multiple market segments in urban and suburban geographic locations with extended segmentation through e-commerce.

Costco’s product strategy is simply to meet the various needs of current and potential customers at the lowest possible price, a strategy that requires high volume purchasing. Few vendors are able to compete in the same product categories, minimizing marketing costs and allowing the company to enforce a maximum product mark-up of 14% on any particular item. Substitutes for Costco products are easily and readily available. Costco has the strength and capability to be very selective with its product offerings, often eliminating popular brands from their product mix due to poor perceived wholesale pricing by the manufacturer. For example, Costco eliminated Coca-Cola products from its product offerings for a time because of what the organization felt were overpriced wholesale items. Customers not seeking high volume can simply go to a standard grocery store; however, those seeking lower unit costs who can accommodate higher volumes will likely not shop with direct competition, particularly due to membership with the firm.

Costco’s financial strength is currently unmatched in the warehouse club/wholesale market. While some direct competitors may have a greater number of warehouses throughout the US and worldwide, Costco has the highest sales volume overall, enjoying no less than 6% sales growth annually since 2009 including a 10% growth in 2011 alone. 2013 marked its largest expansion of warehouses with the opening of 28 new clubs, resulting in Costco's first year with over $100 billion in total sales. Because of this success, over $3.6 billion was returned to Costco shareholders, primarily in the form of dividends. Future plans include 30 additional warehouse club openings in 2014, approximately equally split between the US and throughout the rest of the world including Australia, Korea, and Mexico. Costco is able to support such aggressive expansion due to its strong capital position of over $4.6 billion after a 25% increase in 2013.

Major competitors of Costco include Sam’s Club and B.J.’s. As mentioned earlier, Costco currently enjoys higher sales volume and stronger financial strength than competitors. With the industry maturing it is difficult for these three to eliminate their competitors or steal market share from each other. Also, customers, whether they be individuals or businesses, may switch from one warehouse club membership to another with little time or effort, though geographic location often plays a major role in that decision. Product differentiation is also limited between major competitors; therefore, the rivalry is intense to both attract members from the competition and to attract new customers entering the warehouse club market. Due to the maturity of the industry and the strength of the major firms participating, entry into the industry
is very difficult. The capital required to enter the industry, combined with marketing and sales costs, create a prohibitively high upfront investment.

Suppliers have little bargaining power because of the strength of Costco and the limited product differentiation offered in their product categories. Costco can easily switch suppliers for a given product category, reducing suppliers’ strength in bargaining. One exception, as mentioned earlier, is any globally recognized brand with similar market strength and name recognition as Costco. Coca-Cola is a popular and familiar brand that was able to negotiate with Costco in 2009 over price disagreements. However, Costco eventually prevailed in bringing the global drink manufacturer down on its pricing which is further evidence of Costco's strength in the market. Throughout history, retailers tend to have the upper hand on suppliers due simply to the fact that supply typically exceeds demands, particularly in the grocery and wholesale markets.

Customers tend to have minimal bargaining power over Costco due to how small the individual customer, whether a person or a business, is to the bottom line of the firm. One customer does not have the strength to affect Costco’s strategy. It would take the voice or actions of numerous detractors to negatively affect the organization or its sales and balance sheet numbers. Also, alternatives are not always readily available for customers. Often Sam’s, B.J.’s, and Costco will not occupy the same geographic market, thus making the customer’s decision whether or not to shop at a wholesale club as opposed to deciding at which wholesale club to shop.

PRODUCTS

Though the logo on the website www.costco.com says “Costco Wholesale”, the company’s price strategy places it within both the retail and wholesale spaces. Large families and small businesses are best positioned to enjoy the benefits of high volume purchasing. The products run the gamut from finished goods for personal consumption, retail items to sell for resale, or raw materials to be further processed to meet the needs of different customers.

Costco's main competitors, Sam's Club and BJ's Wholesale, offer similar lines. Each is maneuvering within the same wholesale/retail space. All three have diversified their product lines over the past few years, offering car and home insurance, retirement plans, pharmaceuticals, travel packages and even mortgage and real estate services. The wholesale/retail market leverages low prices, limited selection of quality merchandise, volume purchasing and efficient distribution networks to compete. Costco has established itself as the 'absolute pricing authority', consistently undercutting all competitors.

PROCESS

Costco follows a high-volume, continuous flow process model. By offering a large variety of products, but a small selection, they have achieved a high level of standardization in their product line. Innovating its practices and process technologies has been vital to Costco as it maintains its competitive edge. Costco was the first to offer product boxes to customers and standardize pallet sizes to ease their movement throughout stores. Innovations such as these have since been adopted by every competitor. With so much uniformity in the industry, process technology represents an opportunity for Costco to distinguish itself from the field.

VERTICAL INTEGRATION

Costco is partially vertically integrated. Some of the products they sell are brand name and others are produced for them under the Kirkland private label. Kirkland only produces items
for Costco and Amazon, but the brand is not owned by Costco. Costco likely chose this option to maintain the quality of their less expensive store brand options without the investment of owning factories for many different product types. For most companies, vertical integration means making sure there is backward and forward integration in the supply chain – ensuring the products are made correctly, arrive at the right store and are delivered on time. Costco’s vendor relationships go beyond vendor management to business partnerships. Part of Costco’s mission statement declares the company will, “respect our vendors.” Costco hosts an annual Supplier Day where the CEO, founders, and key executives communicate merchandising successes from the previous year as well as expectations for the following year. This event reinforces to suppliers that they play a pivotal role in Costco’s strategy.

**DEMAND MANAGEMENT**

Costco manages demand for its products in several ways. First and foremost, Costco utilizes a vendor managed inventory system, or VMI, to keep track of its products. While this mainly falls into the realm of inventory and supply chain, VMI shifts much of the burden of managing demand from Costco to suppliers. This working relationship with vendors was all but unheard of 20 years ago, but through the sharing of detailed sales and throughput information, Costco’s suppliers are responsible for everything except the actual stocking of shelves. For example, Kimberly Clark supplies diapers and other products to Costco. Kimberly Clark representatives visit Costco locations in order to gauge the demand for products and react accordingly.

Costco also uses a talented and creative purchasing department to combat variable demand. Costco purchasing agents do not specialize in one type of item. Purchasers are expected to focus on a variety of items that may not even be closely related, thus allowing them to notice trends in demand that may translate from product to product. For example, if demand increases for outdoor grills, it’s likely that demand for burgers, condiments, packaged beverages, and tiki torches will rise as well.

Costco also uses the combination of inventory and membership strategy as a technique to manage demand. Selling only in bulk, promoting the warehouse environment, and offering relatively few products by default buffers any surge in demand. By the same token, requiring a membership limits the number of customers that can surge during peak or holiday shopping.

**CAPACITY**

The base appeal of Costco is its large capacity, not only in the high volume packaging of products to its customers, but in its order and inventory throughput. For a retail chain, capacity can be measured in inventory throughput which directly relates to sales. Costco is able to take advantage of economies of scale in order to buy products at reduced prices and pass savings along to customers through high sales volume. Similarly, by only offering a relatively small number of products in high volumes at a low price, customers are more apt to purchase more product than needed to take advantage of the “good deal.” For this reason, Costco enjoys a very high inventory turnover rate. Since a Costco facility cannot easily increase its capacity once a site is constructed, they regularly add more locations across target areas.

**COSTCO LOCATIONS**

Location determinations are based on gaining greater overall market share. Costco has 648 warehouses worldwide, with 461 in United States, 87 in Canada, 33 in Mexico, 25 in United Kingdom, 18 Japan locations, 10 Taiwan locations, 9 Korea locations and 5 Australia locations.
Number of warehouses

<table>
<thead>
<tr>
<th>Country</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States and Puerto Rico</td>
<td>451</td>
</tr>
<tr>
<td>Canada</td>
<td>85</td>
</tr>
<tr>
<td>Mexico</td>
<td>33</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>25</td>
</tr>
<tr>
<td>Japan</td>
<td>18</td>
</tr>
<tr>
<td>Taiwan</td>
<td>10</td>
</tr>
<tr>
<td>Korea</td>
<td>9</td>
</tr>
<tr>
<td>Australia</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td>634</td>
</tr>
</tbody>
</table>

Most Costco locations are determined with a thorough analysis of available market share. They currently operate in urban, suburban, and rural areas. In 2010, Costco began strategic expansion into urban shopping malls as struggling retailers abandoned anchor stores. This minimized the startup costs of new warehouses. Recently, domestic expansion has slowed in order to avoid cannibalizing revenue from other stores, and the new focus is outside US borders. Initial success internationally indicates that the “Costco formula” is not just for appropriate for American locations, where “bigger is better.” Costco expands internationally, not because of domestic weakness, but to capitalize on opportunities abroad.

**COSTCO INVENTORY**

Costco inventory aligns with cost leadership strategy. They generate high sales volume and very quick turnover via low prices of limited national brands and exclusive private label products (e.g. Kirkland Signature brand) in several product categories. Costco limits its product lines to 3,700 SKUs, which is significantly less than its competitors. Costco products are only offered in select sizes to increase the efficiency of inventory turnover (“intelligent loss of sales”) and reduce the handling costs of merchandise. Another inventory strategy is to create a treasure hunt shopping environment. This helps to elicit impulse buys and move inventory quickly. The objective here is to keep existing members and draw in new members with the inventory selection. Complacent or uninteresting inventory would risk membership numbers and the volume of sales Costco needs to be viable.

An efficient logistics system of cross-docking container shipments directly from manufacturers helps to lower handling costs thus increasing operating efficiency. Inventory Turnover (TTM) is 11.93, which is well above the industry average of 2.47. With high sales volume and rapid inventory turns, inventory is sold before vendor payment is due. This allows for a larger inventory percentage to be financed via vendor payment terms rather than working capital.

In 2013, Website sales represented 3% of total consolidated net sales. This increase has resulted in a decrease in the number of SKUs available. Costco also has supply chain diversification, meaning that the organization does not source a majority of its inventory with a single prime supplier.

**ORGANIZATION/WORK FORCE MANAGEMENT**

Former Costco CEO Jim Sinegal always wore a badge that said “Jim” like everyone else in the company. This approach exemplifies two of his corporate values and goals. The lack of job titles reflected a philosophy of respecting all employees equally, from the warehouse workers to top executives. The fact that he wanted employees and customers to be a on a first name basis
with him as he visited up to 12 warehouses a week reflected Costco’s family-style collegiality. The Costco family is quite large, with a global workforce of 185,207 full and part time employees. Their approach to treating employees is different from competitors. The retail industry typically has a high percentage of dissatisfied employees, but Costco is an exception to that rule.

Most striking is how well employees are treated. Costco’s average wages are $21/hour, almost double Walmart’s $13/hour. A generous benefits package for both full time and part time employees that includes insurance and a 401(k) plan with a healthy match accompanies the total compensation package. Even with high labor costs, Costco succeeds in remaining a low cost store with excellent stock performance. Their compensation strategy follows the concept of “you get what you pay for.” Paying employees more means that they attract higher quality workers who are more productive and loyal than if their job was replaceable with any other minimum wage retail option. Furthermore, well-paid, better-trained employees are positive ambassadors who eagerly help customers and promote the store.

Interestingly, Costco’s Careers website lists “Exciting opportunities, Personal and career growth, Friendly and supportive work environment, Stability, A workplace focused on ethics and obeying the law, and Great benefits” as reasons to pursue employment at Costco. It is clear that development, opportunities, and growth are essential components of workforce management. In terms of job design, this exemplifies a focus on job enrichment. Enrichment, or assigning new responsibilities or tasks to challenge employees to use and develop new skills, is a principle strategy at Costco. Enrichment comes through task significance, as every employee at every level is highly valued and respected. They also promote two-way communication and feedback between the staff and management. Task significance is high, as embodied by employees’ ability to make suggestions and changes based on contact with customers. Job enlargement, or simply adding to current duties, is less prevalent than job enrichment. Costco keeps its stores fully-staffed so employees are not overworked and customers can receive immediate, helpful service when needed.

There is some degree of specialization in day-to-day activities. Many employees work within a specific department: Administration, Bakery, Deli, Food Court, Cashier, Maintenance, Marketing, Membership, Meat, Merchandising, etc. However, enrichment can be realized long-term by adding variety to work activities, thus utilizing multiple skill sets to complete tasks. Costco management comments “This is a dynamic company. We could have someone who’s working in a nonfood-related area today, but tomorrow, he receives a promotion and is managing a foods area. Our food safety training and certification program enables employees to have the knowledge they need to successfully move into different departments during their career.” Furthermore, promotion is a reality - 70% of warehouse managers started at entry level. They cultivate talent in-house, and sponsor them through a graduate school instead of recruiting externally.

The retail industry typically has a motivation problem, but not Costco. High pay, respect, and opportunities for advancement combine to create a highly motivating work environment. “Costco is dedicated to recognizing and rewarding employees for their hard work and loyalty.” Costco is rewarded in return by loyal employees and a staggering low turnover rate of 5%. In 2013, Glassdoor rated Costco as the #1 retail company to work for. Current CEO Jelinek wrote a letter to Congress stating, “We know it’s a lot more profitable in the long term to minimize employee turnover and maximize employee productivity, commitment and loyalty.” Working with other satisfied employees contributes to this motivating culture.
All of this aligns with the Costco strategy. Employee satisfaction enhances customer satisfaction. Satisfied customers renew memberships at a rate of 90%, and memberships translate into profits within the Costco business model. Costco is committed to this philosophy that higher wages increase profit, as exemplified by the surprising tactic of raising wages during the 2009 recession. Leadership references the larger idea of corporate responsibility by stating that higher pay “puts more money back into the economy and creates a healthier country. It’s really that simple,” thus explaining these actions as part of their philosophy and corporate values.

**QUALITY**

Quality is a core principle of Costco’s mission to “continually provide our members with quality goods and services at the lowest possible prices.” Considering the eight dimensions of quality with respect to Costco’s operations provides a detailed framework that captures a complete picture of organization’s approach to quality as a competitive strategy.

**Performance** is a quality measurement of a product or service’s basic operating attributes. Costco’s core elements are operating a warehouse with the best possible prices on quality brand-name merchandise. Costco Warehouse as a service provider exceeds performance metrics on quality. They perform in their low-price assurance by adhering to the rule that name brand items can only be marked up by 14%. This is lower than other warehouse stores, and significantly less than the 25% mark ups in the grocery industry. Costco works to reduce prices through volume and efficiency, not by sacrificing quality. Costco products themselves, sold under the Kirkland Signature brand, are similarly high performance, and their buyers have a working rule that, “all Kirkland Signature Products must be equal to or better than the national brands, and must offer savings to members.” Quality also comes in their conscientious product design. Costco sheets offer a good example. They have nearly twice as many stitches per inch as industry standard and are made from Pima Cotton, a higher grade fabric. They have double folded hems, elastic all around the fitted sheet, are preshrunk, and have other features such as wrinkle-free, pill reducing, color balancing, and strengthening components. The sheets have no allowance for thread counts below designation in testing, and they even use a third party to verify the quality of these sheets. Costco prides themselves on this same commitment to all of its products to consistently offer quality merchandise and services to customers.

The “Features” dimension of quality are accessory, accompanying components that make products or services more impressive or special. The sheet example above exemplifies feature quality in Costco products. In terms of Costco services, features are represented by the numerous “Departments” available at a warehouse, all of which maintain Costco's high quality and low price standards. Bulk food might be the product that brings a shopper to the warehouse, but it is complemented with “fresh” bakery, produce, and meat departments, as well as beer, alcohol, and wine where available. Their $1.50 hot dog and soda combo is a reflection of low price and high quality. In addition, they have medical services including a professional optical department, pharmacy, and hearing aid centers. Other services include tire centers, gas stations, 1-hour photo labs, jewelry, and computer and electronics departments. The combination of all of these departmental features makes Costco a “one-stop shop,” which provides customers with a high quality overall shopping experience.

**Reliability** is the dependability of the product or service. Costco stores exhibit reliability with consistent hours. Costco stores are generally open Monday through Friday from 11:00am to 8:30pm, Saturday from 9:30am - 6:00pm and Sunday from 10:00am - 6:00pm with additional hours available for Business and Executive members. They are closed on Easter Sunday, Christmas Day, and New Year’s Day when inventory and stocking activities are completed.
Conformance, or consistency of the product or service, is similar to reliability. This dimension is expressed through the repeated design and layout of all Costco warehouses. This is their proven method that creates utmost economy and efficiency. Shoppers know that they can head to the “back left” of the store for the butcher shop, and that electronics will be near the entrance no matter which warehouse they choose to visit.

Durability refers to physical toughness and stability. Costco stores are designed with durability from start to finish. Products are stored on pallets directly in the warehouse. The extremely high volume of bulk products results in heavy loads, which require durable pallets. In 2011, Costco invested in block pallets which the suppliers then rent from the warehouse. An advantage of these block pallets is that they can be off-loaded by electric pallet jacks instead of the previous “pin-wheeling” needed with other types of pallets. In addition to holding more weight and increasing capacity for automation, durable pallets are critical to ensure customer safety as they are active participants in the warehouse. The warehouse design must be durable enough to avoid any damage or hazards as pallets are often bumped by customers’ large, heavy carts when making a tight turn into another aisle.

Serviceability is a dimension of quality that refers to the ability to repair and support the product. This dimension is represented by Costco’s 100% satisfaction guarantee on both products and services. On the product end, Costco allows members to return any product for a full refund if unsatisfied. Electronics have a 90-day return policy; TVs, projectors, and computers have a two year warranty. Costco also provides members with a Concierge Service, a free technical support line for electronics purchased at Costco. Confidence in service is backed up by Costco’s willingness to refund dissatisfied customers for their membership fees in full.

Aesthetics are the subjective characteristics of the senses such as appearance, sound, smell, and taste based on people’s preferences. The aesthetics of Costco reflect and enhance their mission. There are “no frills” in the design of the warehouse. Floors are cement and products are stacked high on pallets. Eliminating wasted money on shelving or store appearance visibly reinforces the idea that they run a tight operation however possible in order to pass savings on directly onto the customer. However, the stores pride themselves on cleanliness at all times. Employees are actively involved in this aspect of quality by maintaining clean workspaces and attending to concerns immediately. Cleanliness without frills gives the impression of high quality and low prices.

Perception of quality is another subjective element that refers to external influences like advertising or prior experiences. At Costco, the perception of quality is enhanced by giving the impression of exclusivity. Only Costco “members” are allowed the privilege of shopping at their stores. They primarily carry the high-end name brand products. For example, they stock only Heinz instead of Hunts ketchup to appeal to high end customers, whereas Sam’s club stocks the lower end products. They do not use standard advertising to influence perceptions of quality, but instead rely on word of mouth. Staff is heavily involved in the perception of quality. Because employees are well treated in salary and benefits, they often provide above average service to the customer, which translates into loyal customers who increase membership through word of mouth. Costco sometimes offers specials on “treasure hunt” items like Coach bags, expensive jewelry, and fine French wine to reinforce the perception and reality that even high-quality products can be sold at low prices, and those can be found at Costco.

**PRODUCTIVITY AND EFFICIENCY**

Costco, by all measures, is a highly efficient revenue producing company that sells merchandise at extremely competitive prices while still producing a positive operating margin.
Its financial performance relies heavily on the ability to control costs. Cost controls are maintained and improved by continuous productivity and efficiency improvements.

Costco manages productivity at both the total organization level and the warehouse store level. They measure productivity in methods similar to other companies. However, they strategically focus their productivity improvements in a few keys areas within their business model. Their overall strategy is to align resources with their core competencies, which are supply chain management, product management, volume buying, high inventory turnover, efficient operations, and excellent employee/customer relations.

In comparison to Walmart, Costco has:
- greater profit per employee
- greater sales per square foot
- lower % of labor costs and overhead per revenue
- lower % of employee turnover

As a specific productivity example, Costco is highly efficient in processing members through the check-out line. The company trains cashiers at the individual task level for the optimal performance. Tasks such as swiping the debit card before they start scanning, memorizing where the bar codes are located on the various products, sliding merchandise to the end of the checkout line, and processing checks through automated checking processing system are analyzed to determine best practices and to identify continuous improvement opportunities. This attention to detail helps keep labor costs low and customer satisfaction high.

**PRODUCT OFFERINGS (SKUS) AND PRODUCT MANAGEMENT**

A typical Costco warehouse currently offers less than 3,700 SKUs, as compared to over 140,000 SKUs at Walmart. They are able to offer a lower number of products because of the way the typical Costco customer shops. Customers are not using Costco to meet all of their grocery needs. They purchase targeted products at Costco and shop elsewhere for their other items. Walmart, on the other hand, is forced to meet the entire spectrum of customer needs.

The reduction of SKUs creates a more efficient business model by reducing the complexity of the supply chain, easing the tracking of merchandise, and allowing greater focus on product management. Business managers often underestimate the complexity of having multiple products. Costco’s goal is to continually “rationalize” their product set which leads to improved productivity.

In addition to the limited number of SKUs, Costco is continually reviewing the packaging of their products to ensure maximum efficiency. For example, they recently changed the shape of their milk cartons to eliminate the empty space at the top. The result was more gallons in the same amount of space on a freight truck. In Costco’s culture, no operational efficiency improvement is too small.

The product mix is always changing and high-end items such as designed bags are sometimes added as special events. There is also a focus on local markets and therefore the product mix varies by region and even store. Operations must be involved in changing out inventory, adding new high end items, adjusting for local product mix and ensuring the SKUs that are in the stores are available when customers need them.

**INVENTORY TURNOVER**

Costco’s business model is geared towards high sales volumes and rapid inventory turnover. This turnover combined with operational efficiencies associated with buying power,
efficient distribution, and reduced handling of merchandise allows for the company to operate successfully at significantly lower margins than competitors.

Costco buys their merchandise directly from manufacturers while normal store purchasing is done through distributors. This allows them control over purchasing and more importantly, drives down cost by limiting the time Costco handles merchandise. Large shipments of merchandise are primarily sent directly to a consolidation depot where the goal is to have products allocated directly to the warehouses within a 24-hour period.

Once the merchandise arrives at the warehouse, it is quickly transferred to the floor for customer sales. The net result is that often Costco sells merchandise before the corresponding invoice is due, thus driving early payment discounts. This provides suppliers with improved working capital, allowing them to finance the inventory purchasing.

ENTERPRISE FACILITY INFORMATION MANAGEMENT (EFIM) SYSTEM

Costco’s ERP system is called their Enterprise Facility Information Management System. Each warehouse store is connected to this system along with corporate headquarters. The EFIM system provides real-time information, management control systems, and inventory management. The EFIM system enables management to increase efficiencies in inventory turnover, energy consumption, facility maintenance, and contracted services.

COST MEASUREMENT

As with other companies, Costco uses a formal ERP system to consolidate their financial results for both Profit and Loss Statements and Balance Sheet Statements. In addition to the standard financial reporting, Costco separates their business operations by major product/service category. These categories are Sundries, Hardlines, Food, Softlines, Fresh Food, Ancillary, and Other. In addition to the product/service categories, Costco will measure performance based on individual warehouses. They capture new store sales versus existing and US versus Rest of World.

PRODUCT CATEGORY REVENUE GROWTH

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<tr>
<th>Category</th>
<th>2022</th>
<th>2021</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sundries (including candy, snack foods, tobacco, alcoholic and nonalcoholic beverages and cleaning and institutional supplies)</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Hardlines (including major appliances, electronics, health and beauty aids, hardware, office supplies, cameras, garden and patio, sporting goods, toys, seasonal items and automotive supplies)</td>
<td>16%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>Food (including dry and institutionally packaged foods)</td>
<td>21%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Softlines (including apparel, domestics, jewelry, housewares, media, home furnishings and small appliances)</td>
<td>11%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Fresh Food (including meat, bakery, deli and produce)</td>
<td>13%</td>
<td>13%</td>
<td>12%</td>
</tr>
<tr>
<td>Ancillary and Other (including gas stations, pharmacy, food court, optical, one-hour photo, hearing aid and travel)</td>
<td>17%</td>
<td>18%</td>
<td>18%</td>
</tr>
</tbody>
</table>
**CONCLUSION**

To review, Costco is an innovator in several aspects of the warehouse retailer market. Everything from the uncharacteristically low 14% mark-up policy to the above average treatment of employees is a testament to the company’s dedication to the mission - to bring customers the lowest prices on top quality goods. This mission propelled Costco to the top of the industry, resulting in more than 400 domestic locations and 600 worldwide. The membership nature of Costco allows for a better understanding of the target demographic facilitating tailored goods directly for their customers. Finally, Costco has remained a leader in the industry by strictly controlling product quality, product mix, and selling price markup. The result: a company with a happy, stable workforce that continues to please customers, grow internationally and domestically, and increase in value year after year.
WORKS CITED


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