



COSTCO

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Yes, my wife and I are COSTCO members along with almost everybody else I know. I go to COSTCO a lot! We do our monthly bulk shopping and get our prescriptions at COSTCO in Waipio. There are only two stores in Mililani that I go to more often than COSTCO – Times Supermarket where we get our vegetables and Long’s Drug store there we buy our odds and ends. There is only one store that we spend more money than COSTCO and that is Don Quijote in Waipahu since that is the store where we special order the Beef Shanks for our two Rottweiler dogs.

COSTCO is a very popular in Hawaii. The picture at the top could be taken on any given Saturday morning just before opening time. I will describe a typical visit to COSTCO and the general layout of the store. The parking lot at COSTCO is very large but it is laid out all around the entrance area so that there are no bad parking stalls. I drive a Toyota Tacoma pickup that is a pretty large vehicle but I have plenty of room in the COSTCO parking stalls. The stalls are big enough to push your shopping cart between the vehicles on both sides. The parking stalls are a great feature for COSTCO members.



As you get near the front of COSTCO, you will see the outdoor Food Court. Anybody can buy food there and the food is good and very cheap. The Food Court is crowded most of the time.



Sometimes, if the Food Court is not too busy, I will either buy a Hot Dog or a large piece of Pepperoni Pizza to take home to eat.

To the right of the Food Court is the Tire Store and tire installation areas.

In the far corner of the parking lot is the COSTCO Service Station. Members save 5 to 13 cents a gallon by getting their gas here.



It is time to get my membership card out, grab a shopping cart and enter the warehouse. The first things you see on your right are the large screen televisions, computers, cell phones and other electronic stuff.



You will also pass several Jewelry Show Cases. COSTCO is one of those unique stores where you can buy a \$1.50 Hot Dog and a \$47,000 Wedding Ring. Other non-alcoholic “treasure“ purchases in the past have included wedding dresses and a \$1 million engagement ring.



All COSTCO Warehouses are setup in a similar way. There are three main sections with two wide aisles separating them.

The right section has the electronic stuff, general merchandise like mattresses, office and home appliances, batteries, pet supplies, etc. Next is the liquor, wine and beer. They have many bargains on beer especially if you enjoy drinking a lot of it. Then we have the pies and other bakery items. At the far back of the right section is the Meat Department. My wife likes the meat at COSTCO better than the local grocery stores.



Let's look at the Center Section. In the front right behind the checkout registers are the goodies (candy, nuts, chips, etc.). Then there is a book section followed by the toys, clothes and furniture. Towards the back of the middle section is the local fish, fruit, and vegetable areas. COSTCO has a big "Cold" room for most of their vegetables. This room is freezing cold – a lot of people go in there to just cool off.





On the left front side of COSTCO is the Pharmacy Department along with a large selection of vitamins, aspirin, and other health items. I go there a lot!



Then there are several rows of canned food, bread, coffee, juice, etc. The soda is stacked against the far wall. Next there are three very large refrigerators and freezers that contain things that need to stay cold like butter, bacon, cold cuts, bags of chicken, frozen vegetables, and ice cream. Towards the back, there is the water, milk, eggs, paper plates, dish soap, and detergents.

In the very back of this gigantic warehouse sits the toilet paper. In an emergency (like a hurricane), what do people need the most? You guessed it – water and toilet paper! The people who setup the COSTCO business model knew what they were doing.



COSTCO is one of the few stores where you get free samples. On weekends, there are usually about a dozen tables setup though out the warehouse giving customers free samples of food and drink. Some members go to COSTCO just to get a free meal.



After you pick up your prescriptions and get your toilet paper etc., you must go back to the front of the warehouse and pay for them at one of the many checkout registers.



On the way out of the warehouse you will pass the Optical Center, the ice freezers, and the Membership Desk.



Okay, now that we have taken our little shopping trip to the COSTCO Warehouse, it is time for some history, some statistics, and some fun facts.

History

Costco Wholesale Corporation is an American membership-only warehouse club that provides a wide selection of merchandise. It is currently the largest membership-only warehouse club in the United States and as of 2015, the second largest retailer in the world (after Walmart).

Costco's worldwide headquarters are in Issaquah, Washington. The company opened its first warehouse in 1983 in Seattle. Through mergers, Costco's overall corporate history dates back to 1976, when its former competitor Price Club was founded in San Diego, California.

As of 1 July 2016, Costco had a total of 705 warehouses, spread throughout the United States (493), Canada (90), Mexico (36), United Kingdom (27), Japan (25), South Korea (12), Taiwan (12), Australia (8), and Spain (2).

The 493 Costco warehouses in the U.S. are found in 44 states and the District of Columbia. Costco stores are almost everywhere throughout the United States. The state with the most warehouses is California with 121. It has a commanding lead over Costco's home state of Washington which has the second most with 30. Arkansas, Maine, Mississippi, Rhode Island, West Virginia, and Wyoming do not have a Costco store. Hawaii has seven (7) COSTCOs: Four on Oahu (Iwili-Honolulu, Hawaii Kai, Kapolei, and Waipio), one on Maui in Kahului, one on Kauai in Lihue, and one on the Big Island in Kailua-Kona. There are eleven (11) Costco warehouses in Utah.

- The Busiest Costco in the World is Costco Iwili (Honolulu), Hawaii.

In the United States, Costco's main competitors operating membership warehouses are Sam's Club and BJ's Wholesale Club. Costco employs about 174,000 full and part-time employees. In 2016, Costco had more than 85 million members.

Costco was the first company to grow from zero to \$3 billion in sales in under six years. For the fiscal year ending on August 31, 2015, the company's sales totaled \$116.2 billion, with \$2.3 billion net profit. Costco is 18th on the 2015 Fortune 500 list.

Sales Model

Costco focuses on selling products at low prices, often at very high volume. These goods are usually bulk-packaged and marketed primarily to large families and

businesses. Furthermore, Costco does not carry multiple brands or varieties where the item is essentially the same except when it has a house brand to sell, generally by the Kirkland Signature label. This results in a high volume of sales from a vendor, allowing further reductions in price, and reducing marketing costs. If Costco management feels the wholesale price of a product is too high, they will refuse to stock the product.

A typical Costco warehouse store stocks only 4,000 types of products (in contrast, the average supermarket sells 40,000 types of products. Wal-Mart stores, on the other hand, stock about 125,000 types of products). Want ketchup? There's only one selection - you don't get to (or have to) make a choice from a variety, which is a clever strategy to combat choice paralysis. You either take it or you don't take it.

Costco also saves money by not stocking extra bags or packing materials; to carry out their goods, customers must bring their own bags or use the merchandise shipping boxes from the company's outside vendors.

Lighting costs are reduced on sunny days, as most Costco locations have several skylights. During the day, electronic light meters measure how much light is coming in the skylights and turn off an appropriate percentage of the interior lights. During an average sunny day, it is very normal for the center section of the warehouse not to have interior lights in use.

Most products are delivered to the warehouse on shipping pallets and these pallets are used to display products for sale on the warehouse floor. This contrasts with retail stores that break down pallets and stock individual products on shelves. Costco limits its price markup on items to 15%; most products have an 8% to 10% markup, while the Kirkland Signature brand products have a 15% markup.

Membership

Costco's membership comprises a large, loyal, and affluent constituency, with an average annual household income of \$156,000 a year. Costco stores are only open to members and their guests. While Costco welcomes guests to accompany members, only members are authorized to pay for items. Memberships purchases are paid in advance for one year.

As of May 2015, membership fees at Costco are \$55 per year for a Gold Star (individual) or Business membership. The Executive membership costs \$100 per year. All memberships include, free of charge, an additional card for a household member, an option to buy more cards for other members associated with the primary account

holder, and additional benefits for Executive memberships, e.g., check printing services, home loans, some travel benefits, and vehicle insurance. Executive card members also receive an annual "2% Rewards Check" of up to \$750 from Costco on all purchases made, excluding select items such as gasoline, stamps, tobacco, and alcohol.

We have the Executive membership and we buy enough stuff to receive a check back for about \$70 a year – This means our yearly membership dues are only about \$30.

Labor Relations

The majority of Costco stores are not unionized and employees must sign the Costco Employee Agreement which sets forth such things as benefits, compensations, wages, disciplinary procedures, paid holidays, bonuses, and seniority. The Employee Agreement is subject to change by Costco at any time and offers no absolute protection to the workers.

Currently, on average, Costco pays its non-supervisory workers about \$21.00 an hour (in contrast to Wal-Mart which pays its full-time employees an average of \$13.38). Costco's highest paid workers make around \$22.50 an hour. Eighty-five percent of Costco's workers have health insurance, compared with less than fifty percent at Walmart and Target.

Costco makes an attempt to hire managerial and higher-level positions from within the company. Some people who started working on the floor have even been subsidized by the company to get their graduate degrees. In an aim to keep a consistent employee culture - Costco doesn't hire business school graduates.

As a result of these benefits, employees rarely leave. The turnover rate of employees who have been there over a year is only 5%. Turnover rate of Costco executives is even lower at 1%. That way, the company saves quite a bit in not having to train new employees and its rate of theft by employee is extremely low.

A Few More COSTCO Facts

- The famous Costco hot dog and soda combo is the same low price (\$1.50) it was in 1985. Last year (2015) Costco sold 69 million hot dogs.
- Last year Costco sold approximately 1.6 billion gallons of gas.
- During the holiday season Costco sold more than 1 million whole turkeys.
- During the week of Thanksgiving last year, Costco sold more than 1.5 million pies, including more than 1 million pumpkin pies.

- **Costco sells more than 70,000 Rotisserie chickens a day for \$5 each. Costco does not make any money on these but sure get a lot of people in the store who will probably buy other things.**
- **Costco sells over 100 million pounds of fresh ground beef every year.**

- **Costco is the 14th largest pizza chain in the country. While most chains sell pizza by the pie, Costco offers both full pies for \$9.99 and large slices for \$1.99.**



- **Costco buys about half of the world's supply of cashews. They sell about \$300,000 worth of them every week. People sure love cashews.**



- **Costco in Lancaster, Pennsylvania, has designated horse and buggy parking for the Amish.**



- **Kirkland Signature Brand is named after the city of Kirkland, Washington, which was the location of Costco's original corporate headquarters.**
- **Costco stopped carrying Apple products in 2010, after only being allowed to sell the iPod in stores and being barred from selling any Apple products online. An ongoing animosity still seems to exist between the companies**

- Starbucks once failed to pass along savings to Costco after a price cut in coffee beans, which led the warehouse to threaten to pull all of their coffee products from their stores. Starbucks chairman Howard Schultz reportedly called Costco owner Jim Sinegal and asked, “Who do you think you are? The price police?” Sinegal answered, “yes.”
- Surprisingly, Costco is a wine lover’s paradise... They employ lead wine buyer Annette Alvarez-Peters, who is considered one of the most powerful wine buyers in the world to oversees the retailer’s massive wine business. According to a recent report by CNBC, “Costco is the world’s largest importer of high-end French wines.”
- Costco members also get discounts on large items like cars, boats, and caskets.
- Costco provides free tech support for all electronics purchased in the store.
- Costco is growing faster than the competition because its customers are happier. They had an 8% sales gain for fiscal year 2015. In contrast, Wal-Mart's Sam's Club posted 2% growth and Target managed just a 4% gain.
- 91% of all Costco members renew their membership every year. The other 9% probably lost their jobs and have no money or they died.

Okay, all this stuff is great but I like COSTCO because of the extra-large parking stalls!

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