



Costco

Bill Lovejoy/Sentinel

Painters touch up Costco's warehouse near Harvey West Park on Wednesday morning.

## Local competition sizes up 'big box'

By GUY LASNIER  
Sentinel business editor

SANTA CRUZ — Less than half a mile from Costco's rising store, Hillard Rose is marking down prices.

Rose, owner of Farmers Exchange for 10 years, is the purveyor of an eclectic assortment of kitchen supplies and furniture.

"Perception is everything," Rose said Tuesday as he described his strategy to compete with the "big box" store adjoining Harvey West Park. Costco is scheduled to open next month.

"In Santa Cruz, people are really going out for price," said Rose, a longtime radio talk-show host in San Francisco and Los Angeles who moved here in 1984.

Customers perceived Farmers Exchange as high-priced, he said. When the store slashed prices 20 percent for its 20th anniversary last May, sales more than dou-

bled. That was an "eye opener," he said.

Down the block, Larry Johnson is counting on service to keep customers at Lloyd's Tire Service, the 55-year-old business founded by his grandfather.

"We do things real quick, real efficient and we're a lot more knowledgeable in tire applications," Johnson said.

Costco has a reputation for unbeatable prices on tires, particularly the popular Michelin brand. When Jeff Brotman, then chairman of Costco Wholesale Corp., visited Santa Cruz, he suggested anyone selling Michelins would have trouble.

Jack Knoll at Wilson's Tire Service on Soquel Avenue calls that a myth. He has had customers drive to Seaside to buy Dunlop tires at Costco and bring

*Please see COSTCO — BACK PAGE*



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*Continued from Page A1*

them to Wilson's for mounting. Prices are often the same or more, he said.

Knoll expects some trouble but is counting on longtime customers. "Loyalty has to be number one," he said.

Johnson at Lloyd's doesn't seem worried. "Our prices are pretty competitive," he said.

The store has spent money on remodeling and advertising and will offer a road-hazard package.

"It's in response to Costco but also is something we've been thinking about for a couple of years," Johnson said.

"We're kind of lucky. We haven't had to deal with things like this," he added. "In San Jose, they have it everywhere."

Santa Clara County has several Costcos. One opened in December 1992 in Mountain View, a city of 63,000.

Nadine Levin, Mountain View assistant city manager, who worked on the project, said the store has not sparked complaints from other merchants. And, she said, the store has lived up to its promise to hire "underemployed" people in the community.

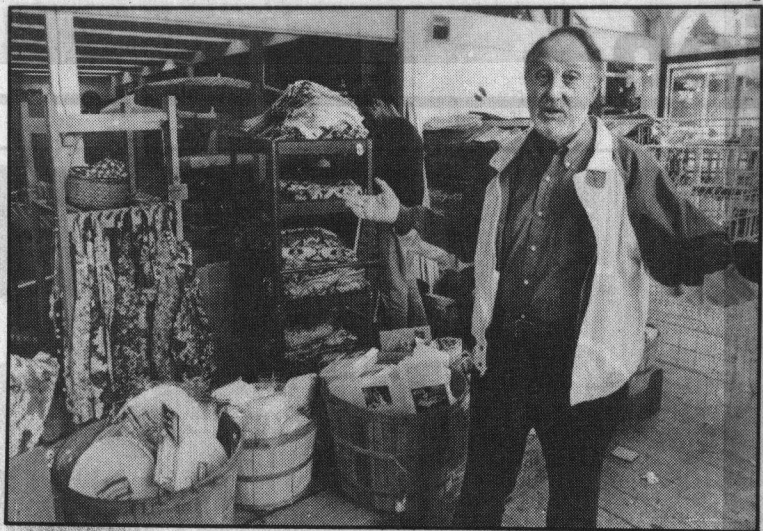
The Costco is not near downtown, said Levin.

Ken Alsman, a Mountain View city planner, said the store has kept in town shoppers who were driving to big box stores elsewhere. Local merchants use Costco as a source of supplies, he added.

Fort Bragg-based retail consultant Kent Burnes tells small business people they have to create "specialness" to compete with giant retailers.

Burnes has created a specialty in advising merchants who must contend with Costcos, Wal-Marts and Home Depots. His seminars in Santa Cruz and Watsonville in May were widely attended.

At Lloyd's, the "specialness" is



Dan Coyro/Sentinel

Hillard Rose said the response to reducing prices at Farmers Exchange was an "eye opener."

the product line, Johnson said. The store carries 300 sizes and types of tires. Costco will specialize in the most popular styles and sizes.

Farmers Exchange, with its decor and selection, has a uniqueness that Costco cannot match. Rose hopes he can leverage that with price to boost sales.

"We're going to have to meet their price even if we lose money," he said.

Rose said he has negotiated price breaks with suppliers and will refund price differences to customers who find an item elsewhere for less.

Another strategy is a discount store called FX within his main store.

"We believe volume will make the difference," Rose said.

Costco carries about 10 percent of the 20,000 items Farmers Exchange stocks, Rose said.

Outdoor World carries about 15 or 20 of the sleeping bags, tents, propane and camp stoves featured at Costco. Owner Bob Thomas, who with Knoll of Wilson's mounted a challenge to Costco last October, will not try to compete on those items. Thomas said he lowered prices a year

ago to compete with stores in San Jose.

His opposition to Costco had to do with the company's habit of asking for sales tax rebates, he said. Costco received none from the city.

Bookshop Santa Cruz, which soon will face a Barnes & Noble around the corner as part of a theater complex, is hoping to maintain customer loyalty with its Readers Club. Customers will get an account number to give clerks with each sale. When the 20th item is purchased, the computerized register will print a coupon worth 5 percent of the 20 items.

"It's our way of saying thank you for helping us stay in business," said the Bookshop's Kelsey Ramage.

Rose thinks Costco can be an opportunity for retailers and the city if it draws customers to Santa Cruz. He'd like to see banners to direct Costco customers to River Street and downtown retailers.

"They're surrounding us," said Rose. "Why fight it?"

*Staff members Robin Musitelli and Jondi Gumz contributed to this report.*