

Costco

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Company Notes: The Costco Merger and its 90s Selling Strategy

by Joel Moreno

The merger last October between the Kirkland, Washington-based Costco and the San Diego-run Price Club was described as a "nice fit" by Costco's Vice President of Operations John Booth.

"Together we have a synergy that puts us in a very good position in the marketplace," Booth said.

The merger could move the company past the looming giant of U.S. retailing, Wal-Mart. The combined company, PriceCostco, has stores throughout the United States and Canada.

The company's strategy has been to offer a wide range of high quality, nationally branded merchandise at prices consistently lower than those of traditional wholesalers.

According to a Standard and Poor's Research Report, Costco operates effectively at low gross margins through a number of

strategies. Rapid inventory turnover, reduced working capital requirements, direct purchasing and low cost warehouse operations (warehouses have standardized floor plans and are located in areas with relatively low property costs) all combine for Costco to survive off of very thin sales margins.

The Santa Cruz Costco sits on a 10.6 acre lot in Harvey West business park at Harvey West Boulevard and Sylvania Avenue. The 121,000 square foot warehouse initially brought 130 jobs to local residents.

The wholesale club industry has shown signs of maturation since its heyday in the late 1980s and early 90s, which gave way to a number of consolidations prior to the PriceCostco merger. The sudden growth experienced by Costco at the beginning of the decade definitely showed it was on the wane by 1993, when the company reported flat same-store sales equivalent to its 1992 period.

"I think there is some saturation in existing marketplaces. I really believe there are still many

sites available and markets which haven't been tapped yet," Booth said.

Costco has retaliated against supermarkets and mass merchandisers like K-Mart, which are beginning to copy warehouse tactics, by experimenting with new products and services.

"[K-Mart] has a completely different focus," Booth said. "They don't sell for resale. They offer a wide selection of goods, where we try to have the best item in any particular category and at the best value."

Costco was the first of the box industries to have fresh foods, with meat selections, a bakery and produce. The company also brought smaller businesses into its stores for more all-around appeal, like one-hour photo development, optical and hearing aid departments, and electronic shopping. And Costco's local manager David Aue said the stores occasionally bring in "road shows" with high end merchandise like name brand bicycles, statues and art work, and other goods to create excitement and maintain market edge. □