

\$16 billion in annual sales. Jeff Brotman, who had functioned as Costco's chairman since the company's founding, became vice chairman of PriceCostco in 1993 and was elevated to chairman in December 1994. In January 1997, after the spin-off of most of its nonwarehouse assets to Price Enterprises Inc., PriceCostco changed its name to Costco Companies Inc. When the company reincorporated from Delaware to Washington in August 1999, the name was changed to Costco Wholesale Corporation. The company's headquarters was in Issaquah, Washington, not far from Seattle.

Like Costco, Walmart proceeded to grow its Sam's Club operation at a rapid pace. In 1994, 11 years after opening its first three stores, Walmart had 419 Sam's Club operations open in 48 states, with total sales in fiscal 1993 exceeding \$12.3 billion and average sales per store of just over \$48 million. Expansion in the following years slowed somewhat. By 2000, Walmart was operating 463 Sam's Clubs warehouses in the United States and 49 warehouses in five countries outside the United States; the domestic Sam's Clubs had total revenues of \$24.8 billion (equal to average annual revenues of \$53.6 million per store) and total operating income of \$759 million (about \$1.6 million per domestic store). But store growth and sales at Sam's Club had slowed since 2007, and Costco was extending its leadership position in the industry, especially in foreign markets, where it had more store locations than Sam's Club did (153 versus 121 in early 2010) and plans for additional stores.

BJ's Wholesale Club introduced the warehouse club concept to New England in 1984, one year after Costco and Sam's Club opened their first warehouses. BJ's grew modestly over the next 25 years, gradually expanding its operations to include 187 store locations in 15 states on the East Coast, from Maine to Florida. In 1997, BJ's became an independent, publicly owned Delaware corporation when Waban Inc., BJ's parent company at the time, distributed shares in BJ's Wholesale to all of Waban's stockholders; prior to then, BJ's operated as a division of Waban. BJ's was headquartered in Natick, Massachusetts, on the western outskirts of Boston.

Exhibit 1 presents comparative 2009 data for the three leading warehouse club competitors in North America.

COSTCO WHOLESALE

Costco was the third-largest retailer in the United States and the eighth-largest in the world. As of March 2010, Costco operated 567 warehouses, including 414 in the United States and Puerto Rico, 77 in Canada, 32 in Mexico (via a 50 percent–owned joint venture), 21 in the United Kingdom, 9 in Japan, 7 in Korea, 6 in Taiwan, and 1 in Australia. Plans called for opening four to six additional stores prior to the end of Costco's 2010 fiscal year in August. Costco warehouses averaged just over 1.4 million transactions per day. More than 50 of Costco's warehouses generated sales exceeding \$200 million annually, and 2 had sales exceeding \$300 million. The company's most profitable store was in Korea, and its second most profitable store was in Taiwan. Sales per store averaged \$131 million annually. Some 5.7 million businesses and 31.1 million households had Costco memberships. The membership renewal rate in the United States and Canada was about 87 percent. Exhibit 2 shows Costco's key financial and operating statistics for fiscal years 2000–2009.

Costco's Strategy

Costco's strategy was aimed squarely at selling top-quality merchandise at prices consistently below what other wholesalers or retailers charged. The company stocked only those items that could be priced at bargain levels and thereby provide members with significant cost savings—Costco even refrained from stocking items frequently requested by customers unless it could price them low enough to remain true to its commitment of saving its members money. The philosophy was to keep members coming in to shop by wowing them with low prices and thereby generating big sales volumes. Examples of Costco's 2009 sales volume in particular product categories included meat sales of \$3.7 billion, seafood sales of \$708 million, television sales of \$2.2 billion, and fresh produce sales of \$3.1 billion (sourced from 41 countries); amounts sold included 79,600 carats of diamonds, 47.7 million rotisserie chickens, 2.1 billion gallons of gasoline, 7.3 million tires, 30.4 million prescriptions, 3 million pairs of glasses, and 91 million \$1.50 hot dog/soda combinations. Costco was the world's largest seller of fine wines (\$597 million out of total 2009 wine sales of \$1.1 billion).¹