

washers and dryers, ballpoint pens, vitamins, office products, restaurant supplies, gasoline, one-hour photo finishing—the selection within each product category was restricted, in some cases to a single offering. The approximate percentage of Costco's net sales accounted for by each major category of items is shown in Exhibit 3.

The selections of appliances, equipment, and tools often included commercial and professional models because many of Costco's members were small businesses. Many consumable products like detergents, canned goods, office supplies, and soft drinks were sold only in case, carton, big-container, or multipack quantities. For example, Costco stocked only a 325-count bottle of Advil—a size many shoppers might find too large for their needs; Sinegal explained the reason behind the company's narrow selection strategy:

If you had ten customers come in to buy Advil, how many are not going to buy any because you just have one size? Maybe one or two. We refer to that as the intelligent loss of sales. We are prepared to give up that one customer. But if we had four or five sizes of Advil, as most grocery stores do, it would make our business more difficult to manage. Our business can only succeed if we are efficient. You can't go on selling at these margins if you are not.⁷

Management believed that its limited selection strategy contributed significantly to lower purchasing, shipping, and in-store handling and merchandising costs.

As a means of giving members reasons to shop at Costco more frequently and make Costco more of a one-stop shopping destination, the company had opened ancillary departments within or next to most Costco warehouses, as shown in the following table:

	2009	2008	2007
Total number of warehouses	527	512	481
Warehouses having stores with			
Food court and hot dog stands	521	506	481
One-hour photo centers	518	504	481
Optical dispensing centers	509	496	481
Pharmacies	464	451	481
Gas stations	323	307	277
Hearing aid centers	303	274	277
Print shops and copy centers	10	8	8

Treasure Hunt Merchandising

Costco's merchandise buyers were constantly on the lookout to make one-time purchases of items that would appeal to the company's clientele and that would sell out quickly. A sizable number of these items were high-end or name-brand products that carried big price tags—like \$800 espresso machines, expensive jewelry and diamond rings (priced from \$50,000 to \$250,000), Movado watches, exotic cheeses, Coach bags, \$5,000 necklaces, cashmere sport coats, \$1,500 digital pianos.

Exhibit 3 Costco's Sales by Major Product Category, 2003–2009

	2009	2008	2007	2005	2003
Food (fresh produce, meats and fish, bakery and deli products, and dry and institutionally packaged foods)	33%	32%	31%	30%	30%
Sundries (candy, snack foods, tobacco, alcoholic and nonalcoholic beverages, and cleaning and institutional supplies)	23	22	23	25	25
Hardlines (major appliances, electronics, health and beauty aids, hardware, office supplies, garden and patio, sporting goods, furniture, cameras, and automotive supplies)	19	19	21	20	20
Softlines (including apparel, domestics, jewelry, housewares, books, movie DVDs, video games, music, home furnishings, and small appliances)	10	10	11	12	14
Ancillary and other (gasoline, pharmacy, food court, optical, one-hour photo, hearing aids, and travel)	15	17	14	13	11

Source: Costco, 10-K reports, 2005, 2007, and 2009.