

and Dom Perignon champagne. Dozens of featured specials came and went quickly, sometimes in several days or a week—like Italian-made bar-towel shirts priced at \$29.99 and \$800 leather sectional sofas. The strategy was to entice shoppers to spend more than they might by offering irresistible deals on big-ticket items or name-brand specials and, further, to keep the mix of featured and treasure-hunt items constantly changing so that bargain-hunting shoppers would go to Costco more frequently than for periodic “stock-up” trips.

Costco members quickly learned that they needed to go ahead and buy treasure-hunt specials that interested them, because the items would very likely not be available on their next shopping trip. In many cases, Costco did not obtain luxury offerings directly from high-end manufacturers like Calvin Klein or Waterford (which were unlikely to want their merchandise marketed at deep discounts at places like Costco). Rather, Costco’s buyers searched for opportunities to source such items legally on the gray market from other wholesalers or distressed retailers looking to get rid of excess or slow-selling inventory.

Marketing and Advertising Costco’s low prices and its reputation for making shopping at Costco something of a treasure hunt made it unnecessary to engage in extensive advertising or sales campaigns. Marketing and promotional activities were generally limited to regular direct mail programs aimed at existing members, special campaigns for new warehouse openings, and occasional direct mail marketing to help recruit prospective new members. The company’s primary direct mail program for members was the Costco Connection, a multipage mailout that contained a host of savings coupons for featured specials over upcoming weeks. For new warehouse openings, marketing teams personally contacted businesses in the area that were potential wholesale members; these contacts were supplemented with direct mailings during the period immediately prior to opening. In addition to using direct mail to recruit more individual members, the company also strove to attract members by working with local employee groups and businesses with large numbers of employees. After a membership base was established in an area, most new memberships came from word of mouth (existing members telling friends and acquaintances about

their shopping experiences at Costco), follow-up messages distributed through regular payroll or other organizational communications to employee groups, and ongoing direct solicitations to prospective business and individual members. Management believed that its emphasis on direct mail advertising kept its marketing expenses low relative to those at typical retailers, discounters, and supermarkets.

Low-Cost Emphasis Keeping operating costs to a bare minimum was a key element of Costco’s strategy and a key to its low pricing; Jim Sinegal explained:

Costco is able to offer lower prices and better values by eliminating virtually all the frills and costs historically associated with conventional wholesalers and retailers, including salespeople, fancy buildings, delivery, billing, and accounts receivable. We run a tight operation with extremely low overhead, which enables us to pass on dramatic savings to our members.⁸

While Costco management made a point of locating warehouses on high-traffic routes in or near upscale suburbs that were easily accessible by small businesses and residents with above-average incomes, it avoided prime real estate sites in order to contain land costs.

Because shoppers were attracted principally by Costco’s low prices and merchandise selection, most warehouses were of a metal preengineered design, with concrete floors and minimal interior decor. Floor plans were designed for economy and efficiency in use of selling space, the handling of merchandise, and the control of inventory. Merchandise was generally stored on racks above the sales floor and displayed on pallets containing large quantities of each item, thereby reducing labor required for handling and stocking. In-store signage was done mostly on laser printers; there were no shopping bags at the checkout counter—merchandise was put directly into the shopping cart or sometimes loaded into empty boxes. Costco warehouses ranged in size from 70,000 to 205,000 square feet; the average size was 141,000 square feet. Newer units were usually in the range of 150,000 to 205,000 square feet. Scenes of Costco’s warehouses are shown in Exhibit 4.

Warehouses generally operated on a 7-day, 69-hour week, typically being open between