

THE RESILIENCE OF COSTCO

INTRODUCTION

**Costco is the second-largest
retailer in the world.**

Annual Sales

WalMart	\$486b
Costco	\$129b
Walgreens	\$118b
Kroger	\$115b
Amazon	\$112b

But the outlook for retail is grim.

Bad News, Brick-and-Mortar Stores: The Internet Finally Has You Beat

More consumers will shop online this holiday season, but why now?

Retail Apocalypse: 23 big retailers closing stores

Bankruptcies and Amazon Impact on Retail Hiring

10 Major Retailers Closing Stores in 2018

Retail: The Bad News Keeps Coming

America's malls are rotting away

A tsunami of store closings is about to hit the US – and it's expected to eclipse the retail carnage of 2017

Retail-property sales fall with sector's struggles

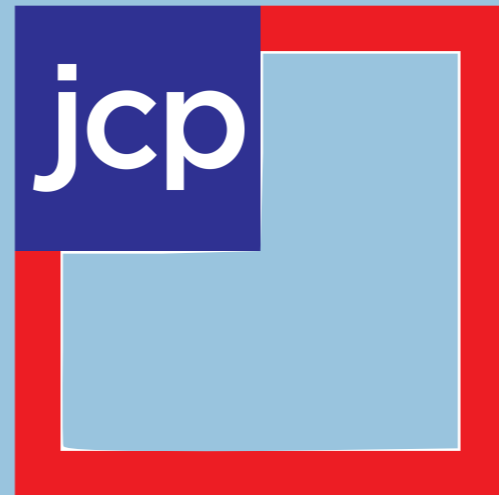
Inside the Decline of Sears, the Amazon of the
20th Century

Under-the-radar store closures
are leaving big gaps and
putting more malls at risk

As retailers herald tax savings, they're still closing stores
and laying off workers

Stores are closing.

hhgregg
appliances & electronics



GameStop
power to the players™

K
kmartSM


Payless
SHOESOURCE[®]

TOYS R US

American Apparel[®]



 **RadioShack**[®]

SEARS

THE LIMITED

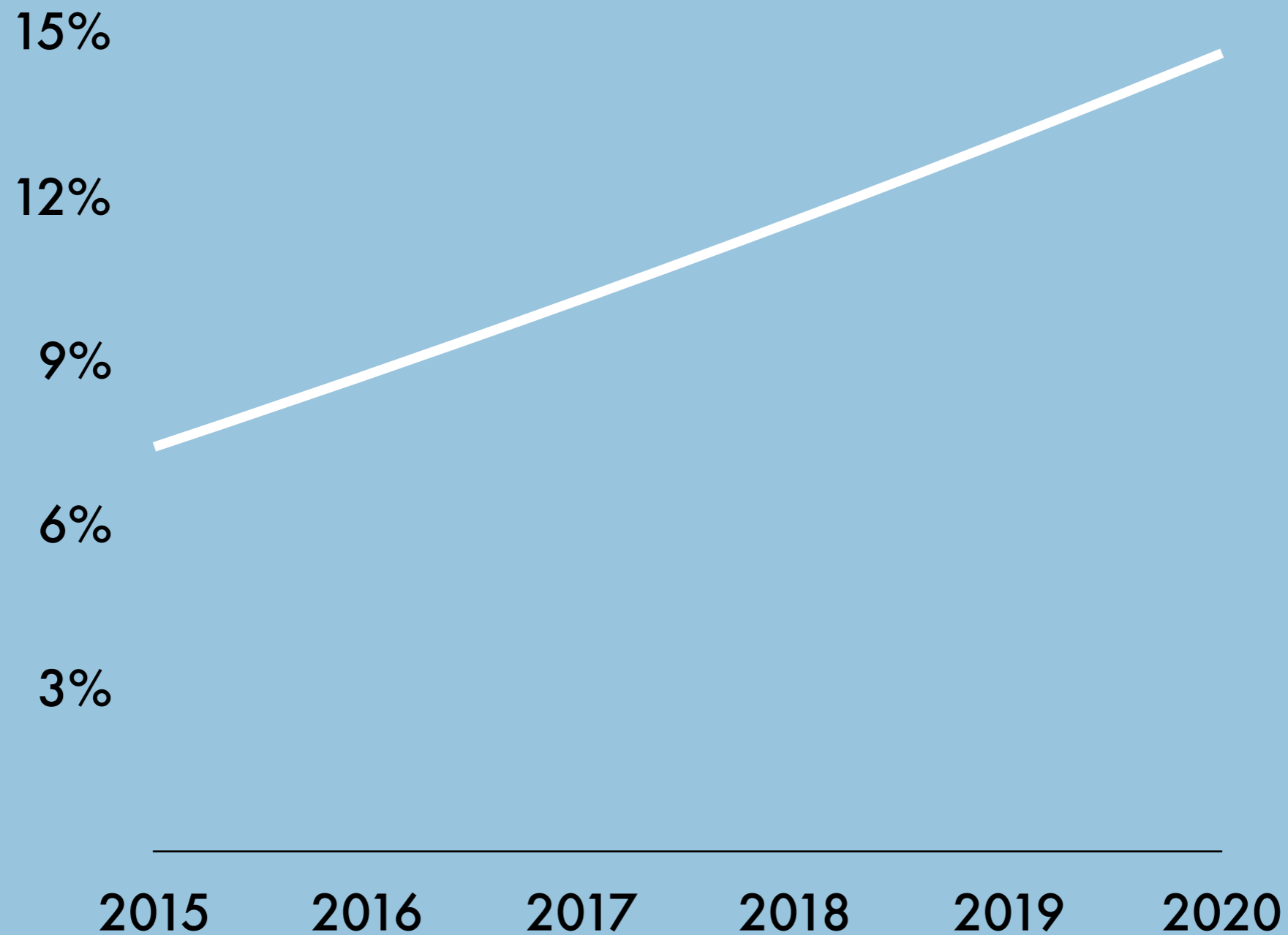
SPORTS
AUTHORITY[®]

Malls are empty.



Customers prefer the convenience of shopping online.

E-Commerce Share of Total Retail



And then, there's...



*Illustration: Cecilia Abeid % IP Capital Partners



So retail is dead, right?

Yet Costco is thriving

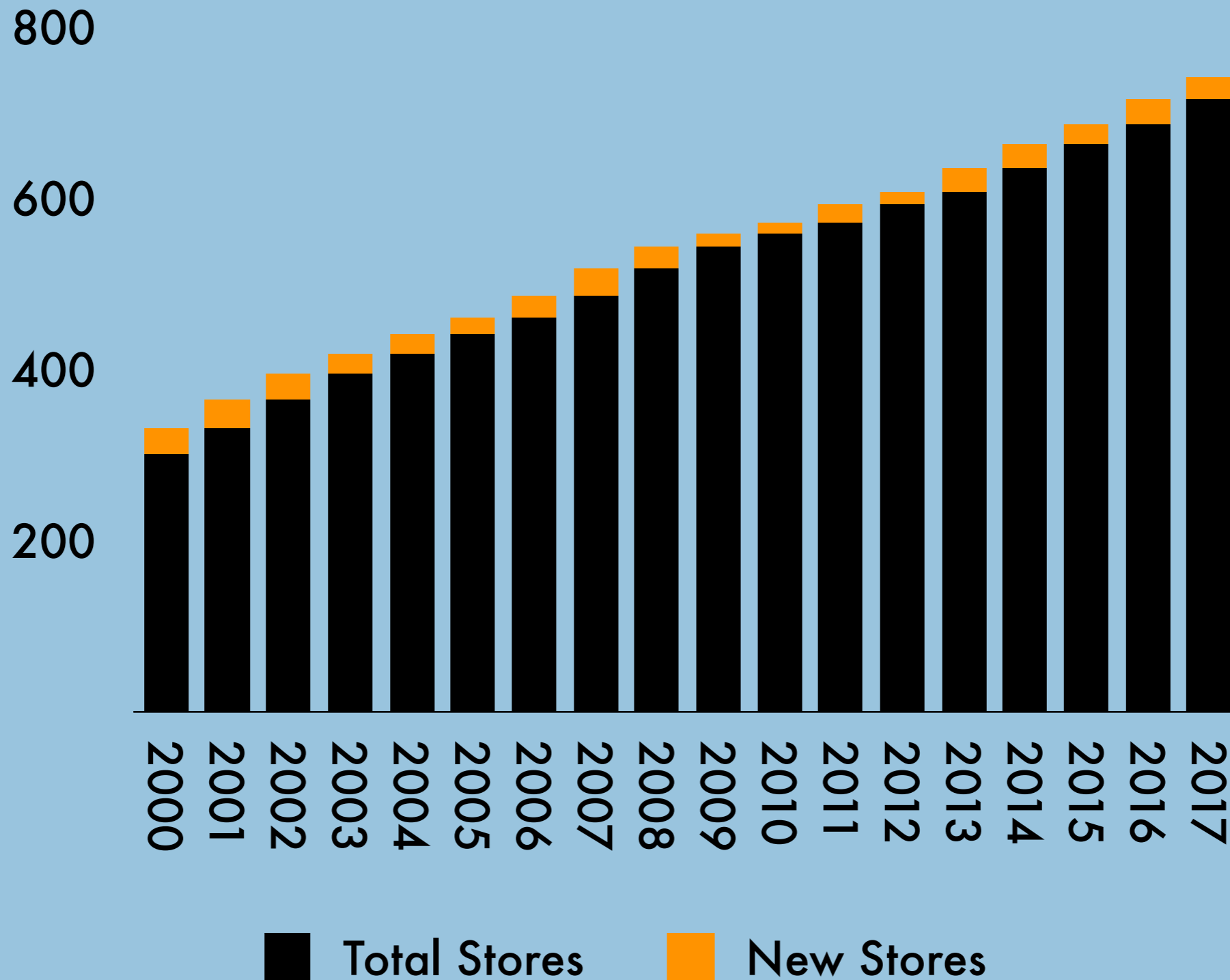
Sales and profits continue to climb.



Customers line up outside.



And instead of closing stores, Costco is opening new ones.



**So what is it about Costco
that's enabled them to
buck industry trends?**

**COSTCO HAS A BRILLIANT
BUSINESS MODEL**

Costco

is a retailer...

**...but doesn't make much
money on product sales.**

**After marking up products
by no more than 15%, and
paying for employee and
warehouse costs...**

**Costco comes
out about
break-even**

While that virtually guarantees the lowest prices for customers, it also seemingly guarantees Costco will never make money.

**But there's a
catch!**

To access Costco's low prices, customers must pay \$60/yr to be a "member".

It's a unique and brilliant business model:

Customers Win

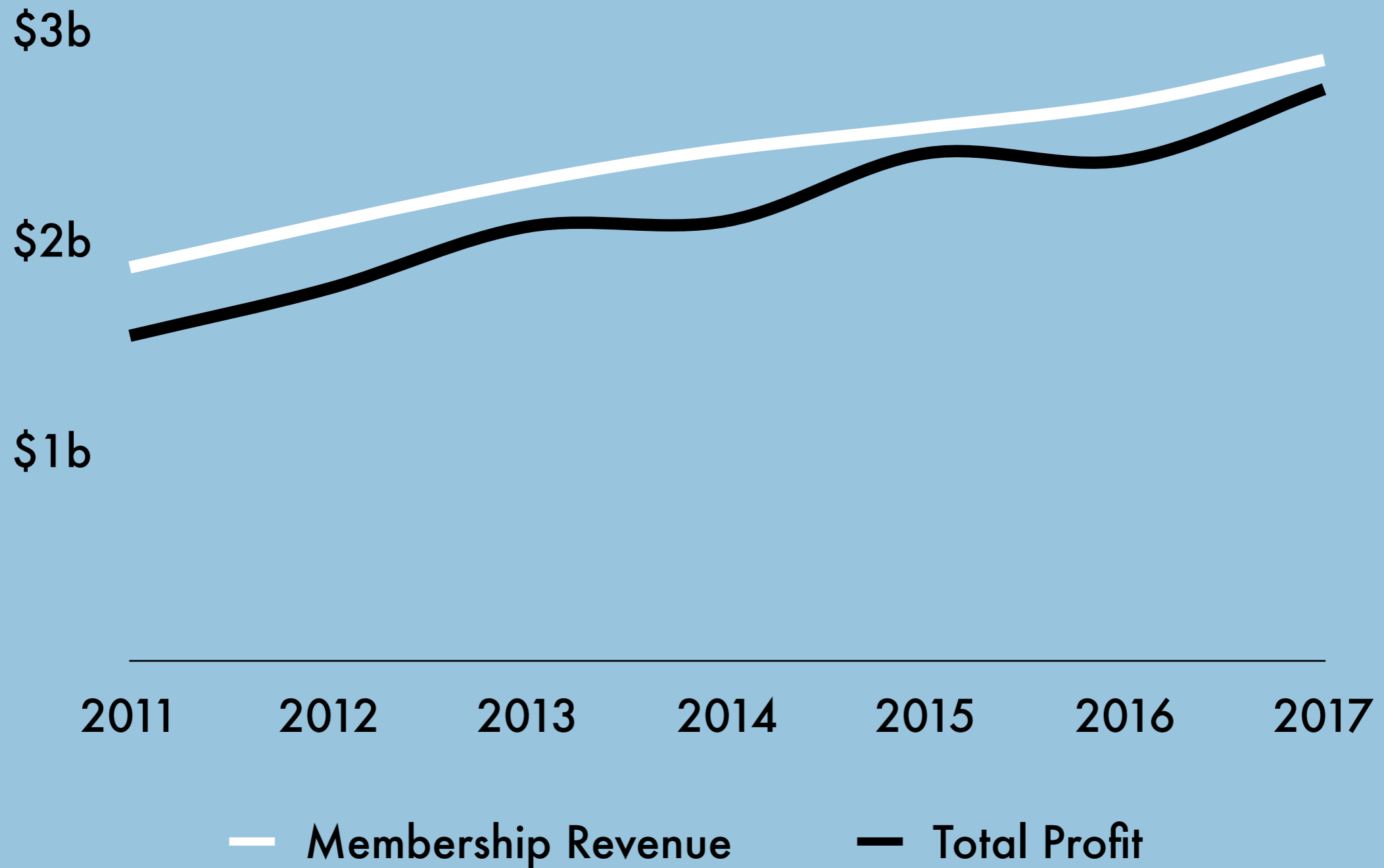
Receive more than \$60
(cost of membership)
worth of savings each
year.

Costco Wins

No incremental cost to
provide a membership,
so membership fees fall
directly to the bottom
line.

**Costco has 50 million members,
and 27% of all US households are
cardholders.**

In 2017, membership fees generated \$2.9b in revenue, most of which is "pure profit".



The beauty of the "membership model" is that it frees Costco from needing to make money directly off the goods it sells.

That enables Costco to undercut competitors on price.

**Those low prices attract more
members...**

LOW PRICES

LOW PRICES



LOW PRICES



MEMBERSHIPS

...who in turn drive more sales...

LOW PRICES



MEMBERSHIPS



LOW PRICES



MEMBERSHIPS



SALES

**...providing Costco greater
pricing leverage with suppliers.**

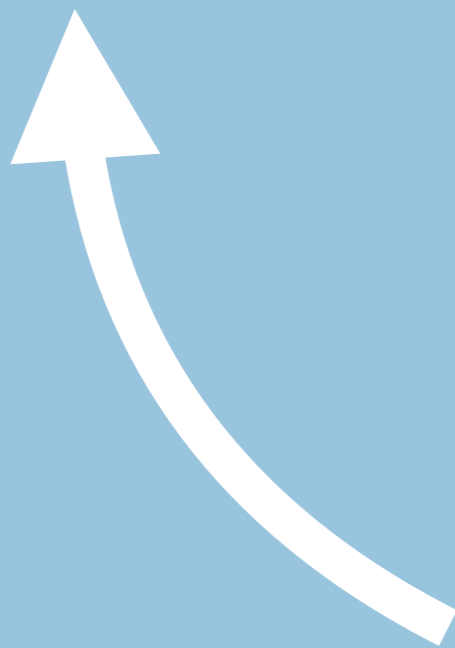
LOW PRICES



MEMBERSHIPS



SALES



LOW PRICES

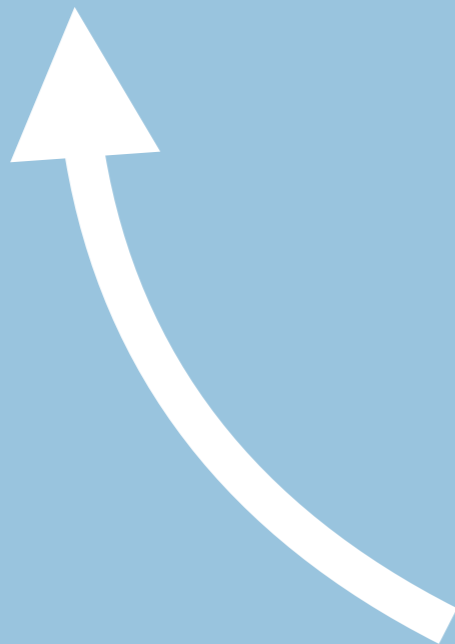


MEMBERSHIPS



SALES

LEVERAGE



But rather than keep the resulting margin, the company uses it to decrease prices and invest in higher-quality products—increasing the value of a membership.

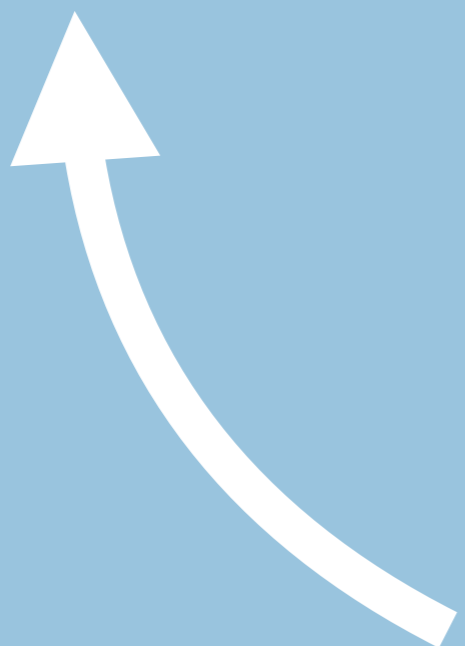
LOW PRICES

"Costco's on a relentless path to generating value for its members. When we price goods, the old adage is for every dollar we save, we give \$0.90 to the customer."

MEMBERSHIPS

SALES

LEVERAGE



In effect, Costco forgoes short-term profits on merchandise in order to make **long-term profits on memberships.**

**COSTCO IS A FIRST-
RATE OPERATOR**

Costco sells a limited number of high quality items in bulk sizes. The products arrive from suppliers in custom packaging, and are then sold through no-frills warehouses staffed by highly compensated employees.

This approach is unique amongst retailers.

OPERATIONS

LIMITED SELECTION

HIGH-QUALITY

BULK SIZES

CUSTOM PACKAGING

WAREHOUSES

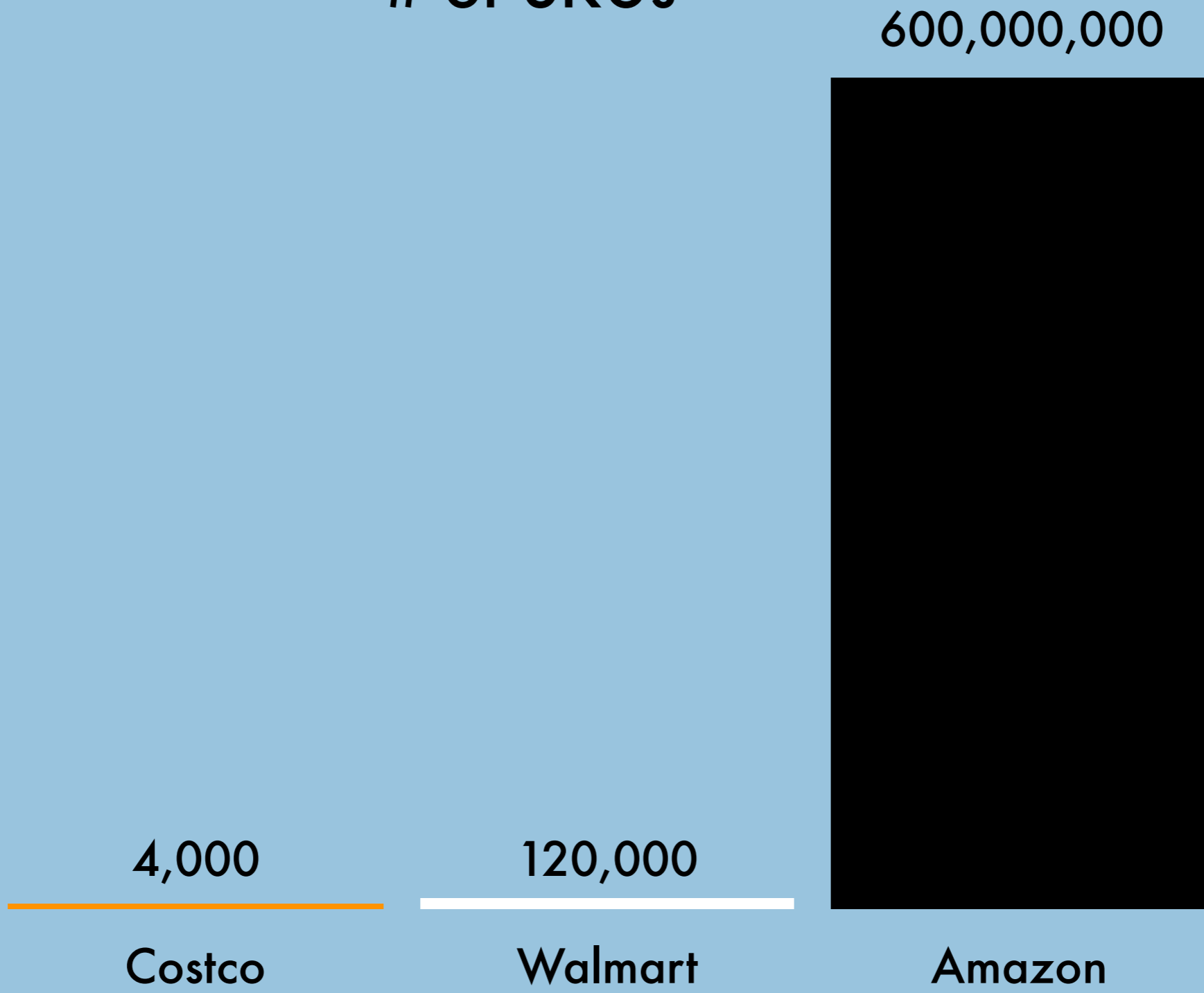
LABOR

OPERATIONS | LIMITED SELECTION

Costco stocks only 4,000 SKUs (versus Walmart's 120,000 and Amazon's 600,000,000), with effectively no overlap in each category; customers get one choice of ketchup, one choice of shaving cream, etc.

OPERATIONS | LIMITED SELECTION

of SKUs



OPERATIONS | LIMITED SELECTION

While the conventional wisdom assumes that more selection is inherently better, there are a number of benefits to Costco's limited approach.

OPERATIONS | LIMITED SELECTION

✓ They get the best prices from suppliers.

Since they're not stocking more than one brand of any product, Costco is frequently their supplier's largest or second-largest customer. As such, Costco gets the best prices.

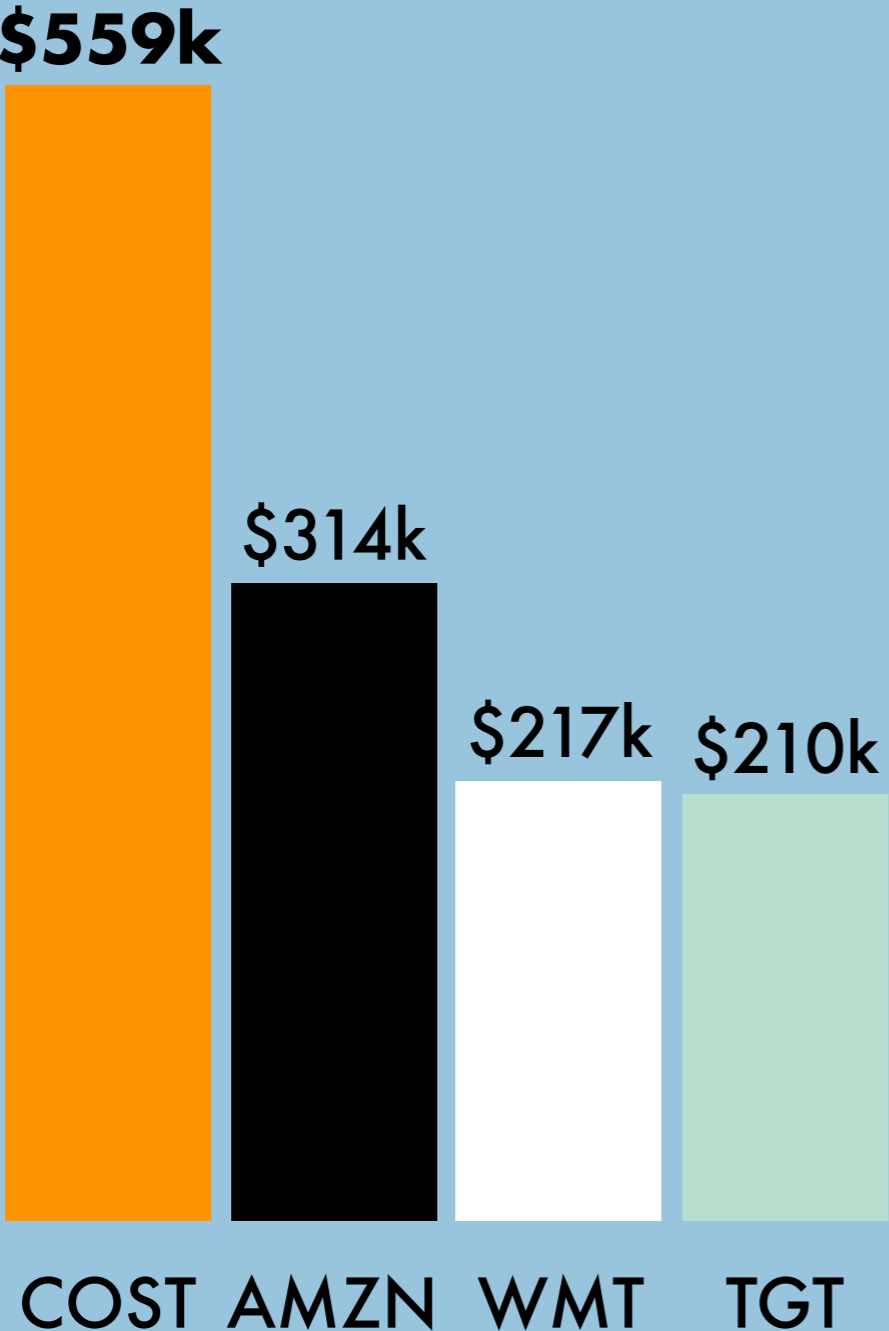
OPERATIONS | LIMITED SELECTION

✓ **Their employees are more efficient.**

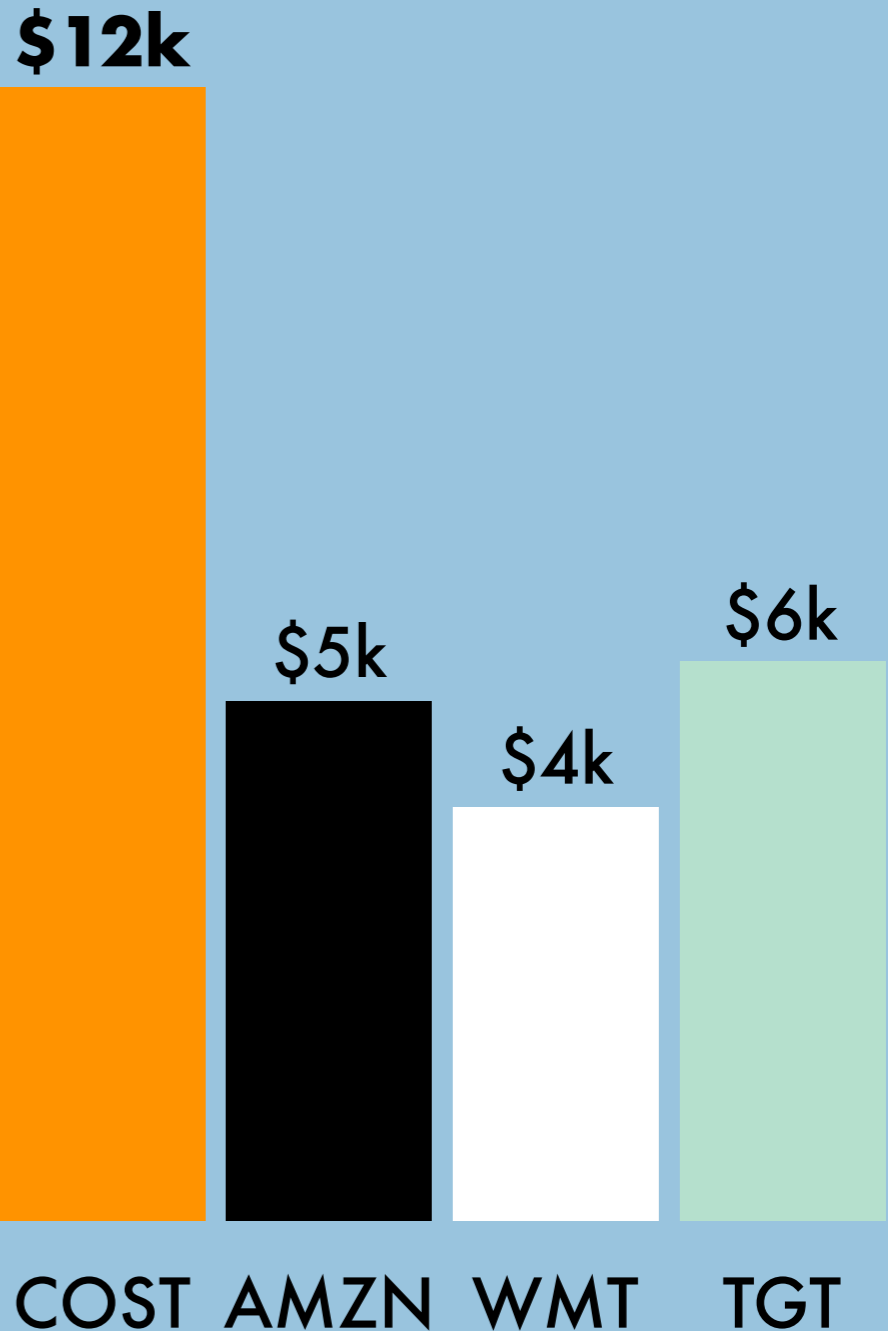
Because Costco carries fewer items, their employees spend far less time ordering from suppliers, coordinating shipping and receiving, paying invoices, stocking shelves, etc. That's why Costco has the highest revenue and profit per employee of all major retailers.

OPERATIONS | LIMITED SELECTION

Revenue per Employee



Profit per Employee



OPERATIONS | LIMITED SELECTION

✓ **It makes customers happier.**

Many studies have shown that giving customers fewer choices actually increases sales, and makes them feel more satisfied and confident in their selection.*

OPERATIONS | LIMITED SELECTION



OPERATIONS

LIMITED SELECTION

HIGH-QUALITY

BULK SIZES

CUSTOM PACKAGING

WAREHOUSES

LABOR

OPERATIONS | HIGH QUALITY

In order to cater to as many customers as possible, retailers typically sell a wide range of products, of various qualities and price points. But not Costco.

Costco *only* sell high-quality items.

OPERATIONS | HIGH QUALITY

- ✓ **Selling only high-quality items eliminates the need to spend on advertising.**

Customers know that if Costco is selling it, it's a good product; therefore, there's little need for expensive advertising.

OPERATIONS | HIGH QUALITY

✓ **Reduces likelihood of returns.**

High-quality items are obviously less likely to be returned because customers are satisfied with their purchase.

OPERATIONS | HIGH QUALITY

“We make sure the merchandise we offer is top quality. We do not offer unpopular lines of goods, seconds, or out-of-season stock. Our refund policy is that when customers bring something back, they get their money right up at the front register—no red tape...you can do very well in the retail business without...spending a lot of money on advertising.”

- Sol Price

OPERATIONS

LIMITED SELECTION

HIGH-QUALITY

BULK SIZES

CUSTOM PACKAGING

WAREHOUSES

LABOR

OPERATIONS | BULK SIZES

Bulk sizes are the norm at Costco. They sell mayonnaise by the gallon, 10lb packs of meat, an annual supply of mouthwash, etc.

OPERATIONS | BULK SIZES



OPERATIONS | BULK SIZES

**For customers, the benefit is obvious:
buying in bulk is much cheaper on a per-
unit basis.**

But Costco benefits too.

OPERATIONS | BULK SIZES

✓ **Bulk sizes make people spend more.**

The genius of bulk sizes is that it gets people to spend more, while convincing them they're saving money. Because the prices are so low per unit, people wind up buying far more than they normally would.

OPERATIONS | BULK SIZES

Costco

Amazon



Total volume

132oz

32oz

Price

\$8.29

Good for Costco

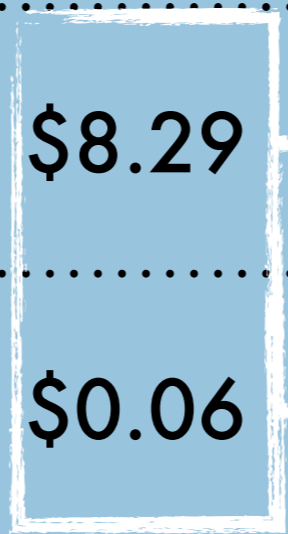
\$3.38

Price per oz

\$0.06

Good for customers

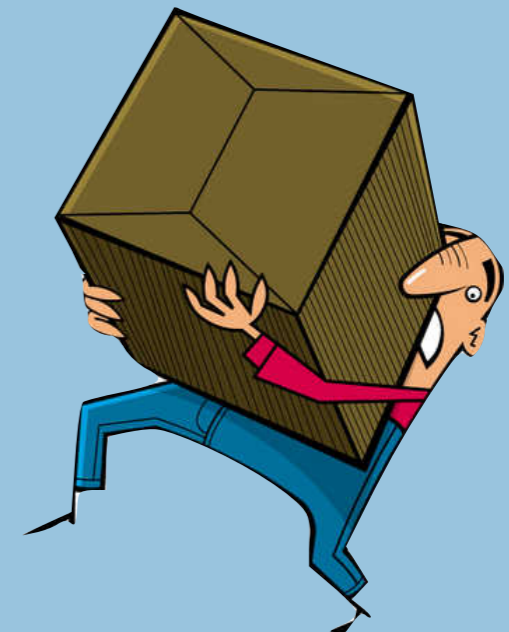
\$0.11



OPERATIONS | BULK SIZES

✓ **Bulk sizes are harder to steal.**

Costco loses only 0.2% of revenue to theft annually. For context, that's 80% lower than Walmart's shrink rate.



OPERATIONS

LIMITED SELECTION

HIGH-QUALITY

BULK SIZES

CUSTOM PACKAGING

WAREHOUSES

LABOR

OPERATIONS | CUSTOM PACKAGING

Costco sells products straight off of shipping pallets.

They can do this because suppliers ship them product in display-ready packaging that's customized for Costco.

OPERATIONS | CUSTOM PACKAGING



OPERATIONS | CUSTOM PACKAGING

- ✓ **Display-ready packaging wrings costs out of the supply chain.**

Product packaging is designed to maximize the efficiency of Costco's operations. For example, when Costco changed the container cashews came in from round to square, it saved 400 truck trips per year.

OPERATIONS | CUSTOM PACKAGING

✓ **Reduces labor costs.**

Being able to take product straight from the delivery truck to the sales floor via forklift means employees don't spend much time unboxing, moving, and stocking inventory.

OPERATIONS

LIMITED SELECTION

HIGH-QUALITY

BULK SIZES

CUSTOM PACKAGING

WAREHOUSES

LABOR

OPERATIONS | WAREHOUSES

Costco stores are cavernous, barebones warehouses—designed to efficiently sell, store, and handle high volumes of bulk-sized items.

OPERATIONS | WAREHOUSES



OPERATIONS | WAREHOUSES

✓ **Warehouses enable a more efficient use of space.**

All available space is used to sell product and drive revenue (i.e., there's no "back room" where additional goods are stored).

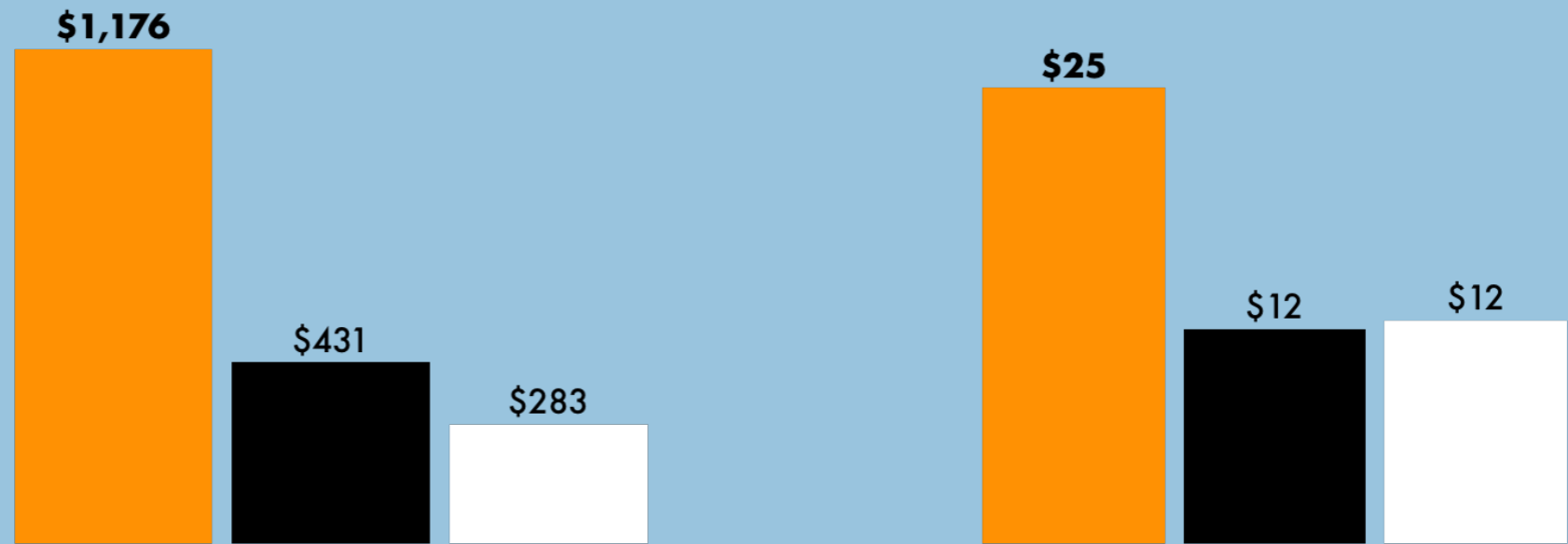
That makes Costco's warehouses incredibly efficient; they generate more business per sqft and per store than any other major big box retailer.

OPERATIONS | WAREHOUSES

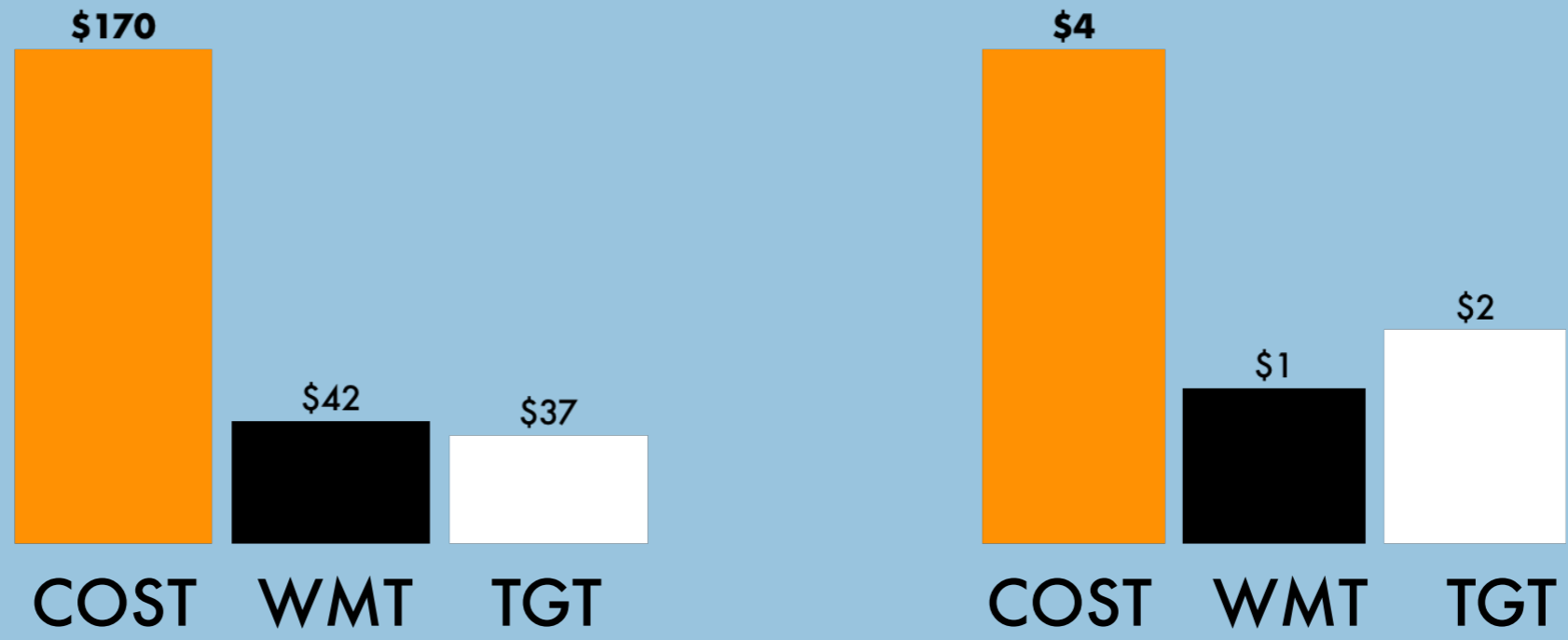
Revenue

Profit

Per Sqft



Per Store



OPERATIONS | WAREHOUSES

✓ **Less idle inventory.**

When inventory sits idle, it doesn't earn any money. So Costco has designed their warehouses to receive, store, and sell huge quantities of merchandise—fast. As a result, inventory is turned over (i.e., from supplier → Costco → customer) once every 26 days.

OPERATIONS | WAREHOUSES

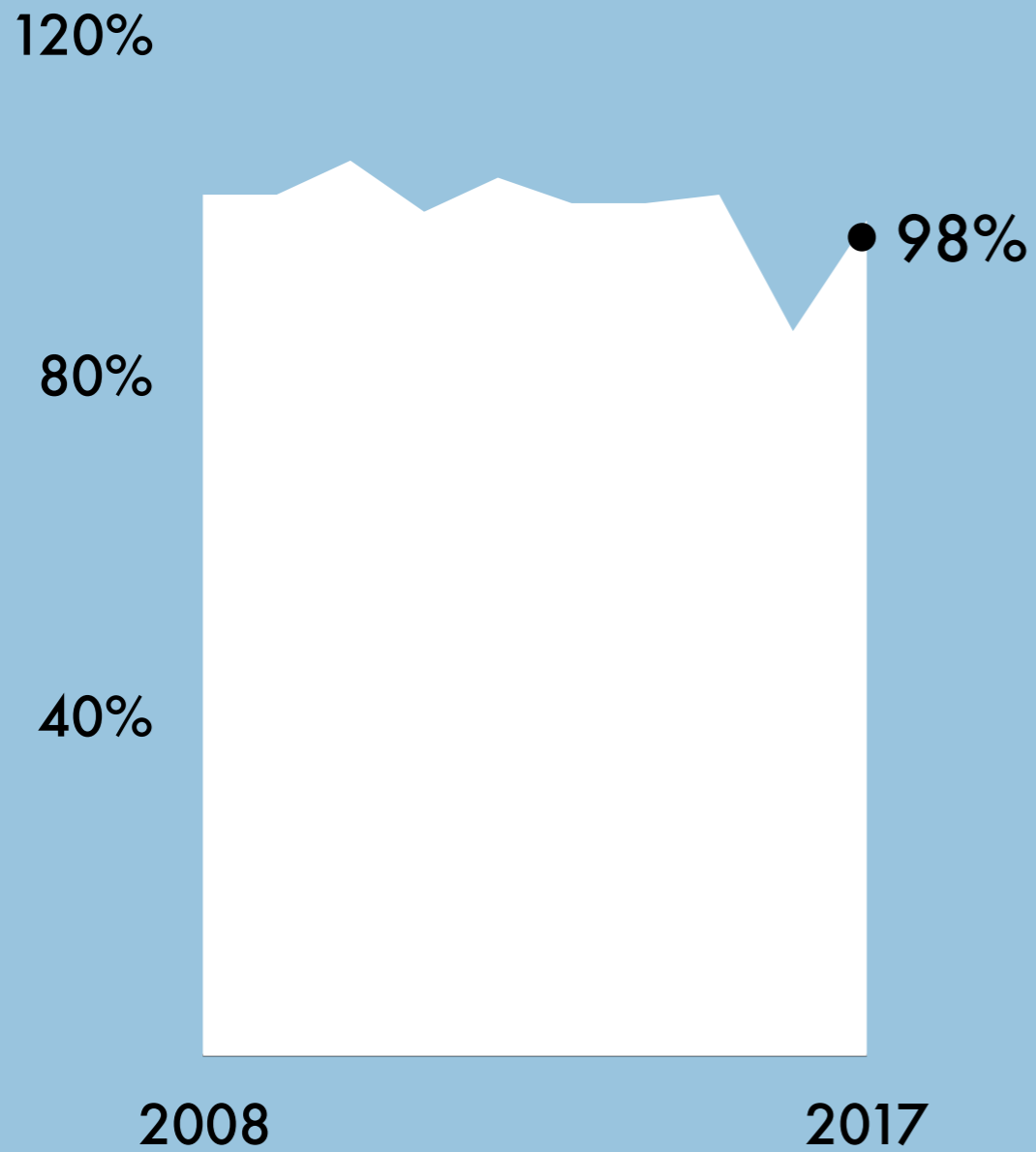
✓ Vendors effectively fund Costco's operations.

Because inventory turns over so quickly, Costco sells product to customers (i.e., collects cash) before they must pay suppliers for merchandise.

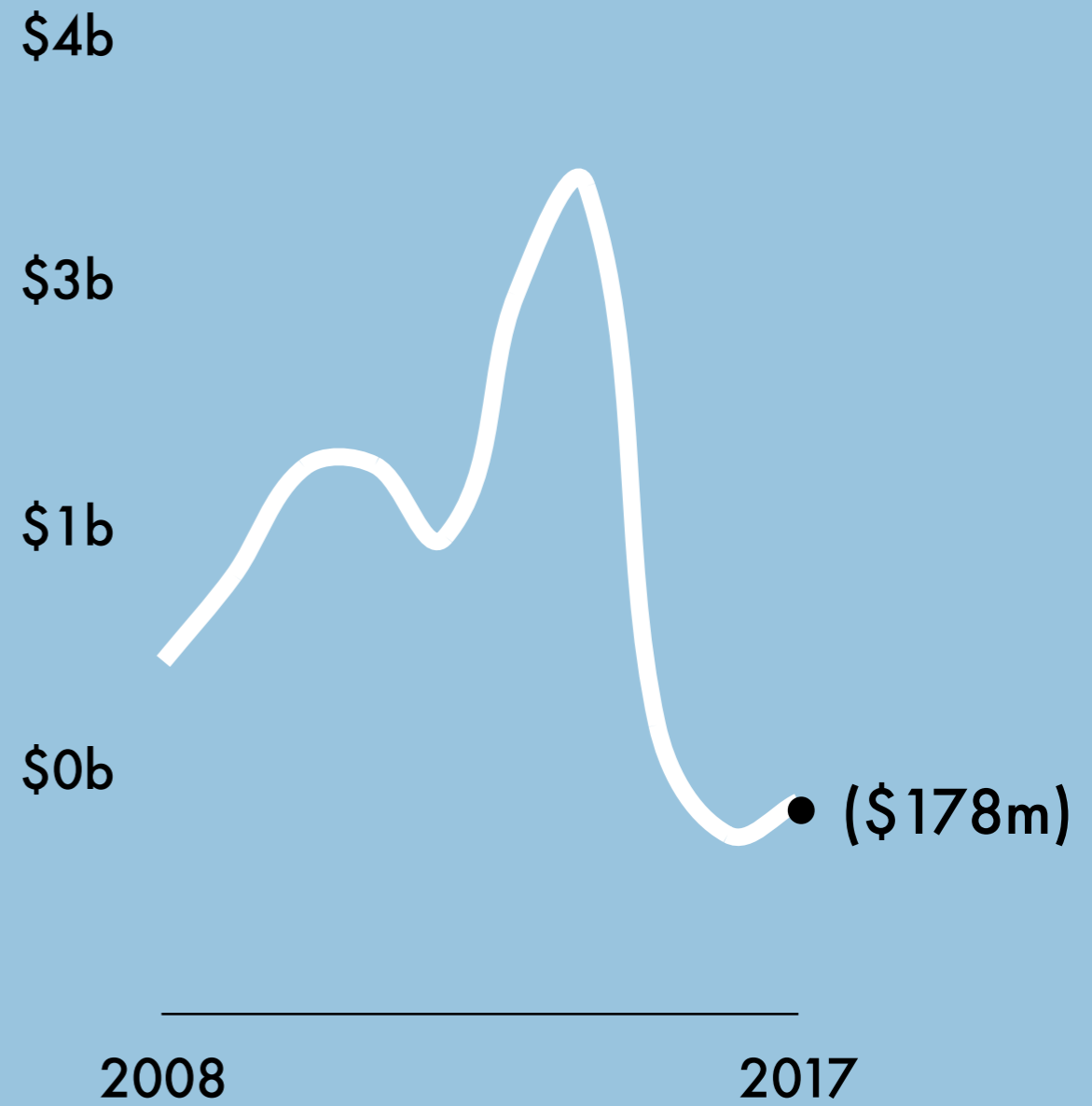
In effect, vendors are financing Costco's business.

OPERATIONS | WAREHOUSES

Accounts Payable : Inventory



Working Capital



OPERATIONS

LIMITED SELECTION

HIGH-QUALITY

BULK SIZES

CUSTOM PACKAGING

WAREHOUSES

LABOR

OPERATIONS | LABOR

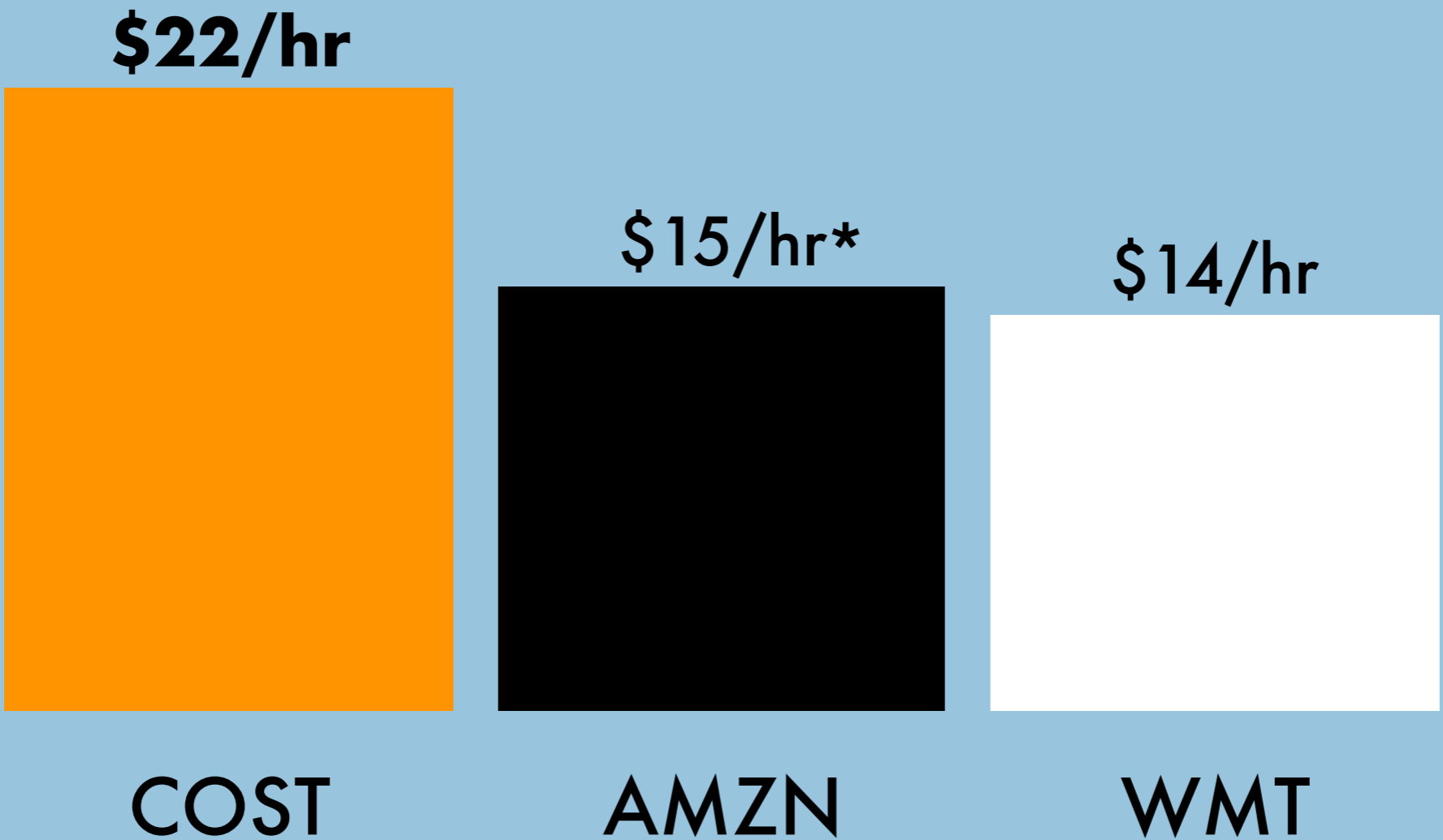
Costco treats their employees well. They pay the highest wages and provide the best benefits in the industry.

OPERATIONS | LABOR

The average US retail employee makes \$12/hour. The average Costco employee makes \$22/hr, *and* receives health insurance, 401k, company stock, etc.

OPERATIONS | LABOR

Average Hourly Wage



*Includes stock and bonus

✓ Treating employees well leads to very low rates of attrition.

Costco's annual turnover rate is only 5% (versus the retail industry average of 59%). Strong employee retention reduces hiring and re-training costs, and also keeps employees from going to competitors.

- ✓ **Costco's high compensation also gives them access to a better talent pool, which means better customer service.**

Higher wages/benefits attract a large pool of applicants, from which Costco can select “the cream of the crop”. Good employees with longer tenures provide better customer service.

OPERATIONS | LABOR

“In order to reward the shareholder in the long term, you have to please your customers and workers...You've got to want to get the very best people that you can and you want to be able to keep them and provide some job security for them. That's not just altruism. In the final analysis, it's good business ”

- Jim Sinegal, former CEO

OPERATIONS

To recap: Costco is a first-rate operator.

Everything they do is designed to keep costs down and improve the customer experience.

Which in turn drives continued membership growth and retention.

OPERATIONS

“The basics of our concept may be easy to understand, but that doesn't mean it is easy to implement. Imitators of our concept who maintain the discipline are likely to succeed, but only if they resist the temptation of...doing other things that add costs.”

- Sol Price

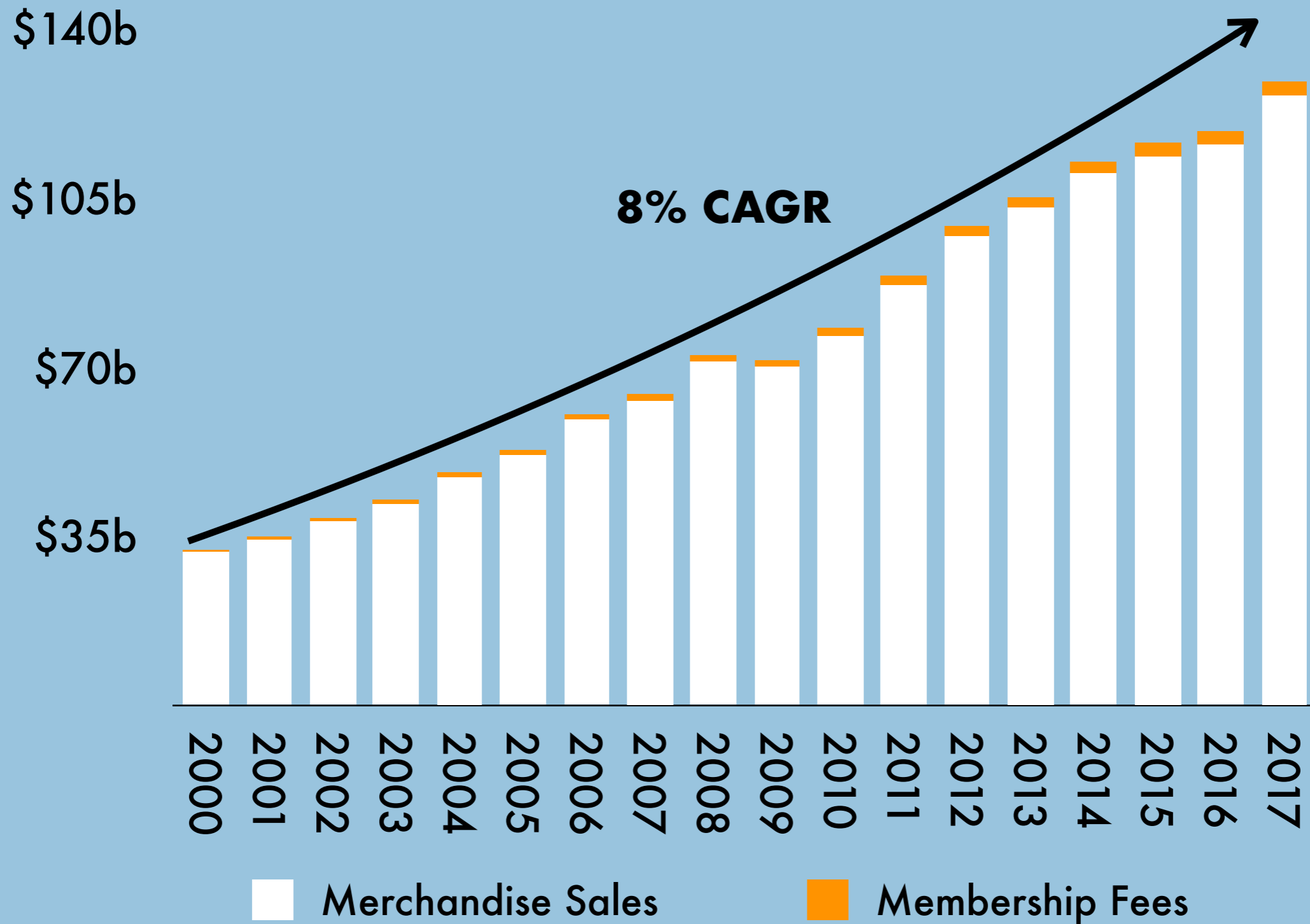
**COSTCO IS FINANCIALLY
SOUND**

**Costco is in great financial shape:
sales and profits are strong (and
growing); margins are stable; and
returns on capital are high.**

REVENUE

- ✓ \$130 billion sales
- ✓ 8% growth
- ✓ 98% from merchandise sales
- ✓ 2% from membership fees
- ✓ 87% from US & Canada
- ✓ 13% international
- ✓ 8% CAGR since 2000
- ✓ 6.5% CAGR since 2010

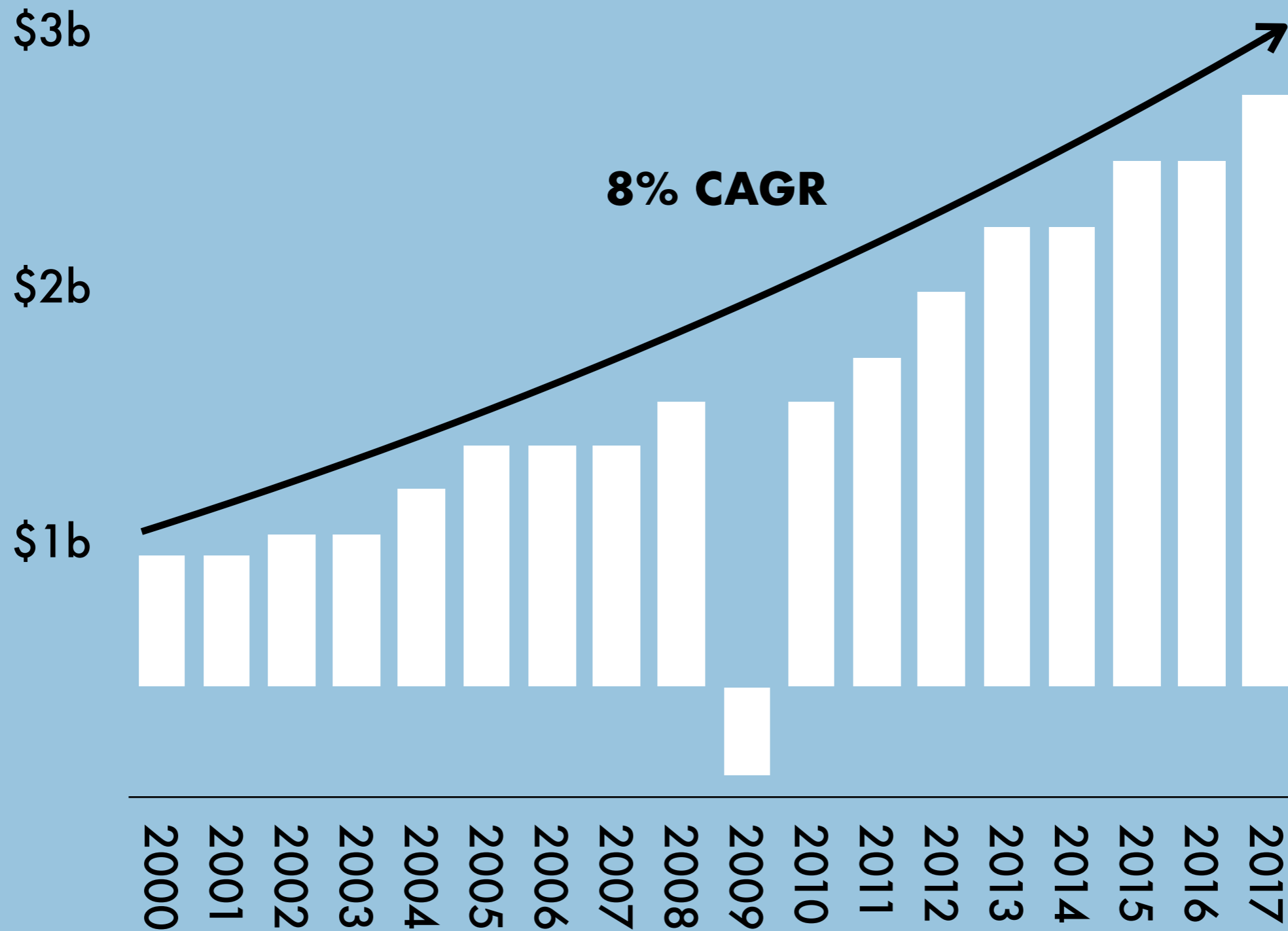
Revenues continue to grow.



PROFIT & CASH FLOW

- ✓ \$4.1 billion operating income
- ✓ \$2.7 billion net income
- ✓ \$4.2 billion FCF
- ✓ 75% from membership fees
- ✓ 25% from merchandise sales
- ✓ 8% CAGR since 2000
- ✓ 9% CAGR since 2010

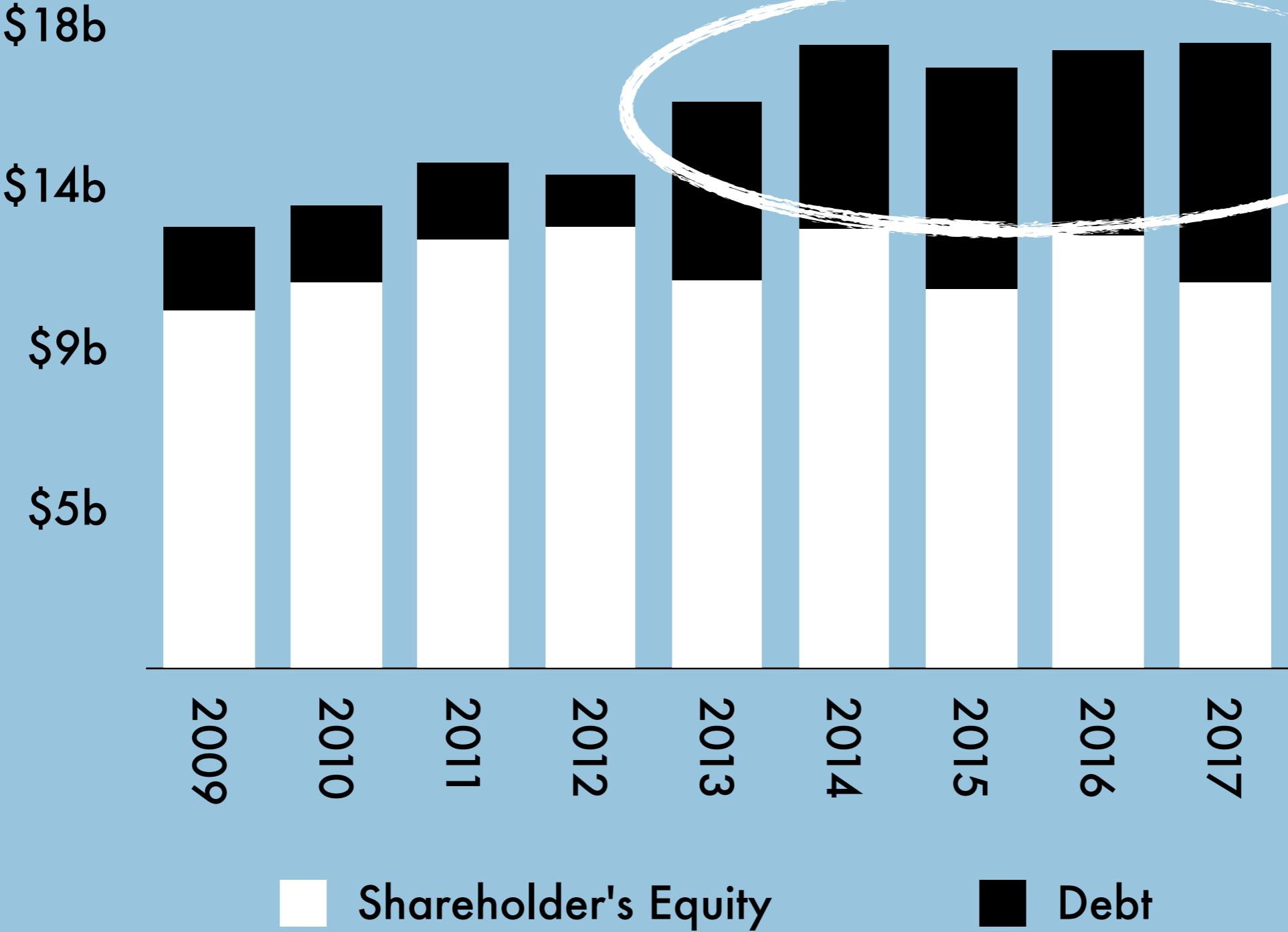
Profits are steadily climbing.



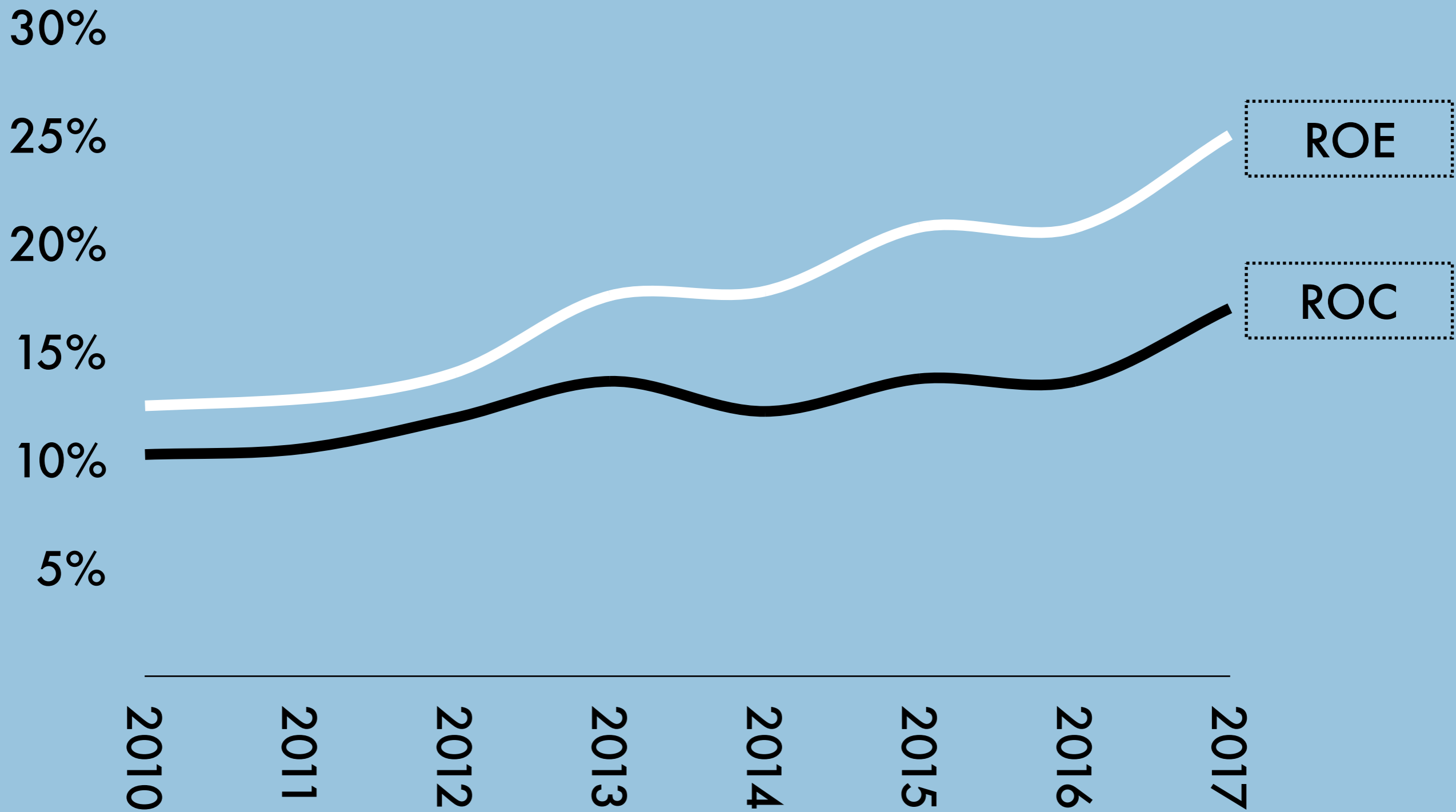
CAPITAL

- ✓ \$10.7B shareholder's capital
- ✓ \$6.6B long-term debt
- ✓ \$17.3B total capital
- ✓ 23% ROE
- ✓ 17% ROIC

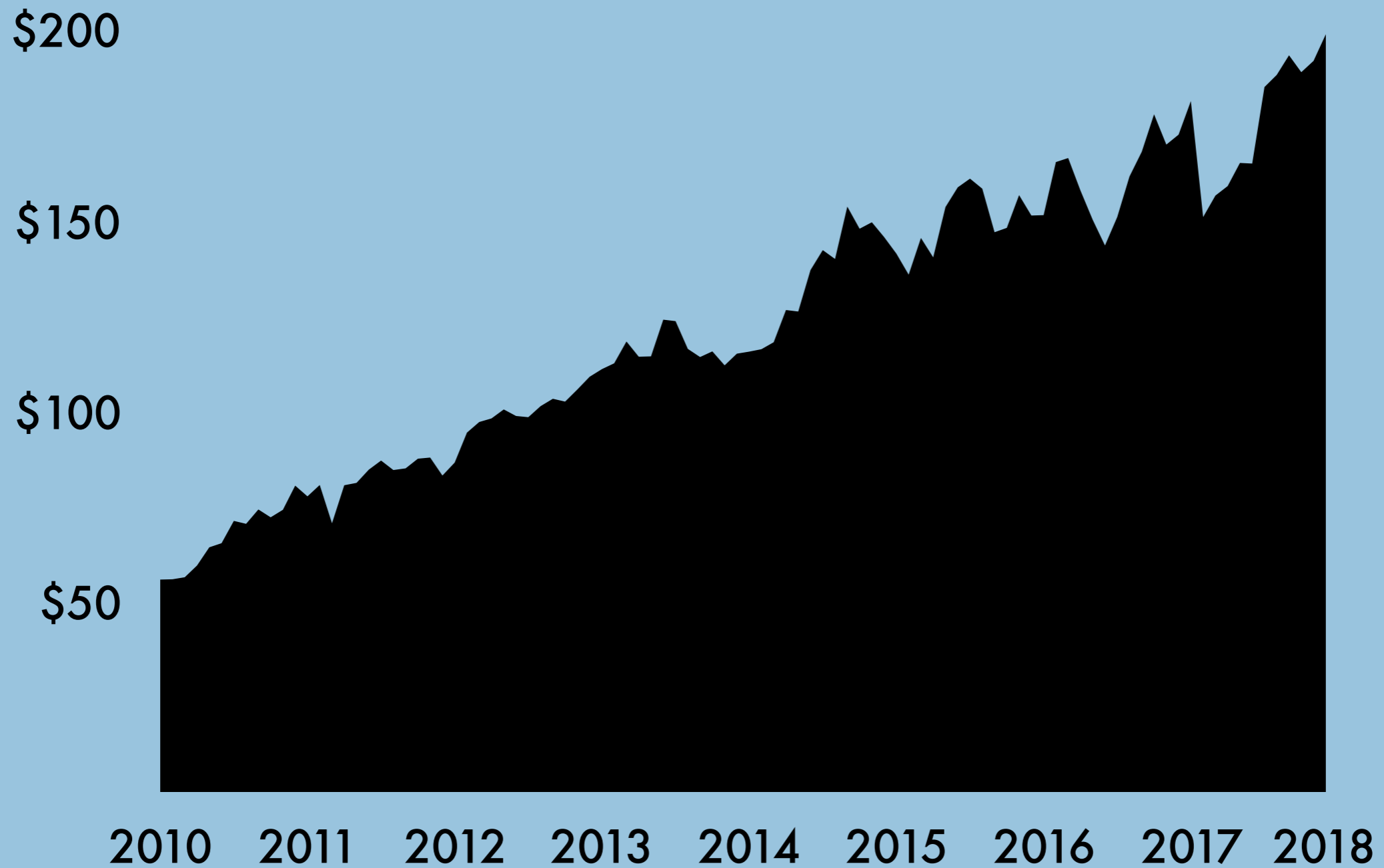
Capital—which is low relative to revenue and earnings—has been flat.



Steady capital and increasing profits drives up ROE and ROC...



...and also the stock price.



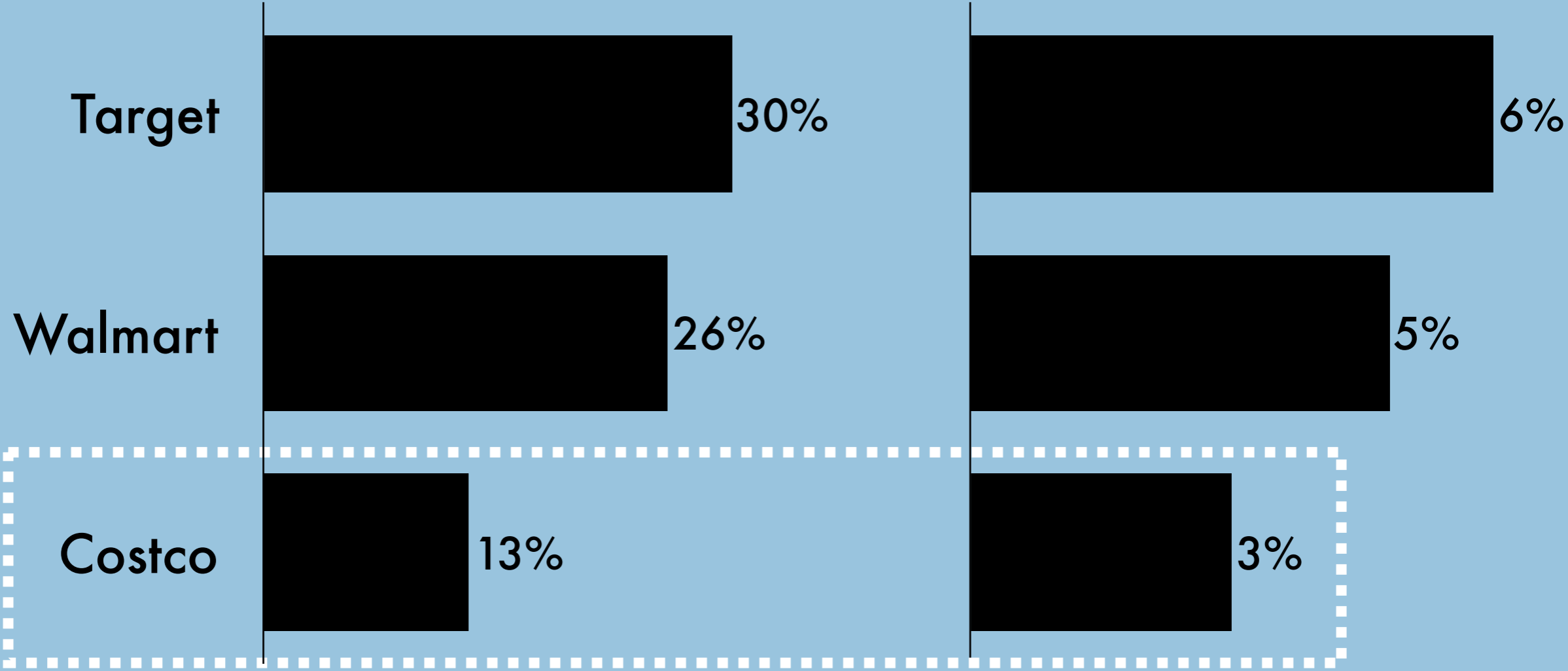
MARGINS

- ✓ 13% gross margin
- ✓ 11% gross merch margin
- ✓ 3% operating margin
- ✓ 1% merch operating margin
- ✓ 2% net margin
- ✓ Margins 2X - 3X lower than Walmart and Target

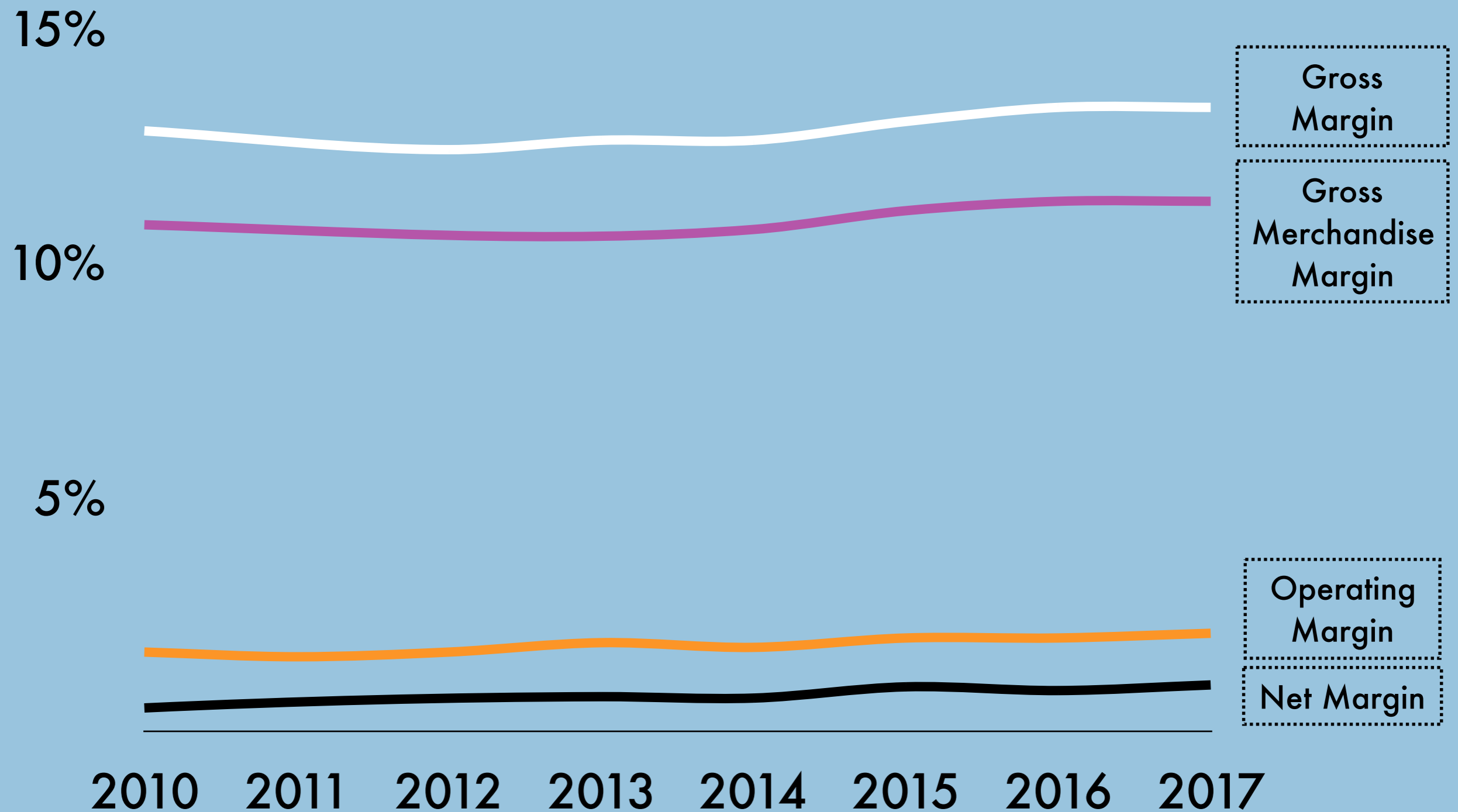
It's true that Costco has the lowest margins in their peer group...

Gross Margin

Operating Margin



...and that margins have been low for years.



But Costco's low margins aren't a sign of weakness. They're a deliberate choice.

"Many retailers look at an item and say, 'I'm selling this for \$10. How can I sell it for \$11? We look at it and say, How can we get it to \$9? And then, How can we get it to \$8? It is contrary to the thinking of a retailer, which is to see how much more profit you can get out of it. "

- Jim Sinegal, Former CEO

And therein lies the beauty of the membership model: because Costco doesn't *need* to make a profit on merchandise, they can live on margins that would starve other retailers.

To summarize: Costco's financials are strong. And they're getting stronger.

	Sales	Profit	FCF	ROE	ROC	GM	GM (Merch)	OM	NM
2010	\$78b	\$1.3b	\$1.7b	15.0%	10.2%	12.8%	10.8%	2.7%	1.7%
2011	\$89b	\$1.5b	\$1.9b	15.7%	10.5%	12.6%	10.7%	2.7%	1.6%
2012	\$99b	\$1.7b	\$1.6b	15.6%	11.9%	12.4%	10.5%	2.8%	1.7%
2013	\$105b	\$2b	\$1.4b	18.5%	13.6%	12.6%	10.6%	2.9%	1.9%
2014	\$113b	\$2.1b	\$2b	21.6%	12.2%	12.6%	10.7%	2.9%	1.8%
2015	\$116b	\$2.4b	\$1.9b	21.6%	13.7%	13.0%	11.1%	3.1%	2.1%
2016	\$119b	\$2.4b	\$0.6b	25.2%	13.6%	13.3%	11.3%	3.1%	2.0%
2017	\$129b	\$2.7b	\$4.2b	24.9%	15.2%	13.3%	11.3%	3.2%	2.1%

**WILL AMAZON PUT
COSTCO OUT OF
BUSINESS?**

Despite Costco's brilliant business model, loyal customers, strong operations, and healthy financial position, there is growing concern that the company's best days are behind it.

The reason? **\$500B+** of commerce is moving online annually. And online sales account for only **4%** of Costco's business.

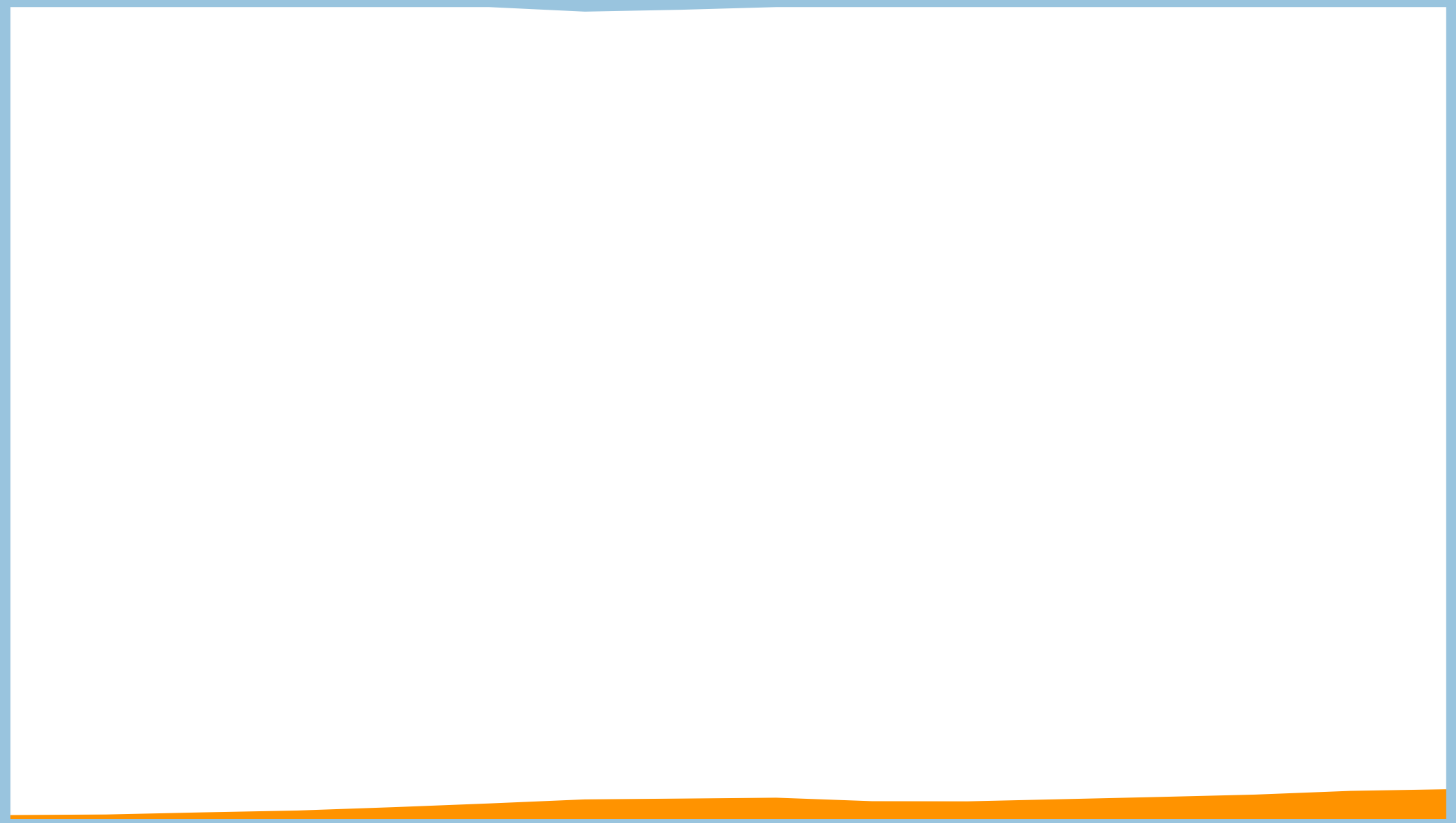
Costco Sales Channel %

100%

2002 2005 2008 2011 2014 2017

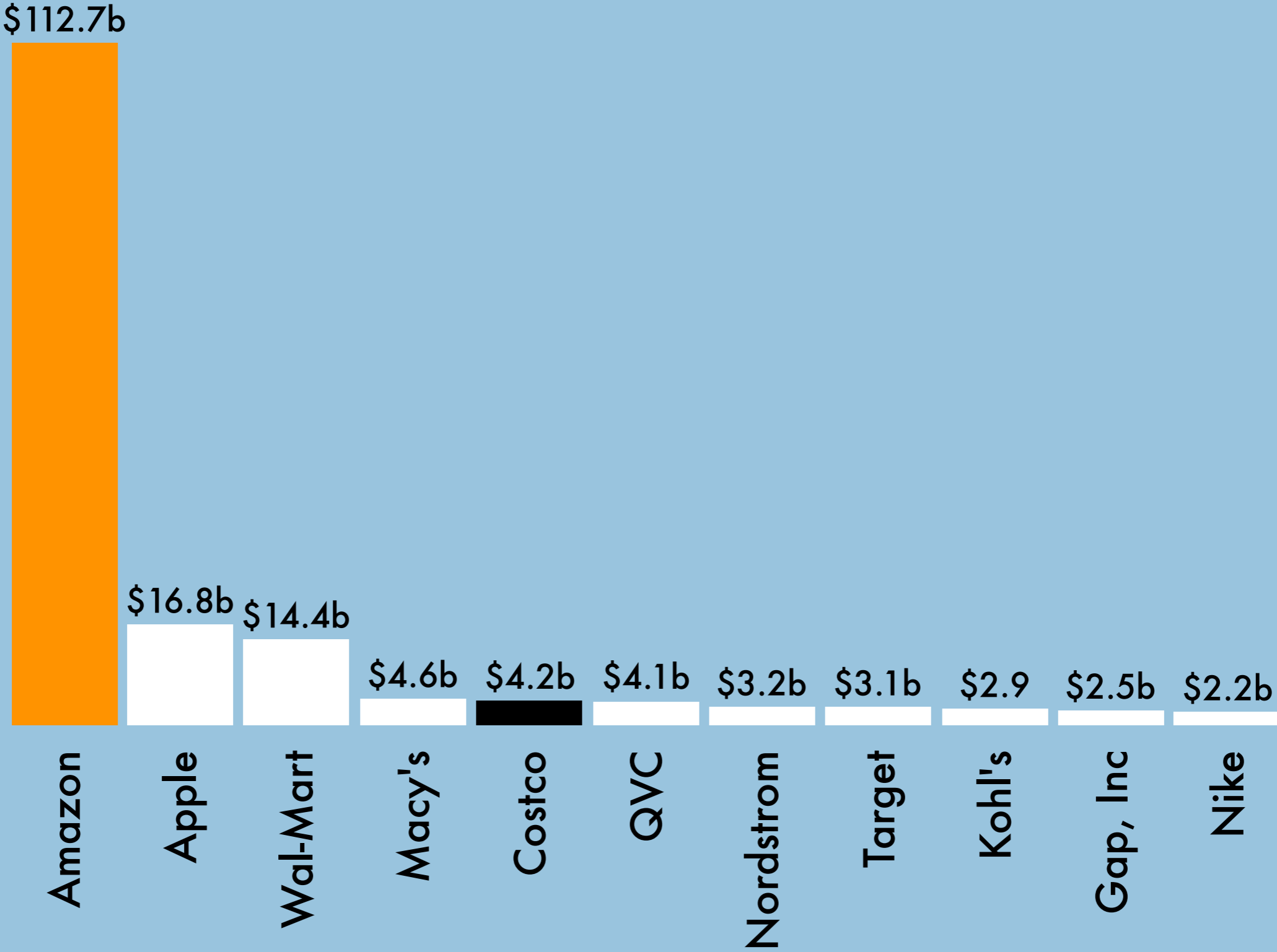
 Online Sales

 In-Store Sales



The biggest driver behind (and beneficiary of) the shift to online shopping has obviously been Amazon.

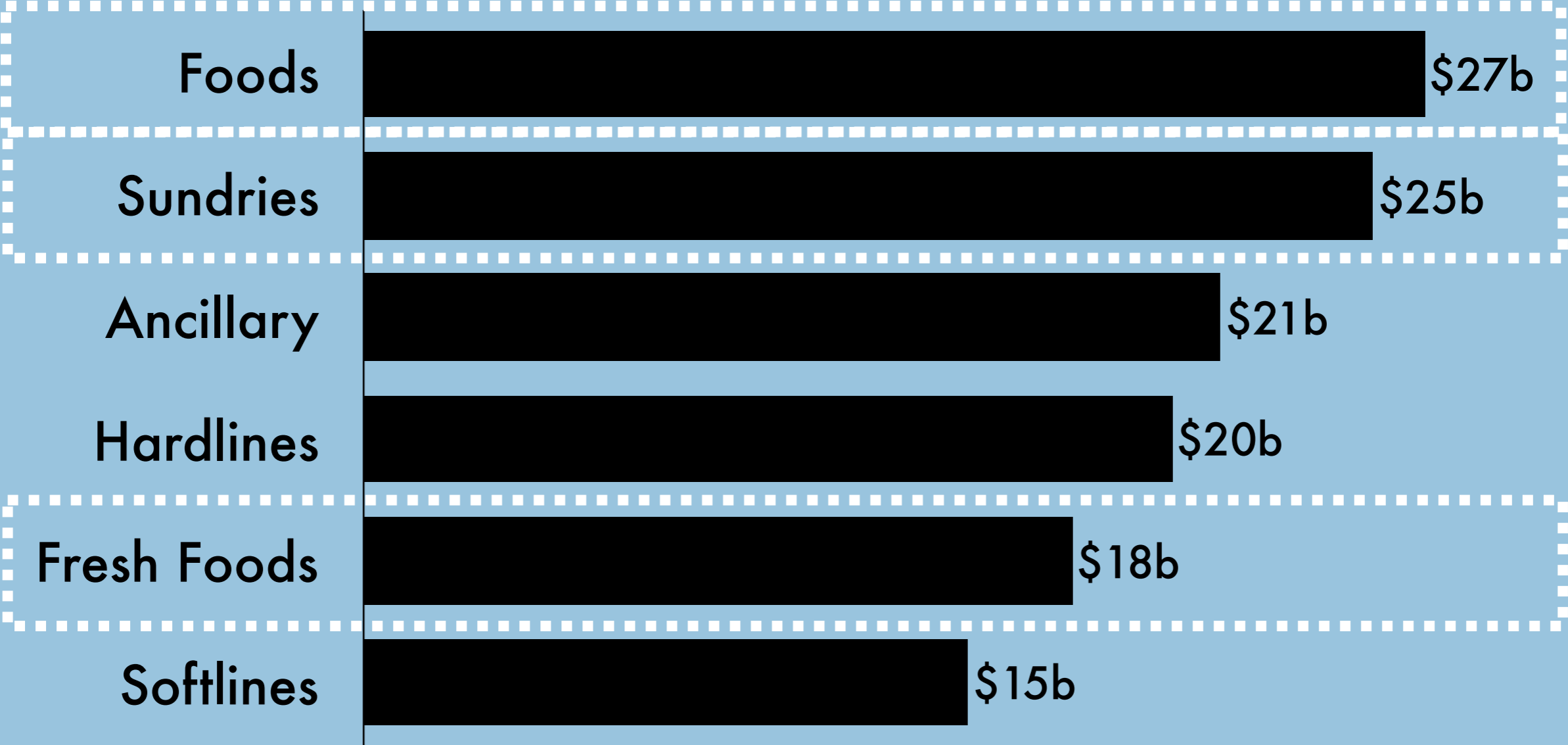
Annual Online Sales



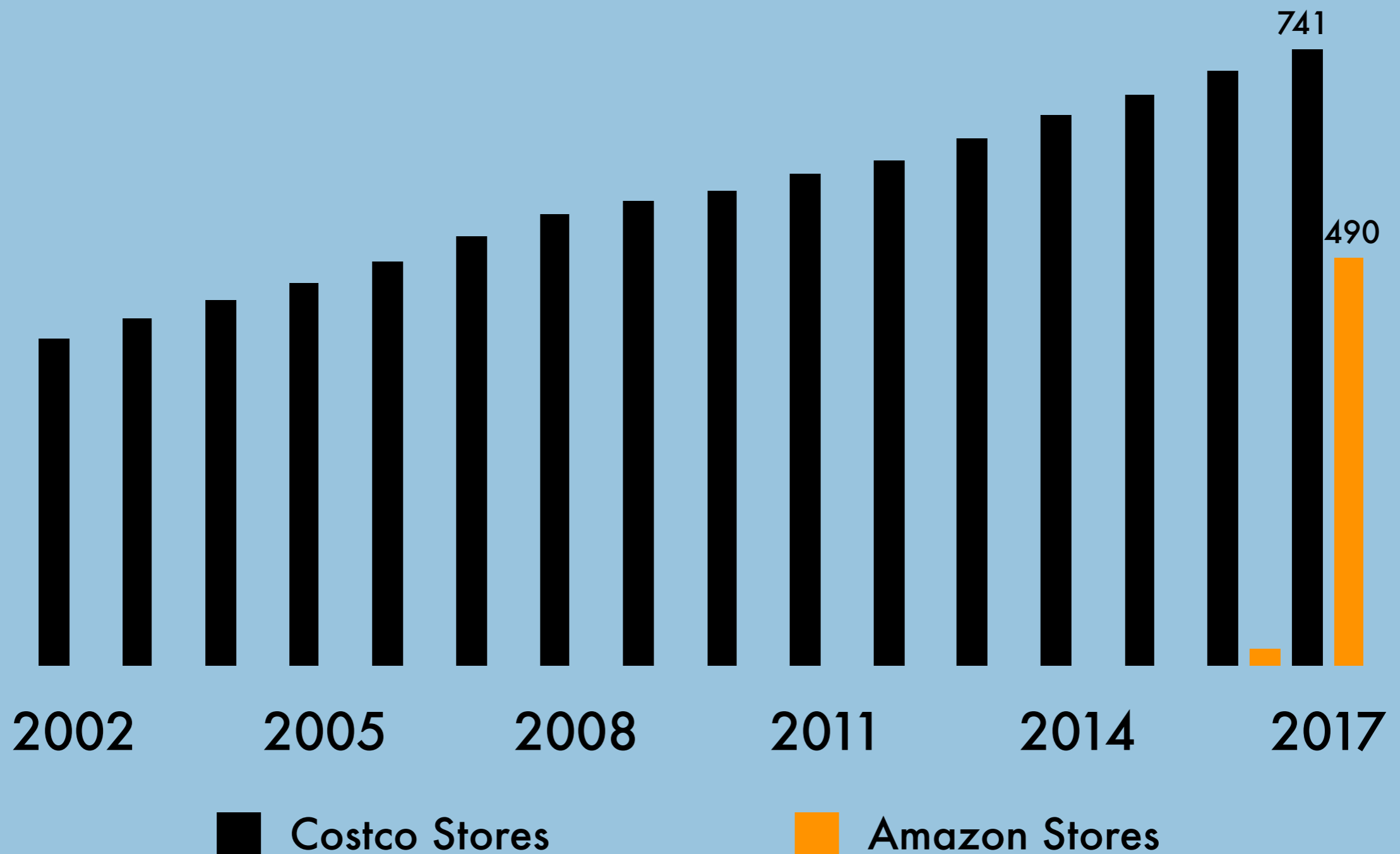
But Amazon isn't content dominating just e-commerce. They're now building (or acquiring) physical stores, and have set their sights on Costco's largest sales category: groceries.

Groceries account for half of Costco's revenue.

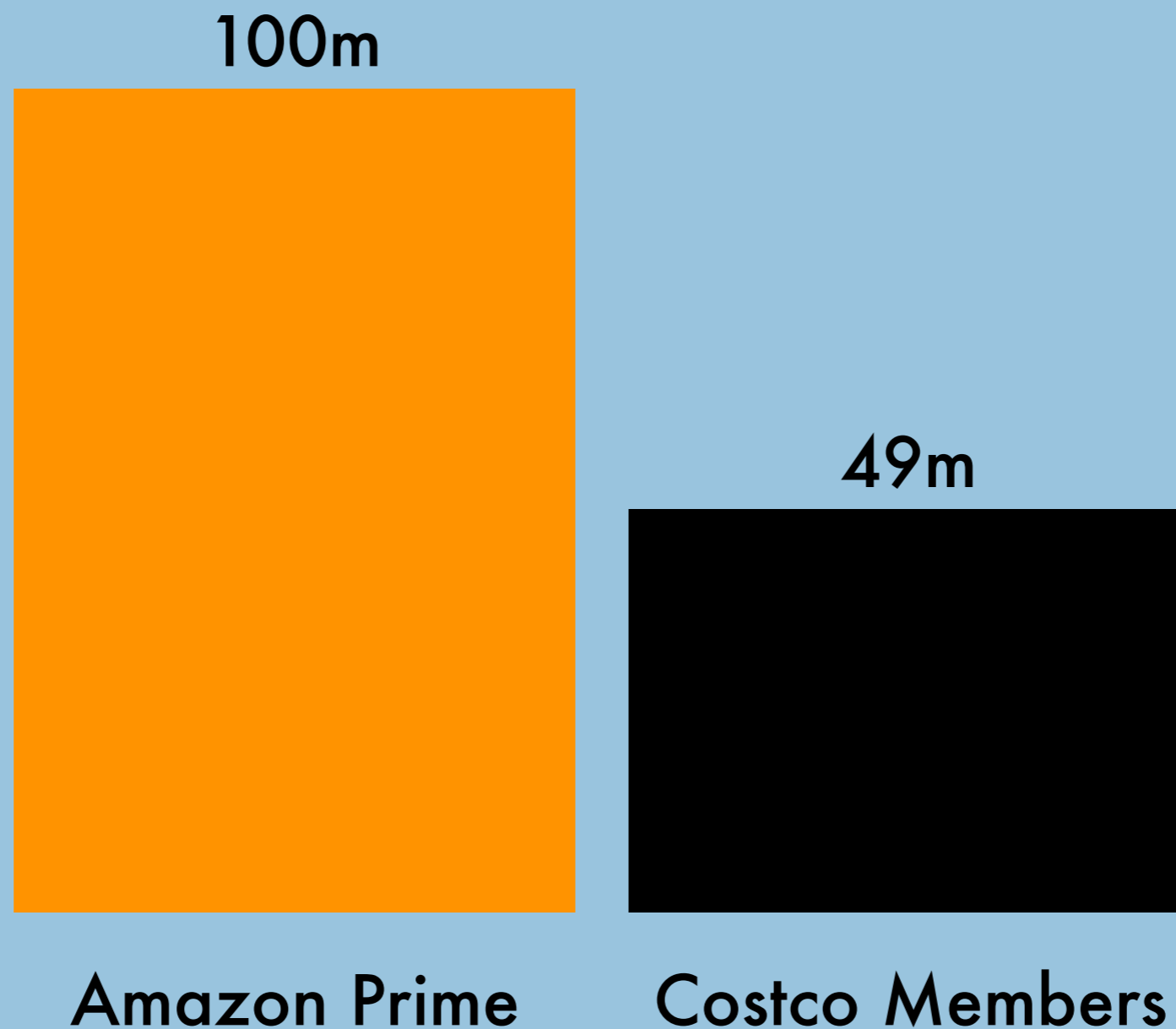
Sales by Category



Amazon's acquisition of Whole Foods immediately gives them a sizable footprint of 490 physical stores.



And Prime—Amazon's membership program—
already has 2X as many members as Costco.



It would appear that Costco is in trouble. But the plucky retailer from Issaquah, WA is more resilient than it gets credit for.

**1. COSTCO IS—AND IS LIKELY
TO REMAIN—CHEAPER**

✓ **Costco is structurally more cost-effective.**

Costco's approach of buying a single item in large quantities and shipping to a central store is almost always going to be cheaper than Amazon's approach of buying thousands of items in various quantities and shipping to individual customers' homes.

- A BMO Capital Markets study found prices on Costco's website are 17% lower than those on Amazon, according to Market Watch. BMO compared pricing between Costco in-club, Costco online and Amazon on 54 items.
- The study found national brands were priced 19% lower on Costco's site versus Amazon, and the club store's private label brand Kirkland Signature was 16% less expensive on the Costco site. Additionally, Costco's online prices were lower than prices offered inside its own club stores.

Costco beats Whole Foods in price every day in every way

Broadening the shopping basket further, [LendEDU](#), which studies financial markets for consumers, conducted a basket study comparing 38 identical items at a Costco store, where the company reports prices are often cheaper than through its new two-day delivery program, and online via Amazon.

Analyst Mike Brown who conducted the study found, "On average, products on Amazon are 56.48% more expensive than the same goods found at the Costco store. If a

- **Costco was the better bet almost 80 percent of the time** The warehouse club beat Amazon's per-unit pricing on 79 of the 100 products we researched -- 22 household staples, 18 baby and pet items, 19 beauty and toiletry products, and 20 health items. Amazon undercut Costco only twice on household staples, six times on baby and pet goods, three times in beauty and toiletries, and three times in health, for a total of 14 times. The retailers basically tied seven times.
- **Savings with Costco were greatest in the household staples category** That's where the savings averaged 25.4 percent. Costco was 23.4 percent cheaper on baby and pet items, 21.4 percent cheaper for beauty products and toiletries, and 21.6 percent cheaper for health items.
- **Savings were impressive on several items** On three products, Costco was more than 50 percent cheaper than Amazon per unit. That means more than 61 percent savings per tablet on Bayer Aspirin, more than 58 percent per treat on Blue Dog Bakery dog treats, and over 51 percent savings per ounce on Arm & Hammer liquid laundry detergent. On 17 other items, Costco offered savings of at least 30 percent.

Someday Amazon may reach a degree of scale where it becomes cheaper to deliver individual items door-to-door than it is for people to drive to a store.

But that future appears to be quite a ways off. In fact, Amazon's recent decision to stop selling small household items (unless part of a larger order) is strong evidence that it may never happen.

“Amazon is preparing to make it harder for shoppers to buy small orders of toothbrushes, soap...and other inexpensive items that are difficult to sell profitably online unless part of a larger purchase. Amazon has been willing to absorb losses...on certain products to make sure it has the items in stock and to fight a price war with other retailers. But those costs are becoming unsustainable as the company sells more household goods.”

- Bloomberg, March 2018

**2. THE REPORTS OF RETAIL'S
DEATH HAVE BEEN GREATLY
EXAGGERATED**

There's no denying that e-commerce is growing fast, and that its share of total retail spend will increase over time. But the retail store isn't going away, and 30 years from now, there will still be trillions of dollars spent at physical stores. That's where Costco has a clear advantage.



The Store (It Would Seem) Is Not Dead (at Least for Now)

Amazon isn't going anywhere, so shops that would rather not shut down are adapting, resulting in a somewhat surprising retail renaissance.

✓ **Replicating Costco's network of 741 stores won't be easy.**

Amazon's push into physical retail would require: a lot of capital (~\$50b), years of construction, and a lot of time to learn how to operate a network of stores.

Costco, on the other hand, has a 30-year head start. Most of their stores are already in the best locations in terms of proximity to customers and freeway entrances/exits. It would almost make more sense for Amazon to just buy Costco for \$85b.

✓ **The acquisition of Whole Foods isn't a direct threat to Costco.**

Whole Foods stores—with their smaller size (40k sqft vs 145k sqft for Costco), narrower aisles, lower ceilings, and smaller parking lots—are simply not equipped to handle the same sales volume as Costco.

Though Amazon hopes to some day offer home delivery for groceries, it's not as simple as just sticking them on a UPS truck; groceries need to be stored in an ice-cold environment from warehouse to doorstep. And Amazon's current supply chain just isn't built for that.

✓ **Costco's same store sales growth has been on a tear.**

If retail is in trouble, Costco hasn't gotten the memo. Since April 2017, Costco's monthly same store sales growth has increased an average of 8% from the previous year. And that rate is accelerating.

To put this in perspective, Costco is expected to grow sales by \$16b over the next 18 months. That's equivalent to Whole Foods' annual revenue.

Costco Same Store Sales Growth from a Year Earlier

12%

9%

6%

3%

4/17

6/17

8/17

10/17

12/17

2/18

4/18



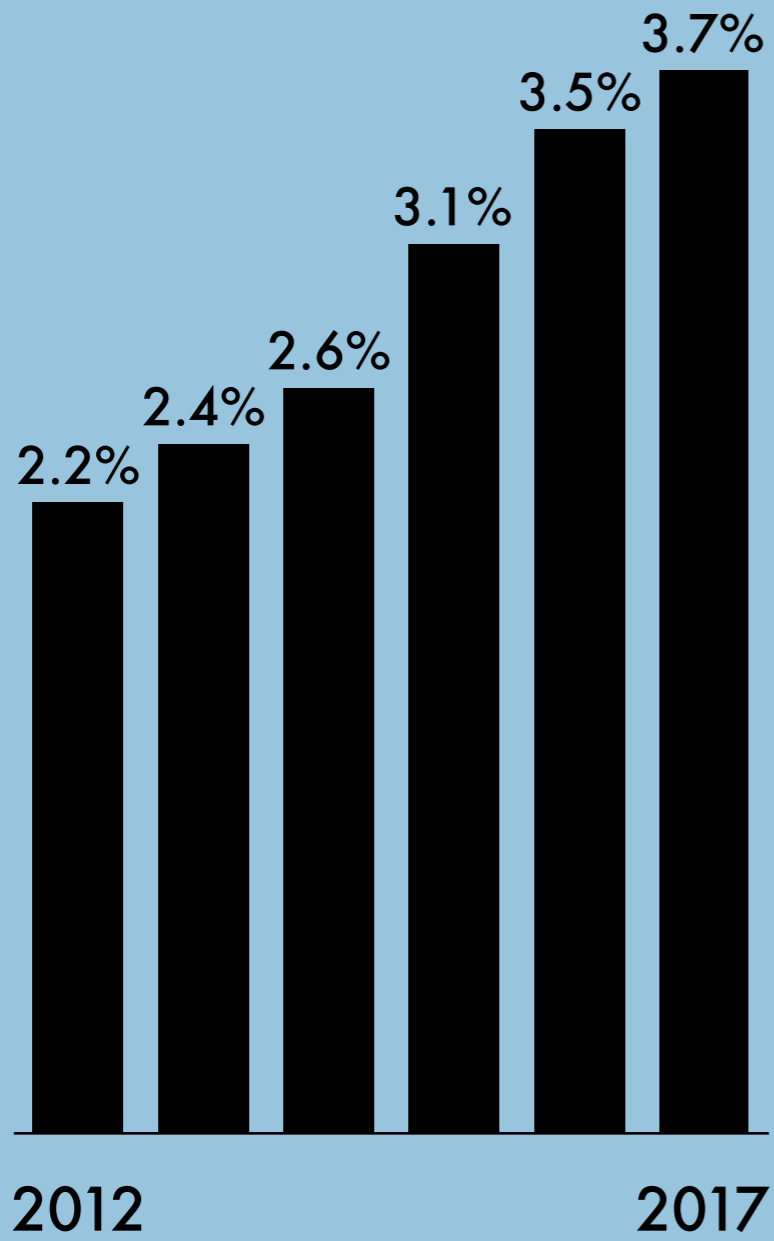
**3. COSTCO HAS MANY
OPPORTUNITIES OF ITS
OWN**

✓ **The growth of Costco.com is accelerating.**

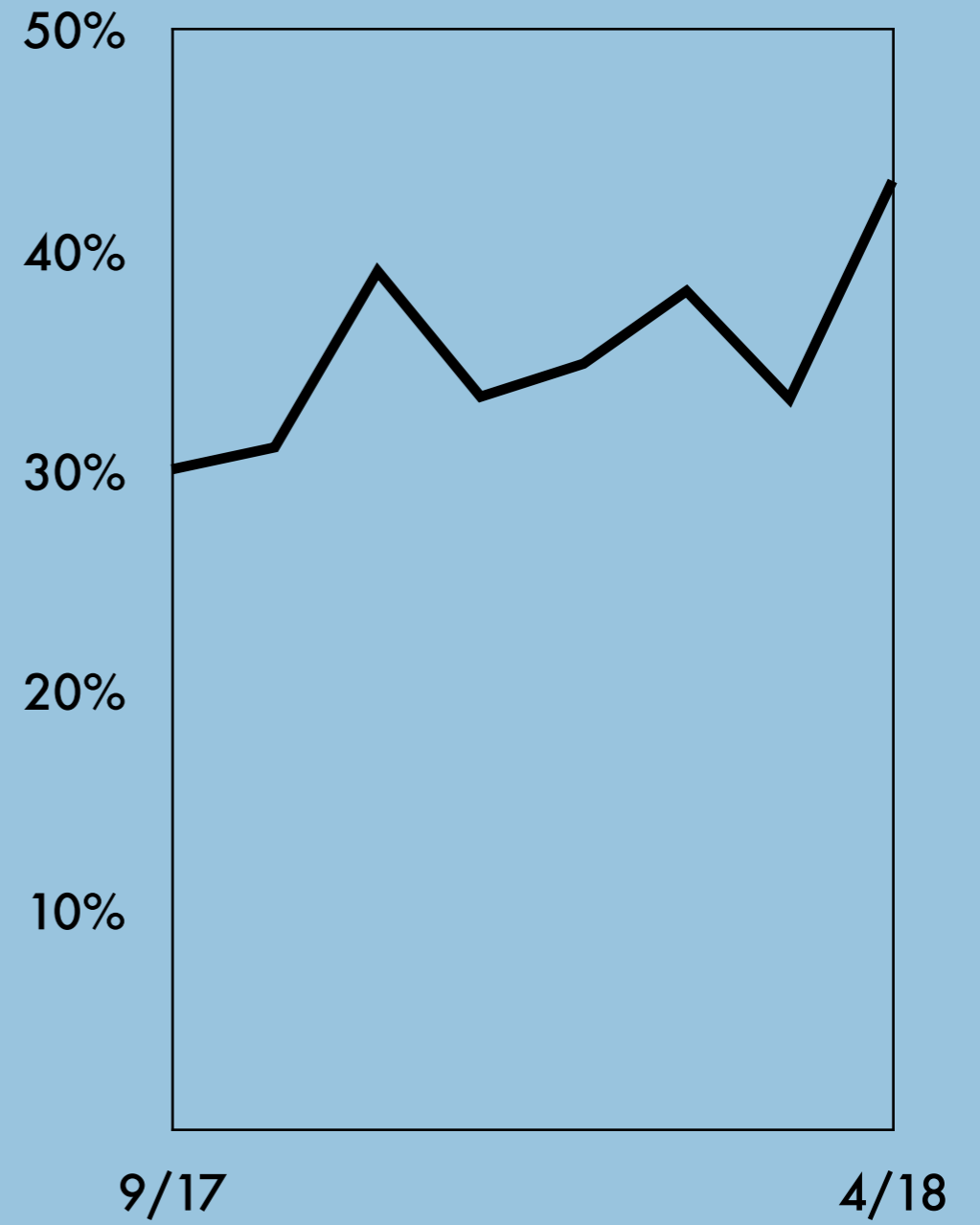
For years, Costco.com languished. But Costco executives recently concluded that e-commerce is an important part of the company's future, and have dialed up the level of investment. It's starting to pay off: online sales grew 43% year over year from April 2017, and there's plenty of low-hanging fruit left.

As online sales continue to grow and make up a greater share of Costco's total sales, e-commerce stands to become a major growth driver for Costco.

E-Commerce as % of Costco's Total Sales



Costco E-Commerce Growth



✓ **Costco's "Kirkland" store brand is a hit.**

Costco offers a range of private label products under its Kirkland Signature brand, including hair regrowth medicine, dishwashers, golf balls, and canned tuna. The products are: high-quality and low cost, higher margin, and make up an estimated 25% of total sales.

And it increases membership loyalty: customers love Kirkland products, and Costco is the only place that sells them.



bon appétit



TRENDS

Costco's Kirkland Signature Is the Best Store Brand There Ever Was

If you don't have a Costco membership, you're missing out on the best store brand food products you can get.

AUGUST 29, 2016

BY ALEX DELANY

- "They've built up their house brand to the point where people are looking for it specifically, because they trust it. That's great evidence of good branding." *Cristopher Gunter, President, The Retail Group, July 2003*

★ KIRKLAND VS TITLEIST ★




✓ 9 YARDS LONGER	DRIVER	
✓ 300^{RPM} LESS SPIN	DRIVER	
✓ SAME DISTANCE	6-IRON	
✓ SAME SPIN	6-IRON	
✓ SAME DISTANCE	WEDGE	
✓ 200^{RPM} MORE SPIN	WEDGE	
4-PIECE BALL	CONSTRUCTION	3-PIECE BALL
✓ \$15 PER DOZEN	PRICE	\$48 PER DOZEN

How Does Costco Sell 18-Year-Old Single Malt Scotch for \$38?

There's a groundswell of support among whiskey geeks for Costco's Kirkland Signature whiskies. Just two questions: Where do they come from, and why are they so cheap?

NOVEMBER 16, 2017
 story: **AARON GOLDFARB**
 photo: **LIZZIE MUNRO**



✓ **Costco is steadily opening new stores.**

Costco has opened around 25 stores per year since 2000. In recent years, more of them have been in international markets like the UK, Mexico, Japan, South Korea and Australia.

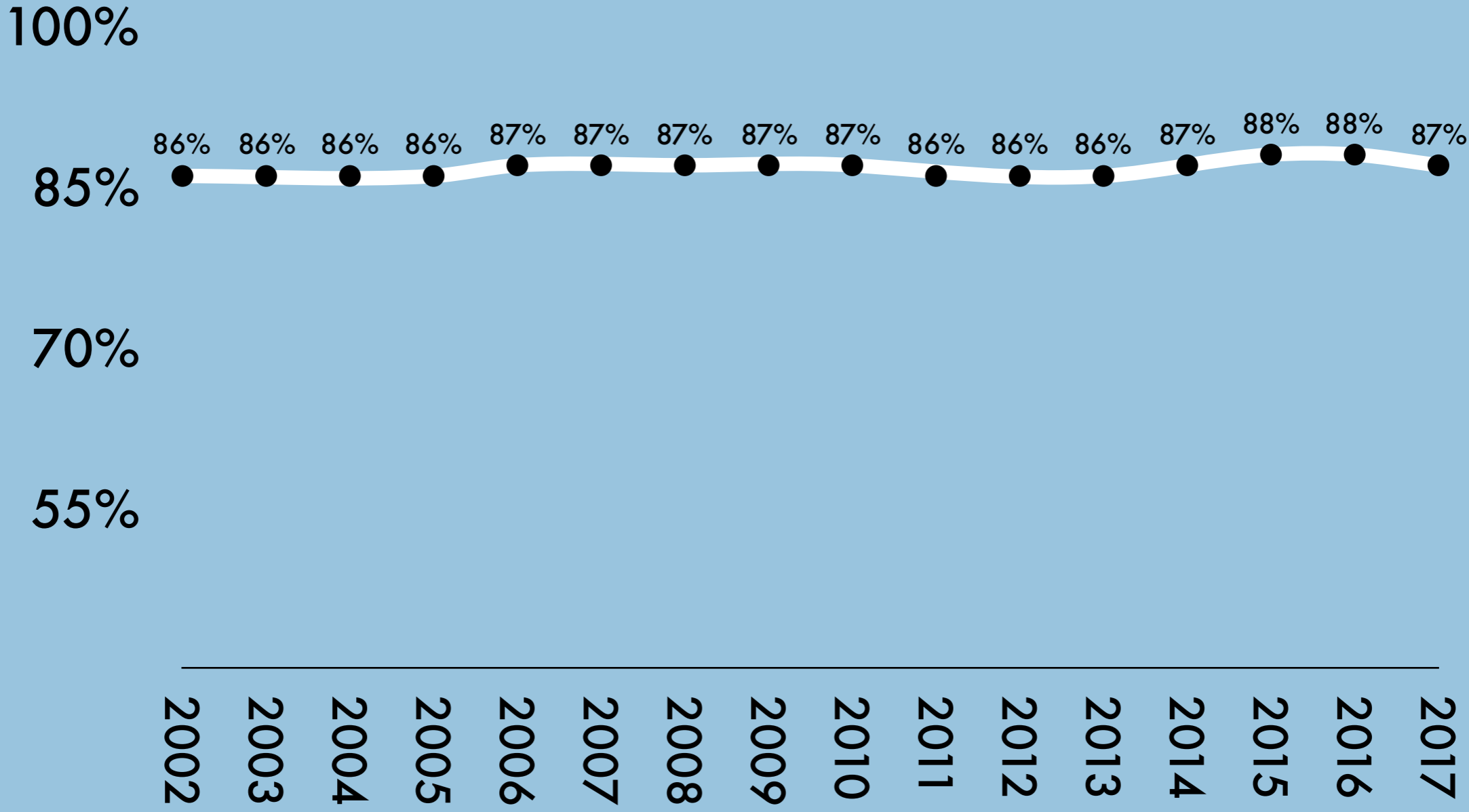
But what should really excite investors is the recent announcement of the first two—likely of many—stores in the second-largest market in the world: China.

**4. EXISTING MEMBERS ARE
RENEWING, AND NEW
MEMBERS ARE JOINING**

✓ **Renewal rates are high.**

Since 2002, the renewal rate on Costco memberships has remained remarkably stable, fluctuating between 86% - 88% (and a few points higher in the US & Canada). Renewal rates are a good gauge of the overall health of Costco's business for they indicate whether customers find value in paying for a membership. Costco's consistently-high renewal rates make it clear: their customers do.

Renewal Rate



✓ **Costco continues to add new members.**

Since 2010, Costco has added an average of 2.5m new members per year. While a lot of the growth has come from new stores, Costco has also done a good job of drawing new members to existing stores.

Total Members

50m

25m

2000

2017



Members per Store

70,000

35,000

2000

2017



✓ **Costco vs. Amazon Prime is not a zero-sum game.**

The rise of Amazon Prime has not slowed the growth of Costco memberships. In fact, there is growing evidence that customers see independent value in both memberships, and according to a recent survey*, the number of people who have both a Costco and Amazon membership have grown in recent years.

To summarize: there are reasons to believe that Costco will continue to flourish alongside Amazon.

- ✓ Costco prices are still industry-leading
- ✓ Physical retail is shrinking, but won't disappear
- ✓ Plenty of demand for new stores
- ✓ Increased sales at existing stores
- ✓ Accelerating growth of Costco.com
- ✓ Kirkland brand is a hit
- ✓ Existing members are very loyal
- ✓ 2.5m new members joining each year

CONCLUSION

For 40 years, Costco has succeeded with a simple formula: reinvest merchandising profits into lower prices and better products; be a disciplined operator; and treat customers and employees well.

That approach has worked:

CUSTOMERS

Lowest prices on high-quality goods.

EMPLOYEES

Highest wages and best benefits in the industry.

SHAREHOLDERS

22,259% return (9x better than S&P 500).

But with greater share of shopping moving online, it's fair to wonder if the company's best days are behind it.

After all, Costco is primarily a brick and mortar retailer, and Amazon has already put a number of once-prosperous retailers out of business.

Yet Costco is thriving: sales and profits are booming; membership is growing; there's strong demand for new stores; and investments in new areas (e.g., e-commerce, Kirkland, international expansion) are bearing fruit.

While Amazon may not be going away any time soon, that's okay; because as each quarter of sales, profit, and membership growth shows, neither is Costco.

THE END