



# COSTCO WHOLESALE RELATIONSHIP REPORT

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**SANDRA DEJIN & MADDISON STEVENS**

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BUS 419 - DR. JEFF HESS

# Table of Contents

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Introduction	3
Company Background & Analysis	3
Competitor Analysis	5
Chapter 1: Relationships	7
Relationship Process Model	7
Relationship Map	8
Trust Drivers	9
Satisfaction Drivers	10
Relationships Summary & Analysis	10
Chapter 2: Loyal Behavior	11
Loyal Behavior Comparison	11
Loyal Behavior Prescriptive Quad Map	12
Chapter 3: Commitment Analysis by Age	13
Commitment by Age Comparison	13
Relationship Map Age 18-30	14
Trust Drivers Age 18.30	15
Chapter 4: Loyal Behavior Analysis by Gender	16
Loyal Behavior by Gender	16
Female Loyal Behavior Comparison	17
Female Loyal Behavior Prescriptive Quad Map	18
Chapter 5: Summary of Key Research and Findings	19
Summary Recommendations	20
Slides	23

# COMPANY BACKGROUND

With an average warehouse size of 144,500 square feet and history tracking back over 40 years, Costco is today one of the largest retailers worldwide. The idea of warehouse club started with Price Club, a warehouse selling primary to business customers back in 1997. They saw an opportunity selling to selected non-business members and from there, the warehouse club industry has only grown. In 1983, Costco was a separate business unit and opened its first warehouse location in Seattle. They were the first company to go from \$0 in sales to \$3 billion in sales within their first 6 years. Price Club and Costco merged in 1993 and their flagship colors red and blue have been with them since. From Costco's 206 stores and \$16 billion in revenue in 1994, they have grown to 546 stores nationwide and reached a revenue of 152.7 billion.

Costco's product selection ranges all the way from fresh produce to furniture, and yet they keep it at a low 4,000 SKUs (stock keeping units), compared to the 30,000 SKUs that you find at a regular supermarket. The reason is their focus on the commitment to quality. Costco chooses its products based on quality, price, brand, and features, which together offers the best value for the customer. They believe value together with excellent employees provides the best recipe for success. Their goal is to continue having an entrepreneurial drive for excellence, which is reflected in their employees from managers to people on the warehouse floor. How do they attract these people of excellence? By stepping outside the box and offering higher wages and better benefits.



With strengths ranging from location to employee excellence Costco has a good baseline so excel even further in their competitive environment.

# COMPANY SITUATION ANALYSIS

## Strengths Highlights

- Location - An American multinational warehouse club that focuses on locations in urban areas.
- Private Label Brands - Due to their highly successful private label brand, they tend to generate higher returns creating significantly higher sales per store.

## Weaknesses Highlights

- Online Presence - Costco's online retail is significantly less popular with its competitors.
- Phone Application - Costco does not offer payment through their phone app for in-store purchases, which causes longer cashier lines during peak times.
- Poor Brand Visibility - Poorly labeled store. For a new customer, it is hard to orient and can cause a bad perception of the store.

## 5 Competitive Threats

- Millennials and future buyers have *different demands* and wants than current buyers
- Lack of *online presence* and accessibility compared to Amazon and Walmart
- Competitors adding more convenience to the *shopper experience* making it easier to shop
- Charging items at extremely low prices can result in a *profit deficit* for Costco
- *Pricey membership* can be a potential deterrent to customers

## 5 Competitive Opportunities

- Expand more into *E-Commerce* and create a *user friendly app* that encourages people to shop more
- Expand *more stores globally* to gain a larger portion of the untapped market
- Add *more product variety* such as healthy food alternatives to appeal to younger demographic
- Invest in *marketing* to compete with stores such as Target who have a younger demographic
- Update *food court menu* with more healthy options to attract a larger group of consumers

# COMPETITOR ANALYSIS

## Sam's Club

Sam's West, Inc. was founded in 1983 by founder Sam Walton. Sam's Club is an American chain of membership-only retail warehouse clubs.



### Top Strength:

- *Company Strategy* - Sam's club is an American chain with membership-only retail. They are positively associated with Walmart's low prices, and retail of well-known brands. They also have a more beneficial distribution system compared to its rivals, based on the fact that they are co-using distribution centers with Walmart, they are taking the lead with 173 locations.

### Top Weakness:

- *Low App Usage* - Their app has significantly lower users than its competitors Target and Walmart.

## Target

Target was founded in 1962 by George N. Dayton. Opened in Minneapolis, Target's goal was to differentiate itself from other retail stores by combining many of the best department store features — fashion, quality, and service — with the low prices of a discounter.



### Top Strength:

- *Shopping Experience* - Known as the "Target Effect", customers typically leave with more than they planned to. With clear signage, sales advisors, seasonal selection, frequent new inventory, exclusive collections, and a great private-label brand it makes it easy for customers to find things they never knew they needed.

### Top Weakness:

- *Perceived as Expensive* - Compared to their competitors the brand is seen as being more expensive because of store cleanliness, short lines, and the presence of organic healthy choices. Although this can be positive it creates a large group of people to shop elsewhere to find "better" bargains.

# COMPETITOR ANALYSIS

## Best Buy

Best Buy Co., Inc. is an American multinational consumer electronics retailer. Founded by Richard M. Schulze and James Wheeler in 1966 as Sound of Music. In 1983, it was rebranded under its current name with an emphasis placed on consumer electronics.



### Top Strength:

- *Brand Loyalty* - Due to Best Buy's competitive pricing as well as its knowledgeable staff they are able to retain customer commitment. This has maintained its competitive stance amongst new companies such as Amazon.

### Top Weakness:

- *Limited Expansion Opportunities* - Due to their specific demographic and product offerings, Best Buy may struggle to maintain the demands of its customer base. Offering more product variety and different services may help them stay competitive.

# RESEARCH PURPOSE

Costco is one of the most efficient wholesalers in the U.S. compared to other retailers. With their great success, Costco has found a system that works causing them to fall into a systematic pattern. However in order to attract future generations Costco must improve on accessibility, convenience, and increase their healthy options. In this report we will analyze the performance of Costco's current customer base in areas such as commitment as well as customer behavior trends. By observing areas where they are currently underperforming, we hope to curate recommendations for Costco's future improvement.

In this report we will reference SPSS analysis to aid in the identification of important relationships that contribute to Costco as well as their competitors' successes and weaknesses. To form a conclusion on company performance we have analyzed customer relationships, performance categories, and other variables to build a strong report that will aid Costco in success.

# RELATIONSHIP PROCESS MODEL

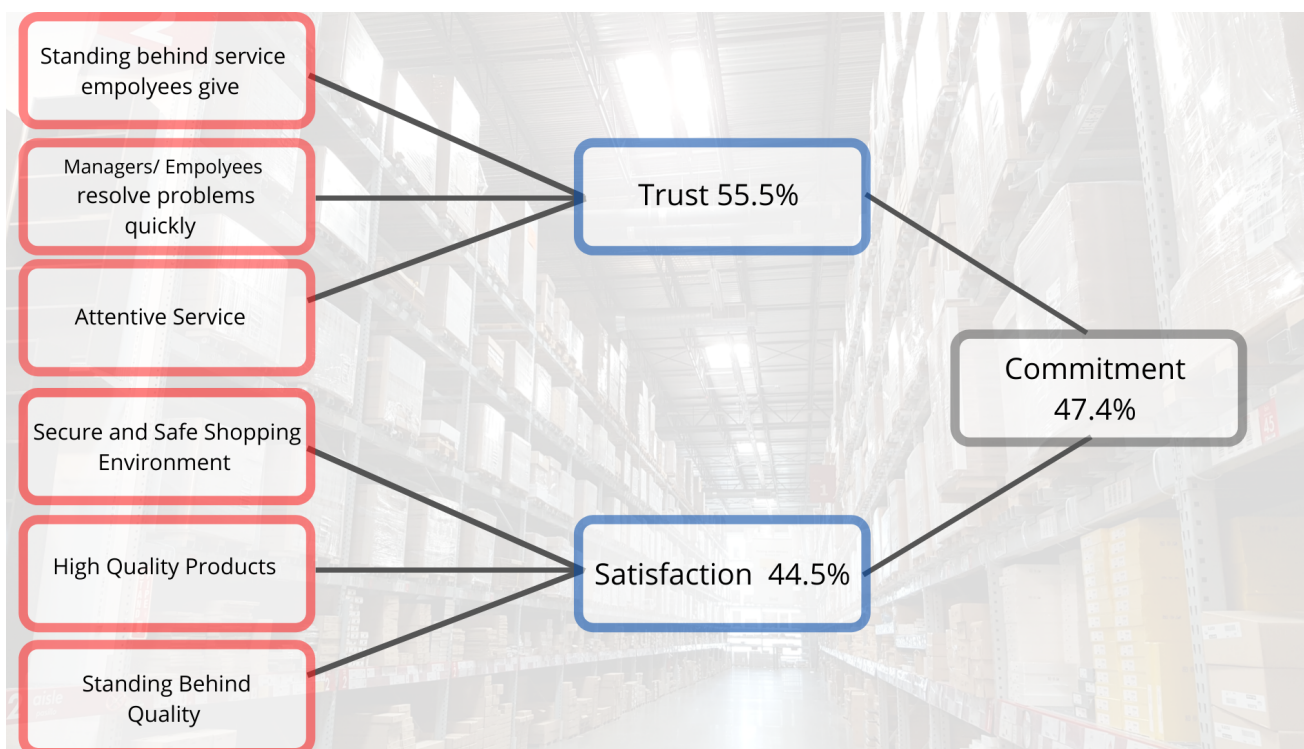
**Research Question:** *In which ways are Trust attributes and Satisfaction attributes driving customer Commitment?*

## Analysis Overview:

To uncover information about Costco's customer Commitment we used a Relationship Process Model to understand whether commitment is driven more by customer trust or by satisfaction. To take this one step farther we then analyzed the most effective survey questions that explain both drivers of commitment. By doing this we are able to better understand why customers shop at Costco, compared to their competitors.

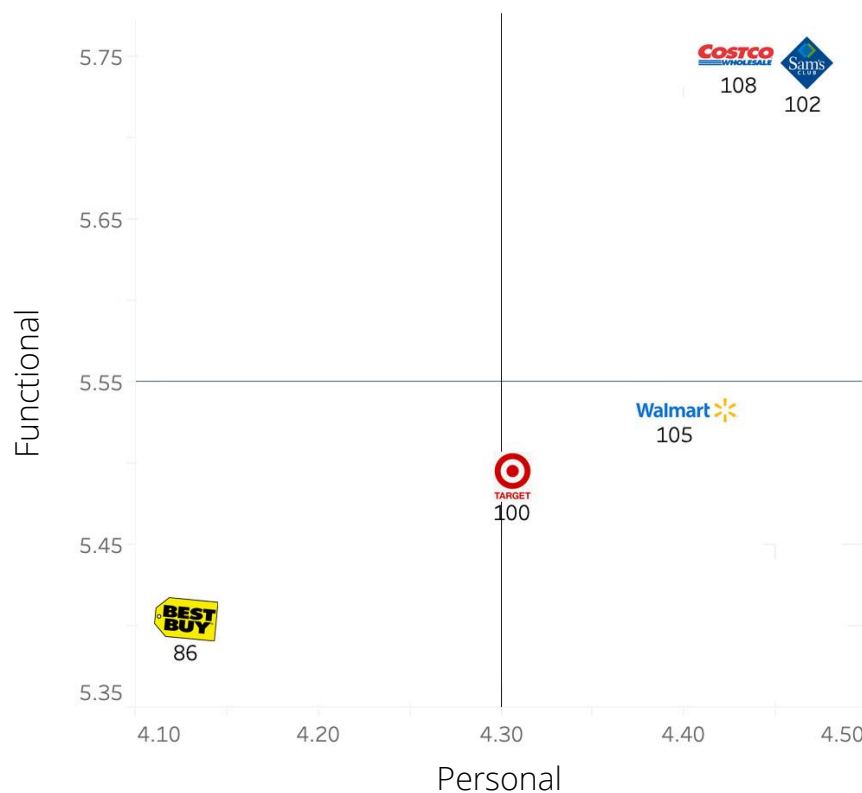
## Findings:

- Good service is a predictor of customer trust
- Secure and safe environment and quality are predictors of satisfaction
- Trust is a stronger indicator of commitment than satisfaction
- 47.4% commitment comes from trust and satisfaction



# RELATIONSHIP MAP

**Research Question:** *How does the strength and nature of Costco's relationship with customers compare to competitors?*



## Analysis Overview:

By comparing Costco's trust, satisfaction, and commitment to their competitors we were able to analyze what makes up their index score. This score is a visual representation of the company's relationship with their customers. Companies such as Best Buy in the bottom left quadrant have a low functional and personal relationship. Costco and Sam's Club both have a strong functional relationship and a strong personal relationship which explains their company success and gives them the opportunity to increase prices without losing customers.

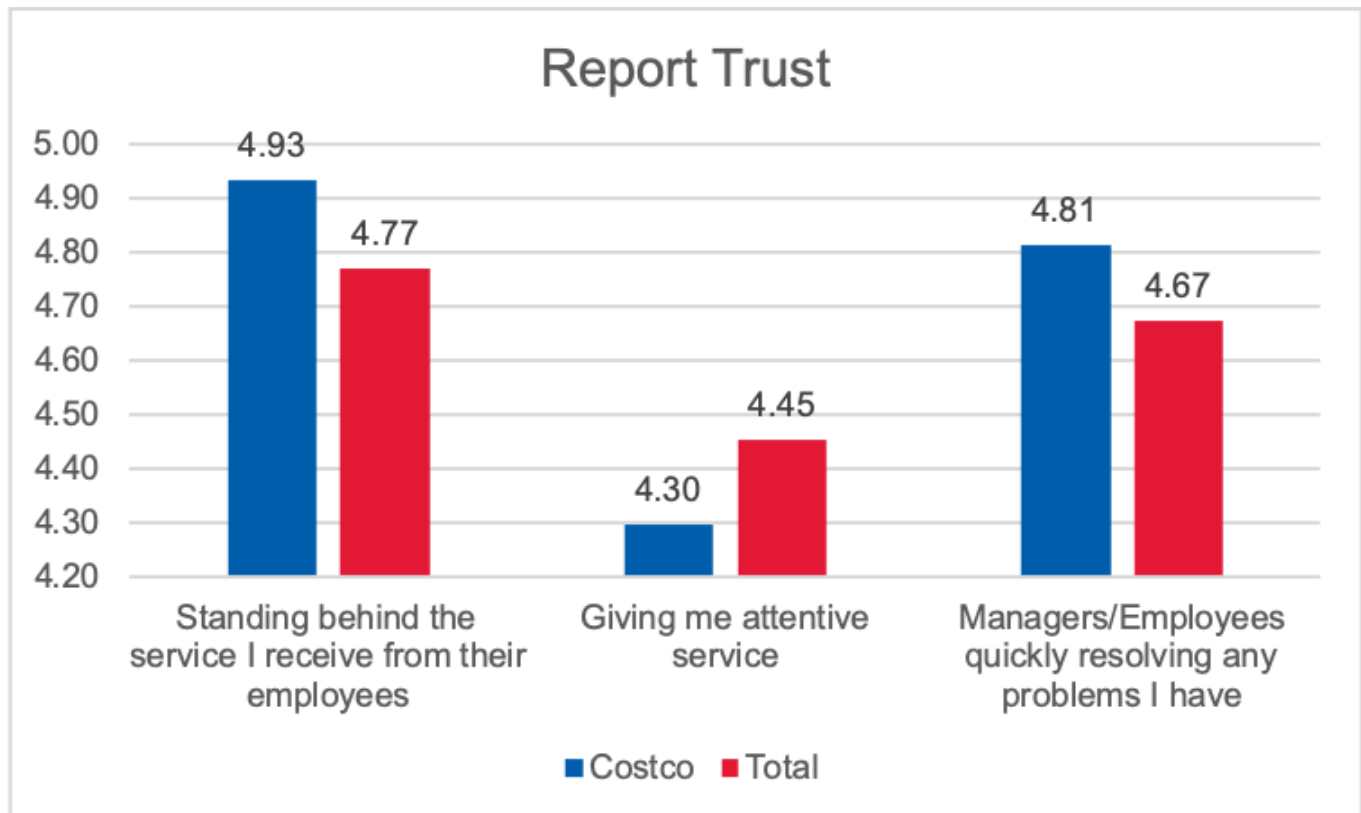
## Findings:

- Costco has a higher commitment than its competitors
- Costco has the opportunity to continue to improve its position by increasing the trust of customers



# TRUST DRIVERS

**Research Question:** *How does Costco perform in the top three factors for trust in comparison to the rest of its competitors?*



## Analysis Overview:

Taking a deeper look at Costco's top trust variables we can compare how other companies are doing in these three categories as well as see what is the leading factor that causes Costco customers to trust the brand.

## Findings:

- Costco is performing better than its competitors in standing behind the services employees gives its customers and in their managers/employees resolving problems
- Costco is performing less efficient in giving customers attentive service

# SATISFACTION DRIVERS

**Research Question:** How does Costco perform in the top three factors for satisfaction in comparison to the rest of its competitors?



## Analysis Overview:

To understand Costco's top satisfaction variables we can compare how other companies are doing in these three categories as well as see what is the leading factor that causes Costco customers to be satisfied with the brand.

## Findings:

- Overall Costco is outperforming its competitors in all top three factors for satisfaction
- To continue the increase in satisfaction Costco needs to increase the feeling of being a safe and secure place

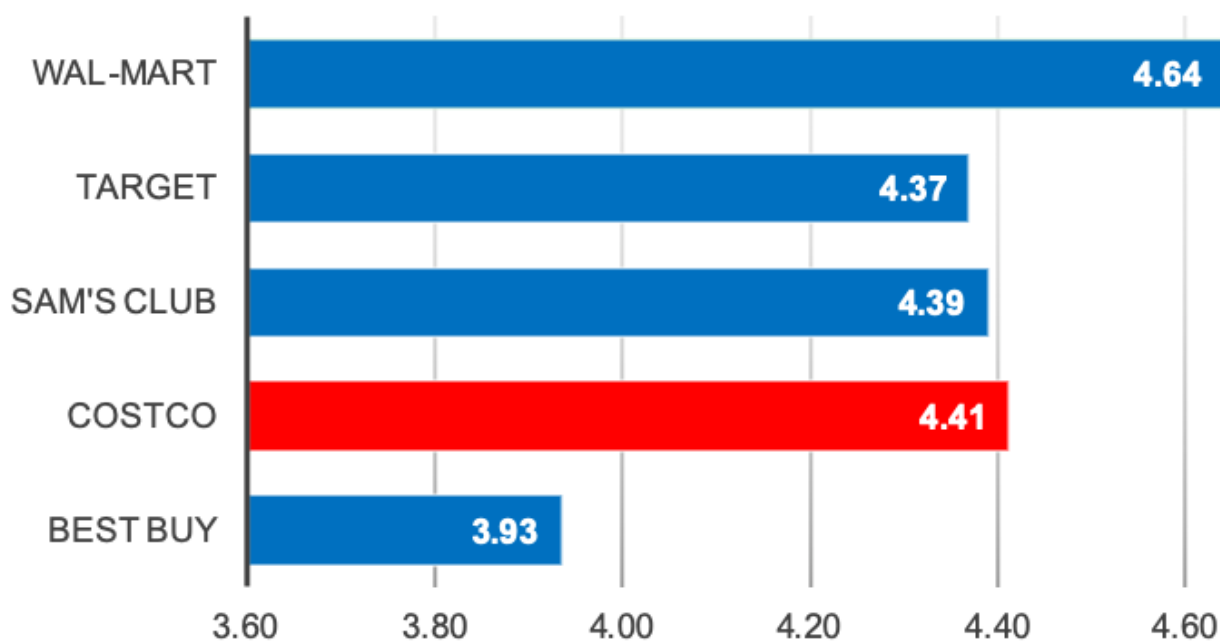
# CUSTOMER RELATIONSHIPS SUMMARY

Costco's commitment is made up 55.5% by trust and 44.5% by satisfaction, meaning our personal relationship is more important than our functional relationship in predicting our commitment, which will allow to increase profits. Overall, we are performing well in commitment. However, we are not performing best in the top three attributes predicting trust in comparison to competitors. We are lacking in giving our consumers *attentive service*, which allows Sam's Club to do better than Costco in personal relationship.

# LOYAL BEHAVIOR

**Research Question:** *How does Costco perform in loyal behavior compared to its' competitors?*

## Loyal Behavior



### Analysis Overview:

To better understand Costco customer's loyal behavior, we decided to compare how loyal Costco customers are compared to Costco's competitors customers. We wanted to know if we needed to improve and increase loyal behavior within our customer circle, to possible increase our revenue. We did find that we can improve our current situation in loyal behavior.

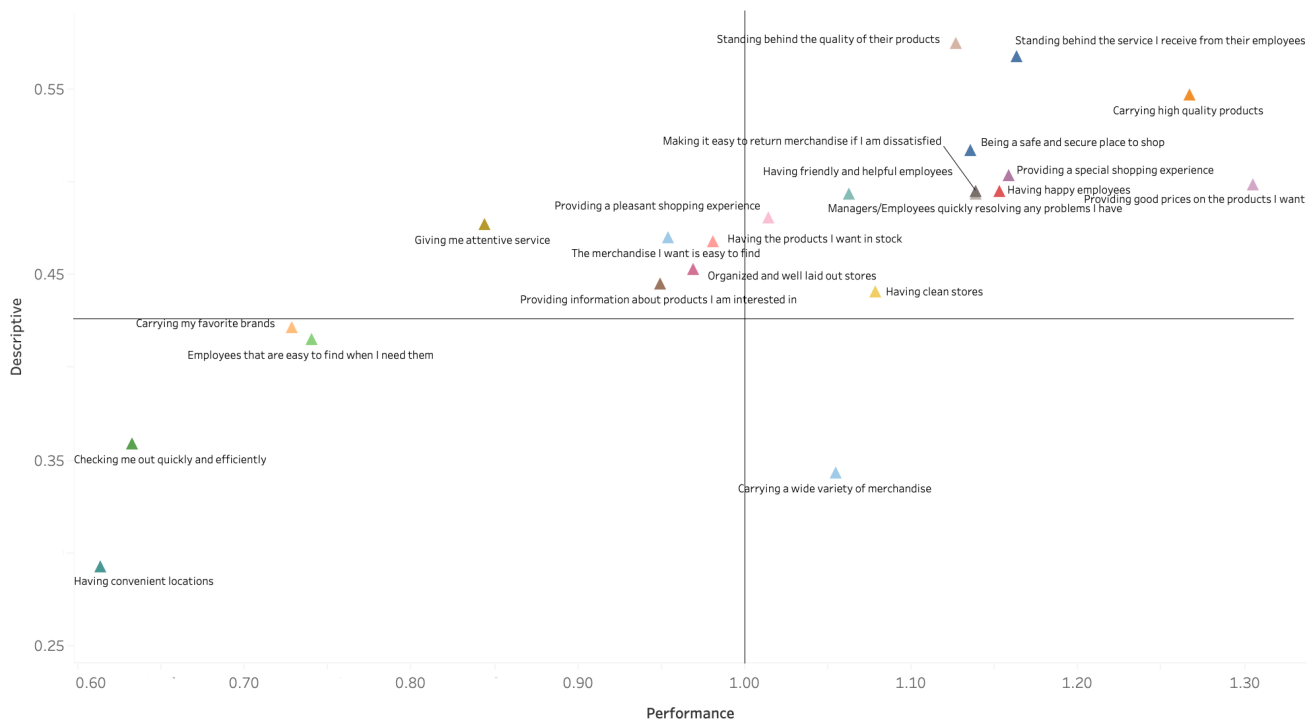
### Findings:

- Wal-Mart is doing better than Costco in customer loyalty
- Costco have higher customer loyalty than Target, Sam's Club, and Best Buy

# PRESCRIPTIVE QUAD MAP

**Research Question:** *How is Costco performing on important factors affecting customer's loyal behavior?*

LOYAL BEHAVIOR



Sum of GAP vs. sum of Predictors. Color shows details about Loyal Behavior. The marks are labeled by Loyal Behavior. The view is filtered on Loyal Behavior, which keeps 22 of 22 members.

## Analysis Overview:

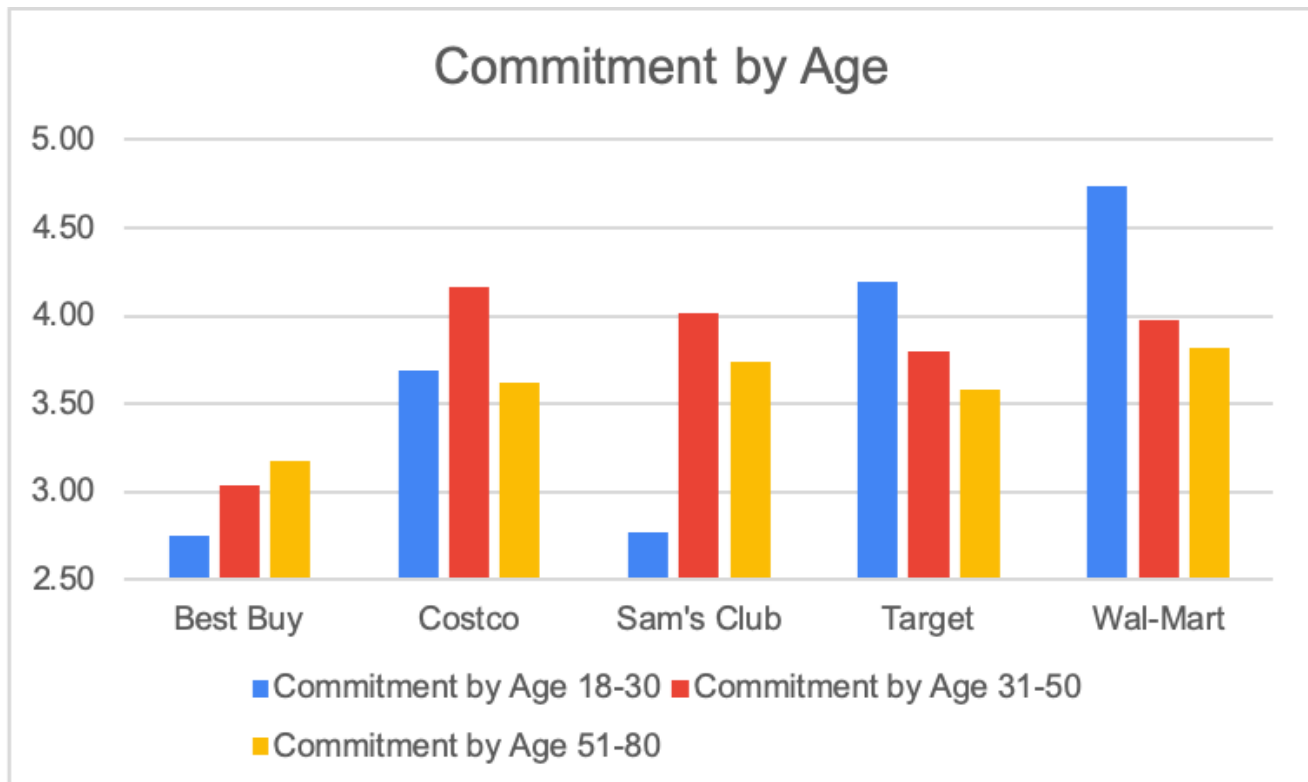
Based on our findings on our performance in loyal behavior, where Wal-Mart is currently outperforming us, we decided to perform a prescriptive quad map to analyze what factors we need to improve our current position in loyal behavior in comparison with our competitors.

## Findings:

- Things that need to be improved immediately is: giving better attentive service, make it easier to find the merchandise which the customer wants, have products in stock, have better organized and laid out stores, and provide better information about the products
- Things that Costco needs to continue with is carrying a wide variety of merchandise

# COMMITMENT ANALYSIS BY AGE

**Research Question:** *How is Costco performing on commitment by age compared to its competitors?*



## Analysis Overview:

We wanted to better understand how different ages felt about Costco and how committed they were to our company as with higher commitment we can increase prices and gain higher profits.

## Findings:

- Overall Costco has higher commitment from the ages 31-50 compared to its competitors
- Costco has less commitment in the ages 18-30 compared to Target and Wal-Mart

# COMMITMENT ANALYSIS BY AGE

**Research Question:** How does the strength and nature of Costco's relationship with customers in the age 18-30 compare to competitors?

Relationship Map Age 18-30



## Analysis Overview:

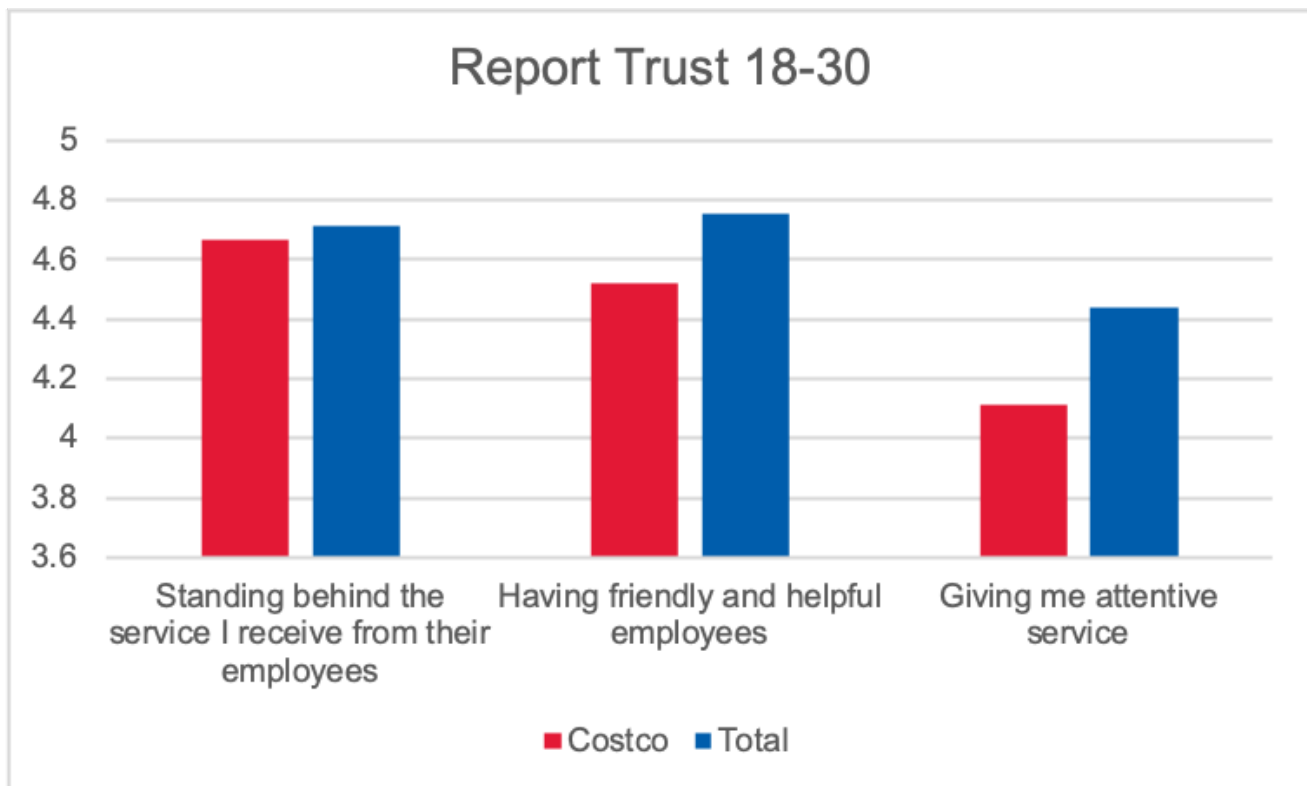
After finding that Target and Walmart are performing better than Costco in commitment in the ages 18-30 we decided to analyze why. It is important for Costco to attract customers in the ages 18-30 as our current main market will get older and be replaced by the younger generation. To understand how to improve Costco's relationship with the ages 18-30 we needed to understand if Costco's low commitment score was caused by low trust or low satisfaction.

## Findings:

- Costco is performing well in functional relationships
- Costco is not performing well in personal relationships
- Costco's customers in the ages 18-30 have significant lower trust compared to their competitors

## COMMITMENT ANALYSIS BY AGE

**Research Question:** *How does Costco perform in the top three factors for trust in ages 18-30 in comparison to the rest of its competitors?*



### Analysis Overview:

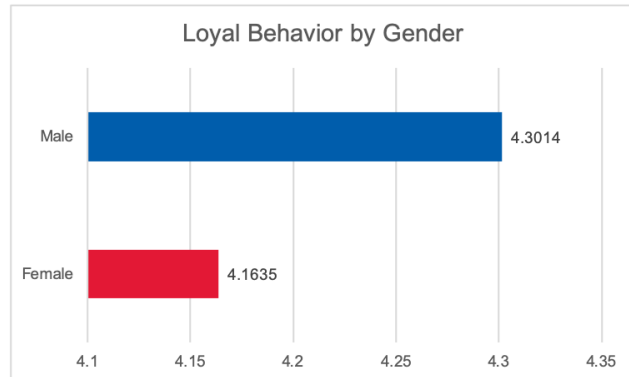
After concluding that Costco is lacking in personal relationships with their customers in the ages 18-30, we chose to evaluate the top three components of trust in the ages 18-30 and how Costco compares to its competitors.

### Findings:

- Overall Costco is performing worse than its competitors in the top three trust factors: Standing behind the service received from employees, having friendly and helpful employees, and giving attentive service

# ANALYSIS OF COSTCO LOYAL BEHAVIOR BY GENDER

**Research Question:** *How is Costco performing on loyal behavior by gender?*



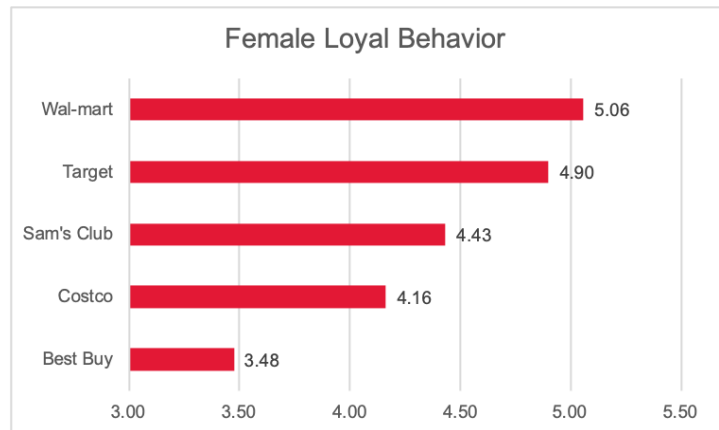
**Analysis Overview:**

To understand if females or males was the major source of revenue we compared the Costco customer's loyal behavior by gender.

**Findings:**

- Female loyal behavior is significantly lower than male loyal behavior within Costco's customers.

**Research Question:** *How is Costco performing on female's loyal behavior compared to its competitors?*



**Analysis Overview:**

After finding that females had significantly lower loyal behavior than males, we wanted to know how female Costco customer's loyal behavior compared to its competitors. As loyal behavior affects revenue, we wanted to analyze if their was margins to increase revenue by increase loyal behavior from females.

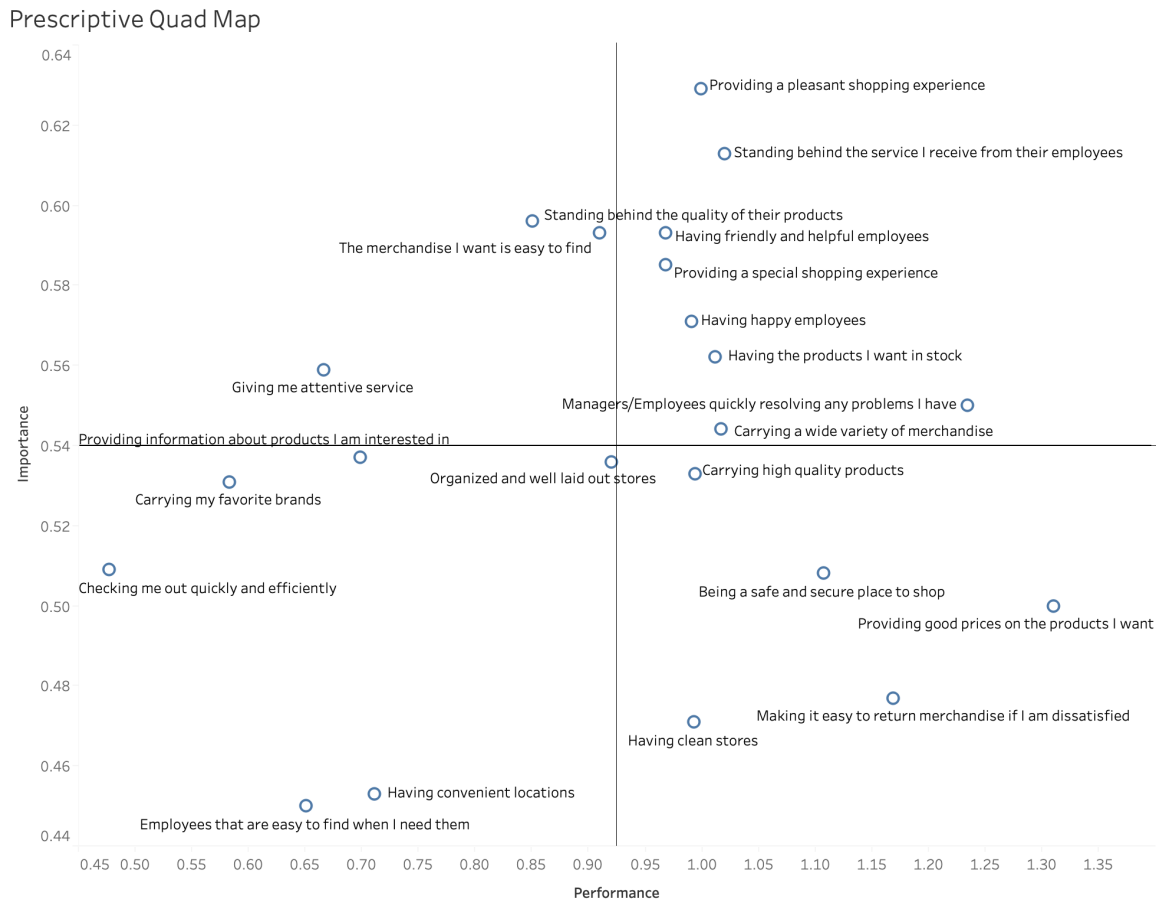
**Findings:**

- Female loyal behavior is significantly lower within Costco's customers compared to its competitors.



# ANALYSIS OF COSTCO LOYAL BEHAVIOR BY GENDER

**Research Question:** *How is Costco performing on important factors affecting female customer's loyal behavior?*



## Analysis Overview:

After finding that Costco is underperforming in loyal behavior within the female gender, we choose to analyze how to improve our performance by conducting a prescriptive quad map. Left upper quadrant let us know important factors that our competitors are performing well in, which we need to improve to increase our female customer's loyal behavior.

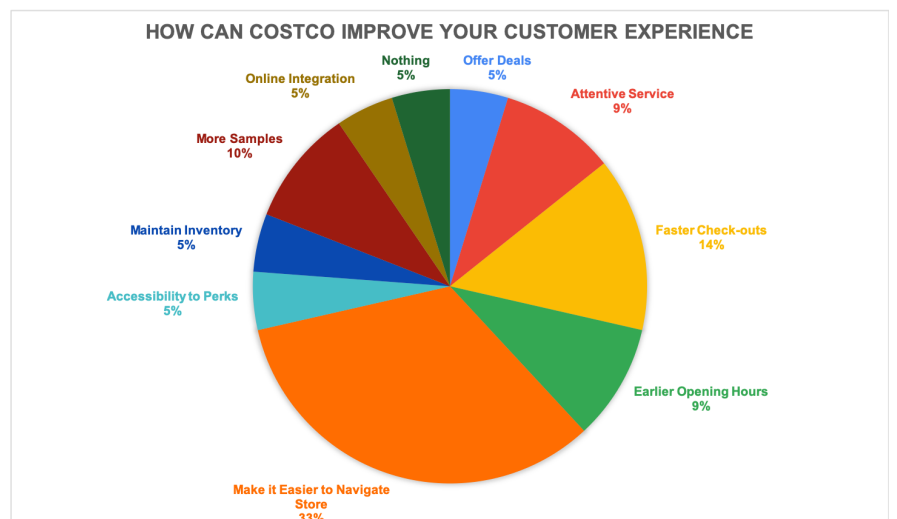
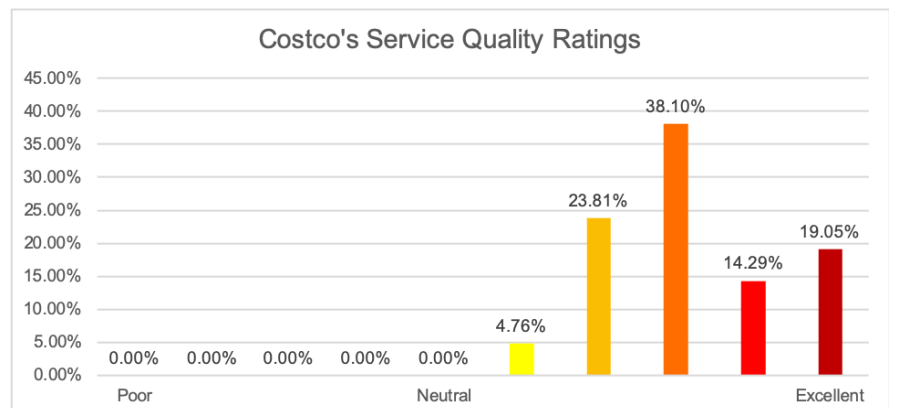
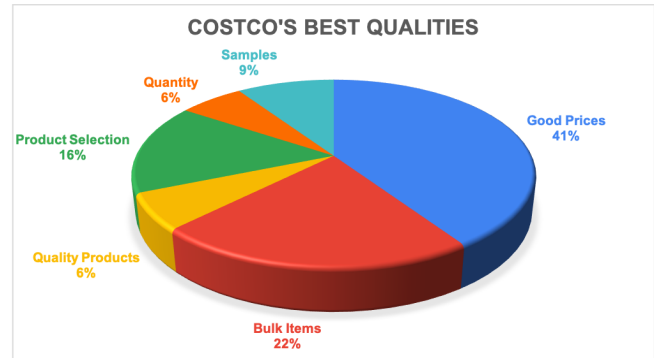
## Findings:

- Costco need to improve standing behind the quality of their products, giving attentive service, and make their merchandise easy to find to increase revenue from female customers
- Factors, such as, checking out quickly, carrying favorite brands, having convenient locations, employees being easy to find should not be a priority to improve to increase loyal behavior from Costco's female customers.

# KEY RESEARCH FINDINGS

Throughout our time working with Costco, we have learned that the company is highly valued in commitment, customer satisfaction, and loyal behavior compared to its competitors. We decided to continue analyze Costco's customer behavior and our findings revealed:

- According to our research, good prices and bulk items are Costco's best qualities
- Overall Costco have a high Service Quality Rating, but it could be improved as 38% rated Costco's service as 8 out of 10
- According to Costco's customers, Costco's customer service experience can be improved by making it easier to navigate Costco stores. Additionally, it is recommended to improve faster check-outs and provide a more attentive service.



# SUMMARY RECOMMENDATIONS

Throughout our research, we have found that Costco have overall high commitment to its customer compared to its competitors. However, their customer relationships are mainly functional and less personal. The following findings and recommendations are based on our collected data from our survey, as well as, from data provided by Dr. Hess. Our data has been analyzed from several different directions and through separate demographic lenses.

In our research, we found that Costco is lacking in personal relationship. They are performing slightly lower overall, but they have significantly lower trust from customers in the ages 18-30. We discovered that we are underperforming in the top three attributes for trust from consumers aged 18-30 compared to our competitors: *standing behind service, having helpful and friendly employees, and giving attentive service*. Additionally, we found that our male consumers have a higher loyal behavior than our female consumers, as well as, that there is a major gap in female loyal behavior between Costco and our top performing competitors. We identified that the factors need to be improved to increase loyal behavior from our customers are: *making it easier to find products, giving attentive service, and standing behind quality of products*.



# RECOMMENDATIONS

## **Recommendation #1 - Dedicate more resources to customer service**

- To maintain dominance amongst Costco's competitors, the brands Trust index score needs to be increased. This can be done by improving skills within customer service.
- Costco would benefit from training employees on improved customer service skills as well as having more employees on the floor to help customers and resolve customer issues.

### **Plan**

- Increasing customer service will generate higher customer trust
- Increase trust from customers age 18-30
- Increase the amount of employees on the store floor to increase availability to answer questions and resolve issues
- Adding more points of customer interactions by making employees more accessible will help customers to feel more satisfied in their shopping experience

### **Benefits**

- If Costco dedicates more resources to customer service, they will see an increase in customer trust. An increase in customer trust will allow Costco to improve their personal relationship with their customers
- With an increase in customer trust, which can allow an increase in prices without losing customers, increase profits
- Customers in the ages 18-30 value more attentive service and helpful employees, which if succeeded can increase the amount of customers in the ages 18-30. Costco needs to attract this age range as they will get older over time and Costco can lose their current market.
- Customer loyalty will increase creating a dedicated commitment to the brand and ways it chooses to expand or change in the future. The likelihood of future generations returning would increase as well

### **Costs**

- To properly train employees on appropriate customer service skills, formal training may be needed which could cost the company a significant amount upfront.
- If instead, Costco is struggling with customer service due to a lack of employees, they may need to increase their workforce to meet the needs of the customers.

### **Risks**

- Customers may not take advantage of new customer service resources once put in place. By putting emphasis on Costco's customer service this may cause a lack of funds/resources to other weak areas.



# RECOMMENDATIONS

## **Recommendation #3 - Make Store Navigation Easier**

- According to the Loyal Behavior Prescriptive Quad Map both overall and the female specific, Costco shows weakness in organizing and navigating their stores compared to their competitors

### **Plan**

- Increase signage per aisle to increase the ease for customers to know where to find what
- Update website with aisle number and location per item for customers to easier find product before arriving
- Increase amount of employees on the floor to increase availability to direct customers to specific items around the store location

### **Benefit**

- By making their stores easier to navigate, customers will increase their loyal behavior. This means that customers are less likely to switch to a substitute store and therefore revenue will increase
- With easy navigated stores, females will increase their loyal behavior to Costco. This will create a more evenly distributed customer base between gender

### **Costs**

- Increased signage in stores will increase material costs
- A automated inventory system that includes location is a large investment for Costco

### **Risks**

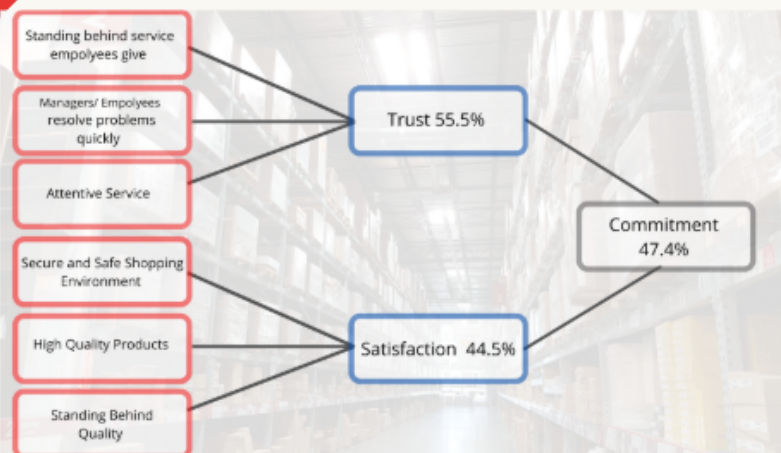
- If inventory is not constantly updated and control checks are performed a large deficiency can occur, which can cause lack of items and loss of revenue
- Costco's constant change of inventory can lead to signage not being updated in time, which can cause misleading information and dissatisfaction

## SLIDES

# Costco Wholesale Relationship Report

Sandra Dejin & Maddison Stevens

## Relationship Process Model



### Findings:

- Good service is a predictor of customer trust
- Secure and safe environment and quality are predictors of satisfaction
- Trust is a stronger indicator of commitment than satisfaction
- 47.4% commitment comes from trust and satisfaction

## SLIDES

## Relationship Map



### Findings:

- Costco has a higher commitment than its competitors
- Costco has the opportunity to continue to improve its position by increasing the trust of customers

## Trust Drivers



### Findings:

- Costco is performing better than its competitors in standing behind the services employees gives its customers and in their managers/employees resolving problems
- Costco is performing less efficient in giving customers attentive service



## SLIDES

## Satisfaction Drivers



### Findings:

- Overall Costco is outperforming its competitors in all top three factors for satisfaction
- To continue the increase in satisfaction Costco needs to increase the feeling of being a safe and secure place

## Loyal Behavior

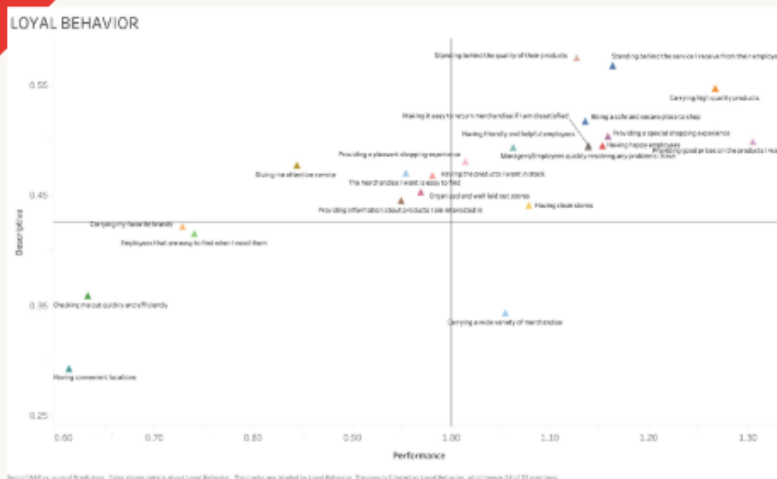


### Findings:

- Wal-Mart is doing better than Costco in customer loyalty
- Costco have higher customer loyalty than Target, Sam's Club, and Best Buy

# SLIDES

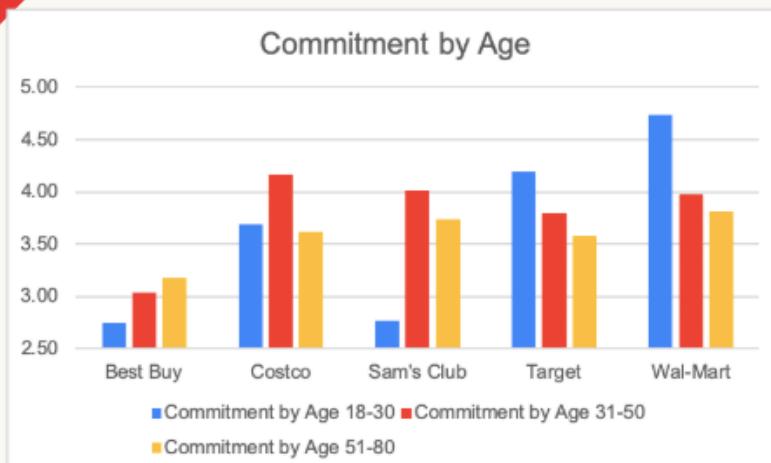
## Prescriptive Quad Map



**Findings:**

- Things that need to be improved immediately is: giving better attentive service, make it easier to find the merchandise which the customer wants, have products in stock, have better organized and laid out stores, and provide better information about the products
- Things that Costco needs to continue with is carrying a wide variety of merchandise

## Commitment Analysis by Age



**Findings:**

- Overall Costco has higher commitment from the ages 31-50 compared to its competitors
- Costco has less commitment in the ages 18-30 compared to Target and Wal-Mart

# SLIDES

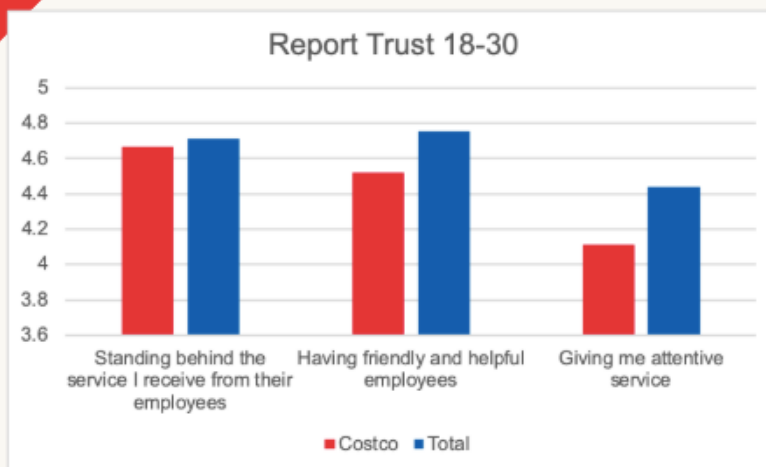
## Relationship Map for the Age 18-30



**Findings:**

- Costco is performing well in functional relationships
- Costco is not performing well in personal relationships
- Costco's customers in the ages 18-30 have significant lower trust compared to their competitors

## Trust Drivers for the Age 18-30

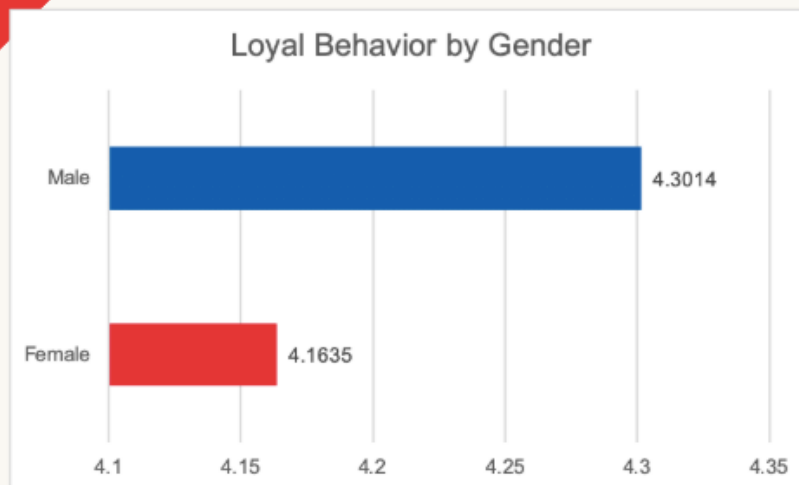


**Findings:**

- Overall Costco is performing worse than its competitors in the top three trust factors: Standing behind the service received from employees, having friendly and helpful employees, and giving attentive service

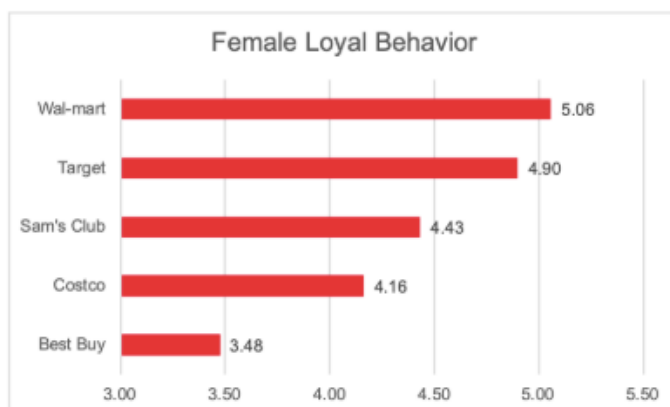
## SLIDES

## Loyal Behavior by Gender

**Findings:**

- Female loyal behavior is significantly lower than male loyal behavior within Costco's customers.

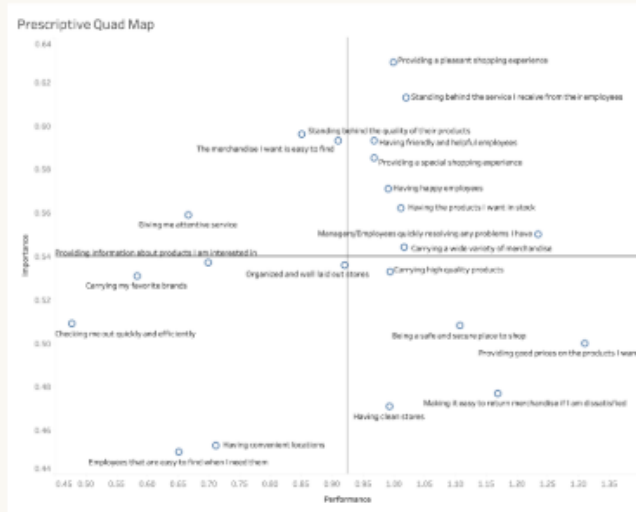
## Female Loyal Behavior

**Findings:**

- Female loyal behavior is significantly lower within Costco's customers compared to its competitors.

## SLIDES

## Prescriptive Quad Map for Females



### Findings:

- Costco need to improve standing behind the quality of their products, giving attentive service, and make their merchandise easy to find to increase revenue from female customers
- Factors, such as, checking out quickly, carrying favorite brands, having convenient locations, employees being easy to find should not be a priority to improve to increase loyal behavior from Costco's female customers