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# MARKETING STRATEGY MANAGEMENT OF COSTCO

## Analysis and comparison to S-Group

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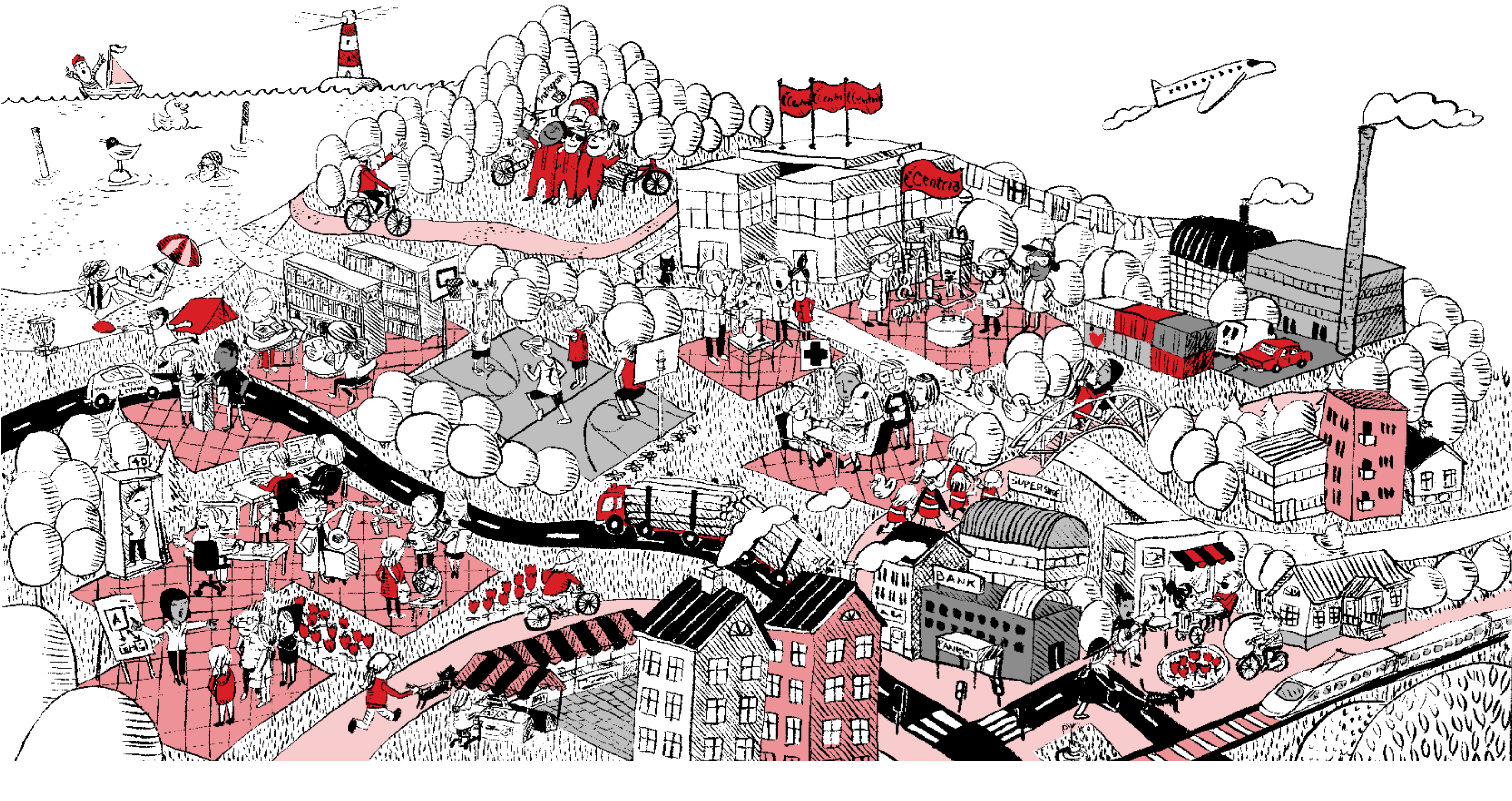

**ABSTRACT**

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Costco is the second large wholesaler retailers all over the world. There must be some reasons why Costco can achieve success in this highly competitive world. This thesis mainly introduces the success factors of Costco. After that, analysis and comparison of the difference and same points of S-Group. S-Group is one of the biggest retailers in Finland. Does S-Group use this kind of marketing strategies. The advantages, disadvantages, SWOT and so on will also be analyzed. The aims of this thesis were to find out the most suitable marketing strategies for S-Group. S-Group is one of the largest enterprises in Finland and it will be a representative in this thesis. Economic globalization is not only an opportunity, but also a challenge for all local supermarkets. In this case, what I mentioned about marketing strategies in my thesis will be a good example for those local supermarkets. In the first chapter, I have briefly introduced the reason why I want to write this topic for my thesis and the limitations, reliability, and validity of my thesis. In the second chapter, I have briefly introduced the backgrounds of Costco, such as company history, development states. In the third chapter, I have briefly explained some related theories that I have used in my thesis. In the fourth chapter, I have written something about Costco, such as product, price, member and so on. In the fifth chapter, I have written some marketing strategies about S-Group and some strategies were compared with Costco. After that, I have also analyzed how S-Group can learn from Costco. In the last chapter, I have made a conclusion of all my findings.

Through all my research, I found that Costco and S-Group have many successful strategies for its success. However, the two key points are very important inside the marketing strategies. The price is the most important key point.  Another key point is quality. When other retailers can meet these requires, their business are on the way to success.

**Key words**
Costco, marketing strategy, S-Group

## CONCEPT DEFINITIONS

### 4Ps

Product, Price, Place, Promotion

### SG&A Expense

The full name of SG&A Expense is selling, general and administrative expenses, also called operating expense. SG&A Expense generally known as the costs of operating a business. The expenses always include rent and utility costs, marketing costs, office equipment and employee's welfare.

### O2O

It means online to offline

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# 1 INTRODUCTION

In August 2019, the first Costco opened in China with quite a scene. Thousands of people stood in a long line to get Costco membership cards, and some citizens even rushed to get in line in the early morning. This caused local traffic jams in those areas. In less than three hours, Costco's staff announced to limit passenger crowding, and six hours later, announced the suspension of business. At first, many people guessed that the flow of people cannot keep for one month and many people went there just for freshness. After all, this is one of the first subsidiaries in China.

However, according to reports, Costco is still very busy every day one year later. This phenomenon has led many people to launch membership. Because they cannot go into the Costco, even if they held a membership card. This is rarely seen even in a populous China. The marketing strategy behind this aroused my interest.

PICTURE 1. The first opening day of Costco in Shanghai 2019 (Sohu 2019)

The purpose of my thesis is to study Costco's marketing strategies. What can we learn from this kind of marketing strategies? What effect this marketing model has on the local supermarkets, such as Lidl, Prisma and other supermarkets in Finland.

This paper has a lot of potential limitations. Firstly, because the I am not a Costco staff member, and cannot get in touch with Costco internal staff, all the data collected are second-hand materials, including Internet search, reading of related books and literature. These will contain certain subjective biases. Secondly, due to the limitation of ability, I cannot accurately analyze the root causes of many problems. But I will try my best to make this article objective and provide some references for other Finnish supermarkets. Nevertheless, related industries cannot fully replicate Costco's market strategy. The huge differences in national culture, regional differences, and consumption habits in different countries.

# 2 COSTCO BACKGROUND

In this chapter, some basic information of Costco will be introduced, the history of Costco including Costco's company registration time, company nature, scale, number of employees, quality of employees. Then, Costco's development status will be introduced, including the company's development speed and achievements.

## 2.1 Company history of Costco

Costco Wholesale Corporation and its subsidiaries were founded in 1983 in Seattle, Washington. The Price Company, which had first invented the membership warehouse theory, was absorbed by Costco in 1976. After that, they become Price/Costco, Inc. At the beginning of 1997, Price/Costco, Inc firstly divided almost all non-warehouse assets to Price Enterprises, Inc. after that, it changed its name to Costco Companies, Inc. At the end of August 1999, the company changed its name to Costco Wholesale Corporation and moved from Delaware to Washington. The symbol of Costco is “COST" on the Nasdaq Global stock market. (Costco 2019.)

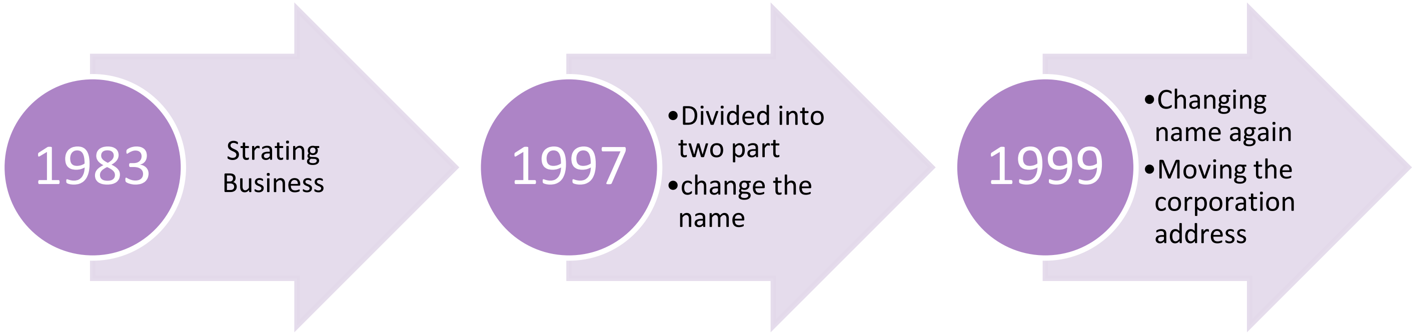



FIGURE 1. The history of Costco (adapted from Karunakaran 2008)

Nowadays, it becomes the second large wholesaler retailers all over the world.  Many products of Costco mainly under the signature of " Kirkland ". They attract potential customers through good quality with competitive prices rather than spending a lot on advertising. Based on market research data, roast chicken and toilet paper are some of Costco's most popular products because of their low price, good quality, and large quantity. (Rahman 2020 [Kissinger 2017].)

Providing high salary, and good welfare to employees are appreciated than other retailers. The average salary for retailer salesperson is $11.39 per hour in the US. But the average salary of Costco was about $20 per hour in 2019. (Rahman 2020 [Kissinger 2017].)

In addition, the company also provides most of employees' healthcare insurance (Rahman 2020 [Kim 2019].) At the end of 2020, Costco totally had 273,000 employees all over the world, which including 156,000 full-time employees and 117,000 part-time employees. Compare with 2019, they increased almost 19000 employees. (Costco 2020.)

TABLE 1. The labor in Costco between 2018 and 2020 (Costco 2020.)

**Labor**

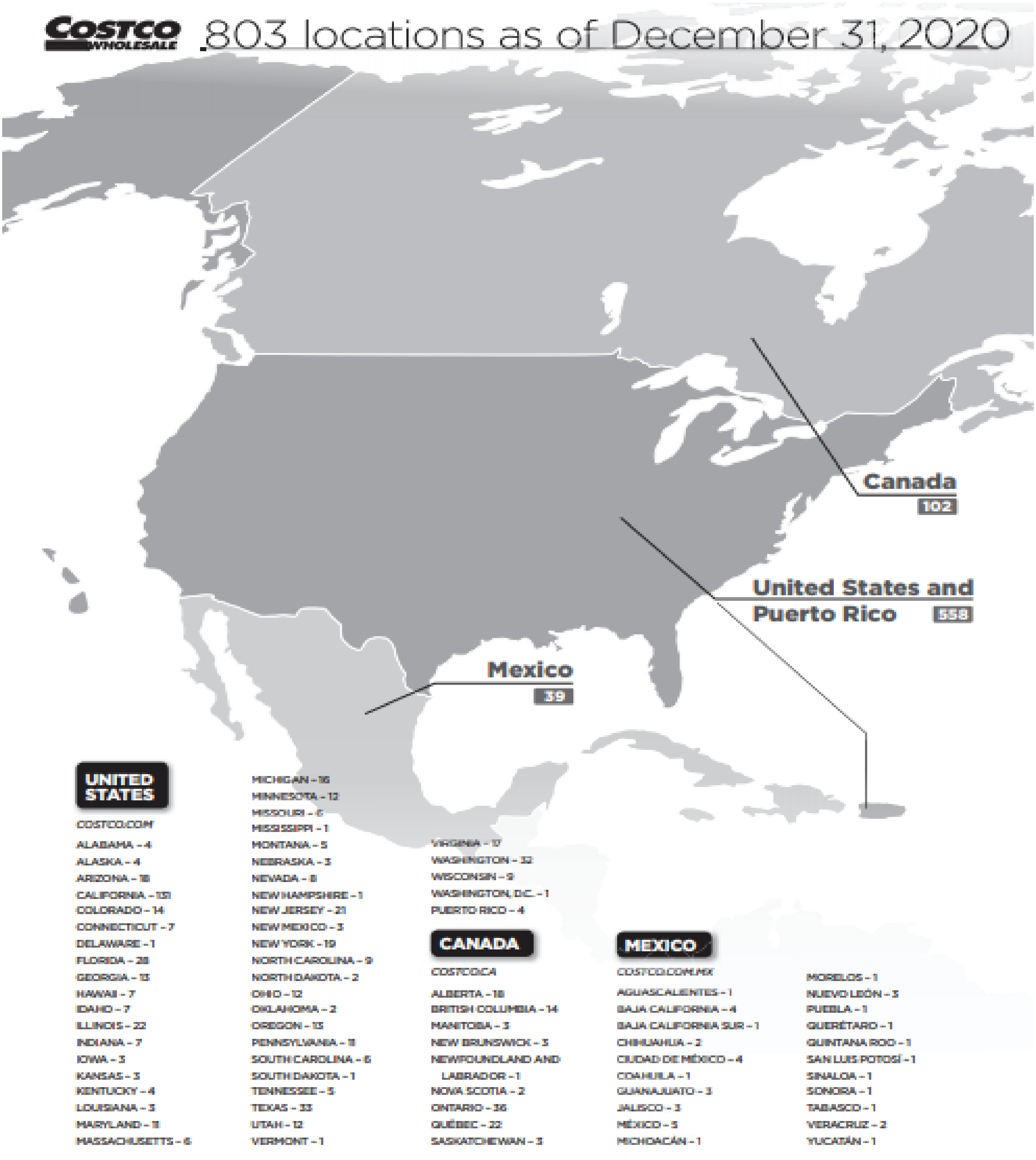
Our employee count was as follows:

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Full-time employees | 156,000 | 149,000 | 143,000 |
| Part-time employees | 117,000 | 105,000 | 102,000 |
| Total employees | 273,000 | 254,000 | 245,000 |

Approximately 17,100 employees are union employees. We consider our employee relations to be very good.

## 2.2 The development status of Costco

Nowadays, Costco becomes the second-largest retailer in the world. It runs 803, 782, and 762 locations all over the world at the end of 2020, the beginning of September 2019 and the beginning of September 2018, respectively. Most of them located in the United States, Canada, Mexico. They also expend their business to European and Asian countries many years ago. Costco also runs Electronic Commerce in most above countries. (Costco 2020.)




PICTURE 2. The location of Costco all over the world (adapted from Costco 2020)

In the fiscal year 2020, Costco has taken Innovel over, which is a logistics provider. This company mainly delivers and installs large goods, such as furniture, appliances, and sports equipment. Costco also holds a minority stake in Navitus which is a pharmacy benefits manager. This company is responsible for taking health care, optical and hearing aid divisions. Those two-investment both passing the savings to the customers. (Costco 2020, 3-5.)

In the fiscal year 2020, Costco's net sales were $163 billion. It increased up to 9% and comparable sales raised 8%. The net income of Costco was $4.0 billion in 2020. In addition, the company received membership of $3.54 billion from its 100 million members all over the world. The e-commerce business also saw a 50% increase in sales. Prescription drugs, electronic products and office supplies play a very important role in the growth of the e-commerce business. (Costco 2020, 3-5.)

# 3 RELATED THEORIES AND BASIC CONCEPT ON MARKETING MANAGEMENT

Different people think the definition of marketing is different. Philip Kotler thinks that marketing is a process of satisfying human needs, such as a single person or a group of people wants to get something through creating, offering or freely exchange the products or services with others. However, the American Marketing Association thinks that marketing is an organization's function, like it manages customer relationships, delivers products or services to customers, and the final goal is to make benefits to the organization and its stakeholders. (Karunakaran 2008, 2-10.)

In my opinion, marketing is a process of finding needs, creating products, or providing services to earn money from users. Within this process, marketing research, CRM and so on always needed.

## 3.1 Core marketing concept

There are several important factors in core marketing concepts: needs, wants, and demands; marketing offers; value and satisfaction; exchanges, transactions, and relationships; and markets. All these core concepts are connected one by one. Each factor will be explained in the following. (Karunakaran 2008, 2-10.)

All people are born with needs, and it is not created by marketing people. When people need something, they always show that they lost something. Physiological needs always coming first, and it is the basic needs. For example, food, clothing, warmth, shelter and safety. After that, people need belongings and closeness. Then, people need to get an education to become knowledgeable, in order to earn money and achieve other goals. (Karunakaran 2008, 2-10.)

Wants shows the human needs. wants are always determined by culture and individual personality traits. For example, when Europeans feel hungry, they want to eat bread, potatoes, salmon and something they eat as main food. However Asian people will eat rice, cooked vegetables or noodles. This because their food culture is different. The main difference between needs and wants is that human's needs are limited, and human's wants are unlimited. (Karunakaran 2008, 2-10.)

Wants can become demand only when people want something and willing to pay for it. Customers are always willing to buy the product which can give them maximum value, happiness and satisfaction. Almost all marketing firms using this kind of method to understand their customers' needs, wants and demand. Based on above studies, they plan marketing strategies and promotions. (Karunakaran 2008, 2-10.)

Several goods, services, information or some experience offered by markets called marketing offers, which can satisfy human needs and wants. The benefits are promised by marketing people when they persuade customers to pay for their goods, services or experiences. Tangible products hold most of the marketing share of marketing offers. Tangible products consist of non-durable goods and durable goods. (Karunakaran 2008, 2-10.)

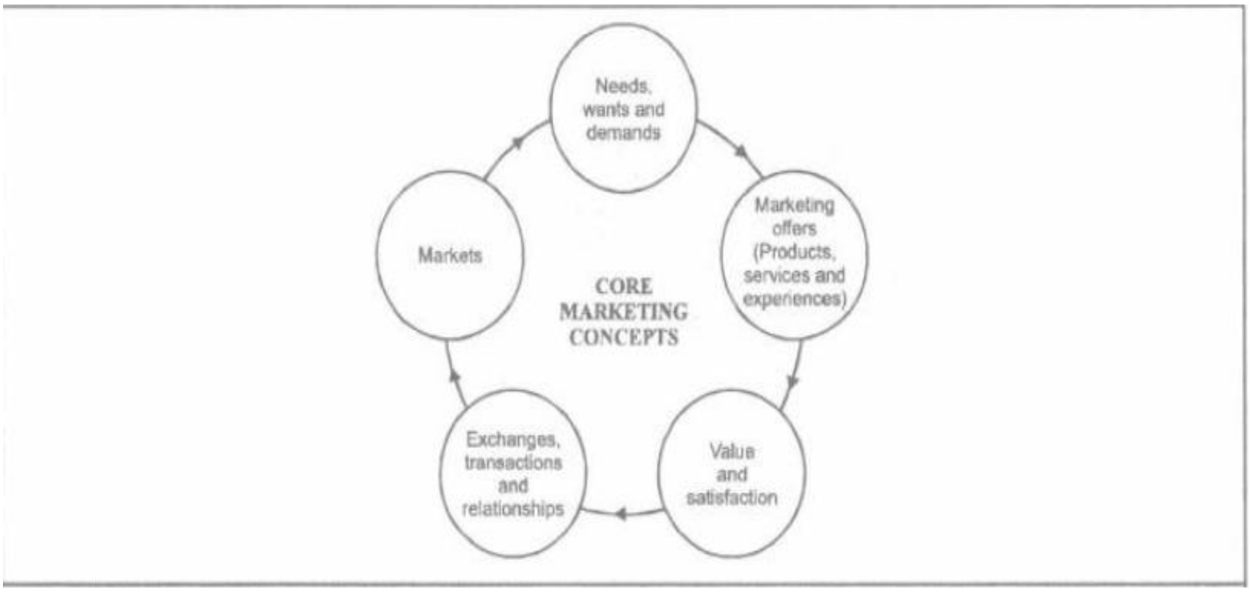



FIGURE 2. Core marketing concepts (adapted from Karunakaran 2008)

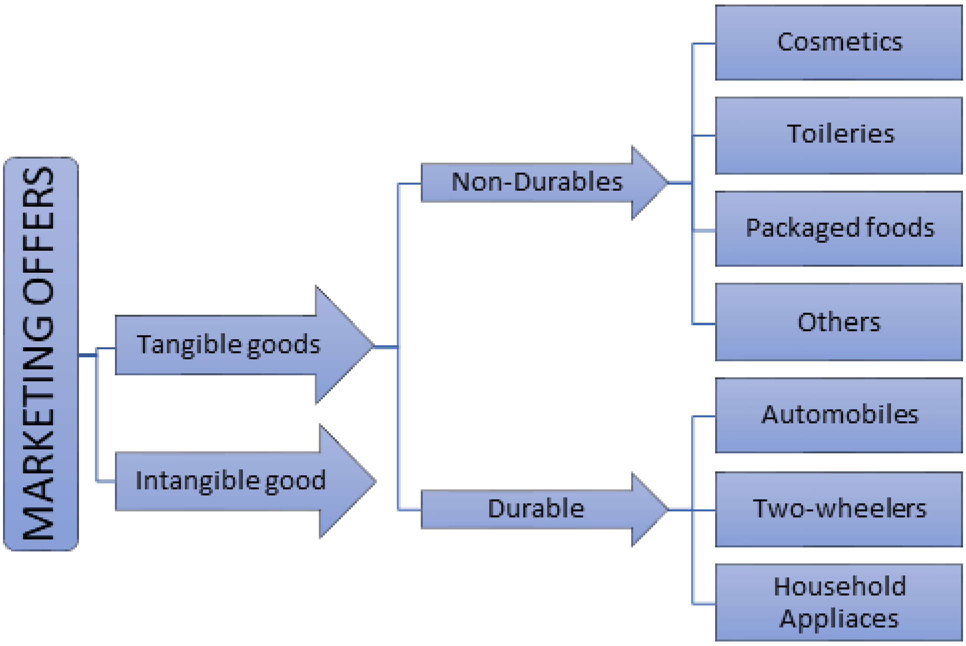



FIGURE 3. The Marketing Share of Marketing Offers (adapted from Karunakaran 2008)

Another marketing core concept is exchange. The exchange process happened to two or more than two people. The exchange can achieve success when those people can offer products which others want and at the same time, they can get products that they want from others. After that, they will discuss detailed terms and make contracts with each other. When people decided to satisfy their needs through exchange items, marketing happened. (Karunakaran 2008, 2-10.)

When two or more people agree with the exchange, the result of exchange is transactions. Exchange value is the main condition of transaction and the ownership also changed from seller to buyer. For example, if people want to get meat, he can get it through pay for it or exchange items with the butcher which he also needed. (Karunakaran 2008, 2-10.)

The relationships of marketing are always built between customers and marketers. In order to keep the customer loyalty, the marketer wants the consumer to be completely satisfied with the transaction.  The aim of marketing is to set and keep a win-win exchange situation relationship with the target customers, including products, services, ideas or others. Expect those, not only are they attracting new customers and creating deals, but they are also retaining customers and growing business with the company. (Karunakaran 2008, 2-10.)

Buyers and sellers meet to buy or sell products or services in a specific place, such as a vegetable market, which are called markets. In marketing, however, markets are the different groups of consumers for a product or service. In marketing, markets are not need necessarily a place in the traditional sense. Here, the seller-marketer is considered the industry and the buyer is considered the market, such as education markets, children's markets, global markets and so on. The market is a collection of real time and potential purchasing a product. Such purchasers or consumers share specific needs or wants that can be satisfied through an exchange activity. The markets' scale will be decided by the total amount of people who shows the need, have the purchasing power and are willing to exchange their resources for the desired resources. Marketers strive to understand the needs and wants of a particular market. Then, they will select the market which can best serve them. Conversely, they can get profit, long-term customer relationships through developed products and services. (Karunakaran 2008, 2-10.)

### 3.2 Marketing strategies

In this paragraph, drawing a basic concept of marketing strategy is mainly focused on. Marketing strategy includes three phases. The first step is market segmentation which means grouping the market into homogeneous clusters. In this step, marketers choose one or more segments to target. Then, the next step is target marketing which is the process of evaluating the attractiveness of each market segment and selecting one or more market segments for input.  In this step, marketers must decide on specific products, prices, channels, and promotional attractiveness for each different market segment. The last step is the positioning of the market. In this step, marketers should know customers like what kind of products and arrange the products into a suitable position. (Karunakaran 2008, 38-51.)

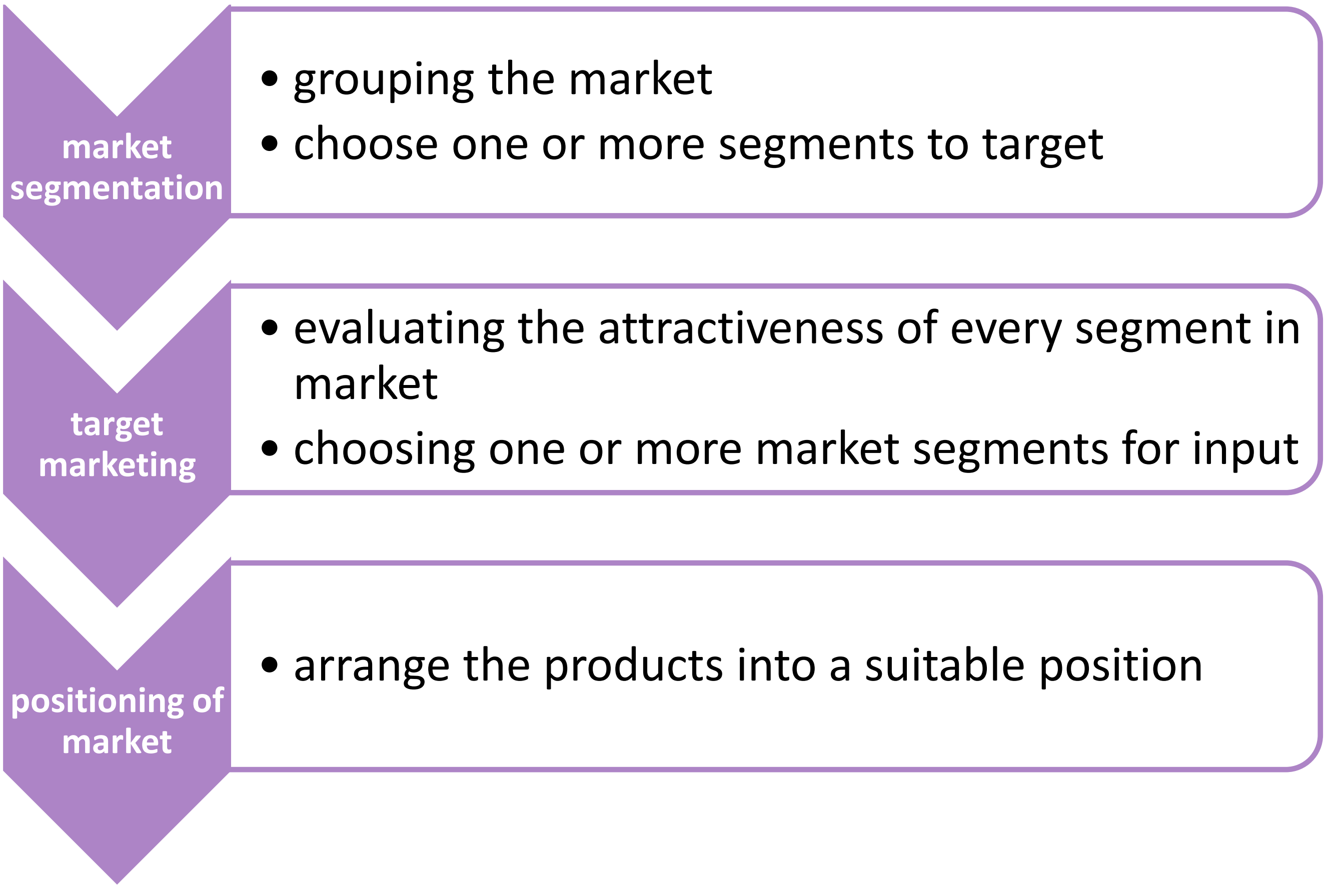



FIGURE 4. Marketing strategies step (adapted from Karunakaran 2008)

### 3.2.1 Market segmentation

Because every customer has different education, background, experience, characteristics, behavior and other differences, mass marketing or undifferentiated marketing are not suitable for everyone. Because of this reason, the importance of market segmentation is highlighted. Someone believes that the process of separate market from different consumer with different demands, characteristics or behaviors. These consumers may require separate products or marketing mixes. (Karunakaran 2008, 38-51.)

The benefits of market segmentation not only for marketers， but also for customers (Karunakaran 2008,48-51). This makes sure every customer can find satisfied goods. For example, in car market, they divided cars according to different needs. According to the size, they divided cars into passenger cars, minicar, coupe, drop head coupe, off-road vehicle and so on. According to the types, they divided cars into commercial cars, sports cars, SUVs and others. (Karunakaran 2008, 38-51.)

### 3.2.2 Target market

After dividing the market into different segments, companies must evaluate different segments and choose one or more segments they will enter. When companies evaluate the segments, they should fully understand the companies' advantage products, product types, the PLC, market variability and the marketing strategies of competitors, and the advantages, disadvantages, development prospects of that segments. For example, companies always pay more attention to those customers who most interested in the value it creates. This will help them to avoid fierce competition by differentiating the goods offerings, not only based on price but also through styling, packaging, promotional appeal, distribution methods and superior service. (Karunakaran 2008, 38-51.)

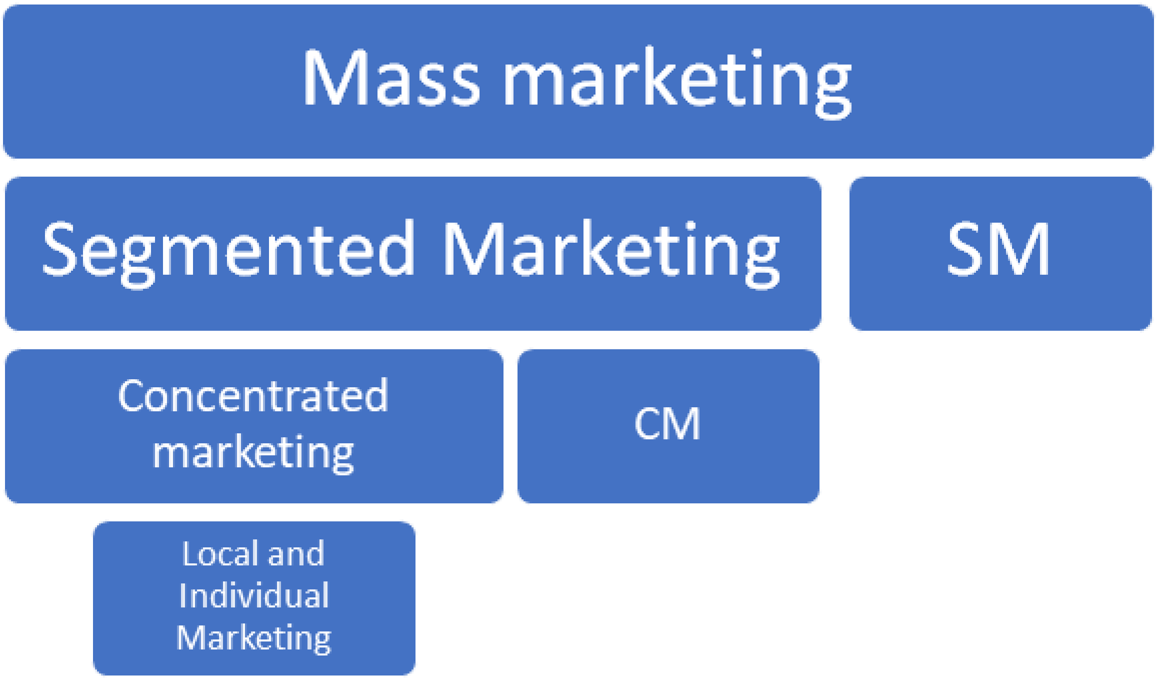



FIGURE 5. Selected target market segments (adapted from Karunakaran 2008)

Mass marketing means the target customers are people. They focus on satisfying almost all people’s needs. For instance, Coca-Cola company used to only design one-size products. (Karunakaran 2008, 38-51.)

Segmented marketing means companies divided their market into different segments, in order to satisfy different people’s needs. Companies usually can get better sales within each market. At the same time, their cost increased. For example, Nike shoes including running shoes, golf shoes, aerobics shoes, cycling and basketball shoes. (Karunakaran 2008, 38-51.)

The features of concentrated marketing are small and profitable. Segmented marketing can subdivide into concentrated marketing. The group of customers desiring a special mix of benefits. For example, in the 1980s, most cosmetics products were made up of chemicals based or synthetic. One company invented an herbal-based cosmetic because they found that a group of a well-educated and financially sound woman looking for safe to use herbal cosmetics So, the herbal based cosmetics are much expensive than normal products. (Karunakaran 2008, 38-51.)

Micro marketing means companies design tailoring products or makes marketing projects to suit special needs products or other things. Micro marketing contains local marketing and individual marketing. Companies usually design everything according to the demands of local customer groups called Local marketing. However, compared to the local market, individual marketing more focuses on a single person. (Karunakaran 2008, 38-51.)

### 3.2.3 Position

The positioning of a product is a series of complex cognitions, impressions and feelings of consumers compared with competing products. As long as companies can position themselves to provide superior value, they can gain a competitive advantage. Positioning must first actually distinguish the company's market offer, such as products, services, channels, personnel, or image so that it can bring more value to consumers than competitors' offer. (Karunakaran 2008, 38-51.)

# 4 THE MARKETING STRATEGIES OF COSTCO

Costco's marketing strategy refers to the company's strategy and plans for marketing and advertising of its products and services on a global scale.  Its strategy is formulated in consideration of competition and challenges. In addition, the marketing strategy is very helpful for implementing marketing plans. It enables the company to effectively implement its marketing functions to better promote the company's development. Costco's marketing strategy is also one of the key factors that promote the company's rapid growth.

The core thinking of Costco's strategies is price. They use price strategy and products quality to attract more loyalty customers. In order to do this, companies make some strategies to decrease its cost.

In this chapter, some main marketing strategies that Costco used will be analyzed. In the first part, 4Ps is mainly focus on. After that, the members, employees, CRM, suppliers and so on in the following part are also analyzed.

## 4.1 4Ps

Costco's marketing strategy is formulated using marketing mix strategies, and the strategy involves a four Ps marketing mix, which includes products, place, promotions, and prices. The 4Ps strategy is the most important context in this chapter and will be detailed.

4Ps is the key factor for products or service’s success, and companies usually use it to identify their business. For example, what kind of products or services that the customer wants to get, how can their product or service meets meet customers’ needs, how can they differ and do better than their competitors, and how can they contact with their customers. (Twin 2021.)

### 4.1.1 Products

The products refer to the objects, services or systems that companies provide to consumers. It can be anything that a company provides to fulfill the customers ' wants, needs or demands. In the different business areas, products can be called different. In retail, products can be called merchandise. However, in manufacturing, the products they brought are called raw materials and they sold are called finished products. In order to sell the products that they purchased or created, marketers should understand the PLC and executive officers should make a production plan for it. After that, they need to consider the product's price, promotion channel. (Twin 2021.)

As it was mentioned before, the core strategy of Costco is low price with good quality. In order to do this, they are limiting most items in fast-selling products. For example, Walmart has more than 150.000 products and a standard supermarket has 40.000 products. Costco only has around 4.000 products. A wide range of products is offered at Costco, but the depth of each line is limited. (Loick 2015, 6-13.)

TABLE 2. Costco products categories

| Product categories | Detailed products |
|---|---|
| **Food and Sundries** | **dry foods, packaged foods, groceries, snack foods, candy, alcoholic and nonalcoholic beverages, and cleaning supplies** |
| **Hardlines** | **major appliances, electronics, health and beauty aids, hardware, and garden and patio** |
| **Fresh Foods** | **meat, produce, deli, and bakery** |
| **Softline** | **apparel and small appliances** |
| **Ancillary** | **gasoline, pharmacy, optical dispensing centers, food courts, and hearing-aid centers** |

Another strategy is that their ancillary businesses are always within or next to their warehouses and their ancillary business often cheaper 5% than other places and only members can purchase fuel. Not every Costco has gasoline at moment. This makes consumers be a member of Costco and visit their warehouse more frequently. Only the profit margin for the gasoline business account for 9% of all profit margin in 2020. (Loick 2015, 6-13.)

Costco has fast food restaurant chains in most of its warehouse stores. The Kirkland House is the represented brand. One of the most famous foods is roasted chicken.  Because of its good quality, low price, and good taste.  (Loick 2015, 6-13.)

Costco is famous for its cheap high-quality products. So, most of the target customers of Costco are middle-class. It is noteworthy that Costco also sells luxury goods, such as handbags, clothing and perfumes from Prada, Hermès, Chanel and Burberry. All of those are cheaper than in other retail channels. (Costco 2019, 1.)

The greatest features of Costco's products are that the size is often bigger than nor-mal supermarkets. Almost all products are family size. For instance, the piece of meat weighing around 2 kilogram and the cereal 1,5 kg. Because of attractive prices, family-size products, constant promotions, Costco become the best place for big families (Loick 2015, 6-13.)

### 4.1.2 Price

Pricing strategy is used by a company that determines the fees charged for products and services. In pricing strategies, it approaches are broadly divided into cost-based pricing and competition-based pricing. Ultimately, the total revenue obtained by multiplying the price set by the units sold must include operating costs with sufficient margin. An effective margin ensures an acceptable return on investment. (Tanya 2015, 1-10.)

In order to keep the possible lowest price, Costco try to keep low cost on marketing expense, such as HR, advertising cost and so on. (Loick 2015, 6-13) They know that price is the most effective way for marketing. Besides this, price number also have some special meaning. Normal products' price ending in 0,99. If the price of products ending on 0.79, this means the products end of stock. If the price of products ending on 0.88, this means the products are returned by consumers, but still in good condition. (Costco doesn't let you know the secrets, but the internal employees tell to you 2020.)


PICTURE 3. The clothes which Costco sell (adapted from RD.COM 2020)

Every Thursday, Costco has a big promotion for clothes. You can get clothes only at $2, $3 or $5. It is a big chance to buy cheap clothes. However, Costco sells some name-brand clothes with cheaper versions which specially for warehouse clubs or outlets. (Myers 2018.)

Costco uses the competition-based pricing strategy to set the price of its product. The company try to offer the possible lowest price to its customer compared to the competitors in the retail market. Another goal of the company is to offer wholesale retailers who buy in bulk the lowest possible prices compare to the retail market, and the discounts available only for bulk purchases. (Thompson 2017, 1.)

Unlike other retailers, Costco earns profit mainly by collecting membership fees. However, the profit margins of Costco are quite low.  An example is Costco's profit margins in Shanghai.  Food and beverages' prices are 10-20% lower than the market average, and non-foods prices are 30-60% lower than the market average. The same with other stores overseas, Costco's average gross profit margin in Shanghai is less than 14%, and the gross profit margin of most products is only 10-11%. (Fbicgroup 3.)

TABLE 3. Costco and Walmart's SG&A Expense (adapted from Macrotrends a and Macrotrends b.)

| Year | Costco SG&A Expense ($) | Increased Compare Last Year (%) | Walmart SG&A Expense ($) | Increased Compare Last Year (%) |
|---|---|---|---|---|
| **2018** | 13.876B | 7.15 | 106,510B | 1.59 |
| **2019** | 14.994B | 8.06 | 107.147B | 0.6 |
| **2020** | 16.332B | 8.92 | 108.791B | 1.53 |

As we can see from the above table, the selling, costs and administrative costs are super low for Costco compared with Walmart. This is also another reason why Costco can use this kind of pricing strategy.

### 4.1.3 Promotion

Promotion is to convince customers to buy the product being marketed and telling them why they need to buy it. Promotion includes advertising, public relations, direct marketing and personal selling. Costco use bulk discounts as a form of sales promotion. In addition, personal sales occur when salespeople persuade customers to buy certain products in the store. Except this, Costco send Costco Connection, a monthly publication that promotes products available at Costco stores, through email to members. Public relations are another way for promotion. It helps Costco to boost its corporate and brand identity. For instance, Costco support children education, health and human services. (Thompson 2017.)

### 4.1.4 Place

When companies run a market, they should consider the place first. Whatever kind of company, locations are determined by target customers. As for Costco, their target customers are the middle class with a big family. According to analysis most Costco warehouse-style stores store location, they choose locations that have following features. Firstly, the place is usually located in a suburban district. This means that the rent is cheap enough and have enough space for parking. Secondly, the location near the freeway. This means customers and suppliers are easy to reach here.

Except visit their store, they also have E-commerce. You can buy their products through visit their website or using the mobile app. It plays a key role in the Coronavirus period, many people unable or do not want to go out to buy products. So, shopping online is the best choice. Another thing is that you can find additional products or services online that cannot find in stores. The e-commerce's net sales account for 6% of all profit margin in 2020. The services offered online in some countries and some items are not included in this figure. For instance, this figure does not contain commercial delivery, tourism, same-day groceries, and many other services. (Costco 2020, 3-5.)

If you usually visit Costco, you can find that you cannot get the same products at the same place. This is one of the marketing strategies Costco used. If you want to buy that product, you need to go around and search for it. In this case, you will buy more products that not on your shopping list. Another thing you can found that whatever Costco you visit, cosmetics and health care products are at the entrance of the store. After that, you can find daily necessities will be on the middle of the store. Discount products and popular products always in the exit. All of those because of profit margins.

## 4.2 Customer relationship management

There are many definitions to define customer relationship management according to different perspectives. Companies are always willing to pay more attention to the customers who will contribute more value. In other terms, it means who can bring more net profit to the company. (Kumar & Thompson 2012, 3.)

CRM refers to a series of activities, including collecting customer information, storing the information to their database, and analysing customers' shopping habits, hobbies, popular goods and so on, finally making decisions according to analysis. The decision is about production, operation, sales, marketing and finance. (Kumar & Thompson 2012, 3.)

In the customer relationship management aspect, Costco gets some information and implemented it into their marketing strategies. Firstly, private label products are one of the most successful cases. They found that low price with high quality always has more competitive. Another successful case is that they offer a series of services to make customers visit more frequently, such as gas stations, pharmacies, optical dispensing centres, food courts.

In order to improve customer satisfaction, Costco's return policy accepts product returns. Some electronic products have a 90-day return policy, providing free technical support services and extending the warranty period. For some electronic products, additional third-party warranty services can be bought. (Costco 2020, 4.)

Products return policy is a very important strategy for customers. They do not need regret when they buy the products, because they can return when they do not really need or do not like.

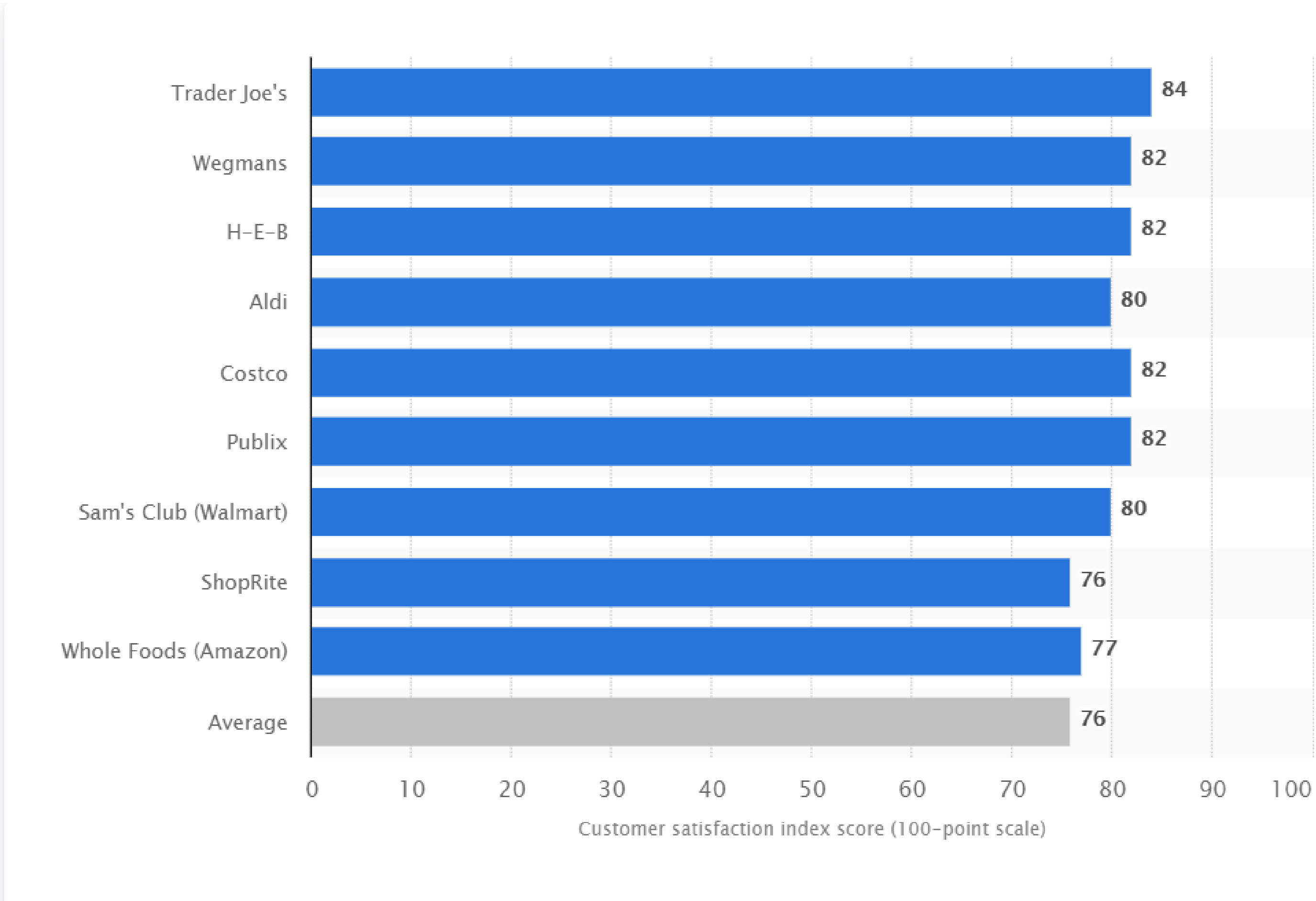



FIGURE 6. Customer satisfaction with selected supermarkets in the US in 2020 (adapted from Macrotrends a and Macrotrends b)

From this table, we can see that Costco was top two amount selected supermarkets in the US in 2020. It is a very high rank. Although Walmart is bigger than Costco, the customer satisfaction rank is higher than Walmart.

### 4.3 Membership

As we mentioned before, a membership card is an entrance ticket for Costco. This means most of products prepare for members, and the members can use their memberships at all Costco warehouses around the world. They have two types of membership. Normal person can join the Gold Star membership. Corporate membership is only for businesses, including individuals with a business license, retail permit or similar documentation. Business members may add Affiliates. However, Gold Star members cannot add Affiliates. In the US and Canada, the annual membership fee is $60. Other countries according to local policy. A free family card is included with all paid memberships. Gold Star and business cards can upgrade to executive membership in most countries. In order to get executive membership, users need to pay an extra $60 more. The difference between the other two kinds of cards is earning 2% reward on qualified purchases, and the maximum is $1000. (Costco 2020.)

According to Costco's annual report, the U.S. and Canada's membership renewal rates were 91% and the average renewal rate was 88% at the end of 2020.  The membership fee for executive members is 22.6 million dollars represented 39% of paid members at the end of 2020. We also found that executive members spent more than normal customers. (Costco 2020.)

### 4.4 Services

Costco sells products as well as offers services. These business services include gas stations, pharmacies, optical dispensing centres, food courts, hearing-aid centres. life insurance, home insurance, photo printing services, auto purchase program, payroll services, retirement plans, travel packages, real estate services and even mortgage. (Loick 2015, 6-13.)

Through that service, we can see that Costco can fulfil any kind of needs, such as clothes, foods, housing, transportation, traveling, health care, insurance. (Loick 2015, 6-13.)

### 4.5 Suppliers

Costco has numerous local and overseas manufacturers and importers. The Kirkland brand is the most famous one. The Kirkland brand was started about 20 years ago and is affixed to one-fifth of Costco's brand. From men's clothes to cleaning detergent, from pet food to toilet paper, from beauty products to car accessories, Kirkland offers consumers bargains on quality merchandise. some of those even become customers' first choice. (Fbicgroup, 1-3.) In order to develop Costco's private Kirkland label and make it to be a high-quality product label. The company requires strict regulation of its suppliers to control product quality, increase customer satisfaction and reduce product prices. Nowadays MDD global research shows private label products improved a lot and many customers more willing to buy private label products, because of the value for money.

### 4.6 SWOT

The strengths are as follows. Firstly, all products are a lot cheaper compared to other supermarkets. This is because the main profit margin is from the membership fees. Secondly, well-known private label Kirkland signature. The private label of Kirkland is famous for its high quality and low price. Then, Costco provides the same products with limited choices and all products in Costco have good quality. This makes people do not need to spend so much time choosing products. After, high discount for selected products. They have a promotion every week. Last not least, they provide value-for-money products. (Fbicgroup, 3.)

Weakness mainly can be divided into three parts. Firstly, almost all Costco stores located in suburban areas. It is not convenient for the people who do not have a car to visit, such as students, older people. This group of people cannot be their customers. Secondly, the strategy of O2O has not come true yet. Last, it is difficult for Costco to make supply chain localization. (Fbicgroup, 3.)

Here still have some opportunities for Costco to become bigger. Firstly, they have huge potential of attracting more customers. As it has been said before, their location mainly in the subarea. In order to attract more customer group, they can open some small size shop in the city centre and design another kind of membership card for this group. Secondly, they can open their market in other countries and super-markets. (Fbicgroup, 3.)

Here some threats are talked about in this part. Firstly, the products which Costco sells are big-size and volume. This is not friendly for the people who live alone or have a small family. Secondly, the products of Costco are designed for big families, and the customers usually buy groceries in bulk. This is not good for them to expand their business in some countries. For example, Chinese people usually do not buy foods in bulk. Then, price with quality is always a key figure for them. If other supermarkets are cheaper than Costco, they may fail to retain current members and lose potential members. After, other retailers copy this kind of membership format and become more competitive. This is also another threat for Costco. (Fbicgroup, 3.)

TABLE 4. SWOT analysis of Costco

| Strength | Weakness |
|---|---|
| • **Products are cheaper than other supermarkets**<br>• **Well-known private label Kirkland brand**<br>• **Limited choose for every product**<br>• **High discount for selected products** | • **All Costco located in subarea**<br>• **O2O strategies not come true yet**<br>• **It is difficult for them to make supply chain localization** |
| **Opportunities** | **Threats** |
| • **Huge potential for attracting many potential customers**<br>• **Expand their supermarkets in other countries and cities** | • **Products Costco sales are big size and volume**<br>• **They lost customers which are the singles or small family**<br>• **Some countries' customers have different shopping habits and they do not like shopping in bulk, such as Chinese**<br>• **Fail to retain current customers and lost potential customers if competitor provide better price**<br>• **Other supermarkets copy this kind of membership format** |

# 5 THE RELATED STRATEGIES COMPARED TO S-GROUP

In chapter four, many marketing management strategies related to Costco have mentioned. Some examples you can find here. You can get more details in the last chapter. They always choose their warehouse in subareas and near the highway. This strategy can reduce the spending on rent and more convenient for loading products. They have limited choices for the same products. in this case, they can get more competitive prices from suppliers.

However, in this chapter, some marketing management strategies related to S-Group will be introduced and the strategies will compare Costco to S-Group. This means you can find the marketing strategies of S-Group here. The difference in marketing strategies between Costco and S-Group also can read in this chapter.

## 5.1 S-Group background

The first corporation of S-Group was established in 1882 and the first SOK Corporation was established in 1904. The main task of SOK was purchasing and offering advice and guidance. The rapid expansion time of S-Group was 1900-1920. (S-Group 2020.)

S-Group is a customer-owned Finish cooperative organization, which composed of 19 self-helped district cooperatives and 6 local cooperatives in the retail and service section all around Fin-land. They have more than 1800 outlets around Finland. Except in Finland, they also run retail, tourism, and hotel business in Estonia and St Petersburg. (S-Group 2020.)

S-Group is a big cooperative and their business around our daily life. The main service of S-Group is supermarket business, department store, specialty store business, service station store, gasoline station, travel, hospitality business, hardware trade, investment, and banking service. it's worth noting that the bank's services only for its members. (S-Group 2020.)

There are some key figures related to the S-Group. The S-Group lagged far behind the Kesko between the 1980s and 1990s. Kesko is the second-largest retailer in Finland only after S-Group nowadays. The retail sales-tax-free is 11.625 million euros with a 0.7% decrease in 2020. The bones they pay back up to 415 million euro. The total number of employees of S-Group is 38585, including retail and specialty store, hotels and restaurants, service station stores, some experts related to IT, data analysis, financial management, marketing and so on.  In 2020, they reduce 36% energy consumption compared to 2021 and 16% food waste compared to 2014. (S-Group 2020.)

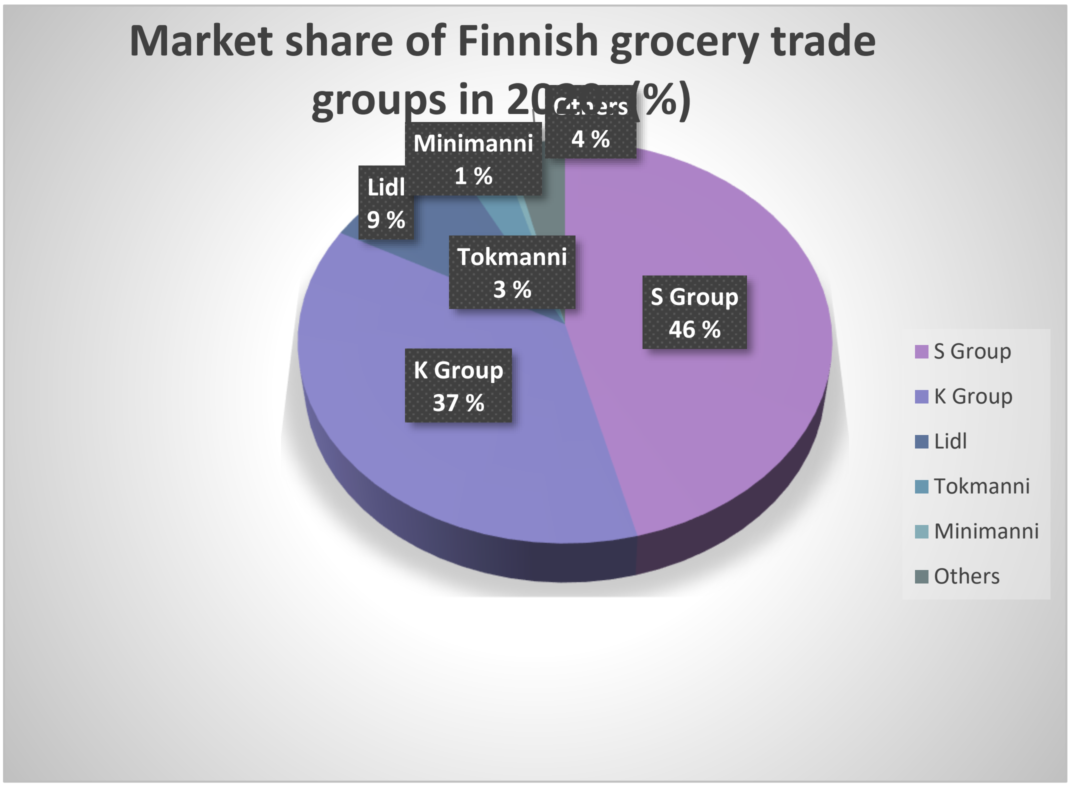


FIGURE 7. Market share of Finnish grocery trade groups in 2020 (adapted from Finnish Grocery Trade Association 2020)

From this figure, we can see that S-Group become the biggest grocery trade retailer in Finland. The K group is the main competitor for them.

### 5.2 Members

The membership card of S-Group is S-Etukortti, which is a bank card with the function of collecting bonuses. The bonus percent according to the total amount you spent in S-Group. At least you spent 50 €, you can get a 1,0% bonus back to your S Bank account. The highest bonuses are 5% if you spent 900€ per month. (S-Group 2020.)

In order to be a member of the S-Group, you need to apply for the membership card, also called S-Etukortti. You need to pay 20 euro or 100 euro for the membership card. The biggest difference between the different amounts of money is that you can get a bonus directly into your account every month if you pay 100 euro.  However, you can only get a bonus back after you accumulate up to 100 euro including the former 20 euro. You do not need to pay a membership fee every year and you can get the membership fee back when you decide not to be a member of S-Group. (S-Group 2020.)

There is a big difference between the membership card of S-Group and other membership cards from other supermarkets. The function of the membership card is more like a real bank card. You can get interest if you save money into your saving accounts and the interest normally higher than a normal bank card.

There are two different kinds of marketing strategies of membership compare S-Group to Costco. They according to their advantages and target customers to design a suitable membership system for their customers. As for S-Group, you do not need to pay a membership fee annually, and you can get money back when you do not want to be a member of S-Group. You can get a discount when you buy products in their chain store with a membership card. However, you still can buy goods in their stores without a membership card. This is the biggest difference with Costco. Because the main profit method of S bank is not from the membership fees.

As we said before, the main profit Costco gets from the membership fee. Their price of food and beverages is 10-20% lower than the market average, and non-foods prices are 30-60% lower than the market average. This is the reason why customers willing to pay membership fees annually. The biggest advantage of Costco's membership system is that it can keep customer loyalty. Because customers are more willing to purchase in Costco once they become a member of Costco. As for S-Group, they can attract more potential customers.

### 5.3 Employees

Employees are the most important key figure in a successful enterprise. Good employees are more productive, and they can make the working environment better and help others to increase productivity.

S-Group also believes that employees are the crucial factor in a business. In order to recruit more suitable supervisors, they provide S-Manager and S-Trainee for university students who will graduate or recent graduate. Many of their managers from this coaching program. (S-Group 2020.) They also provide one month paid holiday, night shift allowance, and other welfares for their employees. This can help them balance the job and life and increase their employees' work satisfaction.

As it was mentioned before, Costco also pays more attention to increasing employees' satisfaction. Their employees' well-being in a higher level than other companies.

The material read from the previous shows that both companies are focused on improving employee productivity and job satisfaction. These maybe are the key factors for their success.

### 5.4 Suppliers

Suppliers are also very important for Retailers. It depends on the competitiveness of your products, such as product price, quality, product category and so on. Many named products also with a high price and low profit. In order to get profit both for retailers and customers, the private label products come out. They can choose suppliers to make private label products that usually have high quality and low price.

As we all know, marketing cost usually accounts the largest cost for a product. Private label products can save this kind of cost. So, customers usually can get profit in this kind of products. In S-Group, they also produce private label products, such as a rainbow. X-tra also is one of the private labels of S-Group, but the owner of X-tra is Coop Trading. (Liu & Niemi 2021.)

As we can see that compared with the same products with a different label, private label products are usually cheaper. However, as my experience, still many customers choose named label products rather than private label products. So, S-Group still has a long way to go to develop their private label products.

Costco has very successful experience in running a private label. Kirkland brand was the most famous one. Many customers only choose Kirkland brand products. Because of cheap and high quality. In my opinion, once the quality of private label products higher than named label products with a lower price, customers will choose private label products.

### 5.5 SWOT of S-Group

TABLE 5. SWOT analysis of S-Group

| Strength | Weakness |
| --- | --- |
| • The biggest retailers in Finland<br>• Including all kinds of service (hotel, restaurant, gas station, bank)<br>• Membership format<br>• Shop around every area in Finland | • Private label not famous (S rainbow)<br>• Products do not have competition compare to K group<br>• Brand not well-known for foreign customers |
| **Opportunities** | **Threats** |
| • Have more opportunities for running over sea business<br>• Huge development potential in oversea<br>• Good Food quality and food safety | • Many competitors<br>• Competitors already have good reputation and market share<br>• Price may not be good compared to other competitors from other countries<br>• Only have few experiences and knowledge for expand business to overseas |

From the SWOT analysis of S-Group, we can find five points of strength. Firstly, S-Group is the biggest grocery retailer in Finland. In this case, they have enough capital to expand their business overseas. Secondly, S-Group owns all kind of services and cover all Fins daily life. For example, they can buy food and clothes in Prisma. They can stay at a Sokos hotel. They can borrow money from S bank. They can get fuel for the car in ABC gas station and so on. Thirdly, the membership format is very suitable for maintaining some potential customers. Because when customers are not sure whether they want to be a member of the S-Group, they can just try to be a customer with a membership fee. They always can get money back when they do not want to be a member. Last but not the least, their shop around every corner in Finland. For example, they have Prisma, s market, sale and Alepa located in every place. This is a good way to get all kinds of customers.

As for weakness, I will list three points. Firstly, their private label S rainbow is not famous. In this case, they do not have many advantages at price compared with their competitors. This reason leads to the second weakness point. Products do not have competitive compared to the K group. When they want to expand their business overseas, many foreign customers may not know this brand.

In the point of opportunities, I still think S-Group has huge potential for running their business overseas. In my view, at least they will have many Chinese customers due to the food quality and safety.

Although they have huge potential for running a business overseas, they still may come across many threats. Firstly, they may meet many strong competitors. Because of economic globalization, more and more companies are willing to running their business in other countries. Secondly, some competitors are already well-known and have some market share in that market. As we all know, the price of products is the highest around the world, in this case, it may be another threat for S-Group. Last but not the least, only Russia has few subsidiaries that belong to S-Group. So, S-Group has too few experiences and knowledge in running a business overseas.

## 6 CONCLUSION

Marketing management strategies are the key figure for companies' success. In chapter 3, some marketing concepts were introduced, such as wants, needs, demands, marketing offers, exchanges and so on. In the marketing strategies, the most important factors are finding out the positioning of the market through the marketing segmentation. The reason for the circumstance is you can enter your strength market and get market share.

Costco is one of the examples of this strategy. They first found out that their positioning of the market is a grocery, and their target customers are middle class. After that, they according to this target to choose their products. Therefore, you can find that almost all products are large size and big volume with cheap price. Because they use the private label in most products, and they can get cheaper prices than named label products. This is one of their main competitive advantages. The next step is to consider their warehouse location. The location also decided by their target customers. Their customers are middle classes and with big families. In this case, the location of the warehouse can be in the subareas and near the highway. These locations have several advantages. Firstly, the rent is cheaper compared to the rent in the city centre. Secondly, the location near highway and the traffic is more convenient for loading products and customers who have cars. Thirdly, they have enough space to build a parking area and another ancillary. As for price, Costco has a huge advantage in price compare to other competitors. There are two main reasons. Firstly, Costco earns profit mainly by collecting membership fee and the profit margins of Costco are quite low compare to competitors. Another reason is that most products of Costco use private labels. This can reduce the cost. We also can find some information from table 3 that the SG&A Expense of Costco is super low compare to Walmart. This also can be a reason why Costco has a cheaper price. In order to reduce the cost, Costco does not spend a lot on promotion. However, it builds some ancillary services to attract customers, such as gasoline, pharmacy, food courts and so on.

S-Group is the biggest grocery shop in Finland and the market share of S-Group was 46% in 2020. It also has some marketing strategies suitable for its development. A membership card is one of its marketing strategies. A membership card is a bank card with the function of collecting bonuses. The highest bonuses are 5% if customers spend 900€ per month. They only need to spend 100 euro to get this card and they do not need to pay again for next year. This point differs from Costco's membership card.

Because they have different target customers, they choose different marketing strategies for their companies. The target customers of Costco are the middle class with a big family. So, Costco only runs big-size warehouses in many countries in subareas. However, the target customers of S-Group are all customers around Finland and a part of Russia. In this case, they have different size shops around every corner of Finland, such as Prisma, S market and so on.

To sum up everything that has been stated so far, Costco and S-Group all have advantages and weaknesses for their marketing strategies as I listed in table 4 and table 5. They all generated a serial of strategies suitable for their development.

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