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## Costco

Though warehouse-club chain Costco has only been around since 1983, it quickly evolved into the second-largest retailer in the world behind Walmart. With about 700 stores worldwide, including nearly 500 in the U.S. and Puerto Rico, Costco has 71 million members around the globe and is angling for more.

The Issaquah, Wash.-based company, which absorbed warehouse-club pioneer Price Club in 1993, has succeeded domestically and abroad by using strategies that most merchants consider counterintuitive. Costco sells in bulk packaging and has minimal in-store signs, which compels customers to wander the aisles and grab other items en route. It has limited selections, with only about 4,000 stock-keeping units, compared with 100,000-plus at Walmart. The chain also offers nonretail services, such as

car and home insurance, travel packages and mortgage lending. And of course there is a charge to get in the door through membership fees.

All of this is obviously working. Costco plans to open about 30 warehouse stores a year for the foreseeable future, said CFO Richard Galanti at Costco's third-quarter 2015 earnings call, adding that the chain's first French warehouse is planned for the Paris suburb of Villebon-sur-Yvette this year and is slated to open by the fall.

Galanti pointed to Asia as a hot ticket for Costco, where it could easily double its store counts in South Korea (12 currently) and Taiwan (11) over the next 10 years. Japan, which has 23 stores, will be targeted for several more units, as will Australia, he said. A typical new Costco warehouse in Asia generates from 30,000 to 40,000 sign-ups in its first two to three months of oper-

ation, compared with 3,000 to 12,000 sign-ups in the U.S., according to the company. Asian membership renewals are at 87.9 percent.

Entering Western Europe, with its stringent regulations and permitting, is challenging, but "we're pretty interested in continuing that [due diligence] process," Galanti said. Costco is planning a second store in Spain and is adding units in Canada, where there are now 90.

The company generates 70 percent of its revenues from domestic stores at present, but Galanti says he sees an eventual 50-50 split with the international markets, most of which are not blanketed by warehouse clubs like the U.S. Costco's operating margins are 2.6 percent in the U.S. and 4.2 percent internationally. Costco also operates e-commerce websites in the U.S., Canada, Mexico and the U.K.