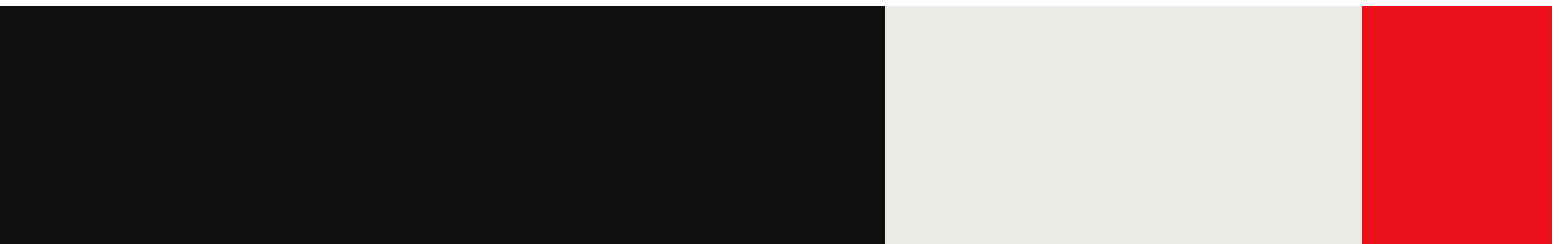


# Reimagining Retail: The genius of Costco and what it can do to get the naysayers to come back

Audio



On today's podcast episode, in our "Retail Me This, Retail Me That" segment, we discuss how Costco is getting on and the vision for the wholesale retailer in a crowded marketplace. Then,

for "Pop-Up Rankings," we rank the two things Costco can take to the next level and two things it could do to get the naysayers to come back. Join our analyst Sara Lebow as she hosts vice president of content Suzy Davidkhanian and analyst Zak Stambor.

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## Episode Transcript:

Sara Lebow:

Join eMarketer on November 3rd for our next virtual event Attention: Trends and Predictions For 2024. Our leading analysts and executives from brands like Pepsi, Colgate Palm Olive,

and Kendra Scott will explore trends like generative AI, retail media, and more to help professionals to plan for the year ahead. Visit [insiderintelligence.com/events/summit](https://insiderintelligence.com/events/summit) to register today.

Hello, listeners. Today is Wednesday, October 18th. Welcome to Behind the Numbers, Re-Imagining Retail, an eMarketer podcast. This is the show where we talk about how retail collides with every part of our lives. I'm your host, Sara Lebow. Today's episode topic is Costco. Let's meet today's guests. Joining me for today's episode we have senior analyst, Zak Stambor. Hey Zak, welcome back.

Zak Stambor:

Oh, thanks for having me.

Sara Lebow:

Also joining us today we have VP of Content on our Retail Desk, Suzy Davidkhanian. Welcome back Suzy.

Suzy Davidkhanian:

Thanks for having me. I'm excited to be here.

Sara Lebow:

Excited to have you. Okay, let's get started with free sample. Our did you know segment where I share a fun fact, tidbit or question. Today, I have one of my favorite headlines that has to do with our main topic. This is a September, 2020 headline. I feel like you know where I'm going with this because I've brought it up before with both of you. A September, 2020 headline from today.com read "Report: Costco co-founder told CEO he'd kill him if price of hotdog combo went up." The price really is part of the Costco hotdog's notoriety. The Wikipedia article for Costco hotdog reads, "It is notable for its price, which has remained at one 50 in a combo deal including a soda at United States locations since its introduction in 1984." My question for both of you is have you ever had a Costco hotdog?

Suzy Davidkhanian:

Yes. Who has not?

Zak Stambor:

I have not had a Costco hotdog.

Sara Lebow:

I have not had a Costco-

Suzy Davidkhanian:

Wait, I'm sorry, but do you eat meat?

Sara Lebow:

I did not eat meat as a child and I only went to Costco as a child.

Suzy Davidkhanian:

So the question then is, Zak, do you eat meat?

Zak Stambor:

No.

Suzy Davidkhanian:

See?

Sara Lebow:

So that really covers it.

Suzy Davidkhanian:

The question is, yeah, if you eat meat and you have not had a hot dog from Costco, it's probably because you've just never been to a Costco.

Sara Lebow:

Yeah. Otherwise, you've definitely had a hot dog from a Costco.

Suzy Davidkhanian:

Guaranteed.

Sara Lebow:

Okay, so 100% of the people who eat hot dogs on this episode have had the Costco hotdog.

Suzy Davidkhanian:

I like that.

Sara Lebow:

Now it's time for our next segment. Retail me this, retail me that. Where we discuss an interesting retail topic. Today's topic is, I already gave it away, it's Costco. So Costco reports its earnings monthly. Zak, I'm sending it over to you to discuss what Costco's most recent earnings are and what they show us.

Zak Stambor:

Yeah, so Costco reports earnings both monthly and quarterly and they offer a rather interesting perspective on a interesting consumer group, which is a fairly affluent, largely suburban consumer, and what we've seen lately is the sales slow comparable sales per the company grows 1.1% year over year in its most recent quarter, but only 0.2% in the US and what we're really seeing is strong grocery sales, but weak discretionary sales. So people are going to Costco, they're filling up their cars with Costco gas, they're buying groceries, but they're not buying the TV. They're not buying the jewelry. They're not buying AirPods, they're just buying the staples. And that's a significant shift from the ways in which consumers were shopping at Costco a year ago, two years ago and earlier in the pandemic.

Sara Lebow:

That's interesting because Costco's not particularly expensive. That's one of its draws. So I would think when people aren't buying TVs at Costco, might that mean that they're buying TVs somewhere with a few more options like Best Buy?

Suzy Davidkhanian:

Best Buy, Amazon. I think there are different options. I think it just depends on what you're looking for and what your favorite method channel of shopping is.

Zak Stambor:

But also people are not buying TVs by and large. The category has been incredibly weak and so it's not surprising that it's weak at Costco as well.



Suzy Davidkhanian:

But it's not that they're not buying TVs, it's just that TVs are cyclical and so everybody was updating their homes as they were staying home like 99.9% of the time at the beginning of the pandemic when there was a lockdown, and so they all bought TVs and so there was a boom then and there's a cycle for electronics.

Sara Lebow:

I think I'm a great example of this for Costco specifically because in December, 2020 I bought a TV from Costco and I haven't needed to buy a new TV since.

Suzy Davidkhanian:

But how did you buy it from Costco if you haven't been to one since you were child?

Sara Lebow:

What a good question. I definitely didn't borrow my brother's Costco membership to buy it via e-commerce.

Suzy Davidkhanian:

Got it.

Sara Lebow:

Okay. Moving on from shared Costco memberships, although that's probably something that we'll get into in the future, because they have been cracking down on that. I guess this is something that we've been getting at in this conversation, right? Costco has competitors in the world of electronics, Best Buy, Amazon are certainly two of them. Suzy, why don't you take this one first? Who are Costco's biggest competitors?

Suzy Davidkhanian:

So I think that's a really good question because I think everybody's heard me say this before in that the competition depends on your category. So if you are thinking about groceries, then it's Walmart and probably Sam's Club because if you're going to Costco, maybe you're buying in bulk, so you're thinking about some of the in bulk type different stores. If you're thinking about apparel which is not sold in bulk, maybe also Walmart for men's apparel, probably not

for women's apparel. So I just think it depends on the categories. For example, you just talked about electronics, probably their competitor for that is Best Buy, maybe an Amazon.

So I don't have a great answer in terms of the one and only competitor, although probably we could say Amazon and Walmart closest in line. I think the other question though, it becomes the competition is around online versus in store, and if consumers prefer shopping in store, at least getting a sense of what they're doing in store in an easy to navigate place, then maybe Walmart is a better place to go than at Costco or if they're an online shopper, then Costco doesn't have a great space for that either in terms of online shopping. So I think it's kind of a tough question to answer.

Sara Lebow:

Yeah, I think Walmart definitely has a strong case against Costco though, especially now that there's Walmart plus and especially now that Walmart plus has media offerings that Costco does not have. That said, Costco has that sort of stripped down somewhat more bare bones. I don't know if you'd call it that, but if you're simply looking for the retail membership, you're going for Costco instead of Walmart plus.

Zak Stambor:

The difference between Walmart and Costco by and large is that if you want a vast selection of products, you can go to Walmart and select from 50 different tomato sauces. But if you go to Costco, there's just a few, which this is something that we talked about a few months ago when we were talking about Trader Joe's. It offers a similar sort of curated selection.

Suzy Davidkhanian:

Well, and I would just say about the difference also is that one, obviously it's in bulk. Two, it's limited assortment. I think that they do it on purpose, they carry lots of different things, so they have breadth in terms of the number of types of things, but then the depth is not as much. They have one or two of everything from a brand perspective, and then they also double up as a distribution center. Have you ever looked up when you're at a Costco and it's all boxes of other stuff? And so it's just a completely different system and that's the bare bones that you're talking about. So not only in their membership but also just in the way that their store is laid out.

Sara Lebow:



Yeah. And Trader Joe's in a limited assortment is a good thing to bring up because something that Costco has in common with Trader Joe's is its private label products. Kirkland specifically has a cult following similar to Trader Joe's. Maybe not quite on the same level. You're not going to Costco every single day unless you need 13 things of peanut butter every single day, but Kirkland brands are reputable in a way that's similar to Trader Joe's and in a way that some Walmart brands including Great Value are starting to give Costco a run for its money.

Zak Stambor:

Oh yeah, the Kirkland baby wipes are just like the go-to baby wipe when you have a baby. That gets people into the Costco ecosystem and then once you're there, then you start loading up on Costco beer if you're Sara Lebow.

Sara Lebow:

Me in college.

Zak Stambor:

Or any number of the various other Kirkland products, which are, like you said, all pretty good.

Suzy Davidkhanian:

I love this lifecycle where first you have the baby and then you get the beer.

Sara Lebow:

That's awesome. I do think though, if you think about Kirkland and all the other products that Costco has that are private labeled, maybe not called Kirkland anymore, they've started to branch out a tiny little bit. Kirkland is I think like its own CPG powerhouse, right? It is gigantic, huge revenue. Really, so many different everything from nuts to olive oil to beer to baby wipes-

Suzy Davidkhanian:

To clothing.

Sara Lebow:

To clothing. Yes, I have amazing leggings from there and have had them for a few years and I'm shocked at how well they've lasted. And so this idea around value, so quality, price is really

strong for the Kirkland brand, which is not, I would say the same for Walmart necessarily for their basic value. Walmart, another difference is that Walmart has multiple brands under their private label portfolio, like a Target has multiple, multiple brands, whereas Kirkland is more or less the one brand for Costco.

The other thing though is that people are coming, I think it depends on where you live. Is it a destination for you, so you're driving far away and so you're building a giant cart and you're going aisle by aisle and finding all the things you didn't even know you needed? Or is it like my parents who live very close to one and go to pick up a bag of apples and go home in the middle of the day when there's nobody there?

Suzy Davidkhanian:

Yeah, that's a good question. It definitely is I think more likely to be that destination since they do sell in bulk.

Zak Stambor:

Right. But so one of the things that Costco has relied on to drive its growth over the past few years is that they've opened several warehouses scattered throughout the country so that it is a convenient destination rather than something somewhere where you have to drive for 20 minutes to get to. That's something that it recognizes and realizes that can help drive through.

Suzy Davidkhanian:

You mean how far it is from people's homes?

Zak Stambor:

Yeah. And particularly as people have moved in the wake of the pandemic to suburban houses where they have the space to store the stuff that they buy in bulk. You want to have a Costco nearby so that you can stockpile.

Suzy Davidkhanian:

But I mean if you are stockpiling and you feel like you're saving money, because sometimes I also wonder if it's like a perception thing versus a reality thing. But if you feel like you're saving money, maybe you would drive the extra hour, have a lunch, Costco hot dog if you eat meat, buy all the things you need for the next month and then go home and put them away in your giant house.

Sara Lebow:

That's a great point. The last thing I want to talk about in this half is just Costco's membership. Have they bumped fees recently, Zak?

Zak Stambor:

No. They have not bumped fees, and that's really notable because usually it's on a cycle and it is past due when they would normally raise fees. The cycle I think was this summer, but they haven't done it and they recognize that people are feeling pinched and so they've pushed it off. They say it's coming sometime in the nearest future, but they haven't done it yet.

Sara Lebow:

Yeah, I think that that's definitely a great point. You certainly see other subscriptions going up, streaming platforms in particular, and it definitely stands out when one is remaining the same.

Suzy Davidkhanian:

I think Costco is one of these places that you either love or you love to hate and that it is a little bit polarizing for people. I think that if you do love it, you're ready to buy the membership and if you love to hate it, you still buy the membership because you realize that it is a one-stop shop for many, many different categories, and you can save a lot of money buying their private label that is said to be very high quality versus its price.

Sara Lebow:

Yeah, I've heard they have great baby wipes. That does lead us into our second half nicely. So let's keep rolling. Now, it's time for pop-up rankings where we take a look at specific examples and we rank them. Today, Suzy and Zak are ranking two good things Costco is doing that could take it to the next level and two things Costco could do to get naysayers to come back. Let's start with two things that are working for Costco. Suzy, what's one of these things?

Suzy Davidkhanian:

So for me, and as a Costco lover, I think there are probably lots of things I would say are working. I was telling my colleagues that I jump at the chance when I go home to go with my dad to Costco to buy random things that I can't get here and bring it back here. And we've talked about it before. They have the delicious mango, dried mangoes.

Sara Lebow:

Yeah, they have great dried mango.

Suzy Davidkhanian:

Canadian gum. Yeah, they have lots of great things. So in keeping with food, one of the things that I really appreciate from Costco is in addition to the hot dog, the sampling, I find it's really clever that in the food area and even in the peripheral areas where the magazines are, where other food pantry items are, there's always some kind of sampling. It's very well organized. It's always things that are hot and top of mind. Hot, not in terms of heat, but just cool things that you want to try. There's a little bit of everything, and I feel like that's a great way for me to try something new. They usually have a coupon associated to it, so all of a sudden I'm buying something that I never had on my list and we're doing a lot of research around this path to purchase. How are we discovering things? And I think Costco is known to help some of these food brands with the discovery in terms of sampling.

Sara Lebow:

This is where Costco almost has a similarity, another similarity to Trader Joe's because Trader Joe's has in the checkout line, and Suzy, I know you're not a big fan of Trader Joe's, but in the checkout line, they have small sort of snack sized handful of olives is one of the things. Smaller things that you might be more inclined to grab in the checkout line. Obviously, that's not dissimilar from any grocery store, but they're a little more interesting at Trader Joe's and they might get you to buy that bigger version of that item the next time that you go.

Suzy Davidkhanian:

That's cool. Although, I know everybody knows I'm talking about the actual live samples where you get it in a little paper cup, it's all nice and clean. Sometimes it's cheese, pierogis, all kinds of things, right? Juices. Brands, to Zak's point earlier, they carry so many limited brands, so things you've never tried before. Brands you've never heard of before, but then you give it a taste or have a drink and you're like, yes, I want this.

Zak Stambor:

That said, as they've seen those big ticket discretionary purchases slow down, they have added a bunch of smaller ticket, they call them indulgent items that might be snacks. They

might just be other small fun things to drive people to just throw them in their cart. Kind of like Trader Joe's that you were saying just a moment ago.

Sara Lebow:

What's an example of an indulgent item?

Zak Stambor:

Like snacks.

Suzy Davidkhanian:

Like Godiva chocolates?

Zak Stambor:

Yeah.

Sara Lebow:

Godiva chocolates. They rank on indulgent for me. Suzy, can you give us another thing Costco is doing well that can take it to the next level if it keeps it up?

Suzy Davidkhanian:

Yeah, I think they do a great job of merchandising locally. So they have a ton of things that are available at any Costco, and then they have, if you're in a place that has a very strong ethnic background that roots in a certain sort of community, then they start to showcase the foods from that part of the world. And I think that's very clever because they truly have understood how to think global. So all the Costcos look and feel the same, but act local with a section that is designated for foods of that community.

Sara Lebow:

Yeah, this is something you were bringing up in the context of going home to Toronto specifically. You can get your 12 pack of Canadian gum there.

Suzy Davidkhanian:

Correct. Or even more local than that is you go to an area where it's a little bit more Lebanese, let's say, and then there's a lot of hummus and other sort of baklava and other typical Arabic

foods that you might not find at the one that is in a different location. And then, another really easy one is some states allow for liquor sales to be more open than other states. So in some states you see alcohol at a Costco. In other states, you don't. So they really do think about it from a local perspective, which is hard to do when you have so many stores. So I find that a great thing that they should keep doing.

Sara Lebow:

Yeah, I think we've covered that the Costco by the University of Michigan certainly had alcohol. Zak, what's something that Costco could do to get naysayers to come back to Costco?

Zak Stambor:

The first one is low hanging fruit, and that's e-commerce. So I started covering e-commerce around like 2009, I think, and their website takes me right back to 2009. It really has not changed much. Their app is a little bit better, which they have been focusing on. They've added bells and whistles like virtual try-on of glasses, and digital membership card, but they're just getting up to par, maybe climbing up to par even, not surpassing it, and it's just not a great experience. And there's just so many ways in which they could make the online experience more engaging and drive sales, which their e-commerce sales are rather dismal.

Sara Lebow:

This is a criticism that I years ago used to have of Amazon and Walmart. I would say that when you went on their website, it felt like it was still 1995. I don't feel that way anymore. They've made a ton of upgrades to search and to their apps that Costco really needs to catch up on.

Suzy Davidkhanian:

The other thing though is I find... Me too, Sara, I find it's come a long way, but mostly because it's using Instacart to power it. And so you are getting a third party platform to help you with packing and picking and getting it to you. You need a Costco card, but you're going through Instacart. And so maybe that's why that experience feels different than if you go and just look at the Costco website.

Sara Lebow:

That's a great point.



Zak Stambor:

And if you're going through Instacart, you're not getting the value that you're getting if you're buying directly from Costco. And so why are you shopping at Costco almost?

Sara Lebow:

Both of those are great points because if you are going through Instacart for Costco, you're probably going through Instacart for grocery as well. But yeah, that's a great point, Zak. If you're going through Instacart to buy something at an Albertsons, that's for ease. You'd probably buy then your groceries at Albertsons rather than resorting to Costco for that. Zak, can you give us our final thing that Costco could do to get naysayers to come back?

Zak Stambor:

Yeah, just navigation. And I think this goes both for the in-store experience, but also the online experience. It's just not that easy to make your way around Costco and get everything that you need. And then if you ever forget something that is on your list at Costco and you have to go across the store, it's just the most painful experience. And when you don't have tremendous familiarity with where the rice is, is it this aisle or that aisle, you end up spending a lot of time and it can be frustrating. And similarly online, it's just not a great experience, and so it can be tough to navigate as well.

Sara Lebow:

Is that particularly different from your grocery store, your Meyer, your Walmart?

Suzy Davidkhanian:

Yes, but I think, we talked about this before. I do think that that's why this is also potentially low hanging fruit because they just need better signage. Most Costcos, when you go to the right, it's the durably home things. And when you go to the left, it's the foody sort of things like the nuts and the whatever, and at the front is the opticals. And then on one side it's like the beauty healthcare stuff upfront kind of. So they've thought it through. The bakery is usually at the back. The meats are usually at the back, so there is some sort of like to like store to store. But I do think that they move the olive oil from row one to row three on purpose so that you're looking for it and you find other things that you didn't really know you needed. And I think they can get away with that.

But I think that for people like you, Zak, who are time pressed, maybe they just need more signage. The shelves go so high that you can't really see that far ahead. So if they just had more signage, I think that would help.

Zak Stambor:

Completely agree.

Sara Lebow:

Is that a real strategy, moving the olive oil around or something like it so that-

Suzy Davidkhanian:

I don't know enough about Costco strategies at that intimate level to know if it's their strategy, but it feels like a strategy as a shopper.

Sara Lebow:

Yeah, that's interesting. Okay, that is all we have time for today. So thank you for being here, Suzy.

Suzy Davidkhanian:

Thanks for having me.

Sara Lebow:

And thank you, Zak.

Zak Stambor:

Thanks for having me.

Sara Lebow:

Please give us a rating and review wherever you listen to podcasts and follow us on Instagram at [BehindTheNumbers\\_podcast](#). Thank you to our listeners and to Victoria who edits the podcast and has confirmed that Costco hotdogs are her favorite thing ever. We'll be back next Wednesday with another episode of Re-Imagining Retail, an eMarketer Podcast. And tomorrow join Marcus for another episode of the Behind the Numbers Daily.