



Costco's Current Development in Chinese Retail Market

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Abstract. China is a booming market in this century, and the largest worldwide warehouse club, Costco has only two benches in China. This paper mainly applies research and data analysis to analyze consumer habits, the status of Costco in the minds of Americans and Chinese, the demographic structure of China and Costco's North American business model enterprise management. It shows that the aging of China and the average family size have effects on the future performance of Costco. At the same time, it is found that Chinese consumers are completely adapted to online shopping. In a conclusion, this author found that people are more willing to go to small supermarkets and convenience stores, which are not favored by Chinese consumers. Later in this paper, this paper explores the condition of India which are environment, resources, and economic development and made a comparison with China. It shows that they have a similar business circumstances. As a result, the author predicts Costco cannot succeed in India.

Keywords: Warehouse Club, Retailer, Costco, China, U.S.

1 Introduction

Costco is the third largest warehouse club in the world. Founded in 1983, it has more than 800 stores in 12 countries around the world. It did not enter the Chinese market until 2020, when it opened its first store in Shanghai, China. This paper mainly studies why Costco entered the Chinese market so late and expanded very slowly after entering the Chinese market. This paper mainly studies whether Costco's business model is suitable for China, whether it can open more branches in China, and predicts Costco's prospects in China. The article analyzes Costco's target group based on China's demographic structure, compares the consumption habits of Chinese and American consumers, and whether Costco's business philosophy in North America conforms to China. Online shopping and convenience stores have become Chinese consumers' most crucial shopping channels. This paper can be a reference for people who want to invest in China. It is important to study the future market trend of the world.

2 Comparison of the Status of Warehouse Club in the United States and China

Costco is the largest member-owned warehouse chain in the United States. Founded in Seattle, Washington, in 1983, Costco has 833 stores worldwide. As one of the fastest growing major economies, China is a rich developing country with a vast population and economy, good infrastructure, and a stable social environment. All these factors attract every enterprise. Costco did not open its first store in China until August 27, 2019, in Shanghai, and its second store opened in Suzhou, Jiangsu Province, on December 8, 2021. Shanghai's first Costco attracted so many customers on its opening day that it was closed for five hours.

Nevertheless, customers canceled their membership cards one after another within a week. The hot scene on opening day in Shanghai was more about consumers joining in and trying out new things. Additionally, because of Costco's guaranteed member guarantee, which states that customers can cancel their membership cards at any time during the card's validity period if they are dissatisfied, and that Costco will refund their membership fees in full for the entire year. The cost to customers to get a taste of the new product is almost zero. This policy leads many people to pay for a membership on opening day, but they will get their money back within a year to further examine the role of warehouse clubs in China, let's look at another Asian country, Japan. Although Costco already has 31 branches in Japan. The average consumption level in Japan is also higher than that in China, but 40% of the members still report that the membership fee is too high for them. There is no doubt that membership fees are expensive for most Chinese consumers.

Table 1. What consumers like about Costco and local supermarkets [1]

Store attribute	What is your dissatisfaction about Costco?	What is your dissatisfaction about local supermarkets?
Not enough variety of goods	3.3	36.0
Too crowded	12.3	19.0
Price is higher than at other places	3.8	27.0
The large package of purchasing unit	27.4	6.0
Store too large to shop around	2.4	5.0
Membership Fee is high	40.1	-
Inconvenience for accessibility	10.8	7.0

According to Zhou, she studies at Simon Fraser University, and she has studied how Warehouse Club has grown in China. Walmart China closed more than 80 stores between 2016 to 2020. In contrast, warehouse Club plays important role in the American economy. During the pandemic, it still creates 6.45 percent growth. The three largest warehouse clubs in the United States remain profit-growing over the past five years.

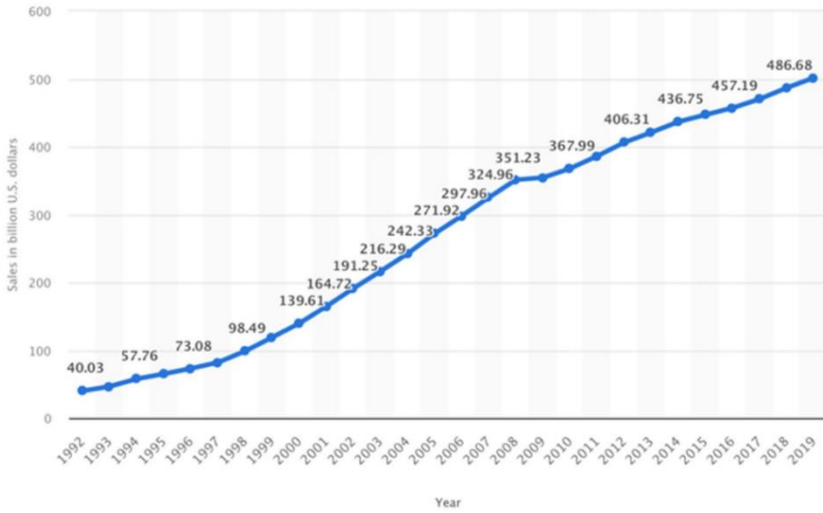


Fig. 1. Warehouse clubs and supercenter store sales in the United States from 1992 to 2019 [2]

2.1 Reasons Why Costco Does not Adapt to the Chinese Consumer Market

Chinese consumers prefer fresh products. The Chinese prefer fresh ingredients sold at local wet markets (bazaars) and must go to the market every two days. Costco is more like a wholesale supermarket that fits the American lifestyle and buys enough to feed a family for a month at a time. Convenience store chains in China are subdivided, such as the meat store (Qian Dama) and the fruit store (Baiyuan). These shops will be in every neighborhood, so their density is very high. Instead of being a convenience shop, Costco's setting is more suburban. The three primary trends in consumer behaviour are "small shops," "near-field," and "internet." As a result, in terms of consumption patterns, Costco bulk purchasing is not acceptable for the majority of Chinese people. The "rapid consuming" paradigm is more and more popular among Chinese customers. Even though the chain stores are modest, they nonetheless stock food and other necessities for everyday living. Convenience store inventory is often modest to medium-sized, in keeping with Chinese consumers' purchasing patterns. The shopping habits of high shopping frequency, less spending per purchase, and various shopping channels are more suitable for Chinese people. Japan, also an Asian country is worth studying. The questionnaire survey of members also shows that only 10.8% of Japanese consumers like a large package of goods in Costco, and there are 27.3% of consumers like the convenient location of supermarkets.

Table 2. What consumers are dissatisfied with Costco and local supermarkets [1]

Store attribute	What do you like about Costco?	What do you like about local supermarkets?
The variety of goods	30.5	21.6

Good quality	5.8	18.2
Good price	16.6	25.1
Good in-store promotion	16.2	3.0
The large package of selling unit	10.8	0.9
In- store amenities	12.0	1.3
Convenience for accessibility	3.1	27.3

Future Retailing Impact of Demographics. China has unquestionably become an older society. China's old population is expected to grow to 480 million by 2050, accounting for 34.1% of the country's total population. The elderly will become a significant consumer group of food and everyday essentials in such a social and demographic framework, and they cannot be disregarded. For example, convenience shops are more suited and safe for the elderly to eat at than Costco and other large warehouse supermarkets [2]. In the past 20 years, the proportion of aged people in China has gradually increased and this problem intensified after 2015. Compared with the young generation, old people tend to shop in markets and convenience stores instead of warehouse club retailers like Costco, because they consume a small amount of food and daily supply [3].

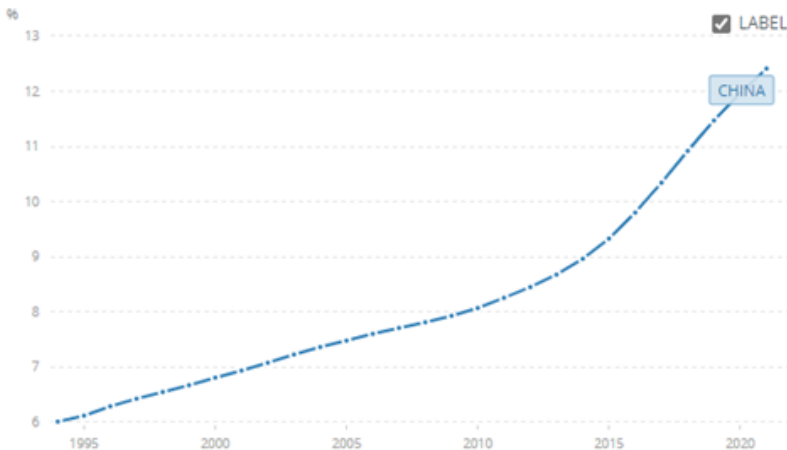


Fig. 2. Population ages 65 and above (% of total population) in China [4]

2.2 Costco's North American Business Model Enterprise Management does not Apply to Chinese Consumers

By analyzing Costco's business and enterprise management model, which is very successful in North America but not applicable in China, Costco needs to dig into the consumption habits of China's middle class. Specifically, it includes the fast pace of life, the frequency of shopping, and the way of consumption [4]. Based on this feature,

bulk purchasing is the North American model, which may not apply to the Chinese market.

First, Chinese consumers are not used to buying significant daily necessities and food packages. The second Costco is less convenient than the daily convenience store and neighborhood market. These markets are self-produced and sell enough products to meet their daily needs at low prices. Third, paying the membership fee before shopping is new in China. Fourth, the consumption level of China and the United States is very different, and the bulk buying method is not suitable for China's current per capita housing population. Based on the above arguments, Costco's target population should be China's middle class [5]. Metro, a supermarket with Costco's business model, entered China in 1996 and opened its first store in Shanghai that year. Metro's business model cannot adapt to the Chinese consumer market. Metro China initially targeted professional consumers (such as hotels, porters, and traders) rather than ordinary consumers. A membership policy similar to Costco's, combined with an inconvenient suburban location, ultimately led to Metro's oblivion among Chinese consumers. In October 2019, Metro announced the sale of a majority stake in its China business to the Beijing-based retail group. The case of Metro also demonstrates the difficulties that member-owned supermarkets can encounter in China [6].

2.3 Costco's Competitors in China

E-commerce Environment. Under the perfect and substantial Chinese e-commerce logistics system, Chinese consumers have formed the habit of online shopping and door-to-door delivery. Such as Taobao and Jingdong[7]. The latest products in live streaming, such as the Douyin platform, are also trendy. In this case, the electronic merchant is Costco's role; they select products in their familiar territory and then communicate directly with the merchant. Buying in large quantities gives them a price advantage. Furthermore, they do not have to be charged a membership fee. In the current situation, brick-and-mortar retailers (except convenience stores) have lost their price advantage, and Wal-Mart also faces this dilemma.

In the past two decades, e-commerce has been the mainstream of China's retail market, and now online shopping in China has formed a complete closed loop. First is online marketing and then direct delivery from the manufacturer to logistics delivery home. Currently, fresh aquatic products and meat can be delivered to consumers through particular cold chain logistics. China's logistics development is fast. The logistics sector is a broad service sector that integrates customs, transportation, telecommunication, and storage as crucial components of the national economy. For example, the fast expansion of China's express delivery business, which can handle 140 million parcels daily, has been powered by fully automated sorting lines, refrigerated vehicles, and cheap labor costs. In China, it takes 1-4 days for customers to receive goods, and 1-2 days if they choose a cold chain or express service. In addition, with the popularity of electronic devices, most consumers can receive promotional information, and they can also adapt to this shopping mode and even rely on it. Online sales in China have grown by about 25 percent each of the past seven years to reach about \$1.9 trillion by 2020, accounting for 25 to 50 percent of total retail sales, While the United States for

10% to 20% [2]. According to statistics on the number of online consumers in China over the past 15 years, the number of online consumers in China has maintained a continuous growth, with the fastest growth during COVID-19. Due to the COVID-19 pandemic, online shopping for food and daily necessities has become even more of a major channel.

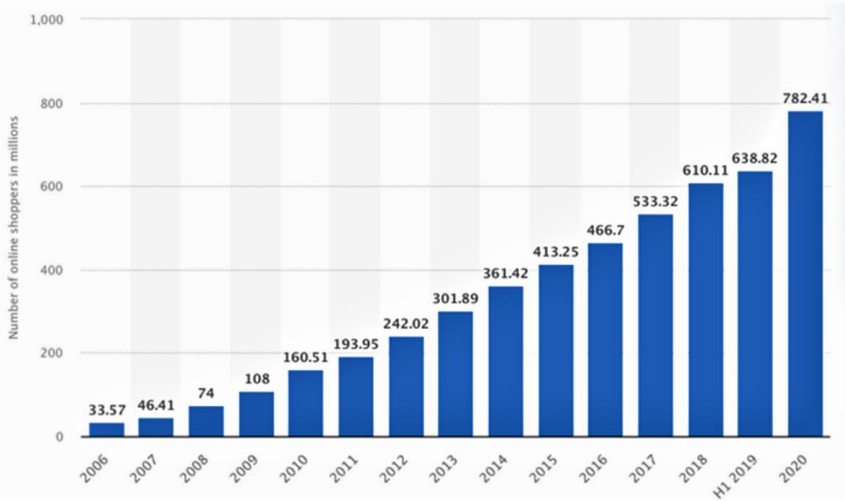


Fig. 3. Number of online shoppers in China from 2009 to 2020 [2]

Competitors in China. China has built more and more convenience stores such as Family Mart, Meiyijia, and 7-Eleven. These convenience stores sell snacks and drinks such as grilled sausages, coffee, smoothies, and bread in addition to retail. Microwaves and hot water are provided so customers can eat in the restaurant. Customers are rapidly becoming accustomed to buying at neighborhood convenience stores due to its convenience. In addition, the area of convenience stores is minimal. Convenience stores are almost everywhere now. Every neighborhood has a supermarket and two or three convenience stores near it. Therefore, Costco is not a good idea to keep its location in China's outskirts, distant from the city core. To get a distinct advantage over rivals in the future, Costco must localize and provide home delivery services in China. Online trade is now more practical, but the quality is still poor. The long-term development of the real economy depends on our insistence on high-quality goods.

3 Retail Market in India

Move on to India, which has a lot in common with China. Both countries are developing countries and have much room for development. Retail is one of the pillars of India's economy, accounting for about 22% of its gross domestic product. India has 1.2 billion people and is one of the fastest-growing retail markets in the world. As of 2013, the retail industry in India was largely small, self-managed stores. Only found in big metropolitan centers, large supermarkets, and convenience shops made up roughly 4%

of the business in 2010. However, recent years have seen a significant retail expansion in India. As a result, many multinational companies have also started manufacturing straight lines in the Indian retail market [8].

In India, retailing has been practiced for many years and is mostly carried out by small, family-run establishments like stores and hawkers. As a result, these companies frequently have low margins, are run by their owners, and have minimal real estate and human resources overhead. These shops are different from Hawkers because they sell local specialties and food. They build a strong relationship with the local community and have a regular customer base. In this respect, they are very similar to Chinese markets [9]. On the other hand, because of low labor costs, every store employs a delivery clerk so that consumers can order food lists directly over the phone. In terms of distribution, China has a perfect logistics system. These advantages are significant, though difficult to quantify. Costco, by contrast, has to pay substantial fixed costs (membership fees) to keep prices low enough to compete with the traditional sector. Getting consumers to switch from small neighborhood stores to large retailers can be a significant challenge.

Table 3. Structure of Indian Retail Market [10]

Structure of Indian Retail Market	
Big Retailer	23%
Small Retailers	31%
Hawkers	15%
Push cart vendors	31%

4 Conclusion

This paper analyzes why Costco's expansion in China is so slow from three perspectives. First, comparing the US market and the Chinese market, it is found that consumers have different consumption habits, different average income levels, and different demographic structures. Costco's high membership fees and location far from the city have caused a lot of inconvenience to Chinese consumers. The above analysis proposed differences with the United States regarding facilities, supply side, and demand. China now has a well-established E-commerce environment, with online shopping stores replacing traditional offline shopping. At the same time, high-density convenience stores and supermarkets have become Costco's strong competitors. Online shopping is efficient, convenient and cost-effective. Based on the current situation of China's retail market, this paper predicted that if Costco opens a branch in India, it will encounter a similar situation to China. For future study, researchers can take the annual financial report analysis into count, so that a more precise conclusion can be made.

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