

THE EXTRA POINT

BY JERRY ROBERTS



1531 What Can We Learn From Costco's Retail Strategy?

The price of gold has been on the rise. You hear Ray give the details on that each day. Jewelry stores sell gold, as well as precious metals dealers, and millions of people have physical gold in their possession. Perhaps it will be a surprise for you to learn that a major seller is the discount retailer Costco. Yeah, right between the year's supply of ketchup and bajillion-roll packs of paper towels, you can buy gold by the ounce. I'm Jerry Roberts, and there's a story and a lesson behind this, and we'll get to it next on The Extra Point.

Gold is a hot commodity lately. Market prices have skyrocketed this year. It's mostly bought by institutions and individuals as a hedge against inflation.

It's also purchased by people who see gold as necessary for a society they believe will fall apart, and they'll need it to buy basic goods and services. What's unclear is how someone would get full value for their gold if they sold it, or if using it to buy, say, food or other supplies.

In example, if you try to buy food with a gold bar or coin worth \$2,000, \$3,000, or more, what are you going to take back in change? For our purposes today, we'll push that aside.

Costco saw an opening into the gold market, and they stepped through in a big way. Wells Fargo analysts estimate that Costco may be selling \$100 million to \$200 million in gold bars every month. This is up from \$100 million per quarter at the end of last year.

The gold is available at some Costco warehouse locations, while most of it is sold online in batches — limit five bars per customer.

The analysts claim that "Aggressive pricing and a high level of customer trust" are the reasons for the increase.

Like the price of gold on the open market, the Costco price fluctuates, but looks to be about 2% over the market. That percentage vastly undercuts the most other outlets where buyers

routinely pay far more. So what did Costco know before committing to gold?

They knew that customers saw them as an accessible and trustworthy place to do business, and those two factors would go far in convincing buyers that Costco was the place to buy their gold.

Costco leveraged their reputation when taking a chance on a product that was well outside of their normal offerings. But why do it? This is a company with annual revenues in the \$250 billion range. Why mess with something that offers a 2% profit margin?

The analysts can toss around numbers all day long, but a look at a bit of Costco's history might give a clue.

Costco is well known for selling a \$1.50 hot dog and soda deal at all its locations, and the price hasn't changed since 1985 when first offered. I'm not sure it's that price in Saipan. Maybe a listener can chime in on that. Costco loses money on the deal, but it draws customers in.

Costco has 871 locations worldwide, 602 of them in the U.S. I couldn't find how many sell gas to its customers, but as of three years ago it was reported that the company pumps out 17 million gallons a day. This is about 5% of the total gas sold in the U.S. It is also reported that Costco takes a small loss on discounting its gas.

Again, it brings in the numbers...numbers of customers. That results in more sales.

Does Guam have any retail outlet doing this? We do, the military exchange system. Could anyone else benefit from establishing such a strategy?

Payless and CostULess have large customer counts. So do Guam Premium Outlets and Micronesia Mall. (Con't.)

The Village of Donki will soon join that group. Could any of them sell gas at a discounted price?

Would any of the three fuel providers sell gas to an independent retailer that would break up Guam's system where pump prices are the same everywhere you go?

The key lesson is that it doesn't have to be gas, or gold, just something that your customer base feels has value — even if it's not what you normally sell.

What could you offer today — at breakeven or even at a small loss — that would remind customers how valuable you are to them... or end up shifting somebody else's customers in your direction?

That's the Extra Point. Be responsible and make something good happen today. For 93.3FM, the Ray Gibson Show, and First Hawaiian Bank, I'm Jerry Roberts.

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