

Costco's Financial Performance and Strategic Outlook: An Industry Comparative Analysis

Tongying Lei

*SILC Business School, Shanghai University, Jining, China
1523956612@qq.com*

Abstract. The global retail industry is being reshaped by margin pressure, omnichannel competition, and changing customer expectations. Within this environment, Costco is an important case because it combines a low-price warehouse model with strong customer retention and relatively stable profitability. This paper examines Costco's financial performance and strategic outlook through a case study and comparative analysis. The analysis draws on recent retail literature and on the 2022-2024 annual reports of Costco, Walmart, and Target. Three analytical dimensions are emphasized: the economics of the membership model, operational efficiency, and the strategic implications of digital transformation and international localization. The findings indicate that Costco's strength does not come from high merchandise margins. Instead, it is created by the interaction of low-margin pricing, rapid inventory turnover, high member renewal, and disciplined human-capital investment. Membership fees remain a major earnings stabilizer, while operational efficiency allows the company to compete aggressively on price. At the same time, important risks remain, especially market saturation in mature regions, slower digital development relative to major rivals, and the need for deeper localization in overseas markets. The essay concludes that Costco's long-term resilience will depend on preserving its membership value proposition while accelerating technology adoption and locally responsive expansion.

Keywords: Costco, membership model, retail strategy, financial performance, omnichannel retailing

1. Introduction

Retail competition has become structurally more complex in recent years. Scale still matters, but digital platforms, same-day fulfillment, omnichannel integration, and loyalty systems increasingly shape customer value and market share [1,2]. Retailers also continue to face pressure on pricing, labor costs, inventory risk, and capital efficiency [3]. In this context, Costco attracts sustained attention because it has maintained strong performance while operating with unusually low merchandise margins. Rather than maximizing gross margin on individual products, Costco combines a membership-based revenue stream with high sales volume, disciplined assortment management, and fast inventory circulation [4,5].

Recent research has clarified the economics of membership systems, the role of relationship value in retail loyalty, and the importance of integrated channel development [1,2,4,5]. However, a practical gap remains between general retail theory and firm-level assessment of Costco's current position. Fewer applied studies connect these ideas directly to Costco's recent financial evidence and to an industry benchmark.

This paper addresses that gap by analyzing Costco's financial performance and strategic outlook relative to Walmart and Target. This study uses a comparative-financial-analysis approach based on recent academic literature and 2022-2024 official corporate reports of Costco, Walmart, and Target [6-8]. Three groups of indicators are examined. First, growth and profitability indicators include revenue, membership fee income, net income, operating income, and gross margin. Second, model-specific indicators include membership renewal, executive-member sales penetration, and digital channel signals. Third, operating-efficiency indicators include inventory turnover, estimated by dividing cost of sales or merchandise costs by average year-end inventory. The purpose is to explain how Costco converts a structurally low-margin model into durable performance and to identify the strategic conditions under which that model can remain competitive.

2. Literature review and analytical framework

2.1. Membership, relationship value, and loyalty economics

Membership systems alter the profit logic of retailing. Instead of relying only on product markups, firms can shift part of value capture into recurring fees and loyalty-based engagement [4]. Hu et al. argue that membership pricing can function as a screening and value-extraction mechanism when firms understand user profiles and segment demand effectively [4]. This insight is highly relevant for Costco because its warehouse model depends on customers accepting annual fees in exchange for reliable price savings.

Relationship value is equally important. Abid et al. show that retailers generate stronger engagement when customers perceive benefits that go beyond short-term transactional savings [5]. Repeat patronage is therefore reinforced not only by low prices, but also by trust and perceived fairness [5]. Mimouni Chaabane et al. further show that the framing of a reward program can influence perceived attractiveness and effectiveness [9]. For Costco, the membership model should therefore be understood as both a financial structure and a behavioral institution.

2.2. Omnichannel retailing and responsible digital implementation

Recent retail literature emphasizes that future competitiveness depends on channel integration rather than isolated success in either physical or online formats [1]. Vhatkar et al. show that digital omnichannel retailing is increasingly central to operational efficiency, customer convenience, and sustainability-related performance [1]. Cheng et al. argue that digital transformation creates value only when implementation is operationally responsible and connected to real business processes [2].

Fang and Li add that cross-channel inconsistency can increase consumer uncertainty and encourage avoidance behavior [10]. For Costco, this means that digital capability should not be evaluated only by online sales growth. It should also be assessed in terms of whether the digital experience is sufficiently integrated with the membership proposition, warehouse operations, and local market requirements.

2.3. Inventory efficiency, supply-chain power, and human capital

Inventory efficiency remains one of the most important indicators in large-scale retail because it links purchasing discipline, pricing strategy, cash conversion, and markdown risk. Yeboah et al. show that inventory management efficiency is closely related to operational profitability, especially under demand volatility [3]. Supply-chain relationships also matter. Gu et al. find that the balance of market power between supply-chain partners influences firm performance through bargaining conditions and operational coordination [11].

Human capital provides the third component of the framework. Ranta and Ylinen show that employee benefits and supportive reward structures are associated with stronger company performance [12]. In a retail setting, compensation and retention influence service quality, execution reliability, and productivity. This paper evaluates Costco through an integrated lens: membership economics create demand stability, inventory efficiency protects low-price profitability, and human-capital investment supports execution quality.

3. Costco's financial performance analysis

3.1. Revenue growth, margin structure, and the membership engine

Costco's recent financial data show a business that grows steadily without abandoning its low-margin identity. Total revenue increased from \$226.954 billion in 2022 to \$242.290 billion in 2023 and \$254.453 billion in 2024 [6]. Over the same period, net income attributable to Costco rose from \$5.844 billion to \$6.292 billion and then to \$7.367 billion [6]. Membership fee revenue also expanded, from \$4.224 billion in 2022 to \$4.580 billion in 2023 and \$4.828 billion in 2024 [6]. Figure 1 summarizes this pattern.

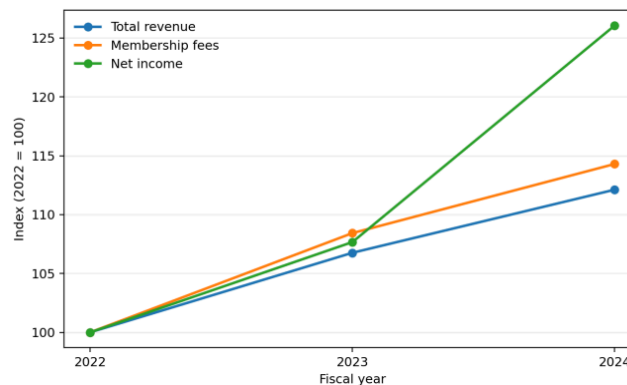


Figure 1. Indexed growth of Costco total revenue, membership fees, and net income, 2022-2024 [6]

The underlying margin structure confirms that Costco does not pursue profitability through high merchandise markups. Gross margin as a percentage of net sales was 10.48% in 2022, 10.57% in 2023, and 10.92% in 2024 [6]. Relative to broad-line retail peers, these levels are exceptionally low. Yet this apparent weakness is part of the model's strength. Low merchandise margins reinforce Costco's price credibility, which supports purchase frequency, basket growth, and member retention. Profitability is then stabilized through membership revenue and cost discipline rather than product-level margin extraction.

The dependence of earnings on membership income is substantial. In 2024, Costco reported \$4.828 billion in membership fee revenue against \$7.367 billion in net income, which means that

membership fees were equal to roughly 65.5% of net income [6]. Membership quality indicators reinforce this interpretation. Executive members accounted for approximately 73.3% of worldwide net sales in 2024, and renewal rates reached 92.9% in the United States and Canada and 90.5% worldwide [6]. These figures indicate a strong embedded relationship between the company and its customers. The membership model, therefore, does more than generate fee revenue. It creates behavioral stickiness, predictable repeat purchasing, and a financial buffer that supports aggressive pricing.

3.2. Operational efficiency and industry comparison

Costco's strongest comparative advantage appears in operating efficiency. Using merchandise costs and average year-end inventory, Costco's 2024 inventory turnover is approximately 12.6 times [6]. The equivalent estimate for Walmart is about 8.8 times, based on the cost of sales of \$490.142 billion and an average inventory of roughly \$55.734 billion [7]. Target's comparable figure is about 6.2 times, based on the cost of sales of \$76.502 billion and the average inventory of about \$12.313 billion [8]. Figure 2 and Table 1 show the comparison.

Table 1. 2024 industry comparison of selected operating indicators [6-8]

Company	Sales / Revenue (\$bn)	Operating income (\$bn)	Gross margin(%)	Inventoryturnover (x)	Key model indicator
Costco	254.5	9.29	10.92	12.6	Membership fees \$4.83bn;renewal 90.5% worldwide
Walmart	648.1	27.01	23.7	8.8	AI, eCommerce, and automationcentral to strategy
Target	106.6	5.57	28.2	6.2	Digitally originated sales =19.6% of merchandise sales

Note: Inventory turnover values are the author's calculations based on the cost and inventory figures reported in the three annual reports.

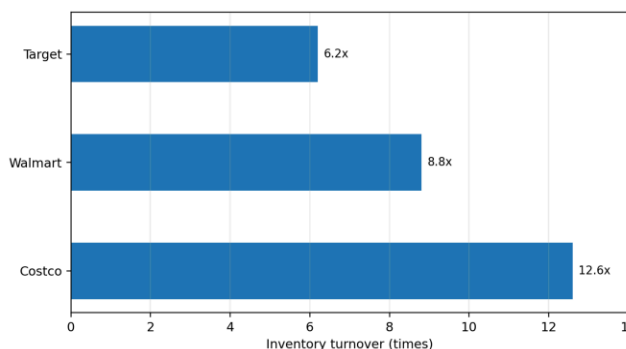


Figure 2. Estimated inventory turnover comparison in 2024 [6-8]

The combination of low gross margin and fast turnover is central to the Costco model. Walmart's gross profit rate was 23.7% in 2024 [7], while Target's gross margin was about 28.2% based on reported net sales and cost of sales [8]. Costco's gross margin was only 10.92% [6]. On a static margin basis, Costco looks weaker. On an efficiency basis, however, the company converts

inventory into sales much faster, which reduces carrying costs and markdown exposure and strengthens cash generation.

Human-capital indicators support this efficiency logic. Costco employed 333,000 people worldwide at the end of 2024, with approximately 93% retention in the United States and Canada for employees with at least one year of service [6]. The company also raised the starting wage in the United States and Canada to at least \$19.50 per hour in 2024, and the average hourly wage for U.S. hourly employees reached approximately \$31 per hour [6]. These data suggest that Costco treats labor not purely as a cost to be minimized but as an operational asset linked to retention, productivity, and service reliability.

The comparison also highlights an important trade-off. Walmart and Target are further advanced in digital channel development and omnichannel integration. Walmart explicitly links its strategy to e-Commerce, artificial intelligence, and supply-chain automation [7]. Target reported that digitally originated merchandise sales represented 19.6% of merchandise sales in 2024 [8]. Costco's annual report indicates positive e-commerce comparable sales growth of 16% in 2024, but it also notes that e-commerce carries a lower gross-margin percentage than the warehouse business [6]. Costco is therefore efficient and financially strong, but still relatively less developed in some channel capabilities that increasingly define future retail competition.

4. Strategic challenges and future outlook

Despite strong recent performance, Costco faces three interrelated strategic challenges. The first is saturation risk in mature markets. Costco's annual report notes that warehouse openings in existing markets can create cannibalization effects and lower initial profitability relative to established locations [6]. As the footprint becomes denser, preserving incremental returns from new openings becomes more difficult.

The second challenge is digital transformation. Costco's digital business is growing, yet the company remains more store-centric than some major competitors [6-8]. Walmart has framed digital capability as a central strategic pillar involving e-Commerce, artificial intelligence, and automation [7]. Target has also embedded digital sales more deeply into its operating model, with almost one-fifth of merchandise sales digitally originated in 2024 [8]. For Costco, the bigger risk is that a membership-based retailer could weaken its value proposition if digital convenience and fulfillment visibility lag behind rising customer expectations [1,2,10].

The third challenge concerns international localization. Costco's 2024 report shows that the company operated only seven warehouses in China by the end of the fiscal year, indicating that expansion remains selective rather than broad [6]. This limited footprint is not necessarily a failure, but it does signal the difficulty of transferring a warehouse-club model into markets with different household structures, shopping routines, and digital ecosystems. Future international growth will therefore depend not only on opening new warehouses but also on adapting assortment strategy, service communication, and digital member touchpoints to local conditions.

These challenges do not invalidate the Costco model. They redefine the conditions for its continued success. The low-margin, high-turnover system remains powerful, but future growth will require stronger technological integration and more nuanced international execution.

5. Strategic recommendations

Three strategic recommendations emerge from the analysis. First, Costco should deepen the digital integration of the membership model rather than treating e-commerce as a secondary channel.

Membership data can support more targeted offers, replenishment reminders, and service personalization without compromising price discipline [1,2,10].

Second, overseas expansion should prioritize localization quality over store-count speed. The Chinese footprint suggests that Costco is still in a cautious learning phase [6]. Future expansion should emphasize market-specific assortment calibration, pack-size flexibility, local supplier development, and locally relevant communication.

Third, Costco should preserve its human-capital advantage while using technology to improve back-end efficiency. The company already benefits from high retention and relatively strong wage standards [6]. Those advantages should not be diluted by a narrow cost-cutting interpretation of automation. Technology should instead reduce routine operational friction, improve inventory visibility, and support employees in delivering consistent service [12].

6. Conclusion

Costco's recent performance shows that strong profitability does not require high merchandise margins. Its results come from four mutually reinforcing elements: price credibility, membership income, fast inventory turnover, and disciplined execution supported by human-capital investment. Revenue, membership fees, and net income all rose from 2022 to 2024 while gross margin stayed deliberately low [6]. This confirms that Costco operates as an efficiency-and-loyalty system rather than a conventional margin-maximization model.

The comparison with Walmart and Target strengthens this point. Although both peers report higher gross margins and more advanced omnichannel development [7,8], Costco leads on estimated inventory turnover [6-8]. Faster stock movement helps the company compete on price while protecting earnings through operating discipline, limited assortment, repeat purchasing, and fee-based loyalty.

Future growth, however, will depend on capabilities beyond the traditional warehouse formula. Saturation in mature markets may increase cannibalization, while rising expectations for convenience make digital transformation more important [1,2,10]. International expansion also requires stronger localization, especially in markets such as China, where Costco's footprint remains limited [6].

Overall, Costco remains strategically distinctive. Its membership model functions as both a revenue source and a competitive barrier. The outlook remains favorable, but long-term resilience will depend on strengthening digital execution and locally adaptive expansion without weakening the trust and simplicity that define the brand.

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