

Competitive Strategy Analysis of Costco in China's New Retail Market

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Abstract. China's retail market has transformed from channel-based proliferation to a digitized customer experience. Membership warehouse retailers like Costco are sharpening their knives as they rarely make sales with low items per million square feet of selling space, but can leverage limited stock keeping units, private labels, and charged membership for attention. China's retail market is characterized by mature e-commerce marketplaces, instant delivery providers, locally developed digital ecosystems, and demanding consumers desiring both value and convenience. Presenting a qualitative assessment of the primary Costco competitive strategy in China's new retail market. Using Porter's Five Forces logic, followed by an internal strategic analysis on Omnichannel retailing, online-to-offline commerce, customer experience, and new retail supply chains' latest peer-reviewed literature. Costco's strengths lie in global sourcing, cost control, Kirkland Signature, brand trust, and membership-based loyalty. Weaknesses: slow store expansion, limited localization, weak digital services, and large-package formats that do not fit every Chinese household. They conclude that Costco should not depend on cost leadership alone. A combination of the localized assortment strategy, digital transformation, membership optimization, and supply chain improvements is more conducive to sustaining long-term competitiveness in China.

Keywords: Costco, New Retail, Competitive Strategy, Omnichannel Retailing, Chinese Retail Market

1. Introduction

The retail market in China has entered a phase of development that has physical stores, e-commerce platforms, social media, logistics infrastructure, and data-driven customer management operating as an interdependent competitive system. Recent omnichannel literature shows that retailers adept at "winning" through prices and locations; now must win through their ability to manage multiple channels and touchpoints as a single system [1]. Against this background, the new retail can refer to a retail model that brings online and offline channels together, and reconstructs the ties between the customer, product, and consumption context, using digital tools to reduce costs and improve experiences.

Costco is a unique type of membership warehouse. More globally distinctive are its main characteristics: a selective narrower assortment, bulk purchases, efficient operation, a gross margin at a low percentage of sales, private label products, and membership renewal. When going to China,

Costco attracted early interest from consumers, but they are competing in a very different long-term environment from what they face at home. China already has powerful domestic platforms, fast delivery, fresh-food supermarkets, community group buying, and membership competitors like Sam's Club. Consumers are price sensitive but want convenient, local products trustworthy service delivery and personalized services.

The research gap addressed is how Costco's warehouse membership model may achieve strategic fit with China's new retail environment. Existing research on omnichannel customer experience indicates that integration of channels and customer-centered design leads to superior customer acquisition and retention [2]. Customer satisfaction and loyalty depend in part on a seamless and value-adding shopping experience [3]. Our study focuses on the challenge of how Costco can retain its cost advantages in the context of becoming digitalized and locally competing. This paper presents a qualitative case method, Porter's Five Forces logic, and an internal strategic method. It offers practical recommendations for Costco and serves as a reference for foreign retailers that enter digitally sophisticated emerging countries.

2. Theoretical foundation

2.1. Concept of new retail

New retail is not a mere extension of an online store to a brick-and-mortar retailer. It is the smart integration in which customer data, store processes, logistics, product choice, payment, and post-purchase service are woven seamlessly across channels. The goal is to remove friction on the customer journey and make the retailer more efficient. The customer is no longer just a store visitor. The customer is a data source, a participant in the platform and the consumption community. The retailer needs to manage value before, during and after purchase.

Empirical work on the omnichannel customer experience identifies integration, fulfillment, usability and seamlessness as important aspects of customer experience [4]. These are especially salient in China, where consumers straddle store visits, mobile apps, mini-programs, e-commerce platforms, social media reviews, and delivery services all in a single shopping foray. The safety-induced omnichannel acceleration of COVID-19 exacerbates consumer expectations for flexible and contact-light means of retailing relationships [5]. For Costco, new retail means that the warehouse store cannot remain an isolated destination but rather is part of a constellation of membership, products, service and delivery.

2.2. Competitive strategy theory

Competitive strategy addresses how a firm positions itself such that it is difficult for competitors to interfere or to copy. Relevant strategic options for Costco in China in 2018 are cost leadership, differentiation, and a hybrid combination. The key components of cost leadership strategies are purchasing scale, bargaining power, limited assortment, store operating efficiency, and high inventory turnover. Differentiation is a function of unique product quality, trusted private brands, membership club services experience, and shopping excitement. A pure cost strategy builds loyalty from price-sensitive customers, but it may be weakened over time as local delivery firms cut their pricing aggressively, getting the product on time. Pure differentiation strategies may increase loyalty, but will push up operating prices and weaken Costco's price credibility.

Strategies are combined where operations and customer experiences synergize. Research into the new retail supply chain shows that disruption of distribution centers can severely degrade new retail

supply chain performance and service levels [6]. They interpret this finding to suggest logistics reliability is part of both cost control and differentiation. Studies of online-to-offline commerce note that consumer behavior is influenced by technology, trust, perceived value, convenience, and offline service quality [7]. As a combination, the competitive strategy of Costco in China should be evaluated by looking at market and internal forces.

2.3. Analytical framework

This paper uses a qualitative analytical framework comprising three layers. The first layer looks at the outside market, and uses five forces to evaluate it: existing competitors, new entrants, substitutes, supplier bargaining power, and consumer bargaining power. The second dives into Costco's internal strengths and weaknesses: brand reputation, its capability in supply chain, pricing model, private-label products, the system of membership and services, store expansion, online capability and localization. Finally, the third links it all to strategic recommendations.

This framework builds upon research that firms transitioning from multichannel to omnichannel need to align together enablers, challenges, drivers, and context factors [8], and also reflects findings that online customer experience can build loyalty through customer experience and customer engagement and value co-creation [9]. For Costco, the question is how to develop its membership traffic into something other than one-off excitement in stores.

It followed this exact logic path to develop the case analysis. First, the external analysis examined the pressures that could destroy Costco's existing model in China (Figure 1). Second, the internal analysis inspected whether Costco's resources could deal with those pressures. Third, recommendations were only designed if they covered both conditions. This use of a structure avoids treating digital transformation as a smart-sounding platitude; rather, it treats it as a true tool to be wielded. The same logic applies to localization—a localized product mix serves you well only if it also maintains membership value and preserves cost discipline. The end result is a toolkit for evaluating strategy on fit, consistency, and implementation feasibility.

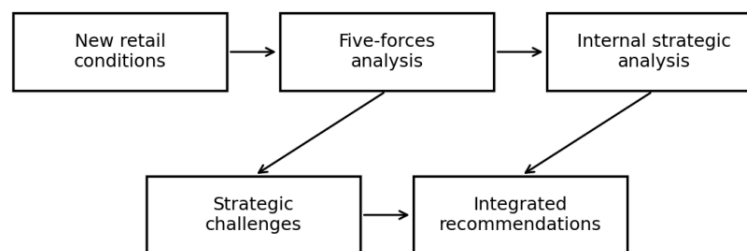


Figure 1. Analytical framework for Costco in China's new retail market

3. External market environment analysis

3.1. Competition among existing retailers

Competition in China's retail market is intense. Costco competes against international membership retailers like Sam's Club; domestic supermarket and fresh-food chains; e-commerce players and instant delivery services, and community formats. Sam's Club is the closest direct competitor; both chains are paid membership warehouses, and both have localized their offerings and services, as well as their online services. Other supermarket formats, Hema Fresh, JD.com, Tmall Supermarket, Yonghui, and many others compete indirectly by providing the temptation of convenience, access to

fresh products, well-timed frequent promotions, and access through digital means. With a market like this, Costco's image as a warehouse low-price retailer comes in handy. But maybe it's not enough.

Existing competitors raise the bar for digital service. Many Chinese retailers have combined mobile payment, delivery tracking, online coupons, loyalty points, and social commerce functions. The omnichannel consumer journey is messy because the customer evaluates the brand through the information search before purchase, through selection of channel for purchase, and through assessment of satisfaction post-purchase [10]. This means Costco is competing along a larger journey and not just inside the warehouse store.

3.2. Threat of new entrants and substitutes

The threat of new entrants is moderate to high. "Any" competitor can copy the warehouse membership format by duplicating large stores, bulk packages, membership cards, and discounted imported products. Domestic retailers understand local consumer behavior, local supply chains, digital websites, and requirements of the government. Of course, they cannot replicate what Costco's global sourcing, private label, inventory discipline, and membership trust have taken decades to accrue.

Substitution pressure is high. Consumers acquire e-commerce for low prices, instant delivery at home for convenience, community group buying for fresh goods, and supermarkets for near-end daily consumption. This reduces the frequency that households need to go with packs of paper tissues to hit a physical warehouse for stuff they need at extensive intervals, especially for households reliant on public transport or activities limited to cupboards in kitchen cabinets. Funders of multichannel and omnichannel retail suggest integration across channels be the notion to embrace as part of the future retailscape and suggest that retailers balance internal operational outcomes with external customer outcomes [11]. This insight accentuated that Costco would need to reduce substitution pressure connecting warehouse value with digital convenience.

3.3. Supplier and consumer bargaining power

Supplier bargaining power is mixed. Costco wields strong bargaining power in global sourcing due to scale, limited assortment and large-volume purchases. In China, however, the localized goods require local supplier relationships, quality control and regulation, and flexible distribution. For fresh goods and local specialties, suppliers with scarce products or regional advantages may have greater bargaining power. Research into logistics efficiency in the new retailing model shows that sustainable competitiveness is a result of systematic evaluation of logistics resources, service capability, cost control and dynamic productivity [12]. Costco's supplier management must thus balance global purchasing power with local logistics coordination.

Consumer bargaining power is high. Chinese consumers can instantly find items, compare prices, read reviews, and switch between platforms, and they benefit from promotions from many competing platforms. Paid membership provides a commitment mechanism, but it also raises consumer expectations as members will expect savings of money, assurance of product quality, exclusive items, speedy service, easy returns, and a constantly evident value from the relationship. Where the perceived value of the membership declines, renewal can be challenging.

Strategic factors in Porter's Five Forces for Costco China are summarized in Table 1.

Table 1. Strategic factors in Porter's Five Forces for Costco China

Force	Current Intensity	Strategic Implication
Existing competitors	High	Costco must defend value-for-money positioning while improving digital service and local relevance.
New entrants	Moderate to high	Visible warehouse formats can be imitated, but sourcing discipline and membership trust are harder to copy.
Substitutes	High	E-commerce, instant delivery, community retail, and supermarkets reduce visit frequency.
Supplier power	Mixed	Global scale helps procurement, while local fresh products require relationship building.
Consumer power	High	Members compare prices and services easily, so renewal depends on continuous perceived value.

4. Internal analysis of Costco

4.1. Strengths

Costco's first strength is its strong global brand name and reputation. For many Chinese consumers, the association with imported products, quality selection and trustworthy prices reduces their perceived risk and confidence in the paid membership model. Second is its operational efficiency—limiting its number of stock-keeping units, purchasing in bulk, and using warehouse-style store design, helping with cost leadership by reducing complexity and increasing turnover of stock.

The third strength is private label capability. Kirkland Signature affords support for both low price and differentiation, and the brand is one that competitors find difficult to match. Private labels empower Costco to control its margins while making its members stickier. The fourth strength relates to the membership model. Membership fees provide revenues for Costco and move its members closer to making repeat purchases. More crucially, membership utterly changes the nature of the exchange of value from a simple transaction to that of a long-term relationship.

4.2. Weaknesses

Costco's first weakness in China is a limited number of stores. Because warehouse clubs operate in large spaces needing large sites, parking, and easy access to traffic, expansion in dense urban districts is snail-paced, leading to physical geographic gaps in the shopping landscape of cities, making it hard for Chinese shoppers to make getting to Costco once a day a part of their habits. Second, Costco lacks digital capability. While the traditional Costco shopping model relies heavily on the treasure hunt of in-store shopping, Chinese consumers seek mobile ordering, short delivery time windows, stock visibility, and targeted promotions.

The third weakness is localization. Differentiate on bulk and imported products, but not every Chinese family has room for a car or a need for large quantities of products that are local flavors of the week or regional "seasonal goods", or that come in family packages. The fourth weakness is service convenience. Long lines, stores packed to capacity and delivery that comes one time only—all of these detract from the customer experience when other competitors fulfil orders faster and are more flexible.

5. Main challenges and competitive strategy recommendations

5.1. Main challenges

The first challenge is walking the line between standardization and local adaptation. As noted above, Costco's efficiency is a by-product of limited assortment and discipline in global procurement. In China, Costco needs to take on a greater weight of local tastes. Too much local adaptation and it faces the specter of complexity; too little and it is irrelevant. The second challenge is digital integration. Without a stronger service digital offering, Costco risks remaining a pure weekend destination instead of a frequent consumption platform. The final challenge is membership value. This highly risky bet on paid membership only pays off if the members have repeat experiences of saving and generating exclusivity, quality and convenience. The fourth is differentiation. E-comm promos can't beat low prices. Imports can be copied. Costco needs a more defensible mix of unique private labels, locally meaningful signature products, trusted personal service, and high-touch local member engagement. The fifth is supply chain resilience. Any hiccup in availability, freshness, or delivery leads to membership distrust.

5.2. Localization strategy

Costco should choose a selective localization approach rather than full localization. The global principle of limited assortment should remain intact, but a greater proportion of the items should conform to China's family size and cooking habits, gift-giving culture, health preferences, and regional tastes and preferences. Slightly smaller packages can be offered in the categories without sacrificing the value of bulk. Local speciality products can be added as traffic generators, particularly for festival and seasonal consumption periods.

Localization should extend to store layout and service design as well. Chinese shoppers tend to enjoy product sampling, product explanation, digital payment convenience, speedy returns, and family shopping facilities. Costco can maintain differentiation yet lessen stranger-danger shock in store using clear product storytelling, bilingual labelling on imported products, and education for members about Kirkland Signature.

5.3. Digital transformation and membership optimization

Costco must build its digital transformation on membership, not an across-the-board e-commerce platform. A Costco China mobile app may include membership renewal and digital card options, product search, stock status, delivery options, exclusive coupons, and access to shopping history and after-sales service. Digital tools will not, and must not, replace the warehouse experience. Rather, they deserve to enhance the experience and add another reason for visit frequency. For example, pre-ordering imported goods online may get the imported goods into customers' hands faster, while click-and-collect can reduce store crowding and increase convenience.

Membership optimization should orient around real-world benefits and anything that seems obvious and sufficient, like birthday benefits, physical services, member-only product previews, local holiday bundles and partner services. Making a tiered communication plan will ensure that any product included in assortments will reach members without much promotional jargon in the recommended posts. Inject utility into membership so that even if we didn't go to the warehouse this week, it still feels useful. The digital language helps collect data for assortment planning and local predictions.

5.4. Supply chain improvement

In its quest for this improvement, Costco should further strengthen and develop the ongoing relationships it has established with local suppliers of fresh foods, everyday products, and regional specialties, while simultaneously continuing to monitor the quality of those products. According to Matthew Miller, one of Costco's regional managers, the "solid camaraderie" Costco is building with its local suppliers can lower costs, increase freshness, and shorten lead time, although Costco will want to protect its global sourcing, at least for the kinds of food it imports that create excitement and differentiation.

Distribution capability should facilitate both replenishing warehouses and filling orders. A few regional distribution centers will enhance visibility into inventory and delivery reliability. Cold-chain logistics will be an issue for fresh food and prepared products. Costco should also use its demand data from customers for their purchases to help forecast regional patterns—the richer forecasting will reduce stockouts and waste and aid both cost leadership and customer satisfaction.

Implementation should be staged. The first stage could be in urban areas of existing density, where explosive membership growth is occurring. The second stage might connect stores to regional stores with fulfillment capabilities. The third stage can use more established markets to refine both assortment and member services through the use of actual data. A staged approach reduces investment risk and protects Costco's current operations culture of discipline.

Strategy priorities are summarized in Table 2.

Table 2. Strategy priorities and performance logic

Priority	Main Action	Expected Effect
Localization	Add selected local products, smaller packages, and festival bundles.	Improves market fit while preserving limited-assortment efficiency.
Digital transformation	Build membership-centered mobile services, delivery, inventory visibility, and click-and-collect.	Extends warehouse value and reduces substitution by instant delivery platforms.
Membership optimization	Offer recurring benefits, family services, product previews, and personalized communication.	Increases renewal intention and member engagement.
Supply chain improvement	Develop local supplier partnerships and regional distribution centers.	Supports low cost, freshness, product availability, and service reliability.

6. Conclusion

This paper examined teamwork in the context of Costco's competitive strategy considering the new retail environment in China through a hybrid approach that combines five-forces logic, internal strategic analysis, and an understanding of emerging literature related to omnichannel retailing, online-to-offline commerce, customer experience, and new retail supply chains. The analysis shows Costco has strong advantages relating to brand reputation, cost control, global sourcing, private-label products, and paid membership. These create a powerful base for entry and early consumer attention but China's competitive and digitally mature market and focus on convenience mean a warehouse club based on low prices and imported products might feel pressure from regional e-commerce platforms, instant delivery, domestic supermarket chains and other direct membership competitors.

Costco's long-term competitive strategy in China should therefore be hybrid. Cost leadership is requisite because the brand promise relies on trust in value. Differentiation is necessary since

members need more than occasional surprises to renew their memberships. Selective localization, more robust digital membership services, a stronger online-offline integration, recurring membership rewards, and supply chain resilience will boost Costco from a much-loved warehouse watering hole to a serious societal member-based ecosystem of retail.

The comparison also seems to have implications for other foreign retailers in China; proven models that have adapted well to mature western markets do not simply spin onto China's new retail web. Digital service, local assortment, delivery speed, social engagement, and customer data all impact fit. Surveying Costco members in different cities, comparing Costco with Sam's Club and Hema Fresh, or measuring how membership benefits and perks, digital service quality, product localization, and "perceived savings" for typically large and high-frequency purchase grocery and consumable purchases impact renewal intention would strengthen our empirical base for judging Costco's strategic performance and the general evolution of membership warehouse retailing in China.

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