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Market Challenges and Strategic Responses of Costco in Mainland China

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Abstract. Costco has an annual membership fee and a small number of products that it sells at low margins. This paper discusses the appropriateness of the model in mainland China in the context of household needs and purchasing behaviors. The qualitative case study is based on published research, reports and prices gathered from Costco's flagship store on JD.com. As of 12 September 2026, every one of the 49 Kirkland Signature products sampled offered non-member prices exactly 1.20 times member prices, representing a member discount of approximately 16.7 percent. With this premium, the 299-yuan annual fee can be recovered through 1,495 yuan worth of purchases at member prices, assuming that the delivery fee and discount are not different between the two types of consumers. The Black Diamond charge is 688 yuan a year, with a 3 percent rebate on qualifying pre-tax purchases. The cost of upgrading could be canceled out if customers spend about 12,967 yuan on eligible purchases (assuming the reward is fully redeemed). The reported rate of renewals in the mainland, around 60 percent, is lower than the 70 percent management hoped to achieve, highlighting retention as an issue. Costco should experiment with smaller sizes of fresh foods and share basket price comparisons but continue to offer bulk packs of storable food items and maintain its limited variety and Kirkland Signature.

Keywords: Costco, membership retail, dual pricing, e-commerce platform, mainland China

1. Introduction

The decision to join Costco depends on whether the family feels they can save enough money over the course of a year to offset the price of the membership, along with any other benefits they may be getting from the club. Costco's limited selection of products and rapid inventory turnover allow it to operate at low margins [1], which helps sustain its membership model. The company, in turn, requires members to continually renew. If a family is able to save and buy the things they need on a regular basis, they have a reason to come back. As of the end of financial year 2025, the renewal rate for Costco worldwide was 89.8 percent [2]. In mainland China, its Asia president reported a rate of approximately 60 percent in September 2026, while its goal is 70 percent [3]. The two rates are for different time periods and may not have been determined in the same way, but even the mainland rate is below management's own target.

The growth of Costco's mainland operations has been steady. The company started by selling online and opened its first warehouse in Shanghai in 2019 [4]. It had five warehouses at the end of

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financial year 2023 which increased to seven at the end of financial year 2025 [1, 2] and had not changed by September 2026. Management then said it aims to open nine additional warehouses by the end of financial year 2030, in southern and eastern China [3]. Costco's annual results cannot be used to evaluate the profitability of its mainland business, because the company does not disclose separate financial figures for mainland China [2]. There are a few public metrics of progress: renewal rates and numbers of stores.

Section 3 explores how the mainland market tests Costco's model in three ways. The first is related to household requirements. In 2010, China's average family household size was 3.10 people, while in 2020 it was 2.62 [5], and Costco offers many of the consumables in a case or multiple packs [2]. This national average is not an indication that Costco members have small families, but it is a justification to try smaller packs. A small family might not be able to consume a large box of fresh food before it goes bad. A second pressure is shopping preferences and competitors. In 2024, 26.5 percent of China's total retail sales of consumer goods were for physical goods sold online [6]. Walmart opened six Sam's Clubs in China during its 2025 financial year [7], while JD.com confirmed plans in August 2025 to open five discount superstores [8]. The third is costs. While a part of Costco's cost advantage is derived from purchasing most of its merchandise directly from suppliers and transporting it in bulk [1], fresh food must be sold before it degrades.

Costco made two changes to its mainland offering in 2026. In April, it started to sell Black Diamond membership at 688 yuan a year (Gold Star sells for 299 yuan), with a 3 percent reward for eligible pre-tax purchases [9]. JD.com in July became its only official e-commerce partner and sold approximately 700 product types throughout the country, without requiring membership [10]. The price for non-members is 1.2 times that of members [11]. There are two types of membership options now, or none on JD.com. The studies discussed in Section 2 are of traditional warehouse clubs in which the fee is paid prior to the purchase. None of them includes a setup where members and non-members buy the same goods, at a fixed price difference, via a partner platform.

These changes raise a practical question: how to make Costco membership more valuable in mainland China while retaining the simplicity of operation that drives down costs? It is addressed in the paper by way of three questions. How do the needs of the household, the convenience of shopping and costs of supply pose a problem for the membership model? How does membership value vary for different households as a result of the JD.com channel and Black Diamond membership? Which answers would increase that value and keep purchasing and stock control simple?

The study period is from 2023 to 2026 and is a mix of published evidence and listed prices, taken by the author from Costco's flagship store on JD.com on 12 September 2026. The non-member prices of all 49 Kirkland Signature items sampled were exactly 1.20 times the member prices. Under the conditions specified in Section 4.4, this consistent premium allows for the calculation of the amount of purchases at member prices in one year at which price savings surpass the Gold Star fee: about 1,495 yuan. A similar calculation is done to determine when the Black Diamond reward is equal to the cost of upgrading. The data on renewals and expansion plans are then used to gauge the response from Costco to the mainland market.

The relevant literature and research approach are presented in Section 2. Mainland challenges and strategic responses are discussed in Sections 3 and 4, respectively, which are followed by findings and limitations in Section 5.

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2. Literature review and theoretical basis

2.1. Membership retail and economies of scale

Membership retail includes access fees, which are paid once a year, and purchase fees, which are paid at checkout. Costco's 2023 annual report links its limited selection and quick turnover of stock (i.e., goods move in and out of the company's warehouses rapidly) to its ability to operate at lower gross margins than most other retailers [1]. The consumer needs to see some benefit for the membership year that makes it worthwhile renewing or joining.

Costco can increase its leverage with suppliers because it buys in bulk. One potential source of economies of scale, which lead to a decrease in the long-run average cost, is lower purchasing costs. An existing warehouse also allows the company to spread out the fixed costs of selling more products. This is a short-term benefit to increase the utilization of current capacity.

2.2. Consumer choice and retail competition

The shelf price is not the same as the shopping cost. A long trip can make a very inexpensive purchase not so appealing. The study by Piovani, Molinero and Wilson on London found close agreement between the city's road network and the locations of retail centers [12]. Their findings about traffic accessibility help to provide a good baseline for studying the frequency of Costco visits.

One Ivey teaching case from 2025 reviews a decision Costco faced in China in May 2024: to make modifications to its business model or to convince the Chinese people to embrace it [13]. It pinpoints membership requirements, bulk purchases, global sourcing and online/offline integration as tensions. This paper will be focused on the adaptations that Costco can make to selected portions of that model while maintaining the attributes that minimize the costs.

2.3. Product choice and local adaptation

Records of sales can help to inform decisions on which products should be in a retailer's stock. Holý, Sokol and Černý employed transaction data from a Czech drugstore business to analyze product categories, and demonstrated how purchase patterns provided information in addition to experts' classification [14]. Costco's next step would be to look at local transactions before altering pack size or product substitution.

Product adaptation also involves a decision about what to preserve. The company describes its own product brand, Kirkland Signature, as high quality and generally lower priced than national brands [1]. Pack size or local product variations may create the opportunity to expand this mark without over-complicating the purchase and stock control.

Hardaker and Zhang discuss the initial decisions made by Costco in China [4]. They have conducted a study based on expert interviews in 2015 and 2020, including two of the company's experts. Costco entered Tmall in 2014, five years before opening its first Shanghai warehouse [13]. The online store primarily served to build supplier relationships and set up sourcing; it also helped Costco learn about Chinese consumers. During the study period, its physical stores kept the standard warehouse retailing model. The mix indicates that adaptation should be evaluated based on the outcomes it delivers in a specific aspect of the business, not the extent of alteration of the original model.

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2.4. Price discrimination and dual pricing in membership retail

The annual fee and the goods' price may be regarded as a two-part tariff. Oi illustrates the effect of having a lump-sum price as well as a price per unit, which can help the seller make more money, depending in part on the similarity of customers [15]. An annual fee plus the prices of individual items is the pricing structure of Costco. It has a membership card which allows it to offer member prices, making a member/non-member price difference possible. The fee is also subject to competition. In the warehouse club versus supermarket competition model proposed by Kim and Choi, lower membership fees are more advantageous when supermarkets run promotions more frequently, whereas higher fees are preferable when their discounts are deeper [16]. The fee should be viewed as a response to the market, not as merely reflecting the costs of the club.

Customer priorities can vary, too. Kim surveyed 1,000 adults aged 30 to 59 in Goyang and Gwangmyeong, two Korean cities with Costco warehouses [17]. In Goyang, members rated price, bulk purchasing and membership benefits higher than non-members did, while in Gwangmyeong, the pattern was reversed for travel distance and store facilities. The studies referred to herein are in relation to traditional membership retail (i.e., up-front fee prior to purchase). An online option is another way that customers can choose: member prices with a yearly fee or higher item prices without one. This selection is discussed in Section 4.4 based on the price data of JD.com for Costco.

2.5. Research gap and analytical approach

Although the literature is helpful for understanding retail location and market entry, the research reviewed in this paper does not cover Costco's 2026 launch on JD.com, nor does it address the price differences discussed here. The analysis is qualitative, with a case study approach covering 2023 to 2026. Financial information is drawn from Costco's group statements, which include mainland China in the Other International segment [2]. Household demand and competition are put in perspective through official statistics and published research. Then, 49 paired member/non-member prices as reported on JD.com in September 2026 are used to determine when the price saving offsets the annual fee.

3. Costco's position and challenges in mainland China

3.1. Membership value and household needs

Only if the household can make use of the large pack is there good value. According to the 2020 census in China, the average family household size was 2.62 persons, which is lower than 3.10 in 2010 [5]. A small family may be more concerned about finishing the food before it goes bad than about pursuing the lowest price per kilogram. These national numbers are a good reason for Costco to experiment with smaller packs.

According to Costco, a lot of consumables are sold in cases or multiple packs [2]. A lower price per kilogram can result in greater payment at the checkout, and unused food reduces the saving. Cleaning products can typically be stored longer in comparison. It is important to consider the value of a large pack, depending on what product the household is looking for and how much it will use.

Customers are also required to pay an annual membership fee. This is only worthwhile if the savings they achieve and other benefits they receive are sufficient to cover it. While it is possible to save with regular visits, a big purchase might justify the fee. What matters is how much savings a

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household anticipates on goods it consumes. Section 4.4 estimates this for the price difference observed on JD.com.

One measure of a warehouse's management is the frequency of member returns. In September 2026, the president of Costco Asia stated that in its single-store model, a warehouse performs well when it has 100,000 primary members who visit more than twice a month [3].

3.2. Competition and shopping convenience

Sam's Club is a well-known competitor and it is still growing. Walmart's presentation for the fourth quarter of financial year 2025 said there were six new clubs in China over the previous twelve months and that Sam's Clubs had done well [7]. Walmart China's online sales also rose 34 percent year over year in the quarter. That figure is for the entire Walmart China, not just Sam's Club.

This "convenience competition" also applies to buying things online. In 2024, online sales of physical goods accounted for 26.5 percent of China's total consumer goods retail sales [6]. The measure applies to more than groceries and illustrates the increased acceptance of online shopping. Costco members can compare grocery shopping at the warehouse to having it delivered to their home and consider the time and money spent on each way to shop.

JD.com is another competitor. In August 2025, Reuters reported that the company would open five discount superstores and had launched an instant delivery service earlier that year [8]. Ultimately, JD.com became an e-commerce partner of Costco, as described in Section 4.4. Costco now sells via a platform that also runs its very own discount retail business.

3.3. Supply chains and operating costs

In part, the reason for Costco's low prices is how it purchases and transports its products. According to its 2023 report, it buys bulk items directly from suppliers and goes through distribution depots [1]. For that to go on locally, there must be reliable suppliers and appropriate delivery systems in place. Another significant expense is labor: At the group level, Costco ranks employee salaries and benefits second only to the cost of goods [2].

Ordering decisions are more complicated with fresh food. Meat, produce and bakery/deli items are all part of the product mix offered at Costco [1] and are also subject to shelf life considerations. While larger orders help to prevent empty shelves, unsold products can experience a loss of value. Waste can offset a reduced purchase price. Order sizes should be adjusted on the basis of the rate at which each product is selling.

4. Strategic responses and evidence of progress

4.1. Improve local product choice and membership value

Costco should experiment with smaller packs on a small number of fresh products. Census data can be used to explore household needs, and purchase data could reveal products that customers buy together and/or products that can be used as substitutes [5, 14]. By comparing sales and repeat purchases, it would be possible to determine if customers prefer to purchase the smaller packs. A record of how much food is not sold would provide insight into whether or not the change also results in less waste. Bulk packs should be offered for products that can be stored and consumed by households over time.

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Limits should be set on the trial. The drawback of adding a lot of similar items is that it would be hard to order and to manage the shelves, and the simplicity of Costco's limited selection [1] would be lost. Eliminating poor products through substitution with appropriate local alternatives is more targeted than expanding the list. Kirkland Signature and selected imported goods should continue to be part of the range [1].

The fee is applied on an annual basis [1], so customers require a measure of the savings over a year. Costco should provide comparisons of a small sample of common items from matching brand(s) and quantities on the same date. The addition of appropriate travel/delivery costs would enhance its usefulness to households in making their decision to join.

Costco has already introduced another membership option. Black Diamond (Executive) membership became available in mainland China in April 2026, with a price of 688 yuan annually, as opposed to 299 yuan for Gold Star. Its reward is 3 percent of the eligible pre-tax purchase amount of goods, with an annual limit of 7,200 yuan. It can be used in the next membership year [9].

The extra perks are as much as six vouchers of 20 yuan to be used on home delivery service by Costco's WeChat Mini Program [9, 18] per membership year. A voucher is issued on the first day of each odd-numbered month, beginning with the next one after the member joins or upgrades. It is only valid for 90 days. The rules at Costco say it is a delivery-fee subsidy, but it is deducted from the total checkout amount [19]. These vouchers are part of Costco's independent delivery service, and not from JD.com.

The upgrade fee for a Gold Star member with a 12-month remaining period is set at 389 yuan; shorter periods are charged pro rata, except that those with two months or less left must renew first [18]. Excluding vouchers and assuming the reward is fully redeemed, the 3 percent rebate will cover this cost at approximately 12,967 yuan of qualified pre-tax expenditure (389/0.03). If a family uses all six vouchers and spends their 120-yuan value on items that it would have otherwise paid for itself, without incurring any additional delivery fees, the threshold will drop to about 8,967 yuan. This lower threshold is only applicable to families residing within the delivery area of Costco's own WeChat Mini Program. The spending at the checkout including taxes would be higher in both scenarios.

4.2. Improve stock availability and service carefully

The movement of goods is a key factor in cost control for Costco because of its purchasing and depot system [1]. The supplier's quotation price needs to be evaluated in conjunction with delivery reliability and losses due to damaged or spoiled goods. Shorter routes could cut transport costs, but these losses must be taken into account when determining the savings.

As the JD.com channel has been operating nationwide, Costco should pay attention to the quality of the products received and the reorder rate. Comparisons of repeat orders at different delivery-charge levels would also illustrate where the charge may deter customers. These records would help inform decisions regarding the online range and service.

4.3. Assess expansion and long-term results

At the end of financial year 2023, Costco listed five warehouses in the mainland, and seven at the end of financial year 2025 [1, 2]. The total remained at seven in September 2026, after about two years. Management then revealed plans to expand to sixteen warehouses by the end of financial year 2030. This expansion will be confined to southern and eastern China, with a focus on 24 core cities [3].

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Members' travel and competitors should be considered when choosing a site [12], and so should local operating costs. In September 2026, management indicated it would no longer rely only on suburban sites and was progressing with ones closer to the city centers in Guangzhou and Shenzhen [3]. The goal is easier access. There would have to be demand for each site justifying the cost.

Renewal rates are a measure of the percentage of customers who opt to renew their membership. Costco's global rate at the end of financial year 2025 was 89.8 percent [2]. In September 2026, its Asia president announced that the renewal rate for mainland members was approximately 60 percent, with a target of 70 percent [3]. There is no indication in the news report of how the mainland rate was calculated, and the periods are different, so the two rates are not strictly comparable. Nevertheless, the mainland rate is still about ten percentage points lower than management's goal. Retention is an obvious key focus.

4.4. Online channel expansion and dual pricing on JD.com

Costco opened a test store on JD.com in late May 2026 [10]. On 22 July, JD.com became its sole official e-commerce platform partner in China. The store offers approximately 700 products, with delivery available for orders from 99 yuan, and customers can shop without a membership [10]. The July report indicates that the delivery fee for orders weighing up to 12 kilograms is 20 yuan, and that the minimum order has been reduced from 199 yuan [11]. Delivery increases as a percentage of a smaller order; a lower minimum makes it easier to place one. Costco's own delivery service only covers an area of up to 20 kilometers around its warehouses [20], while JD.com reaches customers in more distant regions.

This channel strategy is different from that of Costco's earlier entry into Tmall. Hardaker and Zhang mention the online store's part in building supplier relationships [4], while JD.com presents the partnership as a means of selling nationwide [10].

According to the same report, customers holding a Gold Star card pay mainland warehouse prices, while those without one have to pay 1.2 times as much [11]. The author checked 49 listed items in Kirkland Signature for the consistency of this rule being followed, as illustrated in Table 1 below. All had a ratio of 1.20 non-member/member. The products are divided into eight groups based on their names, and member prices across them range from 32.90 yuan to 229.90 yuan. A 20 percent mark-up on the member price is equivalent to a member discount of approximately 16.7 percent off the non-member price.

Table 1. Member price ranges and non-member/member price ratios for 49 sampled Kirkland Signature items, Costco flagship store on JD.com, 12 September 2026 (Beijing time)

Product group	Items	Member price range (yuan)	Non-member / member ratio
Nuts and dried snacks	14	69.90–189.90	1.20
Grocery staples, oils and drinks	11	32.90–229.90	1.20
Alcoholic drinks	6	35.90–189.90	1.20
Health supplements	7	68.90–199.90	1.20
Household cleaning	4	59.50–99.90	1.20
Kitchen and paper goods	4	54.90–145.90	1.20
Personal care	1	79.90	1.20

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Table 1. (continued)

Batteries	2	37.90	1.20
All items	49	32.90–229.90	1.20

Source: Author's calculations based on the collected JD.com price data (n = 49)

The table gives the list prices for a given date, prior to any extra discounts or delivery costs. The ratio may be modified with subsequent promotions. The sample was not random and consisted of only Kirkland Signature products, so the finding applies to these 49 items and not to the entire store's selection. It is a measure of a price difference and not of changes in membership or profitability.

Each 1 yuan spent by the members at the member price saves 0.20 yuan compared with the non-member price, with a 299-yuan annual fee and a constant mark-up of 20 percent. Therefore, the price savings can cover the membership fee once annual purchases at member prices reach 1,495 yuan (299/0.20). A household that spends below this amount pays less in total when purchasing at non-member prices (assuming delivery charges and discounts are the same and other membership rewards are not taken into account). For baskets exceeding this threshold with the same premium, membership saves money.

5. Conclusion

5.1. Main findings

The Costco model in mainland China has to fit the quantities that are suitable for households to use. For a small family, these savings from low unit prices diminish if fresh foods are wasted. JD.com is tackling another challenge — customers outside warehouse catchment zones. This also enables customers to make purchases without being members. Moreover, the 20 percent premium across the 49 sampled products highlights the potential savings that families could achieve if they spend enough to offset the membership fee. Black Diamond membership offers rewards to high-spending households that meet the criteria. Retention is a more immediate test of membership value than warehouse numbers alone: The reported renewal rate of approximately 60 percent for the mainland is short of management's goal of 70 percent.

5.2. Practical implications

Costco should start at the level of small tests of fresh-food packs, and provide equivalent shopping baskets for people to see what they might be saving. Bulk packs are still good for storables, but any changes should ensure that the limited range and Kirkland Signature are maintained. The results of trials should be evaluated based upon repeat purchases and food waste. Renewal rates and warehouse operating performance would provide an indicator for the broader business as to whether or not better access translates into value over the longer term.

5.3. Limitations and future research

The limitations on prices and samples are given following Table 1. In general, this study relies on published evidence, with no customer interviews or internal company records. The national household statistics do not specifically describe Costco members. The studies conducted in London,

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the Czech Republic and South Korea provide background information, but they are not direct evidence about shoppers in mainland China. The Ivey source is a teaching case and the Hardaker/Zhang early-entry study is based on a limited number of expert interviews. Costco's annual reports combine its mainland financials with the Other International segment, thereby preventing a standalone evaluation of the profitability of the mainland business. The effects of the proposed changes on renewal and profit are therefore still open to further research. Obtaining repeat prices for the same items for a number of months from a random sample, including delivery costs, would test to see if the premium is maintained during the promotional period. Local members could be interviewed to understand their decision on renewing and if the size of the pack is adequate for their families. Such interviews could start in one city but would need to be repeated in other cities for mainland-wide conclusions to be drawn.

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