

## COSTCO: THE CHALLENGE OF ENTERING THE CHINA MAINLAND MARKET<sup>1</sup>

*Chongfeng Wang, Liyang Lu, Xinrong Liu, Fei Meng, Guanwen Huang, and Xiaoyu Zhao wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.*

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Costco Wholesale Corporation (Costco), the world's second-largest retailer, opened a store in Shanghai's Minhang District on August 27, 2019. As the largest membership-only warehouse enterprise in the world, Costco took a new step into the China mainland market, and this attracted great attention from the media and consumers. On its first day, Costco saw such heavy footfall that it was forced to close after just five hours.<sup>2</sup> A week after opening, customers wanting to return their membership cards formed a long queue in front of the store, and customer traffic in the store plummeted.<sup>3</sup> In fact, Costco's old rival, Sam's West Inc. (Sam's Club), had a much firmer foothold in China,<sup>4</sup> and the newly popular Hema Xiansheng (Hema Fresh) was helping to popularize "new retail" operations.<sup>5</sup> Costco faced questions such as, "Is this the right time to launch in China mainland?"<sup>6</sup> and "Is the membership scheme suitable for the Chinese market?"<sup>7</sup>

### COSTCO'S ORIGINS IN THE UNITED STATES

Headquartered near Seattle, Washington, Costco had expanded to more than 700 stores in 11 countries and territories, with most stores located in the United States and Canada (see Exhibit 1).<sup>8</sup> The Minhang store in Shanghai was Costco's first foray into China mainland.<sup>9</sup>

Costco's founder, Jim Sinegal, started at Price Club, the world's first membership-based wholesale warehouse retailer, in 1976. Over seven years, he rose from a position delivering mattresses to the role of head store manager. In 1983, Sinegal resigned from Price Club and co-founded Costco with Jeffrey Brotman, who became Costco's president. On September 15, 1983, Costco opened its first warehouse store in Seattle, following most of Price Club's business philosophy. In 1993, Price Club and Costco merged to become Price Costco, which became Costco Wholesale in 1999.<sup>10</sup>

### Business Philosophy

Costco, with membership as its key feature and a focus on the middle class, became the world's second-largest retailer in 2015. By the end of 2018, Costco had 736 stores in 11 countries, annual sales of US\$141.5 billion,<sup>11</sup> and net income of \$3.3 billion.

Despite launching 20 years after the dominant retailer, Walmart Inc. (Walmart), Costco earned an average of \$136 per customer per trip—far more than Walmart.<sup>12</sup> Costco's earnings of \$14,000 per square metre were almost twice that of Sam's Club's earnings of \$7800 per square metre.<sup>13</sup> Costco had more than 92.7 million members worldwide and a renewal rate of more than 90 per cent, compared with a renewal rate of 70 per cent for Sam's Club, Walmart's high-end membership store, which launched in 1983.<sup>14</sup>

Facing Walmart, the world's retail giant, Costco was able to succeed early because of its persistent business philosophy.<sup>15</sup> Later, Costco gradually built its own competitive advantage based on characteristics such as cost-effective products, easy return and replacement policies, a comfortable shopping experience, and top employee benefits.

### Cost-Effective Products

To offer cost-effective goods, Costco provided no more than 4,000 stock-keeping units (SKUs),<sup>16</sup> one-fifth of Walmart's selection.<sup>17</sup> Costco supplied only two or three brands per product type. Branch general managers selected and used each product personally, so consumers saved on selection time. This improved Costco's bargaining power with suppliers.

In addition, 25 per cent of Costco brands were self-owned store brands.<sup>18</sup> For example, with its Kirkland Signature brand, the top-selling health and personal care brand in the United States,<sup>19</sup> Costco controlled the quality of products from the source while shortening supply chains and reducing purchase prices. Costco even set up its own chicken-processing plant in the United States to guarantee a supply of high-quality poultry products.

Gross profit margins, approved by the chief executive officer and board of directors, were kept below 10 per cent<sup>20</sup>—much lower than those of Walmart and Amazon, at 35 per cent.<sup>21</sup>

### Easy Return and Replacement Policies

Costco membership cards, available for either \$60 or \$120, could be cancelled at any time, and membership fees would be fully refunded with the provision that Costco would refuse new applications within half a year of cancellation. Elite card purchasers (the higher priced membership) could enjoy 2 per cent cash back, which consumers appreciated.<sup>22</sup>

Costco offered reasonable product return periods of up to 90 days for digital and electronic items (compared with 14 days at Walmart), and it gave refunds for items like Christmas trees that died after Christmas. The company once issued a refund for fish that had been uneaten for 13 years.<sup>23</sup>

### Comfortable Shopping Experience

Costco's market positioning meant that the comfort of the shopping experience was important. The stores had spacious interiors that made them easy to navigate with large carts. They also had ceilings made of glass, which not only saved on energy costs but also ensured bright in-store lighting. Frequently purchased items were placed at the back of the stores, while common impulse purchase items were placed near the checkout counters. However, there were few store clerks at Costco, and the placement of the goods often changed.<sup>24</sup>

### Top Employee Benefits

Costco paid its employees \$22 per hour—double the average American retail wage of \$11.<sup>25</sup> A matching medical pension and annual leave plan, plus stock options on new employees' retirement savings accounts after their first year on the job, meant that retention rates were well above the industry average. In 2018, 94 per cent of Costco employees who had been with the company for more than a year were kept on.<sup>26</sup>

### **Challenges in the United States**

Despite its considerable success in the United States, Costco faced challenges in that country's changing retail environment—not least from Walmart, the world's largest retailer (see Exhibit 2).<sup>27</sup> Walmart had already identified Costco as its number-one competitor.<sup>28</sup> Walmart's Sam's Club stores and Costco were both warehouse club stores, and they competed directly.

Online retail giant Amazon had popularized online shopping for many Americans. With the development of logistics systems and changes in consumption habits, Costco, which focused on the offline market, was due to face pressure from e-commerce. In addition, as urbanization increased and more people moved to urban areas, space became relatively hard to come by for warehouse-based Costco. Even when suitable properties existed in urban areas, their value tended to be higher, leading to higher indirect costs.

Costco was criticized in the United States for the way it did business—for being too generous to customers and employees. One financial analyst said, "At Costco, it's better to be an employee or a customer than a shareholder." Costco's business model seemed unusual in America, where shareholders traditionally came first.<sup>29</sup>

In 1985, facing fierce domestic competition, Costco turned to the international market to further expand.<sup>30</sup>

### **INTERNATIONAL EXPANSION**

Costco began its international expansion in the mid-1980s, targeting its northern and southern neighbours. In 1985, it entered Canada. Due to cultural similarities across North America, the products Costco sold in Canada were very similar to those in its US stores.<sup>31</sup>

Costco entered Chinese Taipei in 1997 through a joint venture with President Group, Chinese Taipei's largest department store chain, opening its first store in Kaohsiung City.<sup>32</sup> However, US stores were still unusual to Chinese Taipei consumers at the time, as was Costco's requirement that customers pay a membership fee to enter. Because of consumers' lack of familiarity with the Costco brand, it was distrusted; few people applied for a card for as long as five years. However, through the efforts of branch employees, more and more people began to believe in the quality of Costco, and the company finally emerged from its malaise.<sup>33</sup>

Costco's expansion to Japan was also fraught. The wholesaler opened its first store in the East Asian country in 1999, but few thought the store would succeed. Because the average home in Japan was only 29 per cent as large as homes in the United States, most people did not have enough storage space for the kind of products Costco wanted to supply. In addition, Japanese department stores and supermarkets were situated close to living areas; they were easy to get to in a short time, so Japanese customers had no incentive to make the longer journey to Costco stores. With these concerns in mind, Costco adjusted its expansion strategy in Japan, stocking up on all sorts of fish, green tea, seaweed, and imported and branded goods to attract wealthy consumers who owned their own cars and shopped less frequently. Costco also targeted

small- and medium-sized businesses that bought in bulk for resale. These measures ensured Costco's foothold and continued growth in the Japanese market.<sup>34</sup>

As the US market matured, international expansion became more important to sustaining Costco's growth. After expanding into Canada, Mexico, the United Kingdom, South Korea, Chinese Taipei, and Japan, the question for Costco was where to go next. At this point, Costco's vision of a rapidly developing China came into focus.<sup>35</sup>

## **COSTCO'S EXPANSION INTO CHINA**

As Asia's largest economy, China had grown to become the second-largest economy in the world, and its modern infrastructure, in terms of transportation, production, communication, education, and health, made the country an attractive target. By the end of 2018, the population of China mainland, excluding people living in special administrative regions and overseas, comprised nearly 1.4 billion people. In terms of communications, China had ushered in the 5G era, opening an "information artery" for China's economic and social development.<sup>36</sup> China ranked first in the world in terms of its transportation infrastructure, including high-speed railway length, expressways, pipelines, and 10,000-ton berths at ports and airports. The country's total economy exceeded \$12.6 billion.<sup>37</sup>

Despite the challenges of a large wealth gap and uneven regional development, China had modern infrastructure, a sophisticated legal and communications sector, and a sound financial system (i.e., relatively developed financial, foreign exchange, and capital markets) that met the needs of outside investors. Shanghai was one of the primary markets through which outside investors entered China.<sup>38</sup>

### **Choosing Shanghai**

Shanghai was China's economic, financial, trade, shipping, and technological innovation centre, encompassing almost all financial market elements, and it had been named the sixth best city in the world by Globalization and World Cities (GAWC).<sup>39</sup> As the economic centre of China, Shanghai ranked first in terms of gross domestic product (GDP) and had a large number of state-promoted universities. Every year, the introduction of graduates and top talent from home and abroad enriched the labour market; one-quarter of Chinese returnees went to work in Shanghai every year.<sup>40</sup>

In terms of attracting investment, Shanghai issued official suggestions on further promoting foreign investment, implementing a series of preferential policies in 2018 and 2019. As well, Shanghai residents' consumption habits were undergoing a transformation: consumers had begun to pursue a higher quality of life and were developing the habit of visiting and shopping in major commercial districts in Shanghai in their spare time. In addition, Shanghai consumers were open-minded, and their adaptability to new international brands led these brands to regard Shanghai as their first stop in the Chinese market.<sup>41</sup>

Costco's Shanghai debut was carefully planned. The company's China mainland plans had been five years in the making. In October 2014, Costco used the Tmall Global online marketplace—which was officially launched by Alibaba Group in February 2014, mainly to provide domestic consumers with overseas original imported goods—as a springboard to sell its own product lines. After three years of testing the waters, Costco opened a second Tmall flagship store in September 2017, expanding into digital home appliances, household goods, daily necessities, wine, and coffee and achieving significant turnover. Richard Chang, senior vice-president of Costco Asia-Pacific, said, "Although we tentatively opened our first store in China mainland, the enthusiasm of consumers in Shanghai and eastern China was very positive for us. This showed that Chinese

consumers had become very international, with a more open mentality, higher consumption power, and more mature buying notions. They had learned to identify and consume genuine goods from all over the world.”<sup>42</sup>

Behind the scenes was a Costco management team from Chinese Taipei. Richard Galanti, Costco’s chief financial officer, said publicly that “we were fortunate to have a successful business model in Chinese Taipei” and that Costco picked “key people (Richard Chang)” to set up the China business. “We started with a small core of people and built it up from the inside,” Galanti said of his management team at the time. At a press conference before the opening of Costco’s Minhang store, employees told reporters that most of the store’s management tier was from the Chinese Taipei Costco.<sup>43</sup>

### Opening in Shanghai

The Costco Shanghai store was located in Shanghai’s Minhang District, about an hour’s drive from downtown Shanghai. It covered an area of nearly 14,000 square metres, adopted the standard Costco floor plan of a large warehouse on a flat floor, and had 3,400 SKUs. It focused mainly on imported goods to differentiate itself from popular local supermarkets. Fresh fish was packaged better than it was in most supermarkets. In addition to offering abundant parking outside the mall, Costco also had two or three floors of indoor parking with room for 1,200 cars, more than any other store in the world.<sup>44</sup>

Costco’s entry into Shanghai initially seemed to be going more smoothly than its difficult entry into Kaohsiung in Chinese Taipei. On the day of the opening, there were so many people that it became difficult in the store,<sup>45</sup> where ¥1,498 bottles of Moutai, ¥40,000 Chanel handbags, and ¥100,000 Hermes goods were selling out fast. Discounts were very attractive. Costco offered ultra-low prices—for example, ¥399 for Chloe perfume (compared with the Tmall flagship store price of ¥660); ¥449 for four bottles of Bioderma make-up remover (versus ¥168 for a single bottle on Tmall); and ¥4,399 for an MCM leather backpack (compared to ¥5,500 on Tmall)—and this triggered a surge in customers every time products hit the shelves.<sup>46</sup> Nearly 20,000 customers flowed through the store in just a few hours. The 14,000-square-metre store was packed to the brim or, as the Chinese saying goes, it was practically a case of *renshanrenhai* (“people in the mountain, people in the sea”).<sup>47</sup>

### Targeting Customers

Costco targeted specific customer groups, using precision positioning to reach middle-class families and individuals in the United States. Some consumers had strong buying power, were eager to have their own homes and cars, and were not in pursuit of cheap goods. Rather, they sought high-quality, cost-effective products and hoped to make large, one-time purchases in a time-efficient manner.<sup>48</sup> Aiming at the shopping habits of the middle class, Costco mainly selected locations in the suburbs, reduced the cost of goods by selling large packages and high volumes, and reduced the time consumers spent shopping by selecting goods and reducing SKUs to achieve high cost performance. Costco provided a one-stop shopping experience by combining various additional services. Its accurate grasp of consumer demand enabled the company to guarantee the loyalty of members and maintain a steady growth in performance.<sup>49</sup>

“Costco had been planning this expansion into China mainland for five years,” Richard Chang said. “It took five years for us to adjust and prepare as well as cultivate the brand and our team. It was worth it. If we had jumped into the China mainland market and not understood anything, we would have lost out.”<sup>50</sup> Based on its Tmall orders for the previous five years, Costco’s main customers were in eastern China, with Shanghai being the biggest city. The specific location in Minhang was chosen after careful consideration. The neighbourhood, three kilometres from the subway entrance, was accessible by car, and Costco’s largest

parking lot in the world would accommodate many visitors. In addition, the neighbourhood's upscale residential areas and seven international schools met Costco's criteria for exposure to the middle- and upper-middle-class population.<sup>51</sup>

### Comparisons with Local Competitors

When comparing Costco with other major retail stores in China (see Exhibit 3), particularly warehouse membership stores, Costco's old US rival, Sam's Club, had to be considered. It had operated as Walmart's high-end membership store for 23 years. Since entering the Chinese market in 1996, Sam's Club grew to have 2.2 million registered members in China, with a renewal rate as high as 70 per cent. Sam's Club focused on eastern China, where it had 12 stores, accounting for 46 per cent of the country's total. Indeed, two months before Costco launched, Sam's Club opened its second branch in Shanghai, 15 kilometres from Costco.<sup>52</sup>

Sam's Club had basically completed its localization in the Chinese market with the integration of its online and offline development. It had adopted a pre-warehouse distribution model—in which each store was a small- or medium-sized warehousing and distribution centre, enabling the central warehouse to reach the last kilometre simply by supplying the stores—and combined this with instant delivery, which improved the shopping experience of members and the service radius of the stores.<sup>53</sup> Although Costco had accumulated 100,000 members in just three days in China, it was far behind Sam's Club in terms of the number of members and the scale of operations.<sup>54</sup>

In addition to facing brick-and-mortar competition from Sam's Club, Costco was also challenged by the current “new retail” boom in China's retail market. New retail was a concept introduced by Alibaba Group's Jack Ma in 2016, which merged online and offline retail experiences. Hema Fresh—an offline supermarket that reflected this new retail format by integrating supermarkets, restaurants, and vegetable markets—was the most representative member of the new retail cohort and had originated in Shanghai. Its model, combining offline experience with online consumption, had become deeply rooted in people's minds, and the super-high efficiency of delivery within 30 minutes for a three-kilometre radius brought customers the ultimate consumption experience. New retail companies such as Superstore and Daily Youxian had already set up shop in China's first-tier cities, while boutique supermarkets such as Olé had established footholds in Shanghai. Costco's online business was limited to two Tmall stores, and although the two stores offered beauty products, household goods, and electronics, among other categories,<sup>55</sup> its fresh category still lagged behind Hema Fresh's range of fresh food products. Dealing with the challenge of new retail would pose a big problem for Costco.<sup>56</sup>

Competition among domestic manufacturers was equally tricky. On September 6, 2019, just two weeks after Costco entered China, producers launched a direct challenge to Costco, relying on Chinese manufacturing advantages and Chinese companies with the same high quality and low prices. Miao Fanghe, vice-president of Necessary Mall, said after visiting Costco one day, “The same goods in the Necessary Mall are at least 30 per cent cheaper than those at Costco,” and announced a formal price challenge to Costco: “Anyone who spots a product on the Necessary app at a higher price than at Costco will get ten times the difference!”<sup>57</sup>

### HOT SEARCH AND HOT DISCUSSION

On September 3, 2019, “Costco” became a popular search on the social media platform Sina Weibo, but this time the searches were not due to opening day crowds but to the long lines of customers returning their membership cards. Some customers said they would gladly wait in long lines at Costco for good prices. However, a few days after the opening, the discounted Moutai liquor was gone, and a bottle of flavoured frozen milk that was previously priced at ¥33 per bottle now cost ¥54.<sup>58</sup> Many items had been removed

from the shelves, and the discounts were not as enticing as before. The store was also far from the city, and time and transportation costs were relatively high, so members wanted their membership fees back. Costco once again triggered heated discussion on Weibo. People started to say that Costco's membership system would not work in China. Had the newly opened Costco's luck run out already?<sup>59</sup>

This was not the first foreign retail giant to stumble in China. As early as 1995, Groupe Carrefour (Carrefour) had successfully opened the largest mega shopping mall in China, Beijing Chuangyijia Store. Over the next few years, Carrefour had quickly implemented its national strategy. However, as the Internet era unfolded, consumers were able to buy everything they wanted without going to a store, and Carrefour's one-stop-shopping hypermarket model lost its basic appeal. Despite this, Carrefour did not make any changes until 2014, when it saw changes in the Chinese market for what they were: strategic game-changers. However, it had missed the market opportunity and could not recover from its difficulties.<sup>60</sup>

Similarly, Metro Wholesale (Metro), which had settled in Shanghai in 1996, had experienced a boom-and-bust development cycle. It opened China's first cash-and-carry wholesale store in the city, following with 77 stores in 53 Chinese cities, more than 11,000 employees, and more than 3.5 million customers.<sup>61</sup> In the 10 years since Metro's first wholesale store opened, Metro's sales in China steadily improved, but they never reached a peak. In 2005, the annual sales volume of a single Metro store was around ¥200 million—far from the target of ¥700–¥800 million.<sup>62</sup> In the consumer market, Chinese supermarket chains such as RT-Mart International Ltd. had a greater competitive advantage.<sup>63</sup>

## FUTURE CHALLENGES

Even though Costco had only been open a few weeks in Shanghai, Chang faced complex challenges. In the short term, Costco's priority was to solve its existential problem. How could it cope with the wave of people wanting their membership fees back, the decline in customer traffic, and the public's doubts? In addition, Costco had to decide whether to implement a strategy of increased localization. Should it ensure that the products sold were more in line with the consumption preferences of Chinese people, the marketing strategies more suitable for China, and Chinese employed to target services to Chinese consumers, or not?

This work was supported by grants from the National Social Science Foundation of China (20BGL041).

**EXHIBIT 1: COSTCO GLOBAL STORE DISTRIBUTION**

Country or Region		Quantity	Total
North America	United States	519	655
	Canada	98	
	Mexico	38	
Europe	Great Britain	28	32
	Spain	2	
	France	1	
	Iceland	1	
Asia	Japan	26	53
	Korea	14	
	Chinese Taipei, China	13	
Oceania	Australia	9	9
<b>Total</b>			<b>749</b>

Source: Song Ning, "In-Depth Interpretation: Costco, the Largest Membership-Based Warehouse Retailer in the United States | Paid Membership Series Research" [in Chinese], Yiyou Guide, October 4, 2018, <https://www.iyiyou.com/intelligence/insight82269.html>.

**EXHIBIT 2: CHANGES IN US RETAIL INDUSTRY**

Time Period	Growth Forms	Examples	Consumer Behaviour	Social Development	GDP per capita (US\$)
1900–1930s	department stores chain stores	A&P	mass consumption	concentration of population in cities; increasing incomes	< \$800
1940s–1960s	supermarkets	Big Bear Stores	mass consumption	population growth; acceleration of economy and urbanization	\$800–\$5,000
1970s–1980s	shopping centres	Mall of America, Macy's	increasing quality of consumption	suburbanization of housing; popularization of private cars	\$8,000–\$20,000
1980s–1990s	warehouse clubs large supermarkets	Costco, Walmart	rational consumption	specialization of consumer demand; rising middle class	\$13,000–\$30,000
1990s–2000s	fair prices outlets	TJX	rational consumption	rise of middle class	> \$20,000
2000 and after	diversification of online shopping	Amazon	rational consumption	development of information technology; popularization of computers and Internet	> \$400,000

Source: Wu Xiaobo Channel, "The Truth of Costco's Mad Scramble: You Are Being Targeted" [in Chinese], Phoenix New Media, August 30, 2019, <https://tech.ifeng.com/c/7pYJJVzhO3E>.



## EXHIBIT 3: COMPARISON OF MAJOR RETAIL STORES IN CHINA

Member Benefits	Jingdong Plus	Suning Super	Amazon Prime	Sam's Club	Costco
<b>Annual Membership Fee</b>	¥148–198	¥149	¥288–388	¥260	¥199
<b>Rebate</b>	0.5–2.0% upper limit: ¥500; cash coupon	2% upper limit: ¥500; cash coupon	none	none	Super Card: 2.0%
<b>Black Card Price</b>	member prices	exclusive super member day prices	exclusive discounts for members	member prices	member prices
<b>Monthly Coupons</b>	cash coupons	two ¥5 coupons and one ¥10 overseas purchase coupon	none	none	none
<b>Free Shipping</b>	none	none	free shipping for domestic purchases and ¥200 for overseas purchases	free delivery in designated areas for purchases over ¥2,000	none
<b>Dedicated Customer Service</b>	exclusive customer service priority solution	exclusive customer service; special line service	none	none	none
<b>Coupons</b>	exclusive coupons (by membership level)	exclusive stamps	none	-	-
<b>Returns</b>	self-run goods free of freight	self-run goods free to pick up	none	limited time; no reason required to return or exchange goods	returns or exchanges at any time, without any reason
<b>Cross-Platform Interests</b>	IQIYI gold VIP	PP Film & Sports member	none	none	none
<b>Other</b>	clothing discount coupons; exclusive shopping festival	cleaning and maintenance discounts	none	free parking	free parking

Source: Compiled by the case authors from “Jingdong Plus,” JD.com Inc., accessed April 22, 2021, <https://www.jd.com>; “JD Plus [in Chinese],” Jingdong, JD.com Inc., accessed April 22, 2021, <https://plus.jd.com/index.html>; “Suning Super” [in Chinese], Suning.com Co. Ltd., accessed April 22, 2021, <https://www.suning.com>; “VIP Suning” [in Chinese], Suning.com Co. Ltd., accessed April 22, 2021, <http://vip.suning.com>; “Amazon Prime” [in Chinese], Amazon.com Inc., accessed April 22, 2021, <https://www.amazon.cn>; Jungle Scout, “What Are the Services and Benefits of Amazon Prime Membership? Amazon Prime Membership Benefits” [in Chinese], YoDing, accessed April 22, 2021, [www.yoding.cn/3068.html](http://www.yoding.cn/3068.html); “Sam’s Club” [in Chinese], China Wal-Mart, accessed April 22, 2021, [www.samsclub.cn](http://www.samsclub.cn); “Sam’s Club’s Newest Member Strategy: Annual Fee Waived + Exclusive Member Product Discount Coupons” [in Chinese], Seattleu, July 15, 2019, [www.seattleu.com/samsclub](http://www.seattleu.com/samsclub); “Costco Wholesale” [in Chinese], Costco Wholesale Corporation, accessed April 22, 2021, <https://www.costco.com.cn/#/index>; “Costco’s Top 10 Hidden Benefits: If You Don’t Know, Your Membership Card Will Be for Nothing!” [in Chinese], Sohu, August 20, 2019, [https://www.sohu.com/a/335017715\\_753472](https://www.sohu.com/a/335017715_753472).

## ENDNOTES

<sup>1</sup> This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Costco Wholesale Corporation or any of its employees.

<sup>2</sup> "Costco Begins Measures to Limit the Flow: 2,000 People Queuing for More Than an Hour Who Can't Enter Shop [in Chinese]," Beijing Youth Daily, August 29, 2019, [http://epaper.yynet.com/html/2019-08/29/content\\_284084.htm?div=-1](http://epaper.yynet.com/html/2019-08/29/content_284084.htm?div=-1).

<sup>3</sup> Zhou Huixian, "Costco, Lei Jun's Cult Store, Has Suffered a Card Refund Crisis [in Chinese]," Sohu Business, September 6, 2019, [https://www.sohu.com/a/339145001\\_465413](https://www.sohu.com/a/339145001_465413).

<sup>4</sup> The Cloud Patterns, "Sam's Club In China What Did The Right Thing [in Chinese]," Joint Provider Network, September 1, 2019, <http://www.linkshop.com.cn/web/archives/2019/431408.shtml>.

<sup>5</sup> Lin Ping, "Costco, Yuehui Yhouse, Hema... Which Member Is the Most Worth Buying? [in Chinese]," Broadcast Daily Life, August 27, 2019, [https://www.sohu.com/a/471618844\\_100078322](https://www.sohu.com/a/471618844_100078322).

<sup>6</sup> Wang Yufei, "Costco Landed in Shanghai and Was 'Washed Down' within Half a Day of Opening! Is Now the Right Time for Costco to Enter China? [in Chinese]," Upstream News, August 27, 2019, [https://www.sohu.com/a/336829759\\_467340](https://www.sohu.com/a/336829759_467340).

<sup>7</sup> Zhang Siyuan, "Costco's Business Guide: Is a Paying Membership Right for China? [in Chinese]," Observation, Consumer Goods Industry, August 29, 2019, [https://www.sohu.com/a/337200141\\_391294](https://www.sohu.com/a/337200141_391294).

<sup>8</sup> New Retail Business Review, "We've Uncovered Ten Deadly Details about Costco [in Chinese]," 36Kr, September 27, 2019, <https://36kr.com/p/1724434153473>.

<sup>9</sup> Kang Yuzhan, "The First Costco Opening in China Mainland: The Minhang Store in Shanghai Will Have a Grand Opening on August 27 [in Chinese]," China News Service Shanghai, August 20, 2019, <http://www.sh.chinanews.com/spxw/2019-08-20/61581.shtml>.

<sup>10</sup> Chansoo Park, Vipin Plavalappill Viswanathan, Raadhika Gopinath, Sara Parveen, and Mary Furey, Costco Wholesale Corporation: Market Expansion and Global Strategy (London, ON: Ivey Publishing, 2019). Available from Ivey Publishing, product no. 9B19M007.

<sup>11</sup> All dollar amounts are in USD (US\$) unless otherwise specified.

<sup>12</sup> Brand Marketing Officer, "How Long Can Costco Make Magic in China? [in Chinese]," NetEase, August 28, 2019, <https://www.163.com/dy/article/ENMI0UAR05390TQD.html>.

<sup>13</sup> Haitong Securities, "Why Does Costco Enjoy More Than 30 Times PE? [in Chinese]," Zhitong Securities, September 4, 2019, <https://www.zhitongcaijing.com/content/detail/234883.html>.

<sup>14</sup> Liu Kuang, "The Paid-Membership System Still Suffers from Three Major Contradictions [in Chinese]," Minority, December 20, 2017, <https://sspai.com/post/42399>.

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