- If you've ever shopped at Costco you may have noticed that it's a little different. Costco is **not engineered for a quick shopping trip**. It is exactly the **opposite**. This is the economics of Costco.

- It's not a **grocery store**. It's not a **small corner store**. It's huge, it's **cavernous**. The **ceiling** is high. Goods are literally **stacked on pallets** almost up to the ceiling. That's all part of the **model** and the **experience**.

- Unlike most stores, there are no **aisle signs** or **in-store maps** to help direct shoppers. Instead, aisles are simply **numbered**. What's more, Costco **constantly moves** some of its products and **cycles in** new products. So what gives? Why are Costco stores designed this way and how has it helped the company grow into the **retail behemoth** that it is today?

- Costco is a big fan of using **treasure hunt retail psychology** to **draw you in**, which is basically **having items on the shelf** that are at a wow price because there's such a **good discount** or they're just really interesting and they're not gonna be there forever.

- The big idea behind Costco's **treasure hunt strategy** is that by **encouraging** customers to **explore** and **ensuring** that there's always **a new batch of** interesting **deals**, customers **end up shopping longer** and **buying more products**.

- [Woman] Today, I went to Costco thinking I was just gonna get a few items, but I ended up with the whole entire cart.

- When you go into the store, it doesn't **feel the same as** the last time you were there. And so you have **a sense of urgency about purchasing** and also just a sense of wanting to come back, right and **check out** what's going on. If it was the same every time, you **might not come as often**.

- Today, Costco is one of the world's largest retailers, **boasting over** 803 locations and 275,000 employees.

- Costco was part of sort of this early **warehouse club concept** which was really about, instead of like go to the store, buy **a single item**, come to the store, pay **membership** and maybe you're a small business and we'll **offer** you **wholesale prices**, basically lower prices.

- Most members **pay an annual fee of** $60 for the **basic plan**. The customers can **upgrade to the executive membership** which is more **perks** for $120 a year. **Membership dues** are also how Costco makes most of its money.

- I think Costco's management's **main goal** is always this **ethos** of, can we offer more **exciting items** at a **better price** to **keep** memberships **growing**? The model is to make **money on the membership** and sell things **as cheaply as possible**. They can't just **raise the price** on something to **increase the profit** that's **against** the **internal code**. And so that also includes things like let's **save money** in how much time we spend **putting products on shelves**. So that's part of the reason why you

see these **pallets of goods stacked up** to the ceiling. There's not a lot of time spent **taking apart those pallets** or putting each individual product on the shelf. If they eliminate that there's a little bit of **labor savings**, there's some **time savings** because they're just putting **all that stuff out on a pallet** and you take it.

- Costco says that an **average item** in the store is only **marked up 11%** compared to the 25 to 50% **often seen in retail**. This **commitment to** low prices hasn't just **kept customers loyal**, it has also helped **spread the brand**.

- There's a **psychology** to **finding a deal** that's very **satisfying** for people and people enjoy the **product selection** at Costco. They have very **skilled merchants** that usually have been **employed there** for a very long time and really know what a Costco customer likely would want. And they're good at **getting good prices on** those products.

- And that sort of creates a certain **frenzy around finding** those things.

- Most retailers might assume that shoppers **want more choices**, not less. They sell a **limited number of items**. So that means they have to be pretty **precise**. They think about like giving space to a product in their store **differently** than a Walmart would. And if that product doesn't sell like it's out of there, it's very **cutthroat**. If you're **a product on the shelf** you have to **earn your place**.

- The average Costco warehouse stocks about 3,700 products **at any given time**. Less than 1/10 of most supermarkets, 40 to 50,000 items. But even though Costco **stocks fewer items,** the items they do stock **have a reputation**.

- Kirkland is Costco's you know, **private-label** brand. It's their **store brand**. It's a brand that when they wanna **offer** something **at a certain price**, they don't feel a **manufacturer** or **supplier** can do it. They build it themselves

- Since it was **launched** in 1995 the **in-house brand** has **built a reputation** for **quality** and low prices on **everyday items**. Today, Kirkland products **make up** a quarter of Costco's $166 billion in **annual sales**.

- But when you talk to customers, I think they generally feel that it doesn't **necessarily** need to be **fancy** because they've already **bought into** this Costco **pitch** which is, this is **high quality** and it's a lower price and you don't need to be afraid of it. That **customer loyalty** helped Costco **remain strong** during the **pandemic**. Costco is certainly a model that has not only **survived** the pandemic but has really **thrived** in the pandemic.

- Despite the **increased popularity** of **online shopping** Costco has **leaned into** its **strategy** of **driving members to** its stores. It's really interesting to me because, for years, people have **questioned** Costco. You know, Amazon is gonna **get you**. You got to **get bigger online** and that really hasn't **played out yet**. They've said explicitly, we **prefer people to come into** the store and shop. We want **impulse buys**. We want people to come in and see what we have and buy more. We **work better** that way and it's **cheaper**.