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The Localization Strategies and Success of Costco : Focusing on a Japanese Mature Retail Market*

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Abstract

Purpose - This research addresses the question of how an international retailer like Costco can succeed in a foreign mature market and satisfy the local consumers. Our study aims to promote our understanding of how foreign retailers influence local consumers in a mature market with differentiated business models.

Research design, data, and methodology – Our study uses company publications, secondary sources of information and the results of a questionnaire survey consisting of 106 participants. Consumer responses were solicited through a questionnaire survey conducted in the city of Kobe in December of 2013.

Results - Product differentiation from local retailers in a mature market like Japan gave Costco a competitive edge. Compared with local supermarkets, Costco was preferred by Japanese consumers for its variety of goods that it carries, as well as in-store promotion large package of selling units, in-store amenities, and customer services.

Conclusions - First, a theoretical framework is proposed in this study that can aid in developing localization strategies in a mature market such as Japan. Second, it reveals that an international retailer can succeed in a foreign market by stimulating local consumers to change their purchasing behavior, without having to alter the prevailing format of operation .

Keywords: Costco, Local Retailers, Japanese Consumers, Mature Market, Consumer Satisfaction.

JEL Classifications: D30, L81, F23.

1. Introduction

Japan is a mature consumer market with established laws regulating business operations and competition. Japanese citizens are well informed with a high level of consumer literacy. As such, entering the Japanese market is always a big challenge for overseas retailers. Yet, many European and American retailers have attempted to enter Japan – the second largest consumer market in the world. This is evidenced by the large number of Western formats and store fascia that have been transplanted to Japan over the past few decades. Because Japan has long been seen as a relatively closed market and a very costly environment in which to do business, overseas entrants tended to leave the business details to the Japanese companies that acted as licensees, franchisees, or joint-venture partners. In more recent years, and especially since the economic bubble burst in Japan, in 1989, the number of overseas retailers adopting the discount concept has increased steadily. The decline in land prices, which had been a big hurdle of their entering the Japanese market, made it easier for foreign retailers to invest directly and to do business. Also, the depression in the Japanese economy made consumers to accept the discount concept.

Beginning with the entry of Toys “R” Us in 1990, Western retailers were seeking to break the Japanese traditional distribution system in order to establish their own business systems in Japan (Larke, 2003). Toys “R” Us was able to succeed in penetrating the Japanese market mainly because of its effective American-style operating system, characterized with “every day low price (EDLP)” and wide assortments of merchandise in stock. Its success was also

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due to the fact that the Japanese toys market was then still a developing sector that had many small players but no powerful competitors. At that time, it was easier for an innovative overseas retailer to penetrate the under-developed toys market in Japan.

In contrast, food retailing in Japan is much more developed and much more resistant to foreign competition. Carrefour, Costco, Wal-Mart and Tesco all attempted to introduce changes to the Japanese food market. Carrefour brought its hypermarket format to Japan in 2000, but from the Japanese consumers' viewpoint, it was not much different from the Japanese general merchandise stores. In fact, domestic food retailers were so advanced that they made it difficult for Carrefour to penetrate the Japanese food market. It is no exaggeration to say that domestic retailers have been dominating the Japanese food market. Not being able to achieve expected results, Carrefour had to exit Japan in 2005.

Compared with the Western retailers, the Japanese retailers have more sophisticated technologies and know-how for handling the three main types of perishable foods: fishes, fruits/vegetables, and meat, because Japanese consumers are very sensitive to "freshness". Wal-Mart learned from Carrefour's failure and recognized that the capability of handling perishable foods would be the key to business success in the Japanese food market. At that time, Seiyu, which was one of the largest Japanese retail chains and developed "Muji" as its private label in 1980, found some advantageous business partners after its financial situation worsened. Seeing that Seiyu, which has been operating in traditional retail format (general merchandise store) for a long time, understands the Japanese retail environment and consumers better, not to mention possessing more advanced know-how of handling perishable foods, Wal-Mart purchased a 6.1% stake in Seiyu in 2002, and acquired a majority interest in 2005. Wal-Mart proceeded with additional steps to acquire all of the remaining shares of Seiyu in 2009, making Seiyu a wholly-owned subsidiary of Wal-Mart. Japan became the seventh country that Wal-Mart has entered (Walmart, 2014).

Although even experienced domestic general merchandise retailers are struggling to preserve their market shares, Wal-Mart Japan is striving to enhance store operations and product procurement capabilities through leveraging its global network in order to acquire competitive advantage. In recent years, domestic retailers have a tendency to reduce their business size, but Wal-Mart is able to expand its business scales.

Tesco, one of the world's largest retailers with operations in 12 countries in 2014, entered Japan in 2003 through the acquisition of 75 discount supermarkets from Tsuru Kame Land. It continued to acquire smaller-sized discount stores from Frec's in 2004 and from Super Tanekin in 2005. After that, Tesco Japan has been operating in a small format, known as Tesco Express. Despite that Tesco attempted to provide the Japanese consumers with highly valuable shopping experiences, it announced in 2011 to sell its business operations in Japan. Tesco Japan had great difficulty finding any willing investor to buy its business for one year, because most Japanese retailers did not find the small Tesco Express stores attractive. Later that year, Aeon, a domestic retailer, purchased Tesco Express.

While many domestic retailers were watching Carrefour closely, none of them paid enough attention to the entry of Costco as a serious contender. Costco, the largest company in the membership club sector in the world, entered Japan at almost the same time as Carrefour, but has been making steady inroad, with a markedly different business model from not only that of other foreign retailers but also those of the domestic food and general merchandise retailers. This raises an important research question: why has Costco been able to win the Japanese consumers with a business model unfamiliar to them, whose shopping behaviors were said to be difficult, if not possible, to be changed (Costco, 2017).

2. Literature Review

2.1. Important Strategic Options

The internationalization of retailing is considered an ongoing process (Whitehead, 1992; Dawson, 1994; Vida & Fairhurst, 1998; Alexander & Myers, 2000; Dawson & Mukoyama, 2006), in which retailers have rich opportunities to learn how to expand successfully their operations in foreign markets (Palmer, 2004; Palmer & Quinn, 2007). The selection of foreign market is influenced by the similarity of country characteristics as well as growth opportunities.

Many studies of international retailing are presented around the concepts of "standardization" and "adaptation" (Salmon & Tordjman, 1989; Treadgold, 1990, 1991; Helfferich et al., 1997; Alexander & Myers, 2000). For example, Salmon and Tordjman (1989) generalized two types of internationalization strategies. The first is called "Global Strategy", with which retailers replicate its core business concept in other countries (i.e., standardization). The second is called "Multinational Strategy", with which retailers modify their core business concept (or format) to fit local market conditions while keeping the basic elements of its core concept (i.e., adaptation). Treadgold (1990, 1991, pp.24-25) proposed a concept of "Transnational Strategy" as a type of "Hybrid Strategy (Douglas & Wind, 1987, p.27)." This is similar to the concept of "AdaptStandation" in the field of global marketing (Vrontis, 2003) and forms the basis for "Global Marketing" (Svensson, 2002, p.579).

Researchers have different views on the respective merits of standardization and adaptation (Burt & Carralero-Encinas, 2000; Burt & Mavronmmatis, 2006). Some believe that a retailer with unique offerings can expand its business opportunities in new markets in a standardized manner (Salmon & Tordjman, 1989; Treadgold, 1990, 1991), because standardization is considered to be the easier approach than adaptation. As well, standardization could be achieved without making many efforts or incurring great cost. Others argue that when operating in a standardized manner across national borders, retailers are placed in different social and economic contexts from their home market. That is, by adopting the standardization approach, retailers may not be able to achieve the same level of performance as in their home market due to diverse factors such as consumer preference and retail competition.

Some international retailers adopt a hybrid strategy that combines elements of both standardization and localization so as to maximize the value of offerings. To implement the hybrid strategy, global retailers must adopt flexible organizational arrangements that permit the use of country-specific knowledge (Sashi & Karuppur, 2002). Leknes and Carr (2004) have pointed out that there are more subtle distinctions in terms of geographic expansion, entry mode, international integration and standardization of operations, than a simple distinction between global or adaptive retail strategies.

Regardless of the strategies, the performance of a global retailer can be viewed as a continuum of the internationalization process. Performance is often described with either of the two keywords: success and failure, and the choice of strategies leads a global retailer to ascertain the success or failure of its operations in foreign countries.

With regards to failure, much has been written about global retailers' withdrawal from a foreign market, which has been evaluated not always in negative, but often also in positive, terms. Even if a global retailer's withdrawal from a foreign market is described as a failure in adapting to local market conditions, it can still be seen as a lesson that leads to revised strategies for entering a new market. Indeed, when a company's withdrawal from one of its foreign markets is seen as a failure, the lessons learned can benefit the company for setting up future operations in other foreign countries (Palmer & Quinn, 2007). In this sense, failure can also bring about a positive experience to the internationalization process. At least, the experience of a retailer's withdrawal can be an important step leading to development, or consideration, of new internationalization strategies (Alexander & Quinn, 2002; Palmer, 2004; Jackson et al., 2004; Toba, 2006, etc.)

2.2. Foreign Retailers' Competitive Position in Mature Markets

The success or failure of an international retailer in a foreign country depends not only on the appropriateness of the firm's post- entry decisions but also on the strategic entry choices made at the time of entry (Green et al., 1995). Specifically, Gielens and Dekimpe (2001) suggested that the strategic decisions made at the time of entry continue to influence the future performance in the foreign market. Strategic entry decisions include several components: scale of entry, mode of entry, order of entry, the adaptation of retail format to local market condition, and the familiarity of the store format to the parent company. Given this variability in entry strategic choices, we focus on adaptation of retail format to local market conditions.

Foreign retailers are still struggling to develop the competencies needed to compete in the local markets where the retail industry is maturing and competition is intensifying, to gain market shares in the increasingly competition-stiffened emerging markets. Actually, few global retailers have realized comparable returns in the foreign maturing markets, as in the emerging markets and their home market. Some global retailers (such as Wal-Mart, Carrefour, and Tesco) lost money in many of the maturing markets (such as Japan and Germany) (Arnold & Fernie, 2000; Fernie & Arnold, 2002; Berggoetz & Laue, 2004; Ghehard & Hann, 2005; Talaulicar, 2009, etc). As many studies point out, global retail companies have differed in their approaches by the rapidity and progress of development in the country's retailing industry, because retail formats has already diversified and competition between similar retail formats has considerably intensified in the maturing markets, compared to the emerging markets.

However, Costco was the first major entrant to be successful outside its home market with the same strategic decision, regardless of the rapidity and progress of development in the country's retailing industry. We seek to answer the question of "Does Costco make different strategic choices when entering an emerging market than when entering a maturing economy? Specifically, we focus simultaneously on Costco's retail mix, resources, the host market's conditions and the impact on the host market.

3. Methodology

Through a case study of Costco Japan, this paper aims to promote our understanding of how foreign retailers influence local consumers in a mature market with differentiated business models. In particular, we focus on Costco's operational methods in a mature foreign market and its appeal to well-educated and well-informed consumers. Our study suggests that there are different types of localization strategies for a global retail company to choose from, when operating in a foreign market.

Information and data used in this study are obtained from both secondary and primary sources. Secondary sources include the Costco annual reports and reputable Japanese-language newspapers and business journals. Primary data are collected by the authors of this paper through a questionnaire survey conducted in the city of Kobe in December of 2013.

In this paper, we interpret the responses of the Japanese consumers to the Costco business model, and verify the findings reported in the Japanese news media. There is only one Costco Club in Kobe, located in its suburb. The survey, which contained 17 questions, is designed to also compare consumer responses to the Costco Model with their shopping experiences at local domestic supermarkets. The survey was distributed, by snowballing through friends, to 106 customers who purchased daily use goods (including foods) at Costco.

4. Results

4.1. The Costco Business Model in Japan

Costco opened for business in 1976 in the United States under the name of Price Club. The first Costco store in Japan opened in 1999 as a key tenant of a large shopping center in Fukuoka (Hisayama). More openings followed in subsequent years. As of November 12, 2017, Costco operates 26 stores across Japan. From the beginning, Costco Japan attracted the attention of a large number of Japanese consumers, with more than 260,000 member sign-ups in its first year (including free memberships). This initial success occurred despite the fact that its business concept and operating system were ridiculed in the media and condemned by academia.

Indeed, Costco faced a big challenge at the time of its entry in the Japanese market. Its operation was based on a business concept that once exited in Japan but later disappeared. Basically, the business concept

was characterized with transactions in the form of “Cash and Carry”, limited to paid members. This was the same concept that the domestic Daiei Group used to operate its Kou’s stores. The Daiei-owned Kou’s was the first wholesale membership club, opened its

first store in Harbor Land, Kobe, in 1992. After the big earthquake in Osaka-Kobe in 1995, that store moved to Port Island (an artificial island of Kobe), but closed in 2002, when the financial situation in Daiei worsened (The Nikkei, 24 April, 2009).

The core element of the concept was to offer its members low prices on a limited selection of brands (about 5,000 SKUs) but in a wide range of merchandise categories, and to eventually achieve high sale volumes. Daiei hoped to achieve high operation efficiencies in its Kou’s stores through high volume sales and low-cost handling of merchandise

in a no-frills and self-service warehouse environment, allowing the Kou’s stores to make a profit despite lower gross margins. Kou’s had a markedly different business model from that of GMS (general merchandise stores) in number of items and

employees, merchandise display, and selling methods. For example, Kou’s had only 5,000 items compared to a typical GMS with 45,000 items, and the number of employees in a Kou’s store was around one-third of a GMS (Nikkei Marketing Journal, 20 October, 1992). Also, Kou’s simplified its work procedure by using forklifts for product display so that even a part-time employee with low skill could easily handle the tasks. Kou’s strived to enhance its store operations and product procurement capabilities in order to provide customers with products 40 % cheaper on average than a manufacturer’s suggested retail price, but this was supported by a no-return policy.

The Kou’s format was quite a revolution for the Japanese consumers for several reasons. First, the Japanese consumers were not used to purchasing daily goods and food stuff in large packages. Second, Kou’s business concept was to provide a continuing source of revenue in the form of membership fee, and to reinforce member loyalty. Kou’s had two primary types of membership: Business members and Individual members. Members of both types could purchase merchandise at any Kou’s six stores. Both types of members pay an annual membership fee of \3,000 (approximately US$ 30), plus \500 (US$5) more when they sign up as the cost of the membership card (The fee includes one additional card for immediate family members).

Kou’s tried to attract Japanese consumers to its new format stores by promoting the new consumption style – to purchase large packages with lower prices, with up to four persons on one shopping trip to share the purchase (Nikkei Industry Newspaper, 2 November, 1992). At the beginning, it seemed to be successful, and became a topic reports in the news media for achieving more-than-expected sales and membership. For example, the 38,000 memberships were sold initially; 5 months later, the number of membership tripled (Nikkei Marketing Journal, 13 March, 1993). Also, Kou’s was were striving to enhance its product procurement capabilities in order to provide customers with goods 40% cheaper on average than a manufacturer’s suggested retail price. At the same time, it introduced non-return policy (Nikkei Marketing Journal, 13 March, 1993). Even if the number of memberships continued to increase in 1997, Kou’s opened its price information and began to offer entry tickets to non-members through its homepage (Nikkei Marketing Journal, 22 January, 1998). While the Daiei group stopped opening new Daiei brand stores due to its managerial deterioration, it continued to open new membership stores because some Kou’s stores showed a 40% increase in sales (The Nikkei, 27 July, 1998).

The membership fee is the most fundamental and important factor in the business of wholesale membership club. The total number of members exceeded 300,000 in the second half of 1998. Kou’s kept its policy of member satisfaction and was earning \900 million (approximately US$9 million) each year from membership only (The Nikkei, 16 November, 1998). At that time, the depression by deflation made the membership clubs the lowest price policy root in the Japanese market. Being badly hit by the economic depression, the Daiei group decided to separate the operation of membership wholesale club from its core businesses, and founded Daiei Wholesale Corporation in 1999 (Nikkei Marketing Journal, 19 November, 1998). The membership policy was also changed. Since September 2001, shoppers no longer needed to pay a membership fee to purchase merchandise at a Kou's store. Existing members would receive an additional discount of 5% off their bills. This change in membership policy was considered an abandonment of the value of warehouse business and subsequently brought about negative results for its operation.

Daiei tried to reconstruct the entire group through the discount store sector such as Kou's; but in the end, Kou's shut down all its six stores in August, 2002. The Daiei Inc. used to be the largest retailer in Japan, but its total sales declined by nearly a quarter in the five years leading up to 2003, and was under the process of debt restructuring in 2005, with support from financial institutions. While Costco Japan followed the same concept, its business model is considerably different. According to the President of Costco Japan, Kou's is not really a wholesale club; the only element that is common to both retailers is the membership requirement, designed to both reinforce customer loyalty and provide a continuing source of revenue from membership dues. The differences between Costco and Kou's are summarized in Table1.

Costco is the first membership warehouse club in the world that provides its members the best possible prices on brand-name products. Its operating system is to keep costs low and pass the savings on to its members. Membership card is accepted at any Costco store in the world. It offers two primary types of members: Business, and Gold Star (individual). Businesses (including individuals with a business license, retail license, or other evidence of business existence) may become Business members. Business members pay an annual fee of \3,765 (approximately US$37) for the primary card plus one household card. Additional cards are available for an annual fee of \2,625 (approximately US$26) each, up to six employees. Many business members also shop at Costco for their personal and family needs. Gold Star membership is available to individuals who do not qualify for a Business membership, for an annual fee of \4,200 (approximately 5US$40), which includes one additional card used by family members.

Costco offers its members low prices on a limited selection of national-brand and private-label products in a wide range of categories. At Costco, the range of merchandise is limited to 3,500 and 4,000 SKUs, as opposed to 45,000 or more SKUs at a typical GMS in the Japanese retail industry. Costco seeks to limit specific items in each product line because merchandise is stored on racks above the sales floor or displayed on palettes containing large quantities of each item. Costco is much more efficient in merchandise handling and inventory control. It buys the majority of its merchandise directly from manufacturers and routes the merchandise to a cross- docking consolidation "depot" or directly to its warehouse stores.

<Table 1> Elements of the Costco Business Model, in comparison with Kou's

Element	Costco	Kou's
Store format	Warehouse-style, cash & carry, membership wholesale club: offering two types of membership: business and individual; can be used at any locations in the world	Similar to Costco
Product offering	Limited brands with wide assortments of merchandize; high proportion of merchandise are imports; 3,500 to 4,000 SKU's	5,000 SKU's
Pricing	Discount: everyday-low-price	40% more cheaply on the average than a manufacturer's recommended price
Selling method	Large/bulk package	High volume sales, low-cost handling of merchandise selling their goods not only by cartons or in cases but also by each item
Store configuration	Using high racks and industry- standard palettes for product display and stock	Product display by using the forklift, looking around the entire store by shortening the racks, using more boxes and carts sitting on the floor, instead of tall racks and the industry-standard palettes like Costco
In-store amenities	Food court, pharmacy, optician, print of a photograph, tire change (only for members)	Food court (non-member is available), optician, vending machine for CD
Store location	Suburban	similar to Costco
Marketing	In-store promotion; free tasting/testing; no printed fliers	similar to Costco
Customer service	Easy refund (including refund of the unused portion of the membership), no extra charge for membership card	Locker, telephone call to the person in charge in the sales floor; no return policy

With industry-standard pallets, deliver of goods from manufacturers to warehouses and stocking of merchandise in stores become much more efficient and economical. Rapid inventory turnover, when combined with the operating efficiencies achieved by volume sales, efficient distribution, and reduced handling of merchandise in no-frills, self-service warehouse stores, enables Costco to be profitable, despite with significantly lower gross margins than traditional supermarkets and supercenters.

The Costco stores enhance their attractiveness by carrying imported goods of international brands, including such well-known apparels as Tommy Hilfiger, Polo, and Lacoste. Imported goods account for one third of all merchandises that go through Costco's distribution center in Japan (Toyokeizai Weekly Magazine, 10 February, 2001). Its premium private label products, Kirkland Signature, are also sold in its Japanese stores at prices lower than comparable domestic products, and are well liked by Japanese consumers. It is reported that many seniors are very pleased when their children bring to them imported goods purchased at Costco as presents.

Even the ordinary food court at the Costco store is a popular attraction. Japanese consumers have a tendency to enjoy leisure time with family. On a shopping trip to Costco, children and adults often spend a good amount of time in the food court. To many Japanese consumers, shopping at Costco is an exciting event.

Costco is good at listening to customers' suggestions and adjusting its selling methods accordingly. Many Japanese customers bring their friends and relatives to Costco, who do not have a membership card, and share the bulk purchases with them. For one example, Costco changed its 2.4 kg- package of "Sakura Chicken" from two 1.2 kg component packs to four 0.6 kg packs, to make sharing easier. After passing a cash register, shoppers share their bulk purchases with one another in the food court or parking lot (Trendy, April, 2011, p.38).

In order to sell new products to the conservative Japanese consumers, Costco does active and aggressive in-store promotions to "educate" the shoppers. Japanese consumers are typically shy to try a product in a retail store, because they feel that they would be obligated to purchase the product after a free trial. Costco hired a local marketing firm, known as Club Demonstration Services, to do in-store promotions, offering "two free bites" to each customer. This made consumers feel comfortable to try out the new products. Consequently, long lines began to form in front of the sampling tables. The best-selling item called "Bulgogi Beef Yakiniku (Korean grilled beef)" has resulted from active in-store promotions.

It puzzles many observers that the Japanese consumers do not reject Costco's selling method, which has been used by almost all foreign discount retailers that have operated in Japan. The other foreign retailers either ended up with modifying their selling method to be similar to the Japanese methods, or withdrew from Japan. When Dairy Farm, a large discount retailer from Hong Kong, brought the same selling method to the Japanese market, many researchers warmed that it would not align with the Japanese shopping behavior. Indeed, it was not long before Dairy Farm withdrew from Japan.

4.2. Consumer Responses to the Costco Business Model

As <Table 2> shows, an overwhelming majority of the willing participants were females, accounting for 84% of the total, compared with only 14 percent of males. In terms of age, most of the participants are adults, with those between 25 and 60 years of age accounting for 68%. Contrary to the traditional perception of Japanese women being housewives, most of the female Costco customers are actually employed.

<Table 2> The profile of survey participants (N=106)

Attributes of participants		Frequency (%)
Gender:		
	Male	15 (14.2)
	Female	89 (84.2)
Age		
	Under18	0 (0.0)
	19-24	18(17.0)
	25-44	40 (37.7)
	45-60	32 (30.2)
	Over 60	14 (13.2)
Employment status		
	Employed	60 (56.6)
	Not employed	44 (41.5)
Missing		2 (1.9)

To begin with, Japanese consumers seem to shop for daily-use goods much more often than their counterparts in North America. The majority (72%) of the surveyed consumers say they go shopping to buy daily use goods more than 2-3times a week; only 27 percent go shopping less than once a week (see <Table 3> [Q1]).

With no surprise, Japanese consumers visit local supermarkets more frequently than they shop at Costco, with 61 percent of the surveyed customers visiting a local supermarket more than once a week, and another 27% once a week (see <Table 3> [Q4 & Q13]). In comparison, only 2 percent of the surveyed customers visit a Costco Club once a week or more frequently. Instead, 9 percent visit the Costco Club once every two week and 31% once a month. This discrepancy can be attributed to several explanations. First, the Costco Club is much further in distance from the residences of the surveyed consumers and is thus less convenient to visit than are the local supermarkets. Second, Costco carries different merchandise inventories. While half of the consumers (50.7%) shop at Costco for food, many also buy general merchandise (34.8%), electronics (3.5%), apparel (5.0%), and outdoors equipment (4.5%), which are not available at local supermarkets and higher-order goods that are purchased less frequently. Besides, consumption of the bulk purchases made at the Costco Club from one shopping trip usually lasts at least one week. Thirds, the limited categories of merchandise offering at Costco means that Costco is a complement, not a substitute, to the local supermarkets.

<Table 3> Comparison of Shopping Frequency (Q1&Q4 & Q13)

Shopping frequency	How often do you go shopping to buy daily goods? (Q1)	How often do you visit Costco? (Q4)	How often do you visit local supermarkets? (Q13)
2-3 times a week	45.3	0.0	61.3
Once a week	14.2	1.9	27.4
Once every two weeks (Q4 & 13) More than 3 times a week (Q1)	- 27.4	8.5 -	0.9 -
Once a month (Q4 & 13) Less than 5 times a month (Q1)	- 12.3	31.1	7.5
Once every several months*	-	57.5	-
Non-response	0.9	0.9	2.8
Total	100.0	100.0	100.0

Note: * We did not ask this for local supermarkets.

While shopping frequencies at Costco are lower, shopping duration is obviously longer than at local supermarkets. As <Table 4> shows, as high as 75 percent of the surveyed consumers spend more than one hour at the Costco Club on a single shopping trip, with 65 per cent spending 1 to 2 hours and another 13 percent spending 2 to 3 hours. Less than 20 percent of them spend less than one hour when they visit the Costco Club. In contrast, up to 75 percent of same consumers spend less than one hour in a local supermarket, and only 24 percent spend more than one hour. This suggests that they buy limited number and small quantity of goods from local supermarkets for convenience.

<Table 4> Comparison of Shopping Duration (Q5 & Q14)

Shopping duration	How many hours do you usually spend at Costco (Q5)	How many hours do you usually spend at local supermarkets? (Q14)
Less than 1 hour	17.0	74.5
1 to 2 hours	65.1	21.7
2 to 3 hours	13.2	1.9
More than 3hours	1.9	0.0
Non-response	2.8	1.9
Total	100.0	100.0

As is shown in <Table 5>, an overwhelming majority, 86 percent, of the surveyed customers go to the Costco Club in Kobe by car, compared with 42 percent of them going to a local supermarket by car. While 27 percent of the customers walk to a local supermarket regularly, only 3 percent walk to the Costco Club. The percentage of customers who take public transit to the Costco Club is also lower than that using the same modes of transportation to a local supermarket: 3 percent vs. 6 percent. The differences in mode of transportation support two observations: first, the Costco Club is further away from home than local supermarkets, well beyond walking and cycling distances; second, many consumers make bulk purchases at Costco on a single trip, which are difficult to carry without a car.

<Table 5> Comparison of Mode of Transportation (Q12 and Q17)

Mode of transportation	What is the main reason for coming to Costco? (Q12)	How do you usually go to local supermarkets? (Q17)
By car	85.8	41.5
By bus or subway	2.8	5.7
By bicycle or motorcycle	5.7	9.4
On foot	2.8	27.4
Non-response	2.8	16.1
Total	100.0	100.0

As to the day of visits to Costco, 53 percent of the surveyed consumers say they usually go on weekdays; only 44 percent go on weekends. This is somewhat unexpected and is different from our observation of the North American consumers who do most of their shopping on weekends.

Compared with local supermarkets, Costco seems to be preferred by Japanese consumers for a number of elements of its business model. One third of the surveyed consumers like Costco for the variety of goods that it carries, compared with 22 percent who are happy with the local supermarkets for variety of goods. As well, more surveyed consumers like Costco for in-store promotion (such as product tasting/testing), large package of selling units, in-store amenities (such as the food court), and customer services (easy refund, including membership refund), though the percentages of the customers who like these store attributes range from only 5 to 16 percent (see <Table 8>). It is interesting to note that Japanese consumers like local supermarkets better than Costco for quality of goods (18% vs. 6%), price of goods (25% vs. 17%), and convenience in accessibility (27% vs. 3%).

When asked what their dissatisfaction about Costco is, 40 percent mentioned membership as being too high (see <Table 7>). Besides, 27 percent do not like the large packages with which merchandizes are sold at Costco; and 11 percent feel that travelling to the Costco Club is inconvenient. Although these percentages do not represent a majority of the surveyed consumers, they point to the areas in which Costco needs to improve itself for consumer satisfaction. Nonetheless, Costco seems to be more competitive than the local supermarkets in the variety of goods it carries (only 3% of the surveyed consumers are dissatisfied, vs.. 36% for supermarket), price (3.8% vs. 27%), and spaciousness of the store environment (12% vs. 19%).

<Table 6> What consumers like about Costco and local supermarkets (Respondents were asked to choose as many answers as they apply)

Store attribute	What do you like about Costco? (Q6)	What do you like about local supermarkets? (Q15)
The variety of goods	30.5	21.6
Good quality	5.8	18.2
Good price	16.6	25.1
Good in-store promotion	16.2	3.0
The large package of selling unit	10.8	0.9
In-store amenities	12.0	1.3
Customer service	5.0	2.6
Convenience for accessibility	3.1	27.3

<Table 7> What consumers are dissatisfied with Costco and local supermarkets? (Respondents were asked to choose as many answers as they apply)

Store attribute	What is your dissatisfaction about Costco? (Q7)	What is your dissatisfaction about local supermarkets? (Q16)
Not enough variety of goods	3.3	36.0
Too crowded	12.3	19.0
Price is higher than at other places	3.8	27.0
The large package of purchasing unit	27.4	6.0
Store too large to shop around	2.4	5.0
Membership Fee is high*	40.1	-
Inconvenience for accessibility	10.8	7.0

Note: * Local supermarkets do not charge membership fee

It seems that the dissatisfaction with the membership fee and large package of merchandise are somewhat reduced when consumers take their non-member relatives and friends to Costco to share bulk purchases. Of the 106 surveyed consumers, 48 percent go to Costco “with family or relatives”; 39 percent go “with friends”; only 7% go “alone ”. More to the point, nearly 70 percent of them say they share their purchase with friends or relatives, when they buy a large quantity of merchandise in Costco (see <Table 8>).

<Table 8> If you go to Costco, who do you usually go with (Q9)?

Who do you usually go with?	To Costco
Alone	6.6
With family or relative	48.1
With friends	38.7
Non-response	6.6
Total	100.0

In sum, The survey results largely reflect Costco Japan’s plan that aims at consumers who spend \10,000 (approximately US$100) or more per visit, make purchases once or twice a month, and consider shopping a leisure activity.

5. Discussion and Conclusions

5.1. Conclusions and Implications

According to Nikki Business, the smart and careful Japanese consumers are undergoing self-change (Nikkei Business, 6 April, 2009, p.86). The smart and careful consumers in a mature retail market have invented recipes to use the specific products and services offered by Costco more efficiently. They have even called for other consumers on the internet for group purchases, who cannot afford bulk purchases in Costco. As a result, Costco does not have to change the core business concept, except for minor adjustments, but it has succeeded by stimulating consumers to change their purchasing behavior.

In addition, the change of the social environment has enabled the success of Costco in Japan. The Japanese consumers can no longer spend as much time on shopping as they used to. The rise of women in the workforce has required them to choose a store, where all necessary items are available, instead of shopping multiple times for different items. It is also due to this trend that Everyday Low Price had a chance to spread in Japan recently. High-Low Price was preferred in Japan previously, and so shoppers used to go around to several stores in order to get the cheapest item. At this time, Costco appeared to the Japanese consumers who had many difficulties in their retail environment and was equal to the challenge of satisfying consumer needs and adapted themselves to the change in social consciousness.

We could also examine that foreign retailers should be focused on their own differentiated advantage in order to success in a mature market like Japan, because they have to compete with local retailers in maturity-stage general merchandise store market, and to satisfy with more informed consumers. Product differentiation from local retailers gave Costco a competitive edge. When local retailers as well as foreign retailers attached importance to “core competence”, a smart and careful consumer would be stimulated to enjoy higher satisfaction.

5.2. Limitations and Recommendations for Future Research

But the theoretical significance of the interaction with more informed consumers has led some to wonder if the data requires further analysis for showing the factors contributing to success of a foreign retail company in a mature market. Further, it would be possible to compare internationally with other Asian countries where Costco has seen success also such as in Korea and Taiwan.

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