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The Empirical Study on Purchasing Behavior between Costco Wholesale Members and Non-Members*

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Abstract

Purpose - The purpose of the study was to seek to find out what factors having differences between paid membership customers (Costco membership) and general customers in retail industry. Since Costco operates differently from other conventional retailers, which is expected to have a substantial impact on consumers' preference of retail stores.

Research design, data, and methodology - The survey conducted covered 1,000 adults in their 30s~50s living in Goyang and Gwangmyeong where Costco runs stores to determine the effects of Costco's local market-entry from consumer perspectives. 500 respondents were surveyed in each region and those working in the retail sector were excluded to ensure the objectivity of the answers.

Results - Costco members in Goyang considered the price, bulk purchasing, and membership benefits as important criteria when choosing their retail store. On the other hand, as for Gwangmyeong, the non-member group's prominent characteristic was that they considered accessibility including travel distance and location and in-store amenities including food court services as important criteria for decision-making.

Conclusion - Unique business model of Costco shows a statistically significant difference in terms of consumer awareness. the feature of Costco served as an critical criteria for consumers in their purchasing decision. Moreover, Bulk packaging purchases at Costco results in a strong supplementary relationship with neighborhood supermarkets.

Keywords: Membership Discount Store, Costco Wholesales, Consumer Behavior.

JEL classifications: D12, F2, L81.

1. Introduction

Korea retail industry has been struggling more than ever due to weak consumption stemming from the recent economic downturn in Korea, which has led to more overheated competition among retailers. Currently, the retail industry is moving beyond its maturity and then department stores and large discount stores, in particular, are decreasing sales. On the other hand, the number of large discount stores with membership has shown rapid growth in the past decade. The reason why the industry environment of general large discount stores and membership discount stores, which account for a large portion of the Korean retail

market, is rapidly changing is because of the changing population structure, saturation of outlets of general large discount stores, and regulations such as weekend closing system, and participation in large discount stores in order to diversify the business of ordinary large discount store operators in order to overcome this market situation (Lee, 2019; Yoo & Kim, 2017).

Despite the rapidly changing situation in the retail business environment surrounding large discount stores, little research has been carried out on membership-based retailers or wholesale in the past decade or so (Kim, Kim, & Seo, 2014). In Korea, a membership wholesales has recently become known to many people. In particular, the rapid growth of wholesale club retailer with membership fee, called Costco, pay an attention in the retail industry, raising people's awareness of these membership businesses. Retailing has been known as a 'hard to be' globalized industry and retailers should respond to local customers consuming habits as a localization strategy (Minahan, Huddleston, & Bianchi, 2012). However, even though Costco has been unwilling to respond to local customer requirements, they

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has been successful in Korea and its international expansion as well.

To understand preferences of consumers and developing target strategies can be one of the biggest challenges for retailers entering overseas markets (Hyllegard, Eckman, Descals, & Borja, 2005). But most of the research on international retailing is taking into account the perspective of firms, and is less known about the perspective of the local or host consumers (Lee, Kim, Pelton, Knight, & Forney, 2008). Existing literature falls short of consumer awareness and responsiveness analysis of incoming multinational retailers. Consumption occurs within contexts that not only affect consumption choices but also help shape values and attitudes (Doughon & Craig, 2011; Kim, 2017).

Unlike existing studies where only macro-quantitative analyses had been made, this study analyzes consumer's awareness on Costco through a survey, making this study unique compared to other studies. Since Costco especially operates very differently from other conventional hypermarkets, it is essential to identify how characteristic would impact consumer awareness and their reason of use. Focusing only on the macro indicators of the overall distribution sector may overlook the psychological response and purchasing patterns of consumers. Even large retailers may vary in the way they compete or operate from others. This affects the a consumer's brand awareness and decision-making, which ultimately impacts the consumer's purchasing pattern (Hu & Chuang, 2009). Costco, in particular, operates differently from other large retailers, with its paid membership program and bulk purchasing approach (Cascio, 2006).

Therefore, in this study, consumer surveys will be conducted regarding the Costco already located in the cities of Goyang (Costco Ilsan branch) and Gwangmyeong (Costco Gwangmyeong branch). Chapter II will offer an introduction to Costco's overall business operations and its characteristics, followed by Chapter III, which will explain research methodology on the survey and show the demographic profile of survey respondents. Then, Chapter IV will apply the analysis findings and discuss the statistic results. Lastly, Chapter VI will provide a conclusion, implications and limitation of this study.

2. Literatures and Characteristics of wholesale membership club retailer, Costco

2.1. Existing study on membership retailer

Currently, there is a certain amount of individual study on general and membership large discount stores in Korea, but little comparative research is being conducted. In particular, the study on comparison of consumer behavior between consumers of general and membership discount stores is relatively rare. Yoo (2017) tried an analysis on the pre-purchase behavior and satisfaction of large retailers and

membership retailers. The analysis results showed that large retailers with membership will have high satisfaction with parking, price and the quality of products, and were dissatisfied with bundle package, payment method and annual membership fee. In addition, in the case of general large discount stores, the level of satisfaction with the payment method, geographical location, price and quality of products was relatively high, and they were found to be dissatisfied with bundle sales, counter waiting time, rest area, etc.

Kim and Kim (2014) examined the unsatisfactory factors of customers using large discount stores and suggested improvement measures for the problems that were derived through consumer survey. The analysis showed that customers are relatively sensitive to the price of goods first and that they tend to use large discount stores mainly because of their relatively low prices. In addition, Membership store was found that membership consumer purchase more goods than are actually required for reasons such as bundle and bigger box-sized packaging.

Kim et al. (2014) also analyzed consumer behavior and its effect, especially focusing on the difference between general discount stores and membership discount stores. It found that although customers of membership discount stores visited there less frequently than those of general discount stores. However their staying hours for shopping tend to be longer. When comparing purchased goods between two discount stores, apparels were found to be more sold in general discount stores while the groceries, cosmetics, kitchen appliances were more sold in the membership discount stores. In addition, the factors affecting the total number of purchased goods are income levels, types of stores and other factors that do not significantly relate to purchasing behavior and demographic factors, but are only affected by differences in store characteristics and consumer purchasing behavior.

Another literature is related to the ripple effect of the hypermarkets. Most relevant studies analyzing the impact of hypermarkets on the local commercial market have focused on Wal-Mart which include the following: Hicks and Wilburn (2001) used the panel data of 14 counties in southern Virginia, US, to analyze the market-entry impact of Wal-Mart on the overall retail employment, and it was found that Wal-Mart's market entry had a positive impact on creating retail jobs in the county. Sobel and Dean (2008) utilized the America's state-level data to validate that Wal-Mart did not have a statistically significant impact on employment resulting from a decrease in the number of small-sized retailers (number of employees: 1~4, 5~9). That is, the finding could be interpreted to mean that, even though the existing small-sized retailers closed doors due to Wal-Mart's new store opening, just like in Schumpeter's theory of 'Creative Destruction', there will be new retailers emerging in new locations, off-setting the closing down of the existing stores.

On the other hand, Basker (2005) leveraged the US county-level data from 1977 to 1998 to analyze the impact

of Wal-Mart's new locations on the number of retail businesses and their employment. As a result, five years following Wal-Mart's opening in a given region, the number of mid and large business sites increased by 0.7 whereas small business sites decreased by 4. Neumark, Zhang, and Ciccarella (2008) also analyzed the US county-level data on retail employment statistics from 1977 to 1998 to assess the new opening effect of a Wal-Mart. The study revealed that when Wal-Mart opens a new store, about 150 retail jobs are reduced on average, meaning that 1 Wal-Mart staff substitutes 1.4 retail industry staff in the local commerce. That is, Wal-Mart's market-entry tends to replace its competitors, and in the process, small businesses are thrown out of the market. However, such impact may vary according to distance. Davis, Merriman, Samayoa, Flanagan, Baiman, and Persky (2009) examined 306 stores near Wal-mart locations opened in western Chicago from September 2006 to 2008. As a result, 82 stores went out of business, however, those located further from the Wal-Mart site demonstrated a lower chance of closing down, that is 6% less probability per 1 mile radius. Furthermore, Bonanno and Goetz (2012) also examined whether hypermarket stores substituted or complemented the existing SMRs. It was found that the market-entry of large players in the local commerce had a negative impact on the employment and survival of the SMRs, but the further the latter was located from Wal-Mart, the impact was reduced and sectoral differences also occurred.

2.2. Introduction and Features of Costco Wholesale

Costco wholesale, a multinational corporation based in the United States, is a global retailer with membership-based wholesale warehouse club operations. It was founded by Jim Sinegal and Jeffery Brotman in 1983 in Seattle, Washington. In October 1993, Costco and Price Club, a pioneer in the membership-based discount store, merged to become Price-Costco. A year later in January 1994, Price Enterprise spun off, thus the name was changed to Costco Company and in August 30, 1995, as it was re-incorporated from Delaware to Washington, the name changed again to Costco Wholesale Corporation. Costco sells about 4,000 individual of products per store, the sales breakdown by product group as the end of the fiscal year 2013, was Sundries (22%), Food (21%), Hardlines including electronics, office items, etc (16%), Softlines including clothes, jewelry, housewares, etc (11%), Fresh Food (13%), and Ancillary and Other (17%).

The membership-based wholesale like Costco was first opened by Shinsegae Price Club (now Costco) in 1994, which is about the same time as a general large discount retailer, however, its growth was very low compared to that of general discount stores (Kim & Kim, 2014). Costco entered the Korean market following a strategic partnership signed between Shinsegae and Price in the US. in 1994. Both parties opened a warehouse club store under the

name 'Price Club' in Yangpyeongdong, Seoul. However, with the Asian financial crisis in 1997, Shinsegae had to close the warehouse club store and transfer its shares to Price in the US. Afterward, Price merged with Costco and became Costco Wholesale Korea.

Costco, when it opened its first store Korea, was the only membership-based warehouse club store in Korea.* Warehouse club operations are characterized by products sold in 'multi-pack', 'bulk size' or in boxes for 'business purpose' in a store resembling a wholesale warehouse with minimum interior decorations. Products in such stores are stored in palettes without any particular sign. The same model is adopted by all Costco stores around the world including the US.

As aforementioned, Costco operates on a different business model compared to other retailers. The biggest difference is its membership fee, mass packaging with limited items, the 15% margin rule, one credit card payment only system, its suburban location, etc. Moreover, Costco handles imported goods and offers a warehouse-like ambience, and such characteristics come from Costco's unique strategy. To achieve the goal of 'providing quality products at a low price' to its customers (members), Costco has strategically aligned its overall corporate activities. Costco's way of operating characterized by 'selection and concentrate' strategy is deemed as distinctive for benefiting everyone from consumers to suppliers and its employees.

Table 1: Effects of Costco's Major Business Model

| | Features | Contents | Strategic Effects |
|---|--|---|--|
| 1 | Membership Fee | ₩35,000 of membership fee for individual members (₩30,000 for business members) | saving capital expenses, securing loyal customers & classifying consumer market |
| 2 | Imported Goods in Assortment | 30~40% of imported goods in assortment | bolstering customer loyalty |
| 3 | 15% Margin Rule | strict rule of 15% markup to suppliers | lower prices & motivating suppliers |
| 4 | Limited Number of Items & Bulk Packaging | about 4,000 kinds of items + bulk selling | securing possibility of markdown through reducing in operation and interior expenses |
| 5 | One Credit Card Payment System | goods can be paid only in cash (or cashier's check) or Samsung card | |
| 6 | Location in Suburban Area | located in the suburb areas far from downtown | |
| 7 | Warehouse Interior | stacking products on the palettes | |

Source: Kim (2019). The Entry and Growth Strategy of Multinational Retail Warehouse in Korea Market: The Case of Costco Wholesale. Korea International Business Review. 23(1). p.63.

* Today, "Traders" of Emart and "Big Market" of Lotte Mart have newly entered the discount store market emulating the warehouse club operation model of Costco, thereby creating a tripartite competition in some regions like Ilsan.

The level of awareness and intension of use of Korean consumers regarding the business model of Costco may vary according to individual consumers. Of course, there are consumers that embrace the membership fee, whereas those who do not. Therefore, Costco's retail pattern is different from existing retailers who are readily accessible for anyone. As such, consumer's understanding of business pattern of retailers is a significant factor in making their purchasing decisions, therefore assessment of the level of consumers' awareness regarding relevant services is crucial.

3. Research Methodology

The survey conducted covered 1,000 adults in their 30s~50s living in Goyang and Gwangmyeong where Costco runs stores to determine the effects of Costco's local market-entry from consumer perspectives. 500 respondents were surveyed in each region and those working in the retail sector were excluded to ensure the objectivity of the answers. Moreover, to eliminate any biased responses by region, age and sex, a proportionate quota sampling method was used and a structured questionnaire was used to carry out a 1:1 face-to-face interview. The questionnaire was assessed by Likert-Scale (1-10) on each question that were considered important when using a distributor. The scores evaluated are

used to compare perceptual differences between membership and non-membership groups for a given item. The question items were largely divided into five categories. This, in turn, has been sub-divided into a total of 22 questions. Respondents were asked to evaluate the importance of 22 items in total (Table 2).

The demographic profile of the respondents is as shown in Table 3 below. 69.3% of the respondents were in the mid-level income bracket ranging 4 to 6 million won, with the majority being blue color workers followed by the self-employed, white color workers and homemakers. In Gwangmyeong, 38.6% of the respondents were in their 30s, 69.6% in the mid income level between 4 to 6 million won, and 31.4% blue color workers, which was higher than other regions. In Goyang, 41.4% of respondents were in their 40s, 71.0% earning mid-level income group between 4 to 6 million won, with similar percentage of blue color workers, self-employed, homemakers, white color workers in between 23 to 25%. Lastly in Bucheon, 36.8% were in their 40s, 67.2% with mid income of 4 to 6 million won, with 29.2% being self- employed and 29.0% being blue color workers.

The survey findings were useful in identifying consumers' use pattern of retail stores based on which a comprehensive analysis was conducted to determine the retailer selection an perceptual differences between members and non-members.

Table 2: contents of questionnaire items

| Goods | Operations | Location | Amenities | Services |
|---|---|---|---|---|
| <ul style="list-style-type: none"> - price - reliability - covering diverse items - bulk packing - possibility of low-volume purchase - having new products | <ul style="list-style-type: none"> - convenient payment - interior of store - convenience of parking - waiting time for payment - membership benefits - courtesy - professionalism | <ul style="list-style-type: none"> - close distance - transport convenience | <ul style="list-style-type: none"> - living facilities - food court service - existing markets | <ul style="list-style-type: none"> - warranty service (eg. exchange) - bargaining events - advertisement - potential price bargaining |

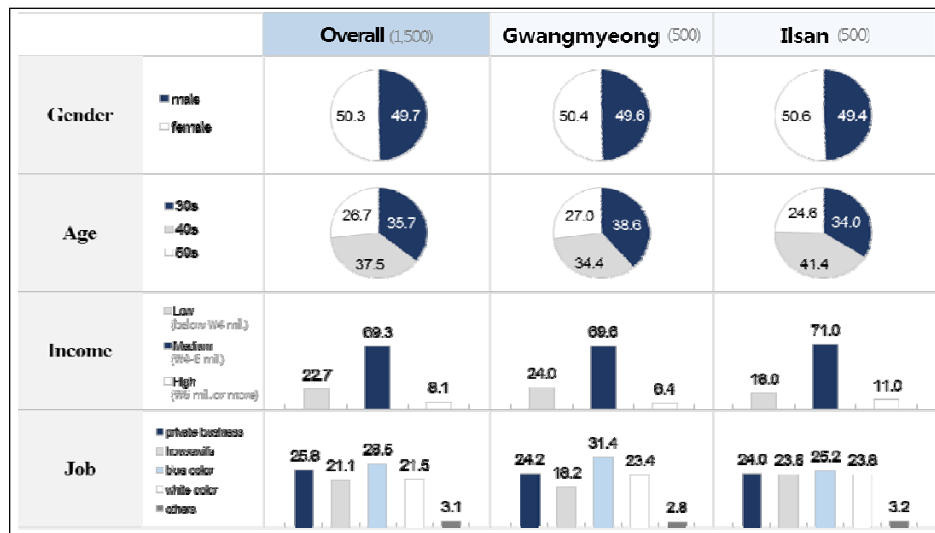


Figure 1: Demographic Profile of Survey Respondents (unit: %)

4. Results and discussion

To statistically analyze the awareness gap between Costco members and its non-members in Gwangmyeong and Goyang, 500 and 1000 members in respective region assessed the important criteria when choosing a retailer of choice using the Likert-Scale of 10, and a t-test was conducted on the independent sample between members and non-members. That is, the goal was to compare the perceptual gap of members and non-members on the given items, which were largely divided into five categories (goods, operations, location, amenities, services), and then further divided into 22 specific items, with each item being scored on its significance (on a scale of 10). The analysis outcome was included in Table 3 and Table 4, and the statistical significance was limited to p-value of 0.05 or less.

Table 4 demonstrates the statistical analysis outcome of Goyang city. The latter showed a statistically significant difference between the member and the non-member group in their perceived significance of items including the price, bulk buying, and potential price bargaining. Among others, the “price” and “bulk buying” and “membership benefits” were considered to be more significant for the member group than the non-member group, whereas “potential price

bargaining” was considered as more important by the non-member group. However, the price bargaining has a significant score 5~6 points, whose importance is relatively low. The biggest gap in both groups was in the membership benefits, which in fact shows the biggest gap among all item list. It can be interpreted that members are conscious that paid membership must guarantee distinctive services compared to other retailers. That is, since fees need to be paid to use Costco, Costco users tend to be keener on the tangible and intangible benefits of membership than other hypermarket users.

The following <Table 5> is the statistics of the member and non-member group in Gwangmyeong. Here, the statistically significant difference is observed in items including “covering diverse items”, “possibility of low-volume purchase”, “convenient payment”, “close distance” “transport convenience”, and “food court(in-store amenities) service”, and the non-member group considered these items more valuable than the member group. That is, non-members in Gwangmyeong considered the mode of payment when using a retail store (payment convenience), small quantity buying, location (accessibility), and in-store amenities as important elements.

Table 3: T-test on Costco and Non-Costco Members in Goyang

| Category | | Statistics Value | Mean | | | Standard Deviation | | t-value |
|------------|------------------------------------|------------------|------------------------------|----------------------------------|-----------------------|--------------------|-------------|---------|
| | | | members ^a (n=185) | non-members ^b (n=815) | mean difference (a-b) | members | non-members | |
| Goods | price | 8.99 | 8.74 | .243** | .688 | .925 | 2.666 | |
| | reliability | 8.99 | 8.94 | .043 | .688 | .816 | .431 | |
| | covering diverse items | 8.95 | 8.86 | .085 | .837 | .925 | .748 | |
| | bulk buying | 7.49 | 6.89 | .602* | 2.298 | 2.602 | 2.047 | |
| | possibility of low-volume purchase | 7.95 | 8.04 | -.096 | 1.038 | 1.237 | -.631 | |
| | having new products | 8.03 | 7.89 | .137 | .958 | 1.249 | 1.088 | |
| Operations | convenient payment | 8.09 | 8.36 | -.269 | 1.153 | 1.120 | -1.909 | |
| | interior of store | 7.88 | 7.91 | -.031 | 1.433 | 1.259 | -.190 | |
| | convenience of parking | 8.25 | 8.10 | .150 | 1.274 | 1.672 | .739 | |
| | waiting time for payment | 7.99 | 8.08 | -.096 | 1.202 | 1.346 | -.576 | |
| | membership benefits | 8.48 | 7.67 | .807** | .811 | 1.977 | 6.019 | |
| | courtesy | 8.33 | 8.31 | .023 | .844 | .940 | .196 | |
| | professionalism | 8.15 | 8.22 | -.077 | 1.049 | 1.169 | -.533 | |
| Location | close distance | 8.44 | 8.62 | -.181 | .775 | .949 | -1.800 | |
| | transport convenience | 8.44 | 8.60 | -.155 | .858 | .937 | -1.339 | |
| Amenities | living facilities | 7.60 | 7.88 | -.278 | 1.151 | 1.266 | -1.774 | |
| | food court service | 7.76 | 7.59 | .174 | 1.172 | 1.331 | 1.062 | |
| | existing markets | 7.91 | 8.11 | -.204 | .947 | .900 | -1.794 | |
| Services | warranty service (eg. exchange) | 8.20 | 8.14 | .064 | .838 | 1.099 | .477 | |
| | bargaining events | 8.13 | 8.22 | -.083 | .991 | 1.051 | -.637 | |
| | advertisement | 7.20 | 6.98 | .224 | 1.336 | 1.473 | 1.228 | |
| | potential price bargaining | 5.69 | 6.26 | -.570* | 2.359 | 2.058 | -2.162 | |

Note: *.p ≤ 0.05, **.p ≤ 0.01

Table 4: T-test on Costco and Non-Costco Members in Gwangmyeong

| Category | | Statistics Value | Mean | | | Standard Deviation | | t-value |
|------------|------------------------------------|------------------|---------------------------------|-------------------------------------|--------------------------|--------------------|-------------|---------|
| | | | members ^a (n=185) | non-members ^b (n=815) | mean difference (a-b) | members | non-members | |
| Goods | price | 8.69 | 8.79 | -.096 | 1.020 | .926 | -.941 | |
| | reliability | 8.64 | 8.71 | -.069 | .906 | .886 | -.716 | |
| | covering diverse items | 8.20 | 8.48 | -.282 [*] | 1.030 | 1.036 | -2.525 | |
| | bulk buying | 6.22 | 6.64 | -.423 | 2.409 | 2.562 | -1.548 | |
| | possibility of low-volume purchase | 7.55 | 7.92 | -.370 ^{**} | 1.297 | 1.309 | -2.624 | |
| | having new products | 7.66 | 7.92 | -.257 | 1.191 | 1.307 | -1.855 | |
| Operations | convenient payment | 7.92 | 8.28 | -.359 ^{**} | 1.085 | 1.106 | -3.016 | |
| | interior of store | 7.43 | 7.72 | -.296 | 1.398 | 1.454 | -1.901 | |
| | convenience of parking | 7.74 | 7.97 | -.230 | 1.412 | 1.321 | -1.596 | |
| | waiting time for payment | 8.17 | 8.16 | .014 | .994 | 1.069 | .121 | |
| | membership benefits | 7.77 | 7.75 | .027 | 1.239 | 1.509 | .169 | |
| | courtesy | 7.90 | 8.02 | -.123 | 1.117 | 1.220 | -.952 | |
| Location | professionalism | 7.89 | 7.97 | -.078 | 1.103 | 1.254 | -.593 | |
| | close distance | 8.14 | 8.45 | -.312 ^{**} | .962 | 1.139 | -2.882 | |
| Amenities | transport convenience | 8.02 | 8.44 | -.425 ^{**} | .986 | 1.078 | -3.722 | |
| | living facilities | 7.49 | 7.80 | -.307 | 1.507 | 1.673 | -1.733 | |
| | food court service | 7.56 | 7.98 | -.416 ^{**} | 1.267 | 1.290 | -2.997 | |
| Services | existing markets | 7.69 | 7.95 | -.263 | 1.163 | 1.272 | -1.950 | |
| | warranty service (eg. exchange) | 7.91 | 7.92 | -.011 | 1.260 | 1.387 | -.078 | |
| | bargaining events | 7.65 | 7.83 | -.174 | 1.535 | 1.655 | -.987 | |
| | advertisement | 6.70 | 7.05 | -.349 | 1.800 | 1.844 | -1.761 | |
| | potential price bargaining | 6.45 | 6.74 | -.290 | 1.790 | 1.996 | -1.378 | |

※ Note: *.p ≤ 0.05, **.p ≤ 0.01

It is interesting to note that as the aforementioned analysis, the t-test result was also different in Gwangmyeong and Goyang, without any overlapping aspects. As for Goyang, its Costco members considered the price, bulk purchasing, and membership benefits as important criteria when choosing their retail store. That is, in case of low price, the need for bulk purchase, and unique member services in terms of refund, they are highly inclined to opt for Costco, irrespective of price level. On the other hand, as for Gwangmyeong, the non-member group's prominent characteristic was that they considered accessibility including travel distance and location and in-store amenities including food court services as important criteria for decision-making.

It can be concluded that the geographical distance and store location are important elements in discerning the consumer patterns of retail store use in both cities. Such tendency becomes stronger as the distance from major residential areas becomes further (located in the suburban area). When combining this with Costco's business model, the following conclusion can be made. Costco operates a membership fee and favors bulk purchasing rather than small quantity and pursues a limited number of product line. Unlike conventional hypermarkets which operate diverse amenities inside, Costco operates a simple warehouse club

store. Only cash or one specific credit card can be used for payment. Usually this can be an inconvenience for customers of retailers, however, consumers who tend to be less sensitive to these features, become the main customers of Costco. And such elements have an impact on the consumer behavior in selecting (becoming a member) or not selecting (becoming a non-member) Costco.

The city where Costco is located is also another important element, which explains the complementary and substituting nature of the relationship between other retailers and Costco. Considering the population size and existence of hypermarkets around Costco, Costco, in its nature, is highly likely to be a substitute for existing hypermarkets while being complementary to the neighborhood SMRs. That is, when conventional hypermarket customers become Costco members, their use of conventional hypermarkets is drastically reduced, however, when they feel burdened to travel far or need to make small purchases, they would use nearby neighborhood SMRs. Such trend can be observed in the 73% of 185 Costco members in Gwangmyeong, Goyang in Table 5 below, who responded 'existing hypermarkets' to the question 'which retailer do you no longer visit or visit less after using Costco?'

Table 5: Retailers Used Less or No Longer Used After Membership Subscription

[unit: %, person]

| Retailer | Region | Gwangmyeong | Goyang | Total |
|-----------------------|--------|-------------|----------|-----------|
| | | 110 | 75 | 185 |
| Existing hypermarkets | | 73.6% 81 | 73.3% 55 | 73.5% 136 |
| Neighborhood SMRs | | 9.1% 10 | 9.3% 7 | 9.2% 17 |
| Traditional markets | | 0.9% 1 | 9.3% 7 | 4.3% 8 |

Note: Other items include department stores, SSMS etc.

However, the case of Ilsan branch implies that when there exist several hypermarkets in the main residential

area, Costco members wanting to make small volume purchases would head to neighborhood SMRs rather than hypermarket stores. From a consumer perspective, this means that Costco’s paid membership system, bulk package and site location can be complementary elements to the neighborhood SMRs. However, hypermarkets located in downtown or highly populated areas are in a substitutional relationship with Costco and SMRs due to is non-membership based system, easy access, and low quantity purchase.

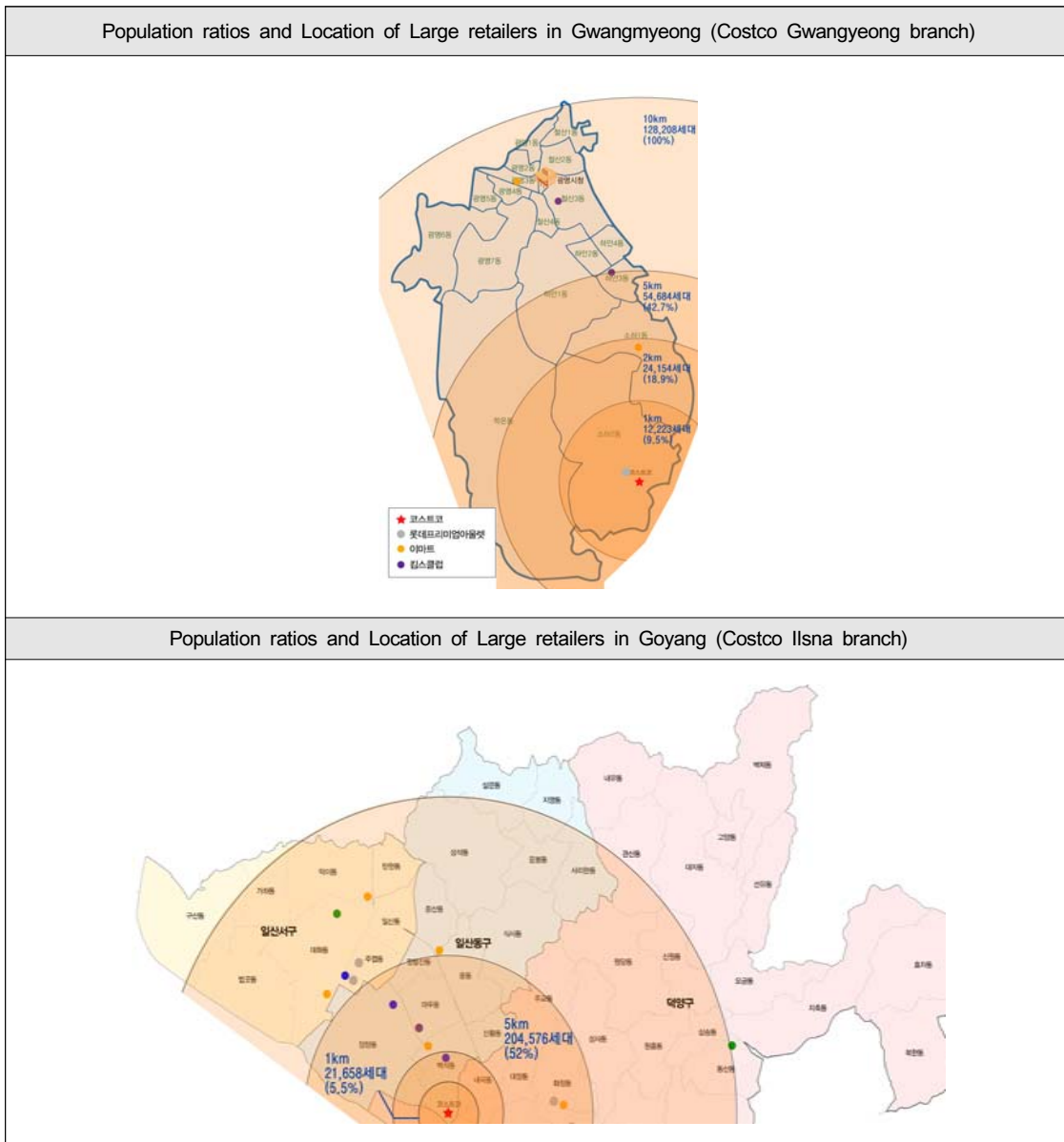


Figure 2: Population ratios and Location of Large retailers in Two Cities

5. Conclusion, Limitation and Further research

This study is distinctive from existing studies in that large-scale survey findings were utilized to analyze the use of retail stores by local consumers. In order to have an accurate analysis of Costco's new store opening, it is crucial to have an understanding about the overall Costco operations, since its business approach is quite unique compared to conventional discount stores. A business model of Costco is characterized by membership fee, bulk packaging, imported goods in its product assortment, and implementation of one credit card payment policy. When consumers become familiar with such business operations, they may show different behaviors according to their acceptance level. Moreover, such attitude will be crucial to explaining and predicting individual consumer's behavior (Kim & Choi, 2007; Dick & Lord, 1998). Therefore, a comparative analysis on Costco's business model based on consumer awareness is an important process in the overall analysis.

The analysis outcome shows that Costco's unique business model shows a statistically significant difference in terms of consumer awareness. In other words, consumers perceived the following in a statistically significant manner: that is, paid membership, bulk packaging, imported goods that are rare in Korea, and Costco's suburban location. Such features of Costco served as an important criteria for consumers in their decision to shop at Costco. Moreover, local consumers seemed relatively unreceptive to the business model. The most important fact is that, it is not always the case that Costco members use only Costco. Costco members also shopped at other retailers. Bulk packaging purchases at Costco results in a strong supplementary relationship with neighborhood SMRs (supermarkets). And such relationship was stronger when Costco was located further from the consumer's residential area or when there was no conventional hypermarket located near the consumer's residence. However, when Costco and hypermarkets were located in the main residential area, consumers' need for small-quantity buying was highly likely to be absorbed by conventional hypermarkets than neighborhood small-to-medium retailers (SMRs).

Such tendency can also be found in the cases of Goyang (Ilsan) and Gwangmyeong, which currently have Costco stores operating. Members of the Costco Gwangmyeong branch used neighborhood SMRs most often out of all retail store type, whereas the Ilsan members opted for hypermarket the most. Such gap seems to have come from the different environment surrounding Costco in Goyang and Gwangmyeong. That is, there are relatively more households living in Ilsan than in Gwangmyeong (population density is higher), and in Ilsan, many hypermarkets are located near Costco, in comparison to Gwangmyeong. This can be explained by the fact that the need for small-volume

purchasing near the Ilsan branch can be transferred to hypermarkets which are more accessible, thereby off-setting the complementary relationship between SMRs and Costco.

This study also has the limitations. First, it generalizes the results of the analysis only from two regions, Gwangmyeong and Goyang, without considering all Costco locations in Korea. For a comprehensive analysis, all 15 areas that Costco has located will need to be inspected. However, it is actually hard to survey all areas. Therefore, applying the results requires a considerable attention. Second, this study only conducted t-test analysis between membership and non-membership consumers and did not apply a regression analysis with variables related to consumer behavior and their satisfaction. Although this analysis found the differences between consumers awareness and preference, there is a limitation to reaching a deep analysis that provides various insight.

It is necessary to consider these limitations and conduct a multiple regression analysis using various variables in further studies. Nevertheless, given the circumstances that currently increasing interests in membership wholesales model by national large retailers such as e-Mart Traders, Lotte Big Market and the local society opposition to Costco entry, this study is able to provide useful implications for various stakeholder and retail industry.

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