

# Costco and the Customer

Turning the deal into an art form.

BY SHAREEF MAHDAVI



I do not like to go shopping. I have little interest in browsing and no time to do it. My one exception is Costco. Whenever my wife says, "we need to go to Costco," my eyes light up, and even our kids show an interest. As with the other great companies I am studying

this year, it's time to look into how Costco inspires excitement in me and millions of other folks who otherwise loathe the thought of going shopping.

Although some people view Costco Wholesale Corporation (Issaquah, WA) as a seller of value-priced bulk goods, the retailer achieves much more in the eyes of both Wall Street and Main Street.<sup>1</sup> Simply put, Costco makes the shopping experience fun. Its success is illustrated by the 3-S Model described in *The Experience Economy*.<sup>2</sup> The 3-S model evaluates business' customer experiences using different metrics than usual: satisfaction, sacrifice, and surprise/suspense (Figure 1).

## THE COSTCO EXPERIENCE

### Satisfaction

Costco has a loyal following of members from multiple socioeconomic strata who pay an annual fee for the privilege of shopping in its warehouses. Costco's membership renewal rates are 87%. The majority of the company's profits come from these membership fees.

### Sacrifice

Costco reduces customers' sacrifice through a "no-questions-asked" 6-month return policy, a much friendlier approach than the 15-to 30-day

policies retailers typically give. This policy reduces buyers' risk from and remorse over purchases that run the gamut from screwdrivers to sofas. However, the company has begun to tweak this policy due to abnormally frequent returns of flat-screen TVs, the result of ultra-rapid innovation and a supply of new models every few months.

### Surprise/Suspense

Costco's physical layout creates a treasure-hunt atmosphere, where customers do not know what awaits them in the next aisle. This layout delivers customers a double whammy: first, when they discover an item that evokes an "I-always-wanted-one-of-these" reaction, and second, when they see the price tag and think, "wow, what a great deal!" Costco's buyers and merchandisers are true masters of this strategy, as customers' receipts attest.

### In Comparison

Compared with Wal-Mart (Bentonville, AR) and Sam's Club (a division of Wal-Mart), Costco achieves significantly higher sales per square foot with a fraction of the employee turnover. Employees' name badges include how long they have worked at Costco, a point of pride for many of the 70,000+ workers.

Ironically, Costco achieves these results despite a spartan warehouse environment, long checkout lines, and bulk packaging (such as selling peanut butter by the pound or more). It also has shorter store hours than most retailers.

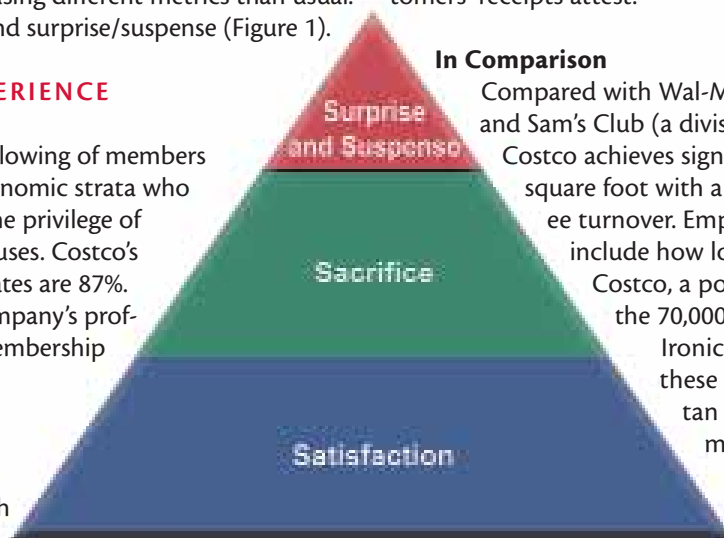


Figure 1. The 3-S Model, adapted from *The Experience Economy*, shows how companies focused on the customer's experience go beyond satisfaction and work to reduce customers' sacrifices and increase the elements of suspense and surprise.

### APPLICATIONS IN SURGICAL PRACTICE

What can elective surgery providers learn from Costco's business model? First, let me address two issues that may surface when making comparisons between Costco and refractive surgery. First, surprises in refractive surgery should always be positive. There is already enough suspense in the surgical process due to patients' inherent fear of vision correction. Second, I am not trying to convince you to expand your practice with high volume and low prices. Although this model is a core part of Costco's strategy (its pricing is typically 15% above cost), the "cost-plus" approach to pricing is ill advised for the refractive surgeon. Rather, my intent is to show what's happening behind the scenes at Costco and thereby stimulate your thinking in regard to four areas of your practice.

### FOCUS

Maximizing the customer's experience does not mean maximizing everything about it, as described earlier. Costco limits its SKUs (the number of different products it sells) to 4,000. This number represents a fraction of the 40,000 SKUs found in a typical supermarket and the more than 100,000 SKUs on the shelves at Wal-Mart. Costco intentionally reduces its variety and choice of products, making it easier for customers to make purchasing decisions. Such business focus for surgeons means two things. First, do not try to maximize every aspect of the experience; invest in one or two areas to make it memorable (remember, Costco's physical location is a warehouse, not the Ritz Carlton). Second, if you offer an extensive menu of procedures and prices, notice how Costco makes the decision to buy easier. Consumers don't want choices—they simply want what they want, when they want it.

### FUN

Throughout the food section at the back of the Costco store, customers are offered samples of the various items that are for sale. It is always fun to try something new, and Costco encourages sampling with the full knowledge that the practice often leads to sales. What can you do to help your patients "sample" what their postprocedure vision will likely be? The animation suite offered by Eymaginations, Inc. (Towson, MD), and the newly released IOL Counselor (Patient Education Concepts; Houston, TX) are two products that help refractive surgery patients anticipate the quality of vision a procedure will give.

### LEADERSHIP

Costco's CEO Jim Sinegal is a model of humility, something sorely lacking in many of his peers. He has a relatively modest six-figure (versus seven) income; his

equity position via company stock, however, is worth nine figures. Sinegal's office is a cubicle; he wears the same nametag as everybody else, along with Kirkland's (Costco's signature brand) khakis and polo shirts. Sinegal aims to visit each of the company's locations twice per year, which makes for a very long workday. Most surgeons are the defacto CEOs of their practices, and those in this role would be well served to spend some extra time making sure that all areas of the practice are operating effectively.

"Ask yourself and your staff: 'what would we have to do differently to successfully charge a membership fee to belong to our practice?'"

### LOYALTY

Costco employees are as loyal as its customers, in part because they are paid well and receive generous benefits. Sinegal ignores the cries of Wall Street analysts who criticize this approach and say the company's profits would be higher if he paid employees less.<sup>3</sup> Elective surgery providers who complain of poor staff morale and high turnover should take a closer look at their pay scales. My sense is that the better providers succeed in part because their teams are well rewarded for better performance.

### FINAL QUESTION

Costco charges a fee simply to belong to its warehouse club, a strategy that reflects the experience economy.<sup>2</sup> Ask yourself and your staff: "what would we have to do differently to successfully charge a membership fee to belong to our practice?" Some of you already do this, in a sense, by charging for consultations. Even if your consultations are free, this brainstorming exercise is an excellent way to uncover opportunities to improve your patients' experiences. ■

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