



NEWS

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A RESOURCE FOR THE FRIENDS & PARTNERS OF LIBERTY JANE CLOTHING

Genius Pricing Lessons From Costco

[An excerpt from *Craft Pricing Power*]

This week we're featuring an excerpt from *Craft Pricing Power*, we hope you like it.

You might be saying to yourself,

"The low price leaders do well; why not be one?"

The reason it is difficult to be one is because you have to create a way to sustain your low prices and maintain revenue. A great example is Costco, the Seattle-based warehouse store. If you look at the company's total revenue, it is the fourth largest retailer in the U.S. behind Wal-Mart, Kroger, and Target.

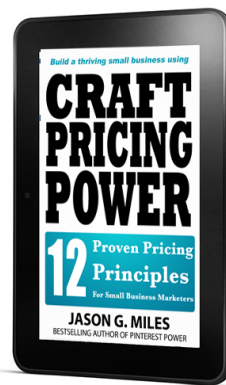
But Costco only has 435 stores, whereas the others have between 1,778 and 4,550. So Costco makes more money from each store than anyone else.

How does Costco sustain its business so successfully? By using several strategies, including:

- Charging everyone who enters the store an annual membership fee. This helps provide additional revenue.

- Only selling bulk items. So a funny thing happens: customers pay more for a bottle of aspirin at Costco than they do at Walgreens. The difference? They are buying four times as much. So the price is higher, and the quantity is higher.

- Not doing any advertising or promotions. Costco depends on word of mouth and the loyalty of its members.



I didn't understand the full business value of these strategies until I heard Costco's founder, Jim Sinegal, speak at a business dinner. There was an open Q&A time with him, and someone asked,

"Why don't you sell things in smaller quantities, like a 100-count bottle of Aspirin, instead of just the 500-count bottles?"

Jim's answer was simple:

"Because people would buy them."

That night, I realized what he was doing. He's providing a discount to customers in exchange for them making a bigger purchase than they otherwise would have wanted to make.

Those bigger purchases allow Jim to get bigger discounts from manufacturers when he is negotiating the prices with his suppliers.

So while you can go to Walgreens and buy aspirin for \$6.99, you're only getting 100 pills. When you go to Costco and buy aspirin, you're spending \$13.99—twice as much. But you're getting 500 pills. You're getting five times as much on a per-pill basis.

This also allows Costco to transact fewer orders for higher total dollar amounts. So while the company is a low-price leader, Costco's business model produces many of the rewards of being a premium provider.

These strategies and others allow Costco to maintain its system of low-cost selling. Like Costco, if you're going to embark on that venture, ensure that you have systems in place that make your low-cost selling strategy profitable.

If you've tried to sell items for a fixed price on Etsy or eBay, then you understand the problems related to open marketplaces that don't have any pricing controls. You're almost forced to compete on price.

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Read more from chapter two of *Craft Pricing Power* today - available exclusively on Amazon.

Tell Us What You Think!

What's your opinion on this topic? Tell us what you think!

Jason & Cinnamon