Cross-National Comparison of Costco's localization and Consumer Satisfaction in East Asia

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Abstract:In a study examining grocery retailerchoices of Costco and domestic retailers from two different countries (Japan and Korea), we examined Costco's localization and consumers satisfaction. Theresults suggest that while they have a tendency to dislike purchasing in bulk and paying a membership fee, consumers in two countriesare commonly satisfied with Costco's business concept. In particular, Costco's merchandising differs from their domestic counterparts, andstrategies aimed at attending to its core task may be more successful on a global scale.

Keywords: Costco, Local supermarkets, East Asia, Consumer Satisfaction

1.Introduction

Japan has a lot of attractiveness asthe second largest market in the world but is a big challenge for overseas retailers, because some Western retailers have failed in operating in Japan. In general, the Japanese retailing market has long been seen as a relatively closed and quite costly market to enter. However,a number of overseas retailers with an innovative discount concept have been increasing and operatingtheir stores withJapanese partnerssince the economic bubble burst in Japan in 1990s.

Toys"R"Us, one of the most successful foreign retailersin Japan, was able to succeed in fully understanding the different environment and in developing the suitable strategypartially because of the effectiveness of its American-style operating system, such as EDLP, a variety of assortments and being in perfect stock.This also reflects the fact that the Japanese toy market was still a developing sector that had many small players but no powerful competitors at that time. In less competitive situation, it was easier for an innovative global retailer to develop themarket even in Japan. So what about the overseas retailers entering the more developed Japanese grocery market?

Carrefour, along with other new entrants such as Costco, Wal-Mart and Tesco, was seeking to introduce more changes in the grocery market.Moreover, retailing companies that have been categorized as a general merchandise store have difficulty in finding competitive advantages that can be translated into overseas operations. While Carrefour brought its hypermarket format to Japan, from the Japanese consumer's point of view, it was not much different from the Japanese general merchandise stores. The domestic retailers in these categories are so advanced that they made it difficult for global retailers to penetrate the Japanese grocery market. Indeed, it is no exaggeration to say that domestic retailers have been dominating the Japanese grocery market.

In contrast, none of domestic retailers paid attention to the entry of Costco as a serious threat to the Japanese market. The largest company in themembership wholesale club sector Costco, is achieving resultsin Japan, a markeddifference from Carrefour. So how can we understand the success of an American company's business system in the Japanese grocerymarket where domestic retailers are dominating? Even if Costco entered the Japanese market at the similar time as Carrefour, why are the results so different?

Costco's business modelmust be much differentfrom the Japanese general merchandise stores, but most important are the interactions between Costco through the unfamiliar business model with the Japanese consumerin order to succeed in Japan. As a result, it has changed the behaviors among theJapanese customers which has been said to be impossible until now.

Contrary to the mature Japanese market, what about the global retailersentering the less developed Koreangrocery market? In fact, the driving force behind the rapid development of the Korean retail industry in the first stage was the global retailer, who has accelerated an intense competition. Since 1996, when the liberalization of the Korean retail market occurred, global companies including Carrefour, Wal-Mart, Tesco and Costco, have entered the market. Those major global retailers have competed more intensely with domestic retailers, operating mainly within the format of discount stores in the Korean market. Also, the global retailers have played an important role in the development of the Korean retailing industry. In particular, the entry of global retailers in the Korean retail market spurred the domestic retailers to develop a new retail format, namely the Korean discount store. This innovative format brought about competition between global retailers and domestic retailers, which has led to a large growth in the Korean retail industry.

As a result, a domestic retailer called E-Mart has remained in a first position in the market,the competition for second place has markedly increased among the others. Carrefour and Wal-Mart, which lost market share in the intense competition, finally ended up with drawing from the Korean market. Facing more intense competition with domestic retailers, all global retailers except Tesco and Costco, had much more difficulty in adapting to the Korean environment. Carrefour and Wal-Mart did not really understand what the Korean customers basically expected from their retail stores, because the discount store concept of satisfying them differed from its original concept of low-price and low-service. The main characteristic of customer service in the Korean-style discount store is upgrading the quality of products, the establishment of a culture center and free pick-up bus services until before a revision of traffic regulations in 2001. Carrefour and Wal-Mart did not follow the method of attracting the Korean customers, and so that could be identified as one of the reasons why they failed to gain the competitive edge over the domestic retailers.

On the other hand, how did Costco go about its localization process in the Korean market? Although Costco's localization process is opposite to Carrefour's, it was predicted that Costco would be less aggressive and less positive than Carrefour. Contrary to predictions, Costco's operations in Korea resulted in their success and led to the competition of a new warehouse-style formatby which the established Korean style discount store called 'Harin Store' of large size would be expected to be replaced.It is evident that Costco was slow to expand their business in Korea, but they had generated relatively good revenue compared with other global companies. Also in the long-term they played a much bigger role while utilizing their abilities in global sourcing of products and managerial experiences.

When these retailers with a global network enter the foreign retail markets, how will they be able to gain their prominence? Even researchers focusing specifically on retail internationalization have stressed the international retailers' ability to affect or impact the local consumer behavior, but this research suggests that there are different types of localization strategies for a global retail company.

The aim of this paper is, therefore, to increase our understanding of how the different business model from the Japanese general merchandise stores or the Korean discount stores is introduced and how it affects the local market based on the interaction between a foreign retailer and the local consumer. It is more important to discuss research on what the Costco's business model is and how Costco could win the competitive advantages not only in a mature market but also in an emerging market.

The following section reviews previous studies on international retailing and describes methods on this survey.

2. A Review of Previous Studies and Research Questions

Traditionally, studies of the internationalization of retailing have investigated issues such as new market entry, strategies, the failure in emerging markets(Whitehead, 1992; Dawson, 1994; Vida and Fairhurst, 1998; Alexander and Myers, 2000;

Dawson and Mukoyama, 2006, etc.).The foreign market entry which global retailers choose is influenced by the similarity of country characteristics as well as growth opportunities in retail industry. Also, retailers could have rich opportunities to learn in the process of extending their operations to foreign markets (Palmer and Quinn, 2005; Palmer, 2006).

In particular, many studies of international retailing have been presentedon a conceptual ground that exists between "standardization" and "adaptation" at both ends (Salmon and Tordjman, 1989; Treadgold, 1990/91; Helfferich *et al*., 1997; Alexander and Myers, 2000). Those discussions are attractive theoretically and have potential to bring out practical contribution. However, several studies (Burt and Carralero-Encinas, 2000;Burt and Mavronmmatis, 2006; Burt *et al*., 2011) point out the lack of a clear understanding and difficulty of standardization and adaptation in a retail perspective. It was believed that a retailer with unique offerings could expand its business opportunities on new marketsin a standardized way(Salmon and Tordjman, 1989; Treadgold, 1990/91), but it is evident that implementing the strategy which retailers modify theirbusiness concept (or format) to fit local market contexts while keeping its basic (or core) conceptmakes it possible to extend their operations to foreign markets.

Whether a retailer adopted standardization or adaptation, or hybrid in a foreign market, such strategies depend on the relationship with between retail mix elements and local consumer behaviors, according to environmental context of each country.On this issue, our research is stopping in a state which strategy is emphasized and selected while depending on the degree of competition and development in alocal market. Actually, in Japan, general merchandise store is a typical retail format but recently is in the middle of its maturity stage. Local retailers have a tendency to reduce their business scale, whereas some foreign retailers have expanded their business in this sector. Some withdrew from the Japanese market, some are doing well, such as Costco.

We considered the localization behavior and Japanese consumer response through the case study of Costco. How has the U.S. retailer built its presence in East Asia so far? Some literatures have identified strong concepts, formats and products as the main characteristics of global retailers that make successful international expansion.Also,we need to note the similarities and differences betweenthe strategy of global retailer and consumer behavior in not only a mature market like Japan but also an emerging marketlike Korea.

Even if the global retailer could reduce the risk of failure in doing business in similar foreign country or new emerging country, it is necessary to make surethat discussing failure or success could be at the mature market entry. Regarding this issue, literatures have hardly make discussion on any cases that materializes similarities and differences of international retail strategy when a global retailer enters country in which retail industry is at amature stage or at an immature stage.Actually, some Japanese retail analystshave referred to a good performance and a new innovation through interactions between retailers and consumers. In particular, in this study, we focus on cross-national comparison of Costco's managementin Japanese market at a mature stage and in Korean market at a growth-stageof the industry lifecycle.

3. Methods and Sources of Data

In this case study, we face on some consumer behaviors could be different at the stage of the industry lifecyclecompared to subsequent international expansion. We obtained some data from annual reports and secondary materials such as Japanese and Korean prestigious newspapers and commercial journals to figure out such consumer behaviors. In addition, we did a questionnaire survey distributed to 106 Costco customers in Japan and 159 in Korea at random by research assistants. The survey was conducted in December of 2013 in Japan and another one on November 22 to December 2 of 2013 in Korea.In order to identify customer perceptions of Costco vs. local supermarkets choice criteria, this paper gathered information through the use of questionnaires in the city of Kobe of Japan and in the city of Seoul and the prefecture of Gyeonggi of Korea. The profile of respondents is presented in Table1.

Table 1: The profile of participants

Gender	Frequency (%)		Age	Frequency (%)		Employed	Frequency (%)	
	Japan	Korea		Japan	Korea		Japan	Korea
Man	15 (14.2)	31(19.5)	Under18	0 (0.0)	0(0.0)	Yes	60 (56.6)	88(55.3)
Woman	89 (84.2)	128(80.5)	19-24	18(17.0)	0(0.0)	No	44 (41.5)	71(44.7)
			25-44	40 (37.7)	117(23.6)			
			45-60	32 (30.2)	37(23.3)			
			Over 60	14 (13.2)	5(3.1)			
Missing	2 (1.9)	0(0.0)	Missing	2 (1.9)	0(0.0)	Missing	2 (1.9)	0(0.0)
Total	106 (100.0)	159 (100.0)	Total	106 (100.0)	159 (100.0)	Total	106 (100.0)	159 (100.0)

The participants consisted of 15 males (14.2%) and 89 females (84%), who have purchased daily goods in Costco Japan, and the Korean ones consisted of 31 males (19.5%) and 128 females (80.5%). The age of respondents in Japan is 17% for 19-24, 37.7% for 25-44, 30.2% for 45-60 and 13.2% for more than 60, and in Korea is 23.6% for 25-44, 23.3% for 45-60 and 3.1% for over 60 . The respondents employed are 56.6% of total population in Japan, and 55.3% of total one in Korea.

We asked them a few questions about their shopping in Costco and at local supermarkets such as: “Q. What issues are you satisfied with when going shopping to Costco? and “Q. What does your dissatisfaction about Costco?We compiled a comprehensive Costco database compared to local supermarkets, including purchasing frequency, business concept, main reasons for coming, accessibility, and spending time. The data were assembled into a database and analyzed for consumer preference and international retailing strategy in bothof markets.

4. The Global Giant COSTCO

The Price Company which had pioneered a format ofthe membership wholesale club in 1976opened its first warehouse under the Price Club name. Costco Wholesale Corporation which had been separated from the Price Company began operations in 1983 in Seattle, Washington. In October 1993, Costco merged with The Price Company and non-warehouse assets were spun off to Price Enterprises, Inc. and the company changed its name to Costco companies, Inc. On 30th August, 1999, the Corporation re-incorporated from Delaware to Washington and changed its name to Costco Wholesale Corporation[1)].

As of 31st May, 2014, operated a chain of 653 warehouses in 40 states and Puerto Rico (463 locations), nine Canadian provinces (87 locations), 18 Mexico states (33 locations), the United Kingdom (25 locations), Japan (19 locations), Korea (11locations), Taiwan (10 locations, through a 55%-owned subsidiary) and Australia (5 locations).The company also operates 4 Costco Online websites in U.S., Canada, UK and Mexico[2)].

Table2: Distribution of Costco Stores in the World, as of 31stMay, 2014

U.S.A.*	CANADA	AUSTRALIA	JAPAN	KOREA	TAIWAN	U.K.	MEXICO	Total
463	87	5	19	11	10	25	33	653

Source: *www.costco.co.kr/eng/about/index.html (Date of access, 01/09/2014)*

Note:* Including locations in Puerto Rico

4.1Costco in Japan

We can identify Costco's success in Japan as the speed of opening stores as mentioned above (see Table 3). Costco has opened single store every year from 1999 to 2007, or has never opened any more stores in that period, but since 2008, multi-store has been opened every year, and in 2013, Costco opened five stores at a stretch. Costco continues to expand in Japan .

Table 3: Costco's Opening Stores in Japan

Opening Date (number of store)		Locations
1999 (1)	April	Hisayama, Fukuoka
2000 (1)	December	Makuhari, Chiba
2003 (1)	April	Amagasaki, Hyogo
2004 (1)	October	Kanazawa seaside, Yokohama
2007 (1)	July	Kawasaki, Kawasaki
2008 (2)	January	Sapporo, Sapporo
	April	Iruma, Saitama
2009 (1)	July	Shimisato, Saitama
2011 (3)	August	Maebashi, Gunma
	December	Kyoto Yawata, Kyoto
		Zama, Kawasaki
2012 (2)	February	Tamasaki, Machida,Tokyo
		Kobe Seishin, Hyogo
2013 (5)	March	Kitakyusyu, Fukuoka
		Hiroshima, Hiroshima
	July	Tsukuba, Ibaraki
		Chiba New Town, Chiba
	August	Chubu Airport, Aichi
2014 (2)	April	Hitachinaka, Ibaraki
	June	Izumi, Osaka
Total		20

Source: Website of Costco Wholesale Japan (http://www.costco.co.jp/p/locations?lang=en, 27/06/2013)

Costco Japan was heralded with a lot of consumers, and had more than 260 thousand member sign-ups in its first year (including free members)[3].This occurred despite the fact that its business concept and operating system were ridiculed in the media and condemned by academia.

Costco's entrance into the Japanese markethad a big challenge at that time. The membership warehouse concept is based on offeringtheir members low prices on a limited selection in a wide range of merchandise categories, and eventually achieving high sales volumes. They expected that the operating efficiencies achieved by volume purchasing and reduced handling of merchandise in no-frills, self-service warehouse facilities, would enable Costco to operate profitably at lower gross margins than traditional Japanese retail formats. However, the problem was makingthoroughly the deliberate and careful Japanese consumers feel convenience in purchasing. Because most products were offered for sale in case, carton or multiple-pack quantities as opposed to domestic retailers with economy and efficiency in the use of selling space, the handling of merchandise, and the control of inventory.The other important problem of Costco's business conceptwas to provide a continuing source of membership fee revenue, and to reinforce member loyalty, because membership fee and member service must be the most fundamental and important factor in membership wholesale club.

So howwouldCostco be able to overcome thoseproblems in Japanese market?Costco, which has a competitive advantage in the merchandising strategywhich is different from domestic retailers, has a higher likelihood of success in Japan.

Costco's merchandising strategy is to offer its members low prices on a limited selection of nationally branded and selected private-label products with 3,500 to 4,000 SKU's, while producing high sales volumes and rapid inventory turnover,as opposed to 10,000 SKU's or more indomestic retailers in spite of a similar store size, 12,000 to 14,000m^2. In particular, Costco's products would be quite attractive enough to appeal to well-informed Japanese consumers and its operating system would make itself keep costs low and pass the savings on to its members[4)].

It might be strange that Japanese consumers do not reject Costco's selling method, even if many consumable products are offered for sale in cases, cartons, or multiple-pack quantities only. Such a selling method has been used by almost all discount retailers from Western countries that have operated in Japan, who ended up modifying their selling method to be similar to the Japanese methods, or withdrawing from Japan. When Dairy Farm, a large discount retailer of Hong Kong, brought the same selling method toJapanese market, many researchers pointed out it would not be aligned with the Japanese shopping behavior. Indeed, it was not long before Dairy Farm withdrew from Japan.

So why doesn't it matter for Costco? The answer to this question is very simple: even if its merchandise categories are limited and offered in multiple-pack quantities only, Costco has overcome this limitation within limited merchandise strategy to provide its members with a wide range of high quality merchandise at prices consistently lower than they can obtain elsewhere.

Costco also purchased selected private label merchandise, as long as quality and customer demand are comparable and the value to its members is greater as compared to name brand items[5)]. Its premium private brand, Kirkland Signature products were also offered to its Japanese members at prices that are generally lower than those for national products, and are now welcomed in Japan. Imported goods account for a third of all merchandises of that go through Costco's distribution center in Japan[6)]. Costco Japan is aimed at consumers who spend ¥10,000(approximately US$98.6) for their shopping per visit while purchasing once or twice a month.

According to its corporate website[7)], Costco's membership format is designed to reinforce customer loyalty and provide a continuing source of revenue from the membership fees, which allows it to offer lower prices. Membershipsign-ups through opening day were more than 47,000 in the ninth depot of Japan, Shin Misato in 2009. The interpretation of the Japanese consumers' taking a great acceptance in the business model of Costco seems possible in view of the fact the members per warehouse is an average of 45,000.Although Costco Japan might not surpass the domestic leader in total sales, some Japanese stores of Costcohave maintained their world ranking inside the top 10 in their sales per store.Costco's specific business concepthas being generally accepted by consumers in Japan.

The following section examines Costco's localization and consumer satisfaction. Although they have a tendency to dislike the selling method, why are consumers in two countries commonly satisfied with Costco? What difference

4.2Costco in Korea

The first Costco store inKorea was open in 1994by Shinsegae of a major domestic retailer,which opened the first Korean style discount store called E-Mart in 1993, in Seoul (Yangpyung). More openings followed in the subsequent years: three in Gyeonggi (Ilsan,Gwangmyeong and Euijeongbu), two more in Seoul (Yangjae, Sangbong), one in Daegu, one in Daejeon, one in Busan, one in Ulsan and one in Chungnam (Cheonan)as of September1, 2014 (See Table 4).

Table 4: Costco's Opening Stores in Korea

Opening Date (number of store)		Locations
1994 (1)	October	Yangpyung, Seoul
1997 (1)	July	Daegu
1998 (1)	May	Daejeon

2000 (1)	December	Yangjae, Seoul
2001(1)	April	Sangbong, Seoul
2008 (1)	January	Ilsan, Gyeonggi
2009(1)	July	Busan
2012(2)	September	Ulsan
	December	Gwangmyeong
2014 (2)	April	Euijeongbu, Gyeonggi
	May	Cheonan, Chungnam
Total		11

Source: Website of Costco Wholesale Korea (http://www.costco.co.kr/eng/about/index.html, 01/09/2014)

Since 1996, when the liberalization of the Korean retail market occurred, global companies including Carrefour, Wal-Mart, Tesco and Costco have entered the market.The Korean discount store market, in terms of sales has continued to grow at an average annual rate of proximately 30% from the second half of 1990's to the first half of 2000's. Those major global retailers competed more intensely with domestic retailers operating mainly within the format of discount stores in the Korean market. Facing more intense competition with domestic retailers, even if Carrefour and Wal-Mart did not really understand what the Korean customers basically expected from their retail stores, Tesco and Costco had much more competitive advantages in figuring out the method of attractingand so that could be identified as one of the reasons why they succeed in gaining the competitive edge over the domestic retailers.

However, it became quite difficult that even the leading domestic company E-Mart secures good locations to develop, because the'Harin store' market has already been close to saturation. Carrefour only managed to occupy 9% of the market, whereas Wal-Mart's share was a meagre 4%. This was altogether such a poor performance for the giant global retailers during 2005. As a result of the slump in sales, they withdrew from the market, not utilizing their competence in global sourcing of products and managerial experiences.

Eventually, Costco has remained in a better position in competition between Wal-Mart for obtaining consumers who like the American lifestyle, which lost market share in the intense competition, finally ended up. When most retailers were concentrating to win a greater market share in the intensely competitive'Harinstore'sector, Costco were attempting to achieve better efficiency in response to the saturation of that Korean-style discount store sector.Although Costco was slow to expand its business in Korea, it had generated relatively good revenue compared with other competitors. It is evident that Costco succeeded in the competition for a large slice of the Korean retail market, mainly because Costco's total sales in the Korean market registered to2,800 billion Won (approximately, 2.732 billion USD) in 2012, which amounted to 500 billion Won (approximately, 488 million USD) in 2004[8].

The domestic retailer E-Mart which had won the first place of the 'Harin store'sector was faced with the saturation, the slump in sales and the old stores. E-Mart had to find a way out of the difficult situation and was offered the only alternative from Costco. That was developmentof E-Traders by E-Mart in 2010. Some old stores or others who have remained poor performances in E-Mart were shifted into E-Traders at the beginning of its opening.While E-Traders followed the similar concept to Costco, its business model was considerably different. E-Traders is not a membership wholesale club. Even though they attempt to high operation efficiencies in their E-Traders' stores through low-cost handling of merchandise in a no-frills and self-service warehouse environment, theyoffer all of customers low prices on a limited selection of not only imported brands but also national brands in daily goods.

Also the second largest domestic retailer Lotte Mart entered the warehouse-style discount store market in the same situation that E-Mart did.The core concept of VIC Market by Lotte Mart is to offer only their members low prices on a limited selection of imported brands like Costco, but membership policy is a little different. Their members pay a membership fee every three years compared to Costco which allows their members to pay it every year.Since opening of

VIC Market in Yeongdeungpo, Seoul in 2013,the sales of the first store of Costco where is located near there have fallen by 20%[9].

Costco has differentiated its format from the 'Harin store', which had been established as a Korean type of retail format for around 20 years. Costco, therefore, could be considered that format's innovator. Although Costco has been losing market share with the presence of some imitators, it is evident that they played a much bigger role in stimulating domestic retailers in slump so that the entire Korean retail market became more active and progressive.

The following section examines Costco's localization and consumer satisfaction in two Asian countries. Although they have a tendency to dislike purchasing in bulk and paying a membership fee, why are consumers in two countries commonly satisfied with Costco's business concept?

5. Consumer Survey Results

Howdothe Japanese or Korean consumers respond to the Costco business model? Which changes would happen in the interaction between Costco and the Japanese or Korean consumers? The data are analyzed for a comparison of consumer preference with domestic retailer, and examined whether there is significant difference between Costco and domestic retailer. The survey results measure the consumer acceptance of Costco and interpret the localization of the foreign retailers to Japanese or Korean market. Also,

Not surprisingly, the majority(72.2%)of respondents goes shopping to buy dailygoods more than 2~3times a weekand only 26.5% go shopping to buy daily goods less than once a week in Japan. As expected, Japanese consumers are found coming to buy dailygoods more frequently (Q1) because they are quite sensitive to freshness of Tofu and raw fish they eat nearly every day. Also, they do not have any spaces such as a refrigerator and racks enough to preserve some products compared to even Korea.The surveyed consumers in Korea go shopping to buy dailygoods less fluently than in Japan. Only 39.6 percent of the surveyed customers in Korea go shopping to buy daily goods more than 2-3times a week. We can find the fact that the percent of more than 2-3 times a week is much smaller than in Japan. The majority (44.0%) of Korean respondents go shopping to buy daily goods once a week.

Here, we need to think how often they go to Costco (Q4). The proportion of once every several months is even higher in Costco Japan (57.5%). This is followed by once a month (31.1%) and only 1.9 percent of Japanese customers go shopping to Costco once a week. Also in Costco Korea, the proportion of once every several months is even higher (48.4%). This is followed by once a month (38.4%) and only 4.4 percent of Korean customers go shopping to Costco once a week. The respondents in both countries are showing the similar tendency about Q4 (see Table 5).

Meanwhile, shopping for goods are taken as the main reason (Q2) for going to Costco by the majority (81.8%) of Japanese shoppers, and especially most shoppers go shopping rather for the food (50.7%) and general merchandise (34.8%) than electronics (3.5%), apparel(5.0%), outdoors &equipment (4.5%) and others (1.5%) to Costco. Yet, it should be pointed out that 17.4% of the surveyed shoppers in Japan said to go to Costco for "eating (food court)". For Korean shoppers, the proportion of shopping for goods as the main reason for going to Costco is much higher (91.8%), and nearly most shoppers go shopping rather for the food (84.9%) and general merchandise (64.2%) than electronics (7.5%), apparel (19.5%), others (7.5%) and outdoors & equipment (5.7%) to Costco. The proportion of going to Costco for food court is not so high, but we need to focus on the fact that 15.7 percent are taken as the main reason for going to Costcoin Korea.

Even if most shoppers in both countries go shopping for daily goods to Costco, their shopping is less frequent than to local supermarkets (see Table5). Both shoppers cannot visit Costco so frequently because the number of opening stores of Costco is even smaller than the established local supermarkets and they are located in suburban areas in both countries.

Table 5: Comparison of Shopping Frequency (Q4 & Q13)

	Japan		Attribute	Korea	
	Costco (%)	Local SMs (%)		Costco (%)	Local SMs (%)
Q4.How often do you go to Costco (the left side)? Q13. How often do you go to local supermarkets (the right side)?	0.9	2.8	Non-response	0.0	0.6
	1.9	27.4	Once a week	4.4	37.1
	8.5	0.9	Once every two weeks	8.2	13.8
	0.0	61.3	2-3 times a week	0.6	32.7
	31.1	7.5	Once a month	38.4	15.7
	57.5	-	Once every several months*	48.4	-
Total	100.0			100.0	

Note: * We did not ask it about local supermarkets.

The shopping frequency to Costco is low, butthe shopping time in Costco is longer than in local supermarkets. The majority (65.1%) of Japanese respondents spends1-2 hours in Costco and this is followed by shoppers spending less than one hour (17.0%).The shopping time of2-3 hours in Costco accounts for 13.2% of the surveyed customers (see Table 6). In a case of Korean, a nearly half of respondents spend 2-3 hours in Costco (46.5%) and this is followed by shoppers spending 1-2 hours in Costco (42.8%). Although they do not so often visit Costco, if they go there, they relatively spend more time in Costco than in local supermarkets.

Table 6: Comparison of Shopping Time (Q5 & Q14)

	Japan		Attribute	Korea	
	Costco (%)	Local SMs (%)		Costco (%)	Local SMs(%)
How many hours do you spend?	2.8	1.9	Non-response	0.0	1.3
	17.0	74.5	Less than 1hour	5.7	29.6
	65.1	21.7	1 to 2hours	42.8	56.0
	13.2	1.9	2 to 3hours	46.5	11.9
	1.9	0.0	More than 3hours	5.0	1.3
Total	100.0			100.0	

The survey also reveals what shoppers like about Costco (see Table 7). They answered as many as they apply and the majority of the respondents come to Costco Japan for the variety of goods not available in other local supermarkets (30.5%), good price (16.6%), good in-store promotion such as testing sales (16.2%), entertainment facilities like food court (12.0%), the large packages of purchasing unit (10.8%), good quality like freshness (5.8%), customer service like refund (5.0%) and convenience for accessibility such as parking available (3.1%). However, Costco vs. local supermarkets are a little different:the proportion of shoppers who come to local supermarketsfor convenience for accessibility (27.3%)and good quality (18.2%)is much higher than to Costco in Japan.It is found that the respondents who like local supermarkets for the variety of goods (21.6%) and good price (25.1%) are as high as Costco in Japan.Yet, it should be pointed out that 16.2% of the surveyed shoppers in Japan said to like going to Costco for good in-store promotion such as testing sales. That makes a good contrast with only 3 percent in local supermarkets.

Table 7: What do you like about Costco[Q6] vs. Local Supermarkets[Q15] (answer as many as they apply) ?

Japan		Attribute	Korea	
Costco (%)	Local SMs (%)		Costco(%)	Local SMs(%)
30.5	21.6	The variety of goods	69.2	19.5

5.8	18.2	Good quality	28.9	18.2
16.6	25.1	Good price	41.5	31.4
16.2	3.0	Good in-store promotion	3.1	28.9
10.8	0.9	The large package of purchasing unit	19.5	1.3
12.0	1.3	Entertainment facilities	12.6	4.4
5.0	2.6	Customer service	25.2	24.5
3.1	27.3	Convenience for accessibility	2.5	66.0
100.0		Total	100.0	

What do Korean shoppers like about Costco? The most answer about what the surveyed customers like about Costco is the variety of goods (69.2%) like in Japan but the choice of the variety of goods about Costco in Korea is over twice the percent of that in Japan. This is followed by good price (41.5 %) and 28.9% of the surveyed customers like good quality about Costco. The proportion of customer service such as an easy refund including refund of the unused portion of the membership is also high (25.2%) compared to Japan (5.0%). However, Costco vs. local supermarkets in Korea are quite different: the proportion of Korean shoppers who come to local supermarkets for convenience for accessibility (66.0%) and good in-store promotion (28.9%) is much higher than to Costco.

Especially, the difference of convenience for accessibility between Costco and local supermarkets in both countries is because Costco is located in suburban areas, and is not as well accessedas local supermarket. More Japanese shoppers depend on their own car (85.8%), or use a bicycle or motorcycle (5.7%). Japanese shoppers (2.8%) who walk to get to Costco are rare, compared to local supermarkets (27.4%), as revealed in Table 8. The survey in Korea also has a similar result. Most Korean shoppers use their own car to get to Costco (94.3%) or local supermarkets (71.1%), but the proportion of getting to local supermarkets by car is much higher than in Japan, because this result is related to the difference of shopping frequency.

Table 8: Comparison of Accessibility (Q12&Q17)

	Japan		Attribute	Korea	
	Costco (%)	Local SMs (%)		Costco (%)	Local SMs (%)
Howdo you go to ?	1.9	14.2	Invalid	1.3	4.4
	0.9	1.9	Non-response	0.6	0.0
	85.8	41.5	By car	94.3	71.1
	2.8	5.7	By bus or subway	3.1	2.5
	5.7	9.4	By bicycle or motorcycle	0.0	0.0
	2.8	27.4	On foot	0.6	22.0
Total	100.0			100.0	

Table 9 shows what dissatisfaction is about Costco vs. local supermarkets. Nearly 70% of the surveyed shoppers in Japan are dissatisfied with unique business concept of Costco such 'the large package of purchasing unit' and 'membership fee'. When asked what their dissatisfaction is about Costco, 40.1% of respondents said "Membership fee is high", and 27.4% of the shoppers chose "the large package of purchasing unit". However, those surveyed about Costco are likely to be satisfied with the variety of goods compared to local supermarkets. This means that the unique business concept of Costco has not enough been accepted to Japanese consumers, whereas the difference of goods are enough appealed to them. While only 3.3% of the shoppers chose "not enough variety of goods" as their dissatisfaction about Costco Japan, the majority of 36.0% chose "not enough variety of goods" as their dissatisfaction about local supermarkets in Japan.

Table 9: What is your dissatisfaction about Costco[Q7] vs. Local Supermarkets[Q16] (answer as many as they apply) ?

Japan		Attribute	Korea	
Costco (%)	Local SMs (%)		Costco (%)	LocalSMs (%)
3.3	36.0	Not enough variety of goods	9.4	47.8
12.3	19.0	Too crowded	61.6	39.6
3.8	27.0	Price is higher than at other places	8.8	26.4
27.4	6.0	The large package of purchasing unit	65.4	5.7
2.4	5.0	Store too large to shop around	1.3	1.3
40.1		Membership Fee is high*	47.8	-
10.8	7.0	Inconvenience for accessibility	45.3	10.1
100.0		Total	100.0	

Note: *There are no local supermarkets charging membership fee

When Korean respondents were asked what their dissatisfaction is about Costco, 47.8% of them said “Membership fee is high”, and 65.4% of the shoppers chose “the large package of purchasing unit”. However, those surveyed about Costco are likely to bedissatisfied with the crowded stores (61.6%) and inconvenience for accessibility compared to local supermarkets. While only 9.4% of the shoppers chose “not enough variety of goods” as their dissatisfaction about Costco Korea, the 47.8% of the surveyed shoppers chose “not enough variety of goods” as their dissatisfaction about local supermarkets in Korea.

While 51.6% of the Koreanshoppers said they usually go to Costco on weekdays, 45.3% said they do so on weekends (Q8). It is not clear where such a difference occurs, but those choosing “weekdays” are likely to avoid the congestion (61.6%) and inconvenience for accessibility (45.3%) such as the lack of parking lot and charging parking fee.

Questions 9, 10 and 11 in the questionnaire were designed to showeven if it is difficult for Costco’s unique business concept to be accepted to consumers in both countries, how Costco is going on well in both Asian markets. As Table 9reveals, although the high membership fee and large package of purchasing are found to be inadequate in most surveyed shoppers, dissatisfaction for the unattractive features is outweighed by sharing other attractive features including the variety of goods, good price and good in-store promotion with their family or relatives, and friends. The Japanese shoppersusually go to Costco rather “with family or relatives (48.1%)”, and “with friends (38.7%) ” than “alone (6.6%)”.The surveyed respondents in Korea have also said they usually visit Costco more with family or relatives (52.2%), and with friends (34.6%) than alone (8.2%). Also, it should be pointed out that 68.9%(81.8% in Korea) of the surveyed shoppers have ever shared it with their friends or relatives, when they bought a large quantity of merchandise in Costco. Yet, 87.7% (83.6% in Korea) of the surveyed shoppers said “no” when asked if they think the membership fee is reasonable.

The next section considersthe similarities and differences among consumer behaviors throughthe interactions between Costco and the consumers in both Asian countries as a brief example to answer the research questions as mentioned above. Also retail mix of domestic retailers who are operating the similar grocery stores as Costco should be examine to study consumer satisfaction to Costco.

6. Comparison of Costco’s localization and consumer satisfaction in East Asia

The purpose of this study is to evaluate the consumer satisfaction between a global retailer Costco and domestic retailers as consumers select grocery stores to visit and to compare consumer behaviors in two different East Asian countries. To analyze Costco’s competitive advantages especially in foreign markets, we need to focus on which elements of the retail mix are the most important in the consumers of East Asian Countries except Taiwan where Costco is operating its stores and which elements of Costco's retail mix they like or dislike compared to local grocery stores.

The following is a research finding according to priority six elements of the retail mix which have been extracted from antecedent researches:product attractiveness (including the variety of goods and good quality like freshness), good price, customer servicelikerefund, good in-store promotion like testing sales, entertainment facilities like food court and convenience for accessibility like location and congestion of parking lot or in-store congestion.

<Products attractiveness>

The product attractivenessincluding the variety of goods and good quality is the most important driving force about what is going on well in two Asian countries. The most answer about what the surveyed customers like about Costco is the variety of goods (69.2%) like in Japan (30.5%) and good quality was the third largest answer about Costco Korea.As it is well known that domestic supermarkets in Japan have more advanced know-how of managing perishable foods than any other global retailers from the beginning, the proportion of good quality like freshness in Japan is quite lower than in Korea or local supermarkets. However, it develops that Costcois supported also by Japanese customers in light of the variety of goods, because Costco offers quite different products from the Japanese domestic supermarkets.

The original imported products would be taken up here in light of an increase in Costco's product attractiveness as a company replacing local retailers. For example, there are some famous apparel products in the world like Tommy Hilfiger, Polo and Lacoste etc. It means going shopping at Costco is very exciting event to them. Even if Costco uses its selling way"the bulk of goods" which the surveyed customers in both countries are dissatisfied with, it is quite different from local retailers so they are more entertained. Also, one of the reasons why they like to go shopping at Costco is its privatelabel called to Kirkland.

Especially, Japanese customers are developing many recipe ideas which manufacturers do not usually imagine in order to use all such a large quantity of products. As mentioned above, at the start-up, the Japanese consumers refused to purchase such a bulk of commodities, because they had gone to the store and purchased only one each item before. It caused a lot of controversy at first, but today, Costco is satisfying the customers in both countries by covering even its selling way they dislike with products attractiveness.

The Japanese consumers grew to amuse themselves shopping time by covering the matter of a large volume of products with inventing the various kinds of recipes to take advantage of high quality of materials purchased in Costco.The interaction between Costco and Japanese consumers would make it possible first for the well-informed Japanese consumer to invent how to share a large volume of things instead of asking Costco to change its own selling way. Costco aligned itself to customer's suggestions, for example, by changing the packaging in order to allow purchasing products without hesitation and sharing more easily. For example, "Sakura Chicken 2.4kg" previously came in two 1.2kg packages but after listening to customer's suggestion, Costco changed the design to four 0.6kg packages. In addition, consumers often purchase Ziploc bags together when they purchase a larger amount of perishable goods. Even if this practice is not followed in the US, younger Japanese consumers as a group shop at Costco's warehouse and share the merchandise with each other in the parking lot or food court[10)].

<Good price>

The second largest answer about what the surveyed customers like about Costco wasgood price (41.5 %) like in Japan (16.6%).Basically, the core elements of Costco' retail mix are to offer their members low price on a limited selection of imported brands but in a wide range of merchandise categories, and to eventually achieve high sale volume, and we can find through the survey result that they are well received by the customers in both countries.

<Customer service>

The proportion of customer service such as an easy refund including refund of the unused portion of the membership is also high (25.2%) compared to Japan (5.0%).When respondents were asked what their dissatisfaction is about Costco, 47.8% in Korea and 40.1% in Japan said "Membership fee is high". However,especially, Korean customers compensate their dissatisfaction about high membership fee by using more actively the system of refund of the unused portion of the membership within 3months, according to evidence that some interviewees in Korea gave. As contrasted with Korea, Japanese consumers do not use such customer service well, because theyfeel that if once they become members, they are shy to return it.

<Good in-store promotion>

Costco is known as doing active in-store promotion of its original brand. That in-store promotion in Costco is needed to sell their original products, not available in other local supermarkets. However, especially Japanese consumers are shy to try new products, before they purchase. This is, because they feel that they are obligated to purchase an item after a free trial. This Japanese consumer behavior is being modified by "two bites" strategy implemented by Club Demonstration Services which is solely responsible for free food sampling and a Japanese company working for on behalf of Costco. This strategy promoted an environment which made consumersfeel comfortable to try out and enjoy new products. As a result, long lines begin to form in front of the free sample booth where the new original foods went on sale. The No.1 item called "Bulgogi Beef Yakiniku (Korean grilled beef)" which got good reviews by Japanese consumers also is the result of active in-store promotion.

<Entertainment facilities>

Although the consumers in both countries do not so often visit Costco, if they go there, they relatively spend more time in Costco than in local supermarkets. As "eating (food court)"is taken as the main reasonfor going to Costco by 17.4 percent of Japanese shoppers and 15.7 percent of Korean shoppers, they have a tendency to spend a good amount of time using an entertainment facility like food court, as well as purchasing daily goods on the sales floor.Also, most of customers usually bring their family and friends who do not have a membership card to Costco, and so the food court as a space to share the bulk of commodities with them is as popular as the sales floor in Costco.

<Convenience for accessibility >

Both shoppers visit Costco less frequently than local supermarkets because the number of opening stores of Costco is even smaller than the established local supermarkets and they are located in suburban areas.Some Japanese interviewees in this customer survey comment that their parents are very pleased if they bring imported goods made in Costco as a gift when they visit their parents in their home town where no stores of Costco are in operation yet.

However,although the proportion of Korean shoppers who come to local supermarkets for convenience for accessibility (66.0%) is much higher than to Costco, we can find the fact that this problem is due to in-store congestion and lack of parking lot rather than location,when we see that most Korean shoppers use their own car to get to Costco (94.3%) or local supermarkets (71.1%). Those surveyed about Costco are likely to be dissatisfied with the crowded stores (61.6%).While 51.6% of the Korean shoppers said they usually go to Costco on weekdays, this is clear those choosing "weekdays" is to avoid the congestion (61.6%) and inconvenience for accessibility (45.3%) such as the lack of parking lot and charging parking fee.

The research finding is clear enough to explain the relative emphasis of six elements between Costco and local retailers in both countries. Actually, both consumers consider product attractiveness as the most important factor enticing consumers to visit their grocery stores. If any playersimprove their product attractiveness, it makes no matter where they are from or which countries they do their business in. They feel this element differentiates their positioning from their competitors' offerings and creates a superior image in the mind of customers[11).

7. Concluding Remarks

According to Nikkei Business, it is reported that the well-informed Japanese consumers are undergoing self-change[12).] The well-informedconsumers in a mature and advancedmarkethave invented even recipes for using the specific products and services offered by Costco more efficiently. Also, theyhave even called for some purchasers toact assist with the joint procurement on the internet, because they were so satisfied with Costco's product attractiveness that they could not afford to accept the policy of the bulk purchase of the same merchandise in Costco. As a result, Costco does nothave to change the core business concept except for minor adjustment, but it could succeed by stimulating consumers to change their own purchasing behavior.

Meanwhile, when most retailers in less advanced Korean market were concentrating to win a greater market share in the intensely competitive 'Harinstore'sector, Costco were attempting to achieve better efficiency in response to the saturation of that Korean-style discount store sector. Costco Korea has remained in a better position in competition between Wal-Mart for obtaining Korean consumers who like the American lifestyle. Eventually, Costco's operations in Korea led to the competition of a new warehouse-style format targeting much younger consumers. It is evident that they had generated relatively differentiated products compared with other retailers in Korea and played a much bigger role while utilizing their abilities in global sourcing of products and managerial experiences.

Costco appeared to the consumers who had many difficulties in their retail environment and was equal to the challenge of satisfying consumer needs.Concentrating on the core element of retail mix has enabled the success of Costco in Japan and Korea. Eventually, Costco's localization in East Asian countriesmainly depends on their product attractiveness which the consumers in both countries consider the most important in six elements of retail mix.

We could also examine that a global retailer should be focused on their own differentiated advantage in order to success at least in East Asian markets. As product differentiation from domestic retailers gave Costco a competitive edge,when domestic retailers as well as foreign retailers attached importance to "corecompetence",consumers would be stimulated to enjoy higher satisfaction.

But the theoretical significanceof the interaction with consumers in East Asia countries has led some to wonder if the data requires further analysisfor showing the factors contributing to success of Costco in other continents.Further, it would be possible to compare internationally with other countries where Costco has seen success also.

Acknowledgements

This paper was based on the research questions and conclusions of recent papers, Baek, J. (2014a), "How DoWe See the Success of a Foreign Retailer in a Mature Retail Market?: Interaction between Costco and Japanese Consumers", *Research Letter*, No.18, p.1-12., and Baek, J.(2014b), "Changing Korean Consumer Lifestyles and the Growth of a New Retail Format", *Journal of the University of Marketing and Distribution Sciences*, Vol.27, No.1, pp.131-146.This research was supported in part by a grant-in-Aid for Scientific Research from Japan Society for the Promotion of Science (Term of Project: 2010~2014, Project Number: 22530469). Also, this research is followed by a professor of Ryerson universityShuguang Wang's advice.

Footnotes

[1)] http://www.costco.co.kr/eng/about/index.html (Date of access, 01/09/2014)

[2)] http://www.costco.com (Date of access, 22/10/ 2013)

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[10]*TRENDY*, April, 2011, p.38
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[12]*Nikkei Business*, 2009.4.6, p.86

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