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# Costco Cracks Taiwan Market

*U.S. Wholesale Club Builds Sales by Tailoring Big Box Retailing to Local Tastes*

By **ANDRIA CHENG**

TAIPEI—The [Costco Wholesale](#) Corp. store here could easily be mistaken for one of its giant U.S. outlets, except for the long line of customers one afternoon snaking outside the store, waiting to enter.

Inside are aisles of merchandise stacked floor-to-ceiling. But mixed in with such familiar U.S. products as Tide detergent and Pepperidge Farm cookies are local favorites such as sea cucumber, mahjong sets, and stewed and braised beef noodle soup.

Offering an experience that's authentically American while cultivating local tastes has proved a successful formula that has made the store, located in Taipei's high-tech Neihu district, the 567-store chain's second most profitable, behind a Korean outlet.

"What we've done here is reflective of what we do in all of our international markets," said Richard Chang, Costco's Taiwan chief in an interview in Taipei. "We want to make it as authentic as possible, but we also want to localize. It's proven to be a successful combination."

Issaquah, Wash.-based Costco, which has annual revenue of about \$73 billion, has posted strong sales gains since opening its first store here in 1997. Sales at stores open at least a year are more than 10% so far this fiscal year, said Mr. Chang, who moved to Taiwan from the U.S. in 1995 to start the business here.

Costco's Taiwanese business became profitable about five years after its initial investment, and has been profitable ever since, Mr. Chang said.

Costco, Taiwan's only wholesale club chain, has increased its share of the island's fragmented, \$71.8 billion-a-year retail market to 1% in 2009 from less than 0.4% in 2004, according to research firm Euromonitor. Its sales during that period almost tripled to \$747.2 million from \$250 million, while the total market only expanded 8.3%, Euromonitor said.

Less than a quarter of Costco's total sales are from outside the U.S. Its international operations, including Canada, Mexico, Britain, Japan and Australia, have expanded same-store sales 19% in the first half of this fiscal year. Excluding gasoline sales and currency fluctuations, they have expanded more than four times faster than the U.S.

Costco, the biggest U.S. club-chain by revenue, has more overseas stores than archrival Sam's Club, owned by [Wal-Mart Stores Inc.](#) Third-placed [BJ's Wholesale Club Inc.](#) doesn't have any overseas outlets.

Costco is planning further expansion in all of its Asian markets, including doubling its Taiwan store count in the

next five years from six and opening a distribution center. It also is accelerating its expansion in Australia.

Taiwan offers a nice template should Costco decide to enter an even bigger market: China.

"We know China market is different from Taiwan," Mr. Chang said. "But from Taiwan to China is a better transition than from the U.S. to China, or Japan to China."

Inside Meg Hsieh's shopping cart is \$330 worth of items including Colgate toothpaste, TreeTop gummy bears and a Nerf sports pack.

The 40-year-old Taipei native, who lived for a year in Boston, became a Costco member two years ago because she could easily find American products that she missed.

"If you want to buy American brands, they have the most comprehensive assortment," said Ms. Hsieh.

That assortment—about two-fifths of the chain's merchandise is from the United States—is one way Costco Taiwan stands out from local and foreign rivals including French retailer [Carrefour SA](#), Mr. Chang said.

The Taipei store's top bakery item is bagels, which use dough imported from New York. The store sells 54,000 a week.

Selling U.S. merchandise with a local twist is another way. Its Kirkland brand beef steak, for instance, is thinly sliced to satisfy local preferences for hot-pot meat. Fish are sold whole instead of filleted. And in the food court, alongside American frozen yogurt and pepperoni pizza, are such local variations as Peking duck pizza.

The 46-year-old Mr. Chang, a University of California at Berkeley graduate whose parents moved to the U.S. when he was four years old, says the operation follows Costco's U.S. policy of trying to guarantee its prices are the market's lowest.

Costco also has trained local suppliers to use Costco-style pallets and fork lifts to save on labor. A dairy supplier now provides milk in big, 3.6-liter containers instead of the original half-liter.

Just as in its U.S. stores, Costco Taiwan is pushing the chain's Kirkland private label line of products, from food to vitamins.

"People want value," Mr. Chang said. "That's universal."

Yan-Chao Li, a 53-year-old housewife, traveled more than an hour for Costco's bulk goods. "You cannot buy these in local supermarkets," she said.

Still, convincing a market that's relatively new to the idea of paying about \$40 for annual membership takes some work, however. One of Mr. Chang's secret weapons: A return policy.

"In Asia, people aren't used to returning \[merchandise\]," he said. "It was hard for people to understand. We are trying to introduce that. People return half of a watermelon because it's not sweet enough. We say we are happy to do it. We make that return so pleasurable that you are going to tell your family and friends. That's something money can't buy. We consider that part of our advertising."

Membership renewals have improved to a mid-80s percentage, in line with the company average, from 45% 12 years ago. Membership itself has grown in the mid-teens rate since last year to about 700,000.

"That's our report card," Mr. Chang said. "We are still the little guy in the market, but we are still seeing continued growth."

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