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How Costco managed to maintain its position in the Icelandic grocery market

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ABSTRACT

In May 2017, Costco opened a superstore in Iceland. As expected, Costco's entry had a major impact on the grocery market, not least on the image of the existing stores in Iceland. The major players in the market before Costco's entry were the grocery chains Bónus, Krónan, Fjarðarkaup, Nettó, Víðir, and Iceland. In 2014, it was estimated that Bónus' market share was 39%, while Krónan had 16%, Nettó 9%, and Iceland, together with 10-11 stores, 6%. Together, these four chains had a market share of almost 70% of the grocery market. In June 2017, Víðir went bankrupt a few months after another store, called Kostur, declared bankruptcy. Note that Kostur sold the same products as Costco, or similar products, but on a much smaller scale. From May 2017 when Costco opened its store to September 2017, the stock value of Hagar, the owner of Bónus and Hagkaup, plummeted by 37%.

From an image perspective and based on a survey conducted in autumn 2017, Costco had a firm position and was strongly associated with the attributes "low price," "freshness," "great product range," "fun," and "quality." Hagkaup seems to have been the store most affected by Costco's opening. Before the opening, Hagkaup was strongly associated with positive attributes such as "freshness," "great product range," "fun" and "different." In a survey conducted in autumn 2017, Hagkaup was viewed as the store with the highest prices, shifting from the more positive image it had known in past. Its value for the customer seems to have fallen, and Costco appears to have pushed Hagkaup away from the positive attributes and closer to the attribute "high price."

This paper focuses on the question of whether Costco managed to maintain the strong position it had in autumn 2017. The results are based on two surveys, one conducted in September 2017 and the other in September 2018. The second survey was similar to the first and included the same attributes and stores, except Víðir, which went bankrupt in June 2018. The findings reveal that Costco seems to have a weaker position than in September 2017 and that, from an image perspective, its main rival is Krónan. Of note, Hagkaup is still strongly associated with the attribute "high price," and Bónus is considered the store with the lowest prices but boring.

1 LITERATURE REVIEW AND INTRODUCTION

In May 2017, Costco opened its first superstore in Iceland. Costco is one of the largest retailers in the world and was, therefore, expected to have a major impact on Iceland's grocery market. The major players on the market before Costco's entry were the grocery chains Bónus, Krónan, Fjarðarkaup, Nettó, Hagkaup, Víðir, and Iceland. In 2014, it was estimated that Bónus's market share was 39%, while Krónan had 16%; Nettó, 9%; and Iceland/10-11, 6% (www.althingi.is). Together, those four chains had almost 70% of the grocery market share in Iceland before Costco opened its store.

In his book *Competing in Tough Times* Berman (2011) discusses several factors that affected retailing after the recession in 2008. The most troubling barometer is data showing stagnant or declining sales at a broad spectrum of retailers such as Target, Sears, Supervalu, Best Buy, Home Depot, Lowe's, Staples, Macy's, J.C. Penney, Kohl's, Gap, and Arby's. A decline in consumer spending and a new frugality among consumers have contributed to this slowing of growth. A second major factor impeding growth in retail sales, according to Berman, is the continuation of consumer caution. It has been argued that unlike in previous recessions, when consumers greeted the return of financial stability with a buying spree, after the 2008 recession was over, they continued to buy simpler offerings with the greatest value. Therefore, certain discount stores gained popularity among consumers because of their relatively low prices and high value, resulting in a retail environment characterized by increased competition. The opening of Costco in Iceland is an example of such a discount store.

It is quite common for grocery stores to try to reduce prices to compete with large retailers such as Walmart. Courtemanche and Carden (2014) investigated the competition between Costco and Sam's Club, which is owned by Walmart. By using city-level panel grocery price data, though, they found that Costco's entry was associated with higher grocery prices at incumbent retailers and that the effect was strongest in cities with small populations and high grocery store densities, like the greater Reykjavik area. The reasons were connected to so-called nonprice dimensions, such as the quality of the products or of the shopping experience.

Previous research has been conducted on Costco and its impact on markets. Greenhouse (2005) studied how Costco became the "anti-Wal-Mart" and pointed out that its prices were lower than those offered by its competitors and that the average pay was 42 percent higher than that offered by its fiercest rival, Sam's Club. Cascio (2006a) argues that Costco delivers low prices but that its business model is based on ethical principles and core beliefs and values. Cascio also argues (2006b) that a high proportion (24%) of American workers voluntarily quit

their jobs, and that should be a serious concern for companies with many workers, like Walmart. Hu and Chuang (2009) claim that many successful companies have strong corporate brands and do invest in creating, promoting and building loyalty to their brand names. Apple, Google, Microsoft, Coca-Cola, and Amazon, the five most valuable brands in 2017 based on Interbrand (see www.interbrand.com), all focus on a strong company or corporate brand. In contrast, some retailers such as Walmart, CVS Pharmacy, and Costco develop private brands with their own names on them. Minahan, Huddleston, and Bianchi (2012) investigated the market entry of Costco as an international retailer. The case was the opening of a Costco in Melbourne in 2009 that in 12 months became one of Costco's top five stores in the world. They state that the successful entry of a retailer into a new market depends on acceptance of the business model by the local shoppers (see also Papadopoulos and Martin Martin, 2011). Minahan et al. discuss the success story of Costco, pointing out that shopping at Costco requires membership and an annual fee and that Costco is extremely successful at membership retention, with renewal rates of 87%. The membership fee, which allows Costco to charge lower prices, accounts for about 75% of its net profit. Calboli (2013) investigated the first sale rule in intellectual property law in the context of international trade. The fact that Costco is in several cases a part of discussions and issues considered law and legal disputes is important, since Costco is one of the largest retailers in the world, with huge bargaining power (see also Yedor, 2012).

A few months after Costco opened its first superstore in Iceland, Gudlaugsson (2018) evaluated the effect of Costco's entry into the Icelandic market on the image of grocery stores in Iceland. The study was grounded on basic brand management theory related to concepts such as brand knowledge, brand awareness, image, and whether brands have strong, positive, and unique positions in the minds of the target groups or segments (Bettman, 1979; Gruber, 1969; Keller, 2008; Romaniuk and Sharp, 2004; Rossiter and Percy, 1987). Authors have voiced a range of criticisms for consideration in the use methods such as top-of-mind interview responses to gauge brand awareness (Buil, Chernatony, and Martínez, 2013; Homburg, Klarman, and Schmitt, 2010; Huang and Sarigöllu, 2012). Based on Gudlaugsson (2018), it was concluded that Costco's opening had a minimal impact the image of Bónus, Nettó, or Fjarðarkaup, while the store most affected was Hagkaup. Before the opening, Hagkaup was strongly associated with positive attributes, such as *freshness*, *product range*, *fun*, and *different*, but after the opening it was viewed as the store with the highest prices. Krónan seemed to have a stronger image than before and was still associated with low prices, but it had also become more strongly associated with the positive image attributes *different*, *freshness*, and *product*

range. Costco occupied a strong position on the perceptual map, associated with the attributes *low price*, *different*, *freshness*, *product range*, *fun*, and *quality*. Therefore, Costco occupied a position similar to that which the company's chief executive argued it had in 2005: that is, Costco delivers quality at lower prices than its rivals (Cascio, 2006a). In this paper, the focus is on whether Costco managed to maintain the strong position it had in its first year of operation after having been open for 18 months. The research question is as follows.

Does Costco manage to maintain its strong image position 18 months after its opening in Iceland?

This paper next outlines the methodology employed, then presents the results of the study. Finally, the paper discusses the study's findings and contributions to theory and practice, the limitations of the study, and the further research that could be conducted in this area.

2 METHODOLOGY AND DATA ANALYSIS

This chapter provides an overview of how the research was planned and performed and how the data were processed. The research uses data obtained from two surveys that were conducted in September and October 2017 (Survey 1) and in September and October 2018 (Survey 2). The surveys used the same questionnaire concerning image attributes.

Table 1: Summary of surveys

	Survey 1	Survey 2
Year	2017	2018
Number of responses	2891	3184
Number of stores	8	7
Number of attributes	9	9

In Survey 1, thirteen independent research groups gathered the data, all using the same questionnaire, online and in paper form. The number of responses was 2,891, the number of stores evaluated was 8, and the number of image attributes used was 9. The questionnaire began by asking respondents which grocery store first came to mind (top-of-mind response). The following four questions were statements on a Likert scale, on which 1 indicated "strongly disagree with this statement" and 5 "strongly agree with it." The first question was, "When

choosing a grocery store, a location near my home is important." The second question was, "When choosing a grocery store, low price is the most important factor," and the third question was, "When choosing a grocery store, quality is the most important factor." The subsequent nine questions concerned the image attributes *freshness*, *low price*, *product range*, *boring*, *different*, *high price*, *opening hours*, *quality*, and *fun*. Some of these image attributes have been used in previous research and were included for the purposes of comparison. The final question in this portion of the questionnaire concerned how often the respondents visited the grocery stores named in the survey: Fjarðarkaup, Nettó, Hagkaup, Víðir, Bónus, Iceland, Costco, and Krónan. Finally, there were background questions concerning gender, age, income, and education.

In Survey 2, twelve independent research groups gathered the data, all using the same questionnaire, online and on paper. In total, 3,184 answers were given, 7 stores were evaluated, since Víðir had gone bankrupt, and 9 stores were evaluated. Except for Víðir, the stores evaluated were the same in the two surveys, and the surveys used the same image attributes. In both surveys, data were weighted to better represent consumers 18 to 70 years old.

To examine store image, a perceptual mapping methodology was used. The image attributes considered have been used in several previous surveys; the participants evaluated each store on all attributes, using a nine-point scale on which 1 denotes "applies very badly to this store" and 9, "applies very well to this store."

3 RESULTS

This chapter provides the findings. First, it describes the participation in both surveys, then compares top-of-mind evaluations between the surveys. Finally, it compares perceptual mapping between the surveys.

Table 2 shows the background information of participants based on gender, age, earnings before taxes, and education. The female proportion was higher in both surveys, and in both surveys the proportion of those younger than 31 years old was considerably higher than in the population.

Table 2: Background information of the participants

	Survey 1	Survey 2
Gender	2017	2018
Male	38,2%	40,3%
Female	61,8%	59,7%
Age		
Younger than 31 years old	47,0%	60,1%
31-50 years old	30,5%	24,7%
Older than 50 years old	22,5%	15,2%
Earnings before taxes		
Lower than ISK 501,000	59,9%	65,7%
ISK 501,000-900,000	32,0%	28,1%
ISK 901,000 or higher	8,2%	6,3%
Education		
Matriculation or lower degree	58,1%	66,1%
First-level university degree	27,6%	23,1%
Master-level university degree or higher	14,4%	10,8%

Because of this, the proportion of those with earnings lower than ISK 500,000 was higher in the sample than in population, as was the proportion of those with an education degree on the matriculation level or lower. Therefore, it was considered necessary to weight the cases to better represent consumers ages 18 to 70.

In both surveys, the first question was a top-of-mind question: Respondents were asked to name the grocery store that first came to mind. Answers were recoded so they could be used for top-of-mind evaluations, and Figure 1 represents the findings for both surveys. The store with the strongest top-of-mind proportion in both surveys was Bónus, named by 50.6% of respondents in 2017 and 52.9% in 2018. The difference between the years is not significant. The second-highest top-of-mind values for both years were for Krónan, with 18.6% in 2017 and 34.1% in 2018, and the difference between the years was significant.
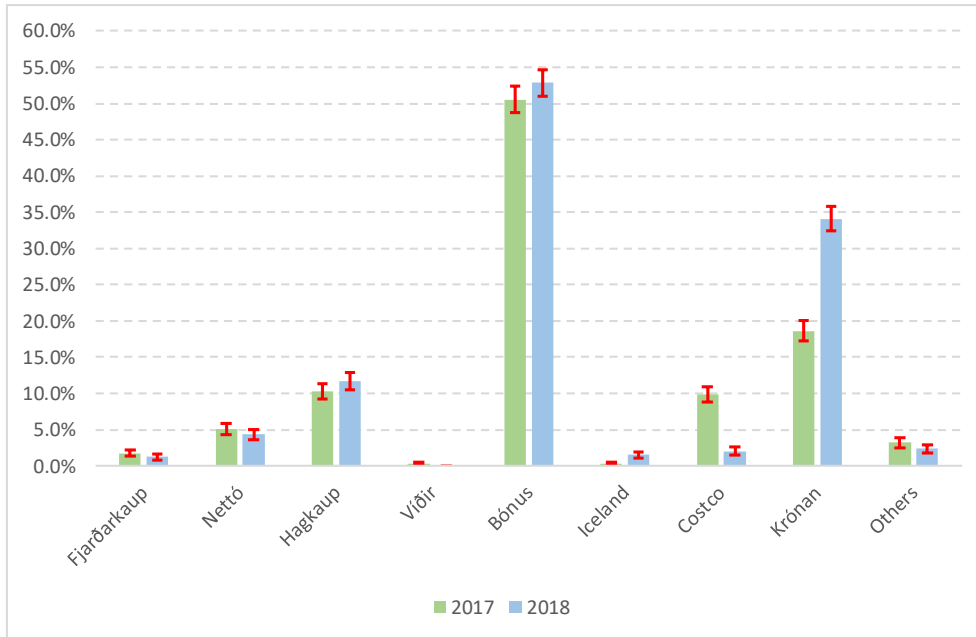
Figure 1: Findings for top-of-mind question from 2017 survey and 2018 survey

Top-of-mind values for Costco were relatively low in both surveys. In 2017, the value was 9.9%, and it plunged considerably in 2018, to only 2%. Figure 2 shows a word cloud for both surveys. Bónus had the strongest positioning based on top-of-mind measurement, followed by Krónan and Hagkaup. Nettó and Costco were close overall for fourth place, though unlike Costco, Nettó had similar values in the two surveys.

Figure 2: Word cloud for top-of-mind evaluations

Based on these findings in top-of-mind evaluations, it can be argued that Costco's situation was weaker in 2018 than in 2017, which indicates that it may not have maintained the strong position it had in the first year.

Table 3, below, presents the average scores for the image attributes for each grocery store in the 2017 survey.

Table 3: Average scores for image attributes in Survey 1

Brands / Attributes	Fjarðarkaup	Nettó	Hagkaup	Víðir	Bónus	Iceland	Costco	Krónan
Freshness	6,84	5,94	6,98	6,37	5,15	4,58	7,07	6,54
Low price	4,46	5,03	3,16	4,06	7,38	4,62	7,25	6,58
Great product range	6,89	6,21	7,50	5,32	5,71	5,03	7,02	6,73
Boring	3,56	4,54	3,50	4,67	5,17	5,07	3,86	4,04
Different	6,42	4,67	5,38	4,79	3,52	4,62	7,61	4,57
High price	6,16	5,46	7,51	6,25	3,11	5,59	3,34	3,93
Quality	6,87	5,66	6,89	5,74	4,78	4,59	6,93	6,08
Opening hours	4,61	7,16	8,27	5,90	4,95	7,18	6,30	6,51
Fun	6,40	5,04	6,35	4,67	4,06	4,28	6,66	5,54
Cronbach's alpha:	0,57	0,58	0,49	0,59	0,55	0,52	0,38	0,56
Cronbach's alpha2*:	0,73	0,73	0,67	0,73	0,73	0,66	0,61	0,71

*Without the attribute "Boring"

As can be seen in Table 3, the average scores varied. Costco, for example, received the highest scores for *freshness*, *different*, *quality*, and *fun*, while Bónus received the highest scores for *low price* and *boring*. Those two stores appear to have had very different images among the respondents, as Costco was *fun*, *fresh*, and *different* while Bónus was *cheap* and *boring*. It can also be seen in Table 3 that the Cronbach's alpha is rather low for all stores, from .38 to .59, and is therefore in all cases lower than the threshold of .7. The outlying attribute in all cases, was the image attribute *boring*, and when that attribute was deleted, the Cronbach's alpha was deemed satisfactory, with values from .61 to .73. The attribute *boring*, is, however, important for the perceptual mapping and, therefore, was not deleted from the database.

Figure 3, below, displays the position map of the grocery stores in 2017 ($n = 2,891$). The representations indicate that the findings were robust, since the attributes *boring* and *fun* had opposite directions, as did *low price* and *high price*. Attributes that had features in common were also grouped together, such as *freshness* and *product range*.
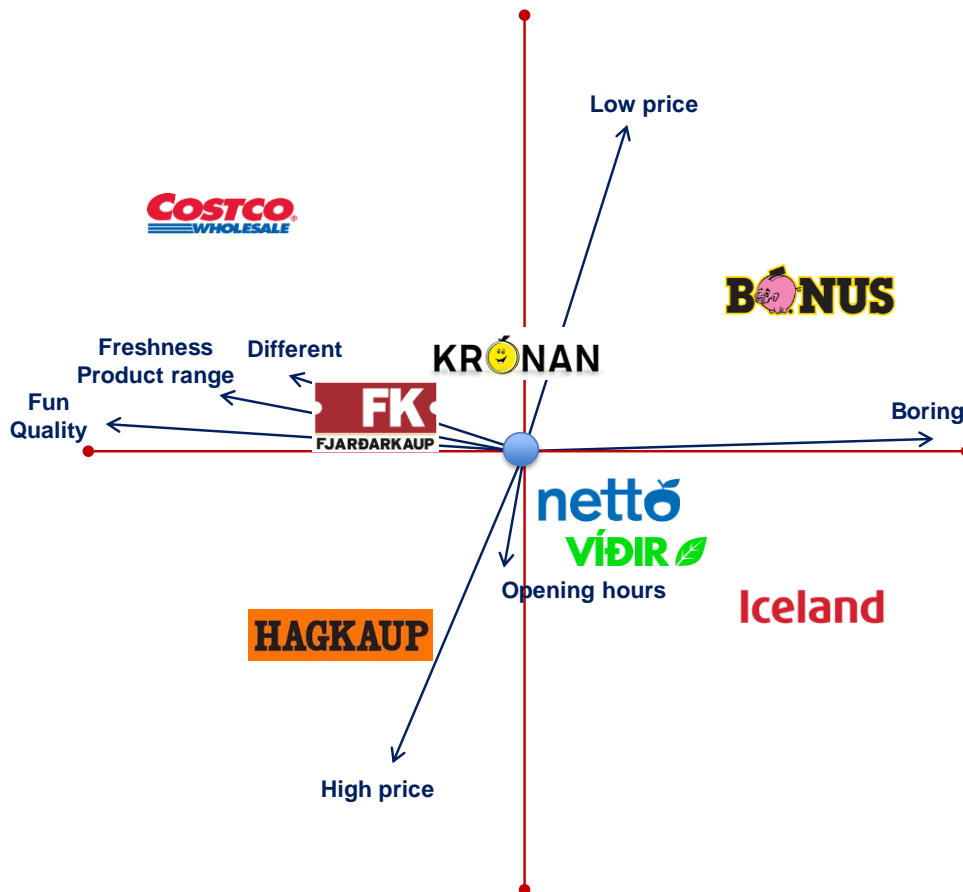
Figure 3: Perceptual map of the grocery market in Iceland in 2017

As can be observed in Figure 3, Bónus had a strong association with the attribute *low price* but was also considered *boring*, a finding similar to those of previous studies (see Gudlaugsson, 2018). Therefore, it can be concluded that the opening of Costco did have a minor effect on Bónus's image. Nettó also occupied a similar position on the map as it did in former studies. Nettó was near the center of the map, which means that its position was unclear in the respondents' minds. Fjarðarkaup also had a similar position on the map as in former studies. Hagkaup was now first and foremost associated with the image attribute *high price* and had shifted away from the positive attributes *freshness*, *product range*, *fun*, and *quality*. Costco had a strong position on the map: It was strongly associated not only with the attribute *low price* but also with the positive attributes *different*, *freshness*, *product range*, *fun*, and *quality*. It seems that Costco pushed Hagkaup away from the positive attributes, with the consequence being that Hagkaup was now strongly associated with the attribute *high price* and therefore with a relatively weaker image than it had before the opening of the Costco store.

Table 4, below, presents the average scores for the image attributes for each grocery store for the 2018 survey. Since the store Víðir went bankrupt in the summer of 2018, it was not part

of the second study. Otherwise, the same stores and image attributes as in the 2017 study were represented.

Table 4: Average scores for image attributes in Survey 2

Brands / Attributes	Fjarðarkaup	Nettó	Hagkaup	Bónus	Iceland	Costco	Krónan
Freshness	6,90	6,08	7,01	5,38	4,49	6,56	6,74
Low price	4,60	5,19	3,22	7,57	4,26	6,34	6,76
Great product range	7,09	6,35	7,52	5,71	4,90	6,67	6,78
Boring	3,61	4,49	3,65	5,05	4,97	4,24	4,02
Different	6,53	4,84	5,45	3,55	4,64	7,25	4,56
High price	5,99	5,36	7,48	3,11	5,93	4,32	3,89
Quality	6,98	5,76	6,93	4,99	4,52	6,46	6,21
Opening hours	4,65	7,25	8,18	5,10	7,54	6,07	6,57
Fun	6,37	5,01	6,25	4,13	4,24	6,11	5,52
Cronbach's alpha:	0,6	0,55	0,53	0,61	0,55	0,48	0,59
Cronbach's alpha2*:	0,75	0,71	0,7	0,75	0,69	0,67	0,72

*Without the attribute "Boring"

As can be seen in Table 4, the average scores varied as in the 2017 survey. Costco received the highest score for *different* but not for the attributes *freshness*, *quality* and *fun*, as in the 2017 survey. Fjarðakaup received the highest scores for *fun* and *quality*, and Hagkaup received the highest score for *freshness*. Hagkaup also received the highest score for *high price*. Bónus, as in the 2017 survey, received the highest scores for *low price* and *boring*. As in the 2017 survey, the Cronbach's alpha was low, from .48 to .61, and the attribute *boring* was still the problem child.

Figure 4, below, displays the position map of the grocery stores in 2018 ($n = 3,184$). The representation in Figure 4 indicates that the findings were robust, since the attributes *boring* and *fun* had opposite directions, as did *low price* and *high price*. Attributes that had features in common were also grouped together, such as *freshness*, *product range*, and *quality*.
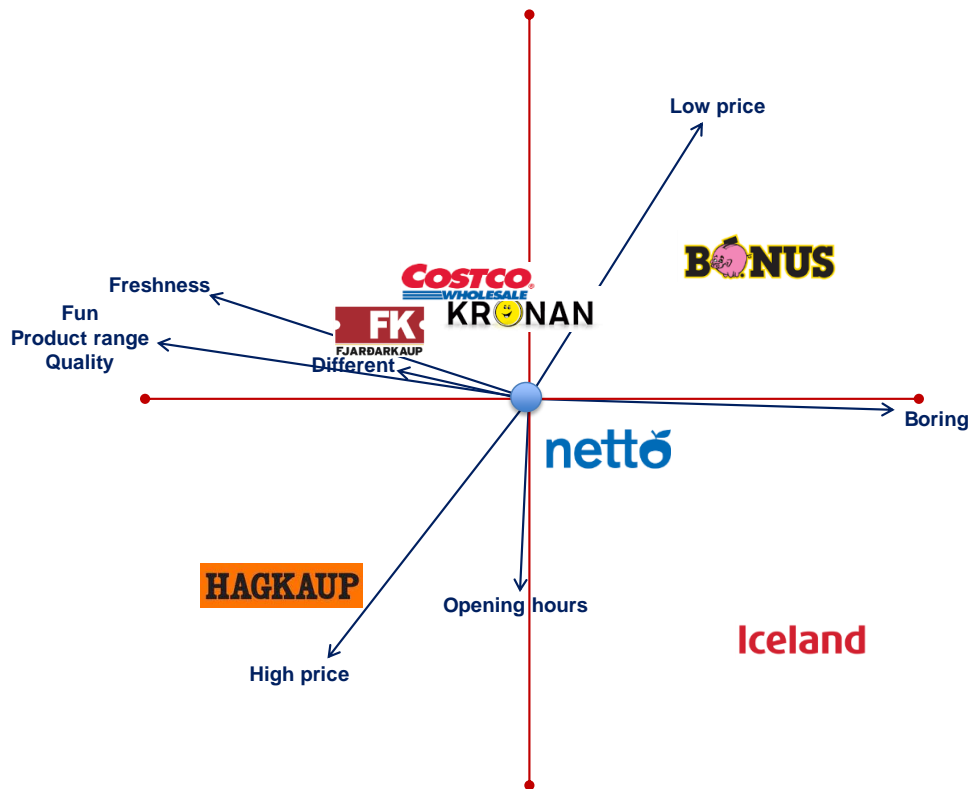
Figure 4: Perceptual map of the grocery market in Iceland in 2018

As can be observed in Figure 4, Bónus, as in the 2017 survey, had a strong association with the attributes *low price* and *boring*. Nettó had a similar position as in 2017, near the center of the map, indicating that respondents did not have clear view of its position. Iceland was first and foremost considered *boring* and Hagkaup expensive. Those two stores' positions were similar to their positions in the 2017 survey. The most positive area on the map was the northwest side, where Fjarðakaup, Costco, and Krónan were located. Fjarðakaup had a similar position as in 2017, with strong connections with the attributes *quality*, *product range*, *fun*, and *freshness*, but since the attribute lines were relatively long for those attributes, they were considered a point of difference. The attribute line for *different* was short, indicating that this attribute was perhaps more like a point of parity than a point of difference. This attribute might be of import, but the outcome was similar between brands or, in this case, stores. Costco had a weaker position than in the 2017 survey, since its position was nearer the center. In 2017, its position was decisive, and its image was very positive. Krónan's position was similar in the two surveys, and in 2018, it was near Costco on the map.

Based on these findings, Costco did not maintain the image it gained in the first few months of operation in Iceland, and because its top-of-mind ratio was also lower, its position was weaker in 2018 than in 2017.

4 DISCUSSION

The focus of this paper was to evaluate whether Costco maintained the strong image position it had a few months after its opening in Iceland in 2017. The research question was as follows:

Does Costco manage to maintain its strong image position 18 months after its opening in Iceland?

The findings were based on two surveys, one in October 2017 (six months after the opening) and one in October 2018 (eighteen months after the opening). In both surveys, similar questionnaires were asked about the same stores, except Víðir, which went bankrupt, and the same image attributes were evaluated. To estimate whether Costco maintained its former position, two methods were used: top-of-mind measurements and perceptual mapping.

The findings showed a similar top-of-mind score for all stores except Costco and Krónan. In 2017, Costco's score was 9.9% after six months in operation, but in 2018, after 18 months in operation, it was only 2%. Krónan had a top-of-mind score of 18.6% in the 2017, then soared to 34.1% in 2018. Both years, Bónus had the highest scores, 50.6% in 2017 and 52.9% in 2018. Fjarðarkaup, Nettó, and Hagkaup had similar scores in 2017 and 2018. From the view of changes in scores, Krónan was the winner in 2018, its score rising 83% between the years. Conversely, Costco was the loser in 2018, its score dropping almost 80% between the years. Based on top-of-mind evaluations, Costco did not maintain the position it had in 2017.

The findings based on perceptual mapping show that the positions for most of the stores were similar in 2018 and 2017. Nettó was near the center of the map, with an unclear position. Iceland was most considered *boring*. Bónus offered *low price* but was also *boring*, and Hagkaup was considered to have the *highest price*. Costco, Krónan, and Fjarðarkaup were grouped together on the northwest part of the map, the most positive quadrant. Fjarðarkaup had similar positions in both years, with strong associations with the positive attributes *quality*, *product range*, *fun*, and *freshness*. Krónan also had similar positions in both years, considered to offer relatively *low price* but also associated with the same positive attributes as Fjarðakaup. Costco was at almost the same place on the 2018 map as Krónan, having moved from a much stronger position in 2017, far from the center of the map. Based on these findings, Costco did not manage to maintain the position it had in 2017.

Stjórnvísi is the largest management association in Iceland, with 3,000 active members (see www.stjornvisi.is). Every year, it does research to rank Icelandic companies on The Icelandic Customer Satisfaction Index (CSI). The project aims to provide organizations with coordinated measurements of customer satisfaction and several other factors, such as image, quality assessment, and customer loyalty. The CSI rating is measured from 0 to 100, where a higher score indicates greater satisfaction. Table 5, below, presents the findings for CSI Iceland in 2017 and 2018.

Table 5: Findings from CSI Iceland in 2017 and 2018

	2018	2017
Costco petrol	82.3	86.5
Costco	65.9	59.1
Krónan	69.9	68.9
Bónus	65.9	64.5
Nettó	67.9	68.8

Source: www.stjornvisi.is

Findings indicate a paradox where Costco is considered. As can be seen in Table 5, the score for Costco petrol was 82.3 in 2018 and 86.5 in 2017. In both years, these scores were the highest measured in the research, indicating that Costco petrol is the service in Iceland with the highest satisfaction. On the other hand, Costco Warehouse gained considerably between the years, climbing to 65.9 in 2018 from 59.1, which the lowest score of the group in 2017.

Taken together, the data indicate that Costco does have a strong position on the Icelandic retail market. Its petrol service is popular, and its customers are satisfied. The image of the company is strong, with positive image attributes such as *quality*, *product range*, *fun*, *freshness*, and *low price*. These attributes create a perception similar to that advocated by Sinegal, the chief executive of Costco in 2005, who argued that Costco delivers quality at lower prices than its *rivals* (Cascio, 2006a).

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