



XoQo



Costco Investment Portfolio - Germany

681 against 651. 27 against 0. Sam's Club most recent opening was in Iowa, while Costco's being in Sunbury, UK. The distant openings is a clear notification of Costco's focus and success in international expansion without mergers or acquisitions. With a location opened in Spain, Costco continues to expand across Europe with a winning formula, adapting its business to the local cultures. Being able to exploit Germany's market niche and continuing organic growth of Costco EU will lay a foundation in Germany, the heart of the European Union.

Germany has always maintained a fascinating oligopoly in the retail division, with 5-7 major retail groups controlling practically the entire market. The only major chain to defunct actually sold a share of its stores to Wal-Mart in the inner city area, also defunct for not adapting to German culture, inability to keep "low prices" slogan, and other self-destructing explanations. From the outside, any international retailer has been hesitant to tamper with Edeka, Metro, and other's stranglehold on Germany's consumers. With preparation and passive aggressive management, Costco will become THE major member-only retailer in Europe's central nervous system.

German Economics	2
GDP and GDP per Capita Forecasts	3
Geographical Position	4
Costco Distribution throughout Europe	5
Basic and Wholesale Data	6
Retail	7
Retail Market Shares	7
Wal-Mart's Entry in Germany	8
Costco's Entry in the German Market	8
Market Analysis: Muenster.....	9

German Economics

(source: Statement of the Institution of world Economics at the Kiel University)

- Growth of GDP: +1.8% for 2015
+2.1% for 2016



GDP in € bn.

- Unemployment rate still decreasing: **6.4% for 2015**
6.2% for 2016
5.7% for 2017
- Increasing amount of refugees lead to a bigger workforce of people under the age of 40.
- Good outlook for investments because of the - in comparison low - external value of the euro and low interest rates.
Consumer price inflation: **+0.9% for 2016**
+1.8% for 2017

- The decreasing unemployment rate is leading to higher spending in the private sector, a higher GDP boasted by Q2 results, and a higher NOP for retailers. Moreover, the low interest rates and external value of the euro are positive factors for international investors seeking commercial properties into the German market.

Now in relation to the increasing GDP, Germany will face a slow growth temporarily after the collapse of Volkswagen. During this period, the slower growth is countered by the influx of immigrants forecasting a growth of .6% in the next four years. With the introduction of Costco in Germany, the globalization of refugee status will increase imports and variety of goods. With its exclusive 'member-only' policy, Costco is essentially the surrogate of cultural goods that businesses are able to resell.

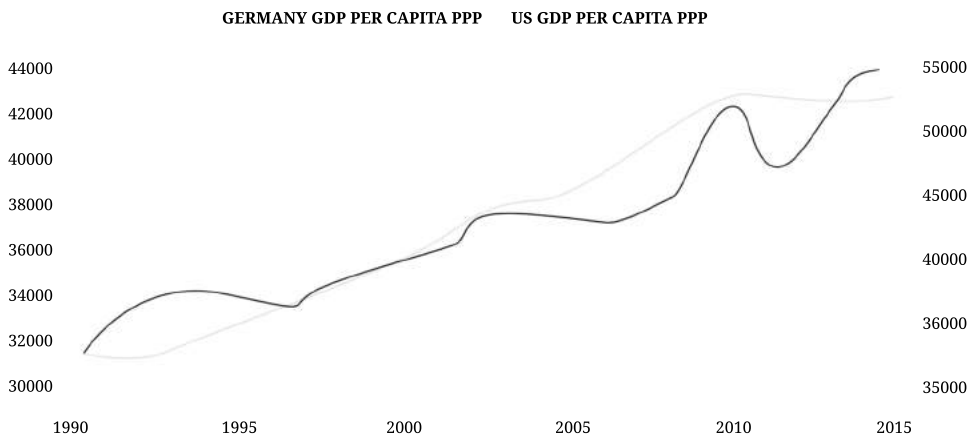
Per the USD/Euro conversion, now is a perfect time for investment into Germany as the Euro has increased against the dollar by 3% in recent months. The conversion will level out eventually for the time being, but analysts predict a closer rate to 2014 levels. Germany's surplus at 1.4% of GDP is among the highest in all of the Eurozone. Metro AG, parent company of Real and Metro, is the equivalent of Wal-Mart in Germany. Metro Cash & Carry, being Costco's competition in Germany, currently operates 107 locations in Germany, roughly 16% of their total worldwide locations, which is enormously different than American based operations. With its impact in UK, Costco's footprint can easily expand to Eastern Europe.

GDP and GDP per Capita Forecasts

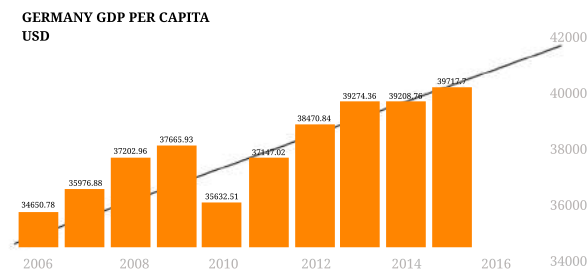
(source: Trading Economics, www.tradingeconomics.com)

Period	Actual	Q3 2015	Q4 2015	Q1 2016	Q2 2016
GDP (\$ bn.)	3852.56	3877	3890	3912	3935
GDP Growth rate(quarterly)	0.4%	0.4%	0.5%	0.2%	0.3%
GDP per Capifa (\$)	39717.70	40058	40188	41265	41772

The following chart visualizes the trend of Germany's GDP per capita (PPP - purchasing power parity) in \$ in comparison to the one of the US. Consideration of the recent events regarding an influx of immigrants does not reflect in the below graph.



As shown by the graph, Germany's GDP per capita is higher than USA since ~2011 and shows no signs of decreasing, even though the Volkswagen stock plummet has only slowed the country's growth. The forecast shows an incredible outlook:

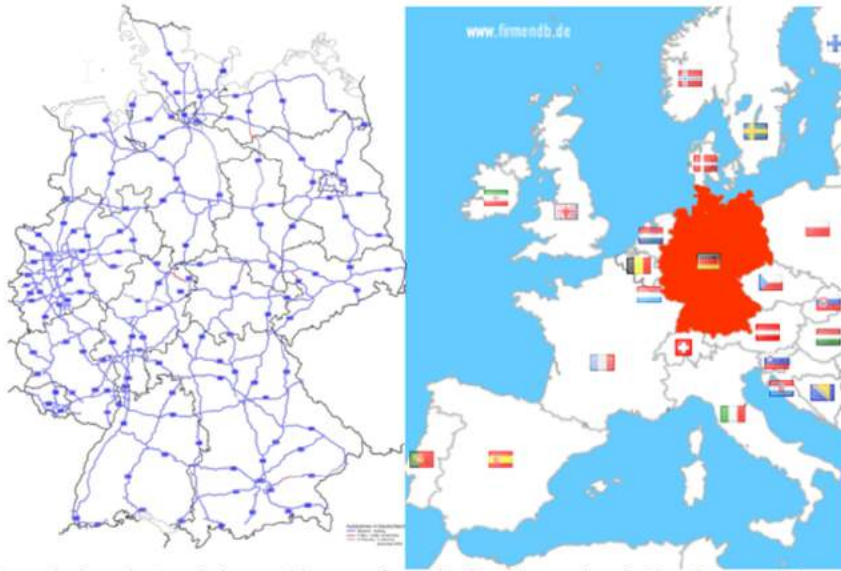


From \$37,202.96 in 2008 to \$39,717.7 in 2015, the GDP per capita is expected to reach approx. \$41,000,00 n 2017

Geographical position

At the very heart of Europe, Germany has been the juggernaut economy of EU that sways the union in whichever direction the country moves. Although Germany itself is surrounded by eight countries, the country and its neighbor Switzerland are the major members of the EFTA (European Free Trade Association).

Highlighted on the map below is a brief view of the infrastructure of the German highways (Autobahn) and the sophisticated regional structures with higher population and trading density.



Not only does the Autobahn provide ease of travel in heavily populated cities, Germany in its entirety also has a structured rail network.

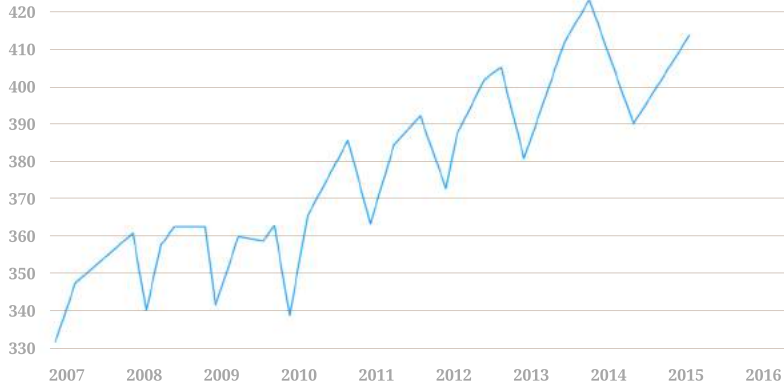
Highlighted in red and orange, the main rails are especially efficient in the west of Germany going through the main harbors in Bremen and Hamburg, Lower Saxony and North Rhine-Westphalia.



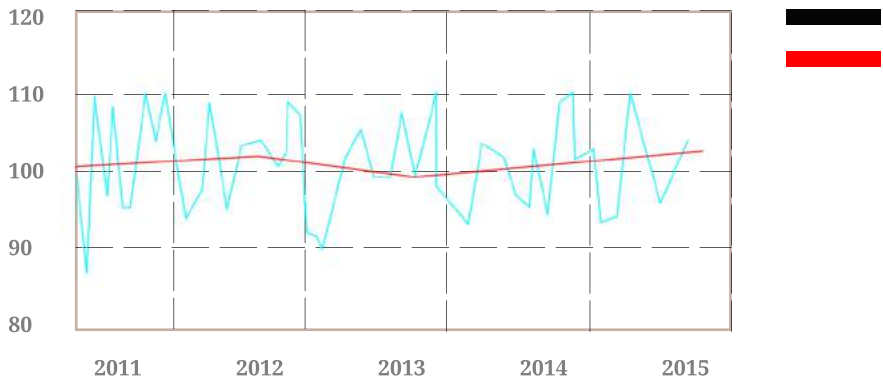
Basic and Wholesale Data

(source: Federal Office of Statistics, Germany)
amount of private households: 40.2 million

private consumption in € bn.:



Germany has the highest population in the EU, making it the biggest market for retail companies. The private consumption has risen from €330 bn. (2007) to almost €410 bn. (2015), nonetheless, there are times of recession and expanding in which the private spending into wholesale companies are increasing. The following is a chart for showing how far the turnover in this field of wholesale increased.

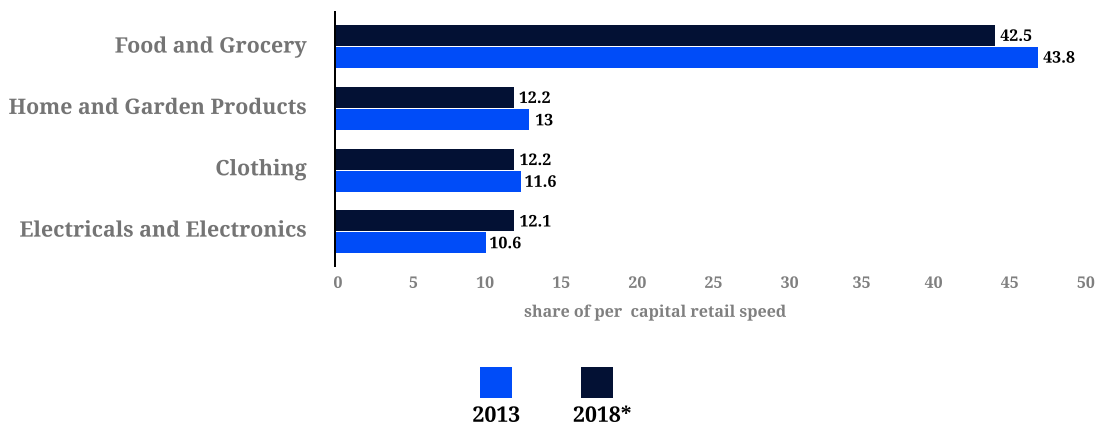


As to be seen from the Trend- curve, the turnover for wholesale companies is about to decrease. This problem can be followed back to the economic life cycle in Germany. And more specific and recent, to some difficulties coming from the economic downturn in Brazil and China. Yet, as the GDP increases, the wealth is increasing. Making it more possible that in the future, the times of recession are even shorter and the times of expanding longer thanks to private consumption.

Retail

As already mentioned, Germany has the highest population among the countries of the European Union. Therefore, its market is big and the private consumption high. The following is a chart to visualize the market proportion of each sector of retail industries.

Distribution of retail spending Germany in 2013 and 2018 by key product sector

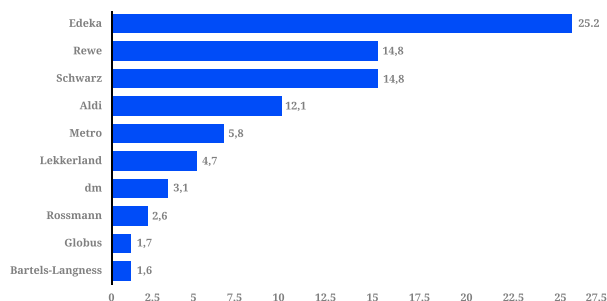


It is expected that food and grocery, home, and garden product spending will decrease in ratio to other sectors such as clothing, electrical, and electronics as consumer wealth is on the rise. Very rarely can one retailer sell so many products in one place so well, and Germany has no exception to this rule.

Retail Market Shares

As grocery naturally has the highest amount of retail spending, let's look into the businesses with the highest market share in this field. On top there is Edeka Corp. with 25.2%. The wholesale businesses Metro Corp. and Lekkerman, with 5.8% and 4.7% respectively, are in the middle. Metro Cash & Carry, a member-only warehouse division of Metro, is opened in 107 stores across Germany. To compare Costco has 480 in USA. To compare the openings to population, Costco has 1/5 more stores per million people. To maintain a higher ratio with much heavier competition means Costco has a great opportunity to gain share against Metro.

Market Shares of the leading retail companies for Food and Groceries in Germany for 2014



Wal-Mart's entry in Germany

In December 1997, the American retail corporation Wal-Mart set foot in the German market by acquiring the stores of 2 companies, Wertkauf and Interspar. One year later, the acquisition of another companies 74 hypermarkets immediately put Wal-Mart in 4th place of the biggest operators of hypermarkets. However, with a turnover of €2.9 bn. and an accumulated estimated loss of more than €1 bn. (according to US-based investment bank Salomon Smith Barney, 350 million only for Year 2000) the company's start on the German market was fundamentally flawed.

The following chart shows Germany's top 15 retailers in 2002, where Wal-Mart is listed on the 13th place although it was the 4th biggest operator of hypermarkets in Germany.

Table 4: Germany's Top 15 Retailers (2002)

Rank	Company	Food Sale (in % of Total Sales)	Revenues in Germany (€ billion)
1	Metro AG	45.1	32.0
	Real	75.0	8.6
	Metro Cash+Carry	75.0	6.6
	Kauflhof	7.1	4.4
	Extra	86.0	2.9
	Others	2.2	9.5
13	Wall-Mart Germany	50.0	2.9*
14	Norma	87.0	2.4*
15	Bartels-Langness	81.8	2.1*

Source: Lebensmittelzeitung (Internet Edition) (2003) (* = Estimates)

The adaptation to the German market was non-existent and therefore led to bad publicity. So many views on why Wal-Mart failed in Germany have resulted in a study guide for Costco to learn from and capitalize in Europe.

Costco's entry in the German Market

With Costco running 27 warehouses across the UK and expanding its business with the second warehouse in Spain, the company found a way to entry the European Market. This success is not only because of long-term preparations and analysis of the market and the culture but also appealing to both business and individuals alike with member- only retail. Unlike Wal-Mart, Costco prove that they can adapt their business to different cultures by opening their 27th warehouse in the UK, and recently 4 openings in Asia.

The next step to expand further in Europe is to hit the heart of Europe. Not only is Germany the biggest consumer market with ~81 million people, 40.2 million households and a growth in private consumption of 25% from 2007-2015 but it also offers a foundation for expanding further due to a stable economy and solid infrastructure.

To assume Costco will be a guaranteed success in Germany would be bold, as German citizens generally stick to their own brand of retailers. With Costco's unique appeal of membership warehouse shopping and proven track record of studying and adapting to new territories the company can continue rolling into Germany and eventually neighboring countries. With ExpoReal approaching this week in Munich, now is a perfect opportunity to find a new home for Costco.

Market Analysis: Muenster

General information

Population: - **296,599**

Area: - **302.93 km²**

Founded: - **793 A.D.**

Federal State: - **North Rhine-Westphalia**

Purchasing Power Index/ inhabitant: - **109.1**

Retail-Relevant PPI: - **106.5**

Population related information:

Muenster is a university city with 9 Universities in total with 59,164 students of whom 9,410 are first-years.

Residential Population (31.12.2014)

Age Groups	Male	Female	Total	In %
0-17	23,078	21,830	44,908	15.0
18-29	30,315	35,753	66,608	22.0
30-49	41,553	40,854	82,407	27.4
50-64	27,181	28,522	55,703	18.5
65-79	16,047	19,940	35,987	12.0
80 and older	5,105	10,098	15,194	5.1
Total	143,297	156,988	300,267	100

Unemployment rate 2014: total = **6.0%**

Men = **6.6%**

Women = **5.3%**

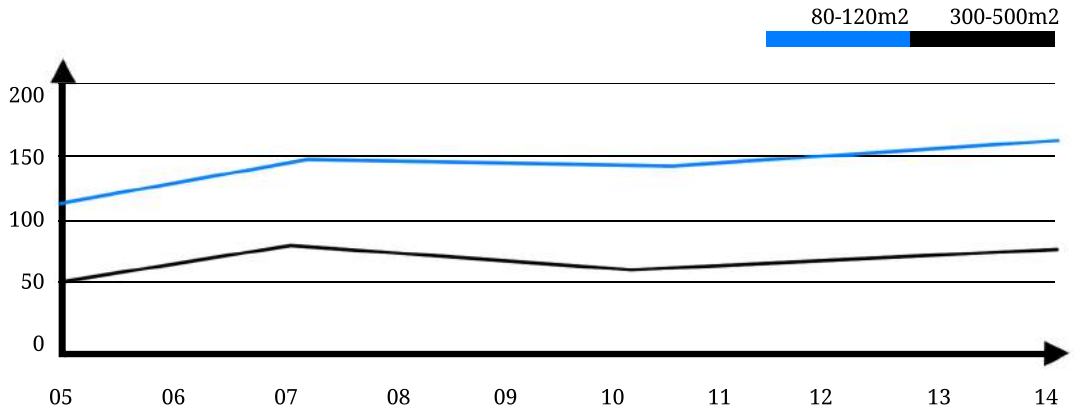
People in paid work (2013) divided by economic sector:

Economic Sector	in 1000	in %
Agriculture and forestry	1.3	0.6
Manufacturing industry/trades	22.0	10.4
Services	188.7	89.0
Total	212.0	100

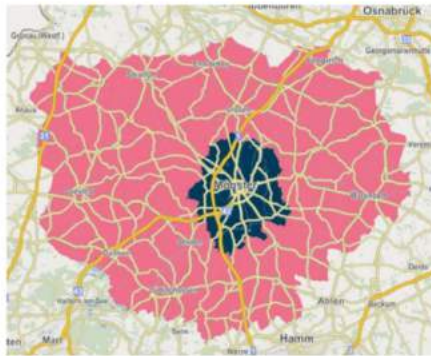
With a low unemployment rate, and a vigorous student body indicating a populous family city, Muenster provides a well-educated population with a GDP per capita of around €50,000 (NRW ~ €33,700 / Germany ~ 35,000) and therefore an interesting target group for Costco.

Real Estate

Rental Fees at top locations within the city center from 2005 to 2014 in €/m² whereby 80- 120m² is normally more expensive than 300-500m²
(2014 = €160/m² for real estate from 80 to 120m²)



Mostly inhabited area is to be found in the inner city which makes the real estate prices obvious as the demand of a good position within the center of a city is for many retail companies the best way to display their goods.



It is not surprising that the city center's turnover makes up for 28.1% for the cities total turnover although only 33.4% of the whole surface is used for commercial purposes.

Characteristics of Popular Shopping Streets

Ludgeri Street:

The Ludgeri Street (Ludgeristraße) is the best commercial location with a high ratio of chain stores (81%) and most visited shopping street. The current rental fees for a surface of 80-120m² is €165/m².

Prinzpal Market:

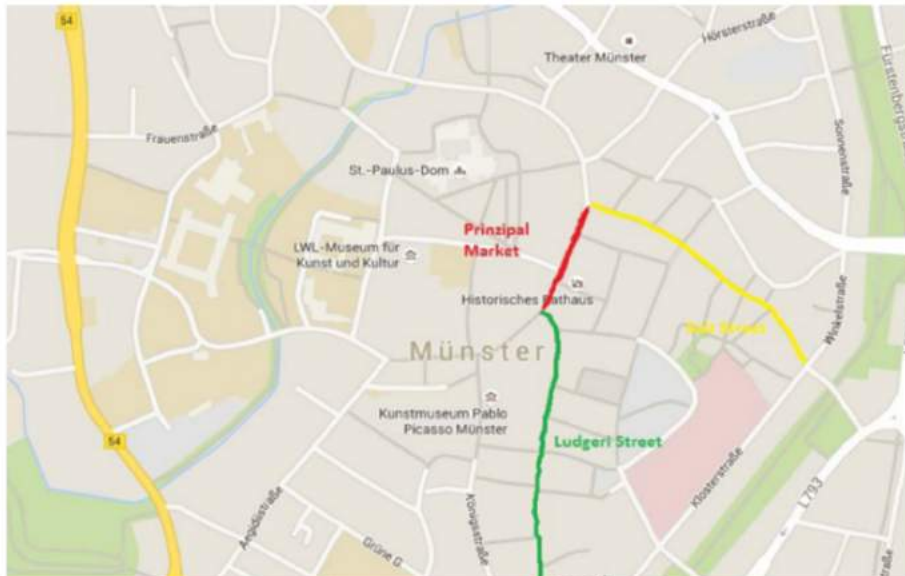
The Prinzpalmarket's (Prinzpalmarkt) characteristics is the architecture of the gable houses and arcade corridors, the exclusive retailers and state-of-the-art specialty businesses and the low fluctuation of retailers which makes this street the city's prime location.

The chain store ratio is with 39% relatively low.

Highest rental fees on this street are around €160/m² for a surface of 80-120m².

Salz Street:

Muenster's oldest commercial street, the Salz Street (Salzstraße) has the cheapest rental fees from the ones already mentioned with €127/m² for the same surface I used for comparison. Nonetheless it is a good frequented street for consume orientated stores with a chain stores ratio of 59%.





COMFORT-City Ranking

The research and consulting group COMFORT's city ranking on Muenster was quite positive on a ranking about high populated city's retailing outlook. Muenster is with an average of 74% on rank 7 in their report. The number contains following rankings:

Demographic/ Economic Ranking = 60%

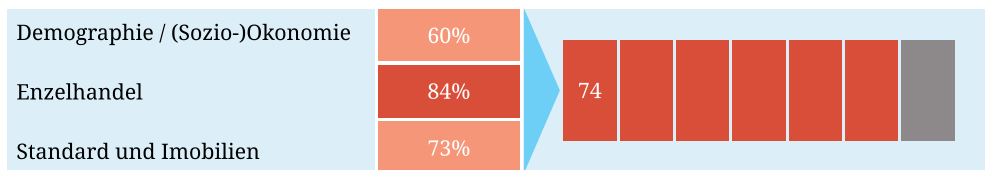
This percentage is calculated with a parameter about the population, population outlook, GDP, unemployment rate, tourism and purchasing power.

Retail = 84%

Parameters about population centrality, population and demand volume, retail centrality, city center turnover in relation of commercially used surface and the productivity in these areas.

Location and Real Estates = 73%

Parameters about rental fees, location and surface structure of the city center, diversity in retailers and branches, renting demand and intensity.



Conclusion

Muenster is a big university and family city with a high population and an increasing GDP per capita which makes the city very popular for retailers. It is not surprising that the rental fees are above average for cities with similar population amount and density but nonetheless its high-traffic streets are popular and attract many customers every day. The city is also recommended for retailers that target families because of the higher income. The city, with around 50,000 students at the

universities around the downtown, is a good location for businesses that target younger and middle-aged generations around 18-49 years.



Sources:

Costco Wholesale Corp. in Germany

Institution of world Economics at the Kiel University:

https://www.ifw-kiel.de/media/press-releases/2015/economic-outlook-of-the-kiel-institute-2015-2013-2017/view?set_language=en

GDP and GDP per Capita Forecasts

Trading Economics

www.tradingeconomics.com

Geographical position

Left Picture

<http://www.firmendb.de/grafik/karten/lage/de.png>

Right picture

https://commons.wikimedia.org/wiki/File:Autobahnen_in_Deutschland.svg#/media/File:Autobahnen_in_Deutschland.svg

Picture below

http://www.y-punkt.de/portal/a/ypunkt!/ut/p/c4/LYvBCsIweET_KJtYD-LN2oPSm5daL5I2S1mSjifSgWgQ_3gScgXd5M_CCUq83WjRT8NrBE8aZztMupt3g-xOztyy05YzOirgcMVkY6s2gmINHrmT0TIVL0hxS2SV21eSUiHfKjYJsq1Wj5D_qe7pd-0NzVlK7tw-I63r5ASruoyY!/#par4

Market potential and size

Basic and Wholesales Data

Federal Office of Statistics (Germany)

Retail

<http://www.statista.com/>