



Costco Wholesale Corporation: New Format, Same Cheap Prices

Description

Costco Wholesale Corporation ([NASDAQ:COST](#)) announced December 14 that it was opening the first Canadian location of its relatively new format, Costco Wholesale Business Centre. By going back to serving its original customer, Costco is hoping this will help drive its Canadian revenues higher.

With its stock basically flat in 2016, this move could be what is needed to get its share price moving higher. Here's why.

Costco quietly launched this format geared to small- and medium-sized business owners back in 2013 in the U.S. Today, there are 14 locations open south of the border with more on the way. Here in Canada, Costco expects to have locations open in every city, where it currently has consumer-focused warehouses open.

"The concept has momentum," said Marc-Andre Bally, head of its business centre initiative here in Canada. "There are not a lot of major operators that can cater to these small businesses, so we think that there's a void out there and we hope to fill it."

Canada is Costco's biggest market outside the U.S. with sales per warehouse that are higher than in any other country it operates in, including its American stores. This new venture has a good chance to be successful with potential revenues in the hundreds of millions of dollars.

Do you think I'm exaggerating?

- **Staples, Inc.** (NASDAQ:SPLS) has 305 stores in Canada.
- The average store in the entire Staples network generates \$4.6 million annually, or about \$235 per square foot.
- Costco's store in Toronto will have 127,000 square feet.
- If it generates similar revenue numbers as Staples, we're talking about \$30 million from just one store.
- Based on Staples's 305 stores, its Canadian business possibly generates as much as \$1.4 billion in revenue from 6.1 million feet.
- If Costco took 25% of those revenues, the Canadian operation would generate \$350 million in

revenue from the business centres alone.

Should Staples be worried? Absolutely.

For Costco's Canadian operations, this also represents an opportunity to chip in and improve its overall business. Its 91 warehouses, collectively, have suffered consecutive annual declines in same-store sales of 3% and 5% in fiscal 2016 and 2015, respectively.

You can thank a weak Canadian dollar for those declines. Excluding currency, same-store sales increased 8% in each of the last two years—almost double those in the U.S. Canada is the gem in the Costco empire.

Here in Canada, Staples pretty much has the retail office products business to itself. With the opening in March of the Costco Wholesale Business Centre, that's no longer the case.

Estimates put sales per square foot for Costco's Canadian stores at \$1,490 per foot. The average store generates approximately \$215 million in annual revenue for a total of just less than \$20 billion or about 17% of the entire company's annual revenue.

So, even if it were to ultimately deliver \$350 million in annual revenue from its new business warehouse concept in Canada, that would represent less than 2% of sales.

Yes, it's a drop in the bucket, but it's another reason why Canadian investors should want to own Costco stock.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:COST (Costco Wholesale Corporation)

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