

Costco - Retailing Done Right

Costco Wholesale Corporation is the largest American membership-only warehouse club retailer that provides a wide selection of merchandise, and is the third largest retailer in the world after Walmart and Amazon.

Stock Symbol: COST (NASDAQ)

Costco History: The first Costco warehouse store opened in Seattle, Washington, on September 15, 1983, and was created by James (Jim) Sinegal and Jeffrey Brotman. Sinegal served as president and CEO of Costco until his retirement in 2012. But, Costco wasn't an original retailing concept - selling in bulk in a membership warehouse. Prior to starting Costco, Sinegal had worked for many years for a retailing pioneer - a man named Sol Price. In 1954, Price founded FedMart, a company of discount department stores very similar to Costco.

Costco's corporate culture: Costco's retention rate for employees who have been there a year is 94%. That level of employee retention (the number of employees who remain employed and don't leave the company) is unheard of in the retail industry. Costco pays its employees extremely well. Costco's average wage is \$22 per hour vs. \$13.38 for Walmart. Costco also offers full health and dental insurance even to its part-time employees; a 401(k) with stock options after a year; and liberal vacation time and family leave.

During the 2008 nationwide recession, many U.S. companies laid off employees and lowered wages for existing employees. Costco did not. Instead, they offered pay raises to existing employees.

Costco's internal slogan in how they run their business with employees, vendors, and partners is - "do the right thing." One example. When Costco discovered they'd marketed and sold a shirt as 100% silk, and the shirt wasn't actually silk, they contacted every customer who purchased the shirt and refunded their purchase.

Costco fun facts: Costco's most popular product is toilet paper. In a recent year, Costco sold more than 1 billion rolls of toilet paper.

You have to pay for the privilege to shop at Costco. Annual Costco memberships will be \$60 per year starting June 1, 2017. Annual membership had been \$55 previously.

Unlike many well-known retailers, Costco doesn't spend money on advertising its stores. Costco sells a wide variety of merchandise, including coffins which you can buy online at www.costco.com

Costco/retailing discussion questions:

If you ran a retail store, how would you make the store experience unique? (Bloom Level 5, Costa Level 3)

Compare and contrast Costco to Wal-Mart or Target. (B4, C2)

What would it be like to work as a Costco employee? (B6, C3)

Have you, or your family, ever shopped at Costco? (B1, C1)

How is Costco different from other retail stores you've visited? (B4, C2)

How does a company's business culture impact their success? (B4, C3)

How can paying retail employees well impact a retailer's business? (B6, C2)

What do you think about Costco as a business and retailer? (B6, C3)

As you learn about Costco and retailing, what changes would you make if you were in charge of Costco? (B6, C2)

Do you think that other retailers could learn from Costco's success? (B6, C3)

Additional reading and resources:

Fortune Magazine - *The Magic In The Warehouse* - <http://fortune.com/costco-wholesale-shopping/?iid=sr-link2>

Bloomberg Businessweek - Costco CEO Craig Jelinek Leads the Cheapest, Happiest Company in the World <https://www.bloomberg.com/news/articles/2013-06-06/costco-ceo-craig-jelinek-leads-the-cheapest-happiest-company-in-the-world>

Wikipedia - <https://en.wikipedia.org/wiki/Costco>