Costco: From Concept to $1 Billion in Three Years
Abstract

Costco Wholesale Corporation is a major warehouse merchant that sells a wide selection of products. To understand this company, the relationships with its key publics, its culture and goals were researched. Costco is an internationally traded company and owned by shareholders. It is concluded that Costco’s members, employees and shareholders are most important to the company. Costco’s business practices revolve around treating its employees well, which in turn benefits customers and shareholders. Costco’s mission statement is to provide members with quality goods and services. However, the Waste Diversion Program is largely unknown to members because of lack of publicity. In response, the proposed solution is to increase awareness about the program. Store managers would consider placing in-store recycling posters, fliers and notices in more visible places.
Introduction

Costco Wholesale Corporation is the largest membership based warehouse store chain in the United States. Its business model revolves around providing a wide range of products such as office supplies, groceries, electronics and furniture in one convenient location and with bulk pricing. The purpose of this report is to understand the practices of Costco. Since its official beginnings in 1983, Costco Wholesale has achieved remarkable success such as being the first company to grow from zero to $3 billion in sales in fewer than six years. This report will discuss Costco as a company. Its organizational philosophy and business practices will be explored. A communication problem will be determined.

Background

Early History

The company was first conceptualized by founders Jim Sinegal and Jefferey H. Brotman, who were looking for a way to combine a discount supermarket and a department store together in order to provide ultimate convenience to customers (Chu). Brotman had seen similar practices in European “hypermarkets,” where selling a large variety of products in one location attracted customers. Funded by credit cards, friends and family, the first location opened in Seattle, Washington, in 1983. Sales from the first location had a growth rate of 25% per week. By the end of ten weeks, $1.4
million in sales were being made, putting Costco on track to expand to


twelve more stores with $80 million in sales per store (Chu).


In 1993 Costco underwent a merger with The Price Company, another


warehouse market chain. The combined company, named PriceCostco,
doubled the size of each company. This move led to 206 locations


generating $16 billion in annual sales (Company Profile). Then in 1994, the


merger was broken because of disagreements regarding company direction.
The name PriceCostco continued until 1997, when the company changed its


name to Costco Wholesale, which exists today. The next section will cover


the company’s current state of operation.


The Company Today


Costco is the largest warehouse club chain and the fifth largest retailer


in the United States today (Annual Report 212). The company is currently


operating 626 stores in the United States and around the world. The reason


for this success lends its self to business practices of the company. Costco


sells a wide variety of products ranging from furniture to groceries. In


contrast to major supermarkets, Costco charges an annual membership fee


for the ability to shop at its stores. Costco requires its customers to buy


wholesale quantities of products. Founder Jim Sinegal explained:


Costco is able to offer lower prices and better values by


eliminating virtually all the frills and costs historically associated
with conventional wholesalers and retailers, including salespeople, fancy buildings, delivery, billing and accounts receivable. (Company Profile)

Prices can discounted through wholesale and low store maintenance, a characteristic of warehouse stores. Costco is especially attractive to small businesses that need to buy bulk products to resell later. Costco’s previous target customer base consisted only of business owners, but the company’s direction was shifted to be more accommodating to ordinary families as well.

Costco is a membership based warehouse club. Customers pay an annual fee of $55 to shop at Costco. Only members and their guests may shop regularly at Costco, though non-members may purchase items with a 5% surcharge. Costco believes this reinforces customer loyalty. Membership levels include a Gold Star membership for individuals and a business membership. In addition to shopping at Costco locations, members can receive other services such as car repair, gasoline, pharmacy and eye care. Costco accommodates business memberships by allowing card holders to enter and make purchases well before store opening times.

Costco sells an extensive range of products to members. The company previously only sold nonperishable products straight from factory bulk packaging. Gradually, Costco began to sell perishable and difficult-to-handle products such as meat, dairy, baked goods, jewelry and fine wine. Services
now include pharmacies, hearing centers, optometrists and photo-development stations. In addition to selling products from various companies, Costco has its own in-house brand named Kirkland Signature. It is trademarked by the company and claims to provide brand-name quality at discounted prices.

**Subsidiaries**

Costco Travel is a subsidiary of Costco and offers travel services for members. Costco Travel employs more than 300 travel professionals, all of which work for Costco Wholesale Corporation (About Costco Travel). Costco Travel is a service exclusively for Costco members and works to use Costco’s buying authority to negotiate a better deal in the travel marketplace. In addition to vacation packages, cruises, rental cars, theme park trips and hotels are offered to Costco members.

Costco offers food service to its members in the form of a food court located within the warehouse (Wight). The food court is run by food-service professionals working for Costco, where members can purchase hot dogs, soft drinks, and pizza. According to Costco founder Jim Sinegal, Costco’s food court adds a demonstrable value to having a membership. Costco’s food service offers large meals for fewer than four dollars, a price much more competitive than outside food services.

*Numbers and Types of Key Publics*
Costco members, employees and shareholders are Costco’s key publics. Costco currently has over 67.4 million members in the United States and internationally. Most customers are middle-aged, at 35-44. Costco attracts affluent customers. The average income of a Costco member ranges from $50,000 to $100,000 a year (Annual Report 2012). The majority of members are business owners. The company caters to business owners by focusing on supplying products in bulk and at low prices. Office supplies and resale goods are especially available in Costco stores. The general public is not allowed to shop freely at Costco without a membership.

Costco currently employs 160,292 employees worldwide (Annual Report 2012). The average pay for a Costco employee is $17 an hour. Employees have above-average benefits compared to similar warehouse stores.

Costco is a publicly traded company owned by shareholders. Currently, stock shares now trade around $103. While ultimately most important, Costco places members and employees before shareholders. The company has been criticized by shareholders for paying employees too well and selling merchandise at dramatically low prices in order to ensure customer loyalty.

Geographic Areas of Operation

Costco is an international company. Currently there are 449 locations around the United States and Puerto Rico (Company Profile). Costco has 85
locations in nine Canadian provinces. Around the world, there are locations in United Kingdom, Taiwan, Korea, Japan, Australia and Mexico. The next section will cover the organization philosophy of Costco.

**Organizational Philosophy**

*How the organization views its role in society*

Jim Sinegal has repeatedly stated that Costco serves as an example of putting employees before shareholders, a practice not seen in Wall Street (Greenhouse). The average pay of the company is 42 percent higher than its rival Sam’s Club. Employees are paid well above the national average and have extremely low employee turnover and theft. Costco workers pay only eight percent of their healthcare costs, while the national average is 25 percent. As a business practice it is expected that by treating employees, well the employees will in turn treat customers well. This differs dramatically from competitors who have much lower average wages. This leads to very high employee satisfaction and extremely low employee theft. Sinegal has been a supporter of raising the national minimum wage and employee benefits. While shareholders are dissatisfied with this practice, Costco’s stock prices have always sold for more value than Walmart and other competitors.

**Mission Statement**

Costco’s mission statement is providing members with quality goods and services at the lowest prices possible. This is accomplished by selling
products at the best prices in the market and in high volume. All products are sold with a 100 percent satisfaction guarantee and are eligible for a refund. Costco limits its price markups on products to a maximum of 15 percent. This leads to small profit margins compared to competitors who may mark up by more than 25 percent. Second to members, Costco’s goal is to care for employees through competitive wages and excellent benefits. Through providing for members and employees, Costco achieves its ultimate goal of rewarding shareholders with profits.

Organizational Culture

The organizational culture of Costco is unique in that they place members and employees first. This includes treating employees with above-average wage and benefits. In turn, employees are expected to treat customers well and work efficiently. This is further explained by an interviewed employee of Costco:

Costco holds a view that if the employees are well taken care of, they will work harder for the company, which benefits customers, who then continue to come back. The company is great to their employees and many have been working here for years. (Maloy)

This emphasis on members and employees is expected to keep customer satisfaction high and in turn reward shareholders with profits. Costco does
not advertise or have a public relations department, instead relies on word of mouth.

**Aspirations and Goals**

Costco plans to have 1,000 warehouses by 2025. This means almost doubling the current number of warehouses. According to business analysis, Costco has seen a steady growth rate. Since 2008, 110 new Costco locations have opened (2012 Annual Report). Founder Sinegal has stated that he will continue to build employee and membership loyalty:

>We're in the business of building an organization, an institution that we hope will be here 50 years from now. And paying good wages and keeping your people working with you is very good business. (Goldberg and Ritter)

Costco aspires to continue its growth and remain profitable.

**Communication Problem**

**Problem**

Waste management at Costco is an important issue. Because of the large volume of products being sold daily, waste is created in the form of plastic packaging, pallets, cardboard boxes and expired groceries. Sinegal has stated that Costco is expanding its efforts to reduce its environmental impact (Daane). At many Costco locations in the United States, there are
special recycling bins for Costco’s Waste Diversion Program for customers to dispose of recyclable materials obtained from shopping (Witt). However, because of Costco’s lack of a public relations department and very limited publicity sent to members, these bins get rarely used because members simply are not informed of the opportunity of recycling at Costco. Recycling at Costco locations can increase through better communication to members. By communicating this program to members more efficiently, Costco can reduce environmental impact further.

Target Audience

The target audience is Costco members. There are 67.4 million members that shop at Costco. Over 10.1 million members are business owners. The majority of members are affluent with incomes ranging from $50,000 to $100,000 a year (Annual Report 2102). Each member generates waste from packaging of the products they purchase at Costco. Members can become more aware of recycling at Costco through more efficient communication.

Key Publics

Costco members are most involved with the communication problem. Through better communication, Costco members can be aware of the recycling opportunities at Costco. Members can then bring in recyclable waste generated from their businesses to Costco locations for recycling.
Shareholders are also affected by a change in communication. The change can lead to costs or may bring in more customers satisfied with Costco’s environmental practices.

**Background**

Costco’s Waste Diversion Program was put in place for the company and its members to become more environmentally friendly. Previously, as much as 1.5 tons of waste per week was generated by a single Costco warehouse (Daane). The Costco Waste Diversion Program was one of the programs created to help reduce environmental impact. Bins are placed at Costco locations for recycling (Witt). Costco then pays composting and recycling companies to pick it up.

Costco publicizes the Waste Diversion Program with signs within the store and in a monthly magazine sent to members. However, store managers often place recycling publicity in obscure locations in favor of product and price signs (Maloy). Magazine advertisements for the recycling program are overshadowed by other advertisements.

**Cause of Problem and Facts**

Costco lacks a public relations department and sends no publicity out to the public. This is done to further reduce costs and pass savings to customers. The only form of publicity is an optional monthly magazine sent to members detailing company stories and limited advertisements. The
Waste Diversion Program is largely unknown to members who shop at Costco. The recycling bins for the program are located in out of sight locations at Costco due to their smell, making it difficult for shoppers to be aware of the program. Without publicity to the public and communication to members only in the form of a monthly magazine, the location of the bins and the program is not well known.

*Duration of the Situation*

The situation will continue as long as members are uninformed about the recycling program. The beginning of the program was largely publicized to members. Shortly after, however, communication about it largely became nonexistent. If this trend continues, then the program will likely become abandoned.

*Significance to the Organization*

The lack of awareness of the recycling program makes the program inefficient. Every week Costco pays a fee for companies to come and pick up the recyclable waste, regardless of whether there is little use of the bins. Increasing awareness of the Waste Diversion Program can lead to more efficient use of the bins. Costco customers can then, by word of mouth, spread that the company is becoming more environmentally friendly. This has potential to gain the favor of new environmentally-minded customers.

*Impediments to a Solution*
It can be expected that some shareholders would be against expanding environmentally friendly practices, including increased communication. All solutions have costs associated with them, and environmental actions do not increase profits as greatly other actions do. Members could also simply not care to recycle at Costco locations, despite being aware of it. Costco’s lack of publicity makes it difficult for the program to reach members.

**Succinct Problem Statement**

Costco’s Waste Diversion Program is a service for members to recycle their waste. Due to simple lack of awareness, members do not use this service to their benefit. Costco wastes money on maintaining the unused recycling bins. In response to the problem, publicity about the recycling program can be increased in order make members aware. Store members can consider making in-store recycling advertisements more visible.
Bibliography

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Witt, Cody. "Costco Example: Food Waste Diversion through Composting."