

shopped wholesale clubs for their personal needs as well as their business needs. Interested shoppers paid an annual membership fee to make purchases at a warehouse club.

There were more than 1,250 warehouse club locations in the United States, Canada, and Mexico; most every major metropolitan area had one, if not several, warehouse club operations. Costco had about a 56 percent share of warehouse club sales in North America (the United States, Canada, and Mexico); Sam's Club had roughly a 36 percent share; and BJ's Wholesale Club and several small warehouse club competitors had an 8 percent share. Competition was based on such factors as price, merchandise quality and selection, location, and member service. However, all three warehouse clubs also competed with a wide range of other types of retailers, including retail discounters like Walmart and Dollar General, general merchandise chains like Target and Kohl's, specialty chains like Office Depot and Staples in office supplies and Best Buy in electronics and DVDs, supermarkets, gasoline stations, and Internet retailers. Not only did Walmart, the world's largest retailer, compete directly with Costco and BJ Wholesale via its Sam's Club subsidiary, but its 3,000+ Walmart Supercenters in the United States, Canada, and Mexico sold many of the same types of merchandise at attractively low prices as well.

INDUSTRY BACKGROUND

The membership warehouse concept was pioneered by discount merchandising sage Sol Price, who opened the first Price Club in a converted airplane hangar on Morena Boulevard in San Diego in 1976. Price Club lost \$750,000 in its first year of operation, but by 1979 it had two stores, 900 employees, 200,000 members, and a \$1 million profit. Years earlier, Sol Price had experimented with discount retailing at a San Diego store called Fed-Mart. Jim Sinegal, the cofounder and current CEO of Costco Wholesale, got his start in retailing at the San Diego Fed-Mart at the age of 18, loading mattresses for \$1.25 an hour while attending San Diego Community College. When Sol Price sold Fed-Mart, Sinegal left with Price to help him start the San Diego Price Club store; within a few years, Sol Price's Price Club emerged

as the unchallenged leader in member warehouse retailing, with stores operating primarily on the West Coast. Although he originally conceived Price Club as a place where small local businesses could obtain needed merchandise at economical prices, Sol Price soon concluded that his fledgling operation could achieve far greater sales volumes and gain buying clout with suppliers by also granting membership to individuals—a conclusion that launched the deep-discount warehouse club industry on a steep growth curve.

When Sinegal was 26, Sol Price made him the manager of the original San Diego store, which had become unprofitable. Price saw that Jim Sinegal had a special knack for discount retailing and for spotting what a store was doing wrong (usually either not being in the right merchandise categories or not selling items at the right price points)—the very things that Sol Price was good at and that were at the root of the Price Club's growing success in the marketplace. Sinegal soon got the San Diego store back into the black. Over the next several years, Sinegal continued to build his prowess and talents for discount merchandising. He mirrored Sol Price's attention to detail and absorbed all the nuances and subtleties of his mentor's style of operating—constantly improving store operations, keeping operating costs and overhead low, stocking items that moved quickly, and charging ultra-low prices that kept customers coming back to shop. Realizing that he had mastered the tricks of running a successful membership warehouse business from Sol Price, Sinegal decided to leave Price Club and form a new warehouse club operation, which he named Costco. His cofounder in the venture was Seattle entrepreneur Jeff Brotman (now chairman of Costco's board of directors).

The first Costco store began operations in Seattle in 1983, the same year that Walmart opened its first Sam's Club warehouses. By the end of 1984, there were nine Costco stores in five states, serving more than 200,000 members. In December 1985, Costco became a public company, selling shares to the public and raising additional capital for expansion. Costco became the first ever U.S. company to reach \$1 billion in sales in less than six years. In October 1993, Costco merged with Price Club. Jim Sinegal became CEO of the merged company, presiding over 206 PriceCostco locations, which in total generated