

	Fiscal Years Ending on Sunday Closest to August 31					
	2009	2008	2007	2006	2005	2000
Members at year-end^a						
Businesses (000s)	5,700	5,600	5,400	5,200	5,000	4,200
Gold Star members (000s)	21,500	20,200	18,600	17,300	16,200	10,500
Gold-on cardholders (employees of business members, spouses of members)	28,800	27,700	26,400	25,000	n.a.	n.a.

^aMembership numbers do not include cardholders of Costco Mexico.

^bSome totals may not add due to rounding.

^cSources: Costco, 10-K reports 2000, 2005, 2007, and 2009.

Costco CEO Jim Sinegal described the company's approach to pricing:

We always look to see how much of a gulf we can create between ourselves and the competition. So that the competitors eventually say, "These guys are crazy. We'll compete somewhere else." Some years ago, we were selling a hot brand of jeans for \$29.99. They were \$50 in a department store. We got a great deal on them and could have sold them for a higher price but we went down to \$29.99. Why? We knew it would create a riot.²

At another time, he explained,

We're very good merchants, and we offer value. The traditional retailer will say: "I'm selling this for \$10. I wonder whether we can get \$10.50 or \$11." We say: "We're selling this for \$9. How do we get it down to \$8?" We understand that our members don't come and shop with us because of the window displays or the Santa Claus or the piano player. They come and shop with us because we offer great values.³

Indeed, Costco's markups and prices were so fractionally above the level needed to cover operating costs and interest expenses that Wall Street analysts had criticized Costco management for going all out to please customers at the expense of charging prices that would increase profits for shareholders. One retailing analyst said, "They could probably get more money for a lot of the items they sell."⁴ Unimpressed with Wall Street's criticism, Sinegal commented, "Those people are in the business of making money between now and next Tuesday. We're trying to build an organization that's going to be here 50 years from now."⁵ He went on to explain why Costco's approach to pricing fractionally above levels needed to cover operating expenses would remain unaltered during his tenure:

When I started, Sears, Roebuck was the Costco of the country, but they allowed someone else to come in under them. We don't want to be one of the casualties. We don't want to turn around and say, "We got so fancy we've raised our prices," and all of a sudden a new competitor comes in and beats our prices.⁶

Product Quality and Selection Most of the merchandise Costco sold was of good-to-excellent quality and was supplied by name-brand manufacturers. The specifications for Costco's private-label Kirkland Signature products were high, often resulting in their being of equal or better quality than those of highly regarded or better-known brands; but it was the company's strategy to purchase and stock only those private-label items that could be sold to members at prices significantly below comparable name-brand items. During the 2006–2009 period, Costco expanded its Kirkland Signature private-label line from some 400 items to nearly 600 items.

The selections of branded and private-label merchandise were deliberately limited in order to keep costs, and thereby prices, low. Whereas typical supermarkets stocked about 45,000 items and a Walmart Supercenter or SuperTarget could have 125,000 to 150,000 items for shoppers to choose from, Costco's merchandising strategy was to provide members with a selection of 3,800 to 4,000 items. Thus, while Costco's product range did cover a broad spectrum—fresh-baked breads and desserts, prime steaks, gourmet cheeses, flat-screen TVs, iPods, fresh flowers, electric toothbrushes, caskets, baby strollers, toys and games, musical instruments, basketballs, sheets and towels, vacuum cleaners, books, DVDs, stainless-steel cookware, seat-cover kits for autos, lightbulbs,