knowledgeable critic. He cut to the chase quickly, exhibiting intense attention to detail and pricing, wandering through store aisles firing a barrage of questions at store managers about sales volumes and stock levels of particular items, critiquing merchandising displays or the position of certain products in the stores, commenting on any aspect of store operations that caught his eye, and asking managers to do further research and get back to him with more information whenever he found their answers to his questions less than satisfying. It was readily apparent that Sinegal had tremendous merchandising savvy, that he demanded much of store managers and employees, and that his views about discount retailing set the tone for how the company operated. Knowledgeable observers regarded Jim Sinegal's merchandising expertise as being on a par with that of the legendary Sam Walton, the founder of Walmart.

Warehouse Operations

Costco bought the majority of its merchandise directly from manufacturers, routing it either directly to its warehouse stores or to one of nine cross-docking depots that served as distribution points for nearby stores. Depots received container-based shipments from manufacturers and reallocated these goods for combined shipment to individual warehouses, generally in less than 24 hours. This maximized freight volume and handling efficiencies. When merchandise arrived at a warehouse, it was moved directly onto the sales floor; very little was stored in locations off the sales floor, thereby lowering receiving costs by eliminating many of the costs associated with multiple-step handling of merchandise, such as purchasing from distributors as opposed to manufacturers, use of central receiving, operating regional distribution centers for inventory storage and distribution of merchandise to nearby stores, and having storage areas at retail sites where merchandise could be held in reserve off the sales floor.

Costco had direct buying relationships with many producers of national name-brand merchandise (e.g., Canon, Casio, Coca-Cola, Colgate-Palmolive, Dell, Fuji, Hewlett-Packard, Jones of New York, Kimberly-Clark, Kodak, Kitchen Aid, Levi Strauss, Michelin, Nestlé, Panasonic, Procter & Gamble, Samsung, and Sony) and with manufacturers that supplied its Kirkland Signature private-label products. No single manufacturer supplied a significant percentage of the merchandise that Costco stocked. Costco had not experienced any difficulty in obtaining sufficient quantities of merchandise, and management believed that if one or more of its current sources of supply became unavailable, the company could switch its purchases to alternative manufacturers without experiencing a substantial disruption of its business.

Costco warehouses accepted cash, checks, most debit cards, American Express, and a private-label Costco credit card. Costco accepted merchandise returns when members were dissatisfied with their purchases. Losses associated with dishonored checks were minimal because members who bounced checks were prevented from paying by check or cashing checks at the point of sale until restitution was made. The membership format facilitated strictly controlling the entrances and exits of warehouses, resulting in inventory losses of less than two-tenths of 1 percent of net sales—well below those of other retail discounters.

Warehouse Managers Costco's warehouse managers were delegated considerable authority over store operations and, in effect, functioned as entrepreneurs running their own retail operation. They were responsible for effectively merchandising the ever-changing lineup of treasure-hunt products, orchestrating in-store product locations and displays to maximize sales and quick turnover, and coming up with new ideas about what items would sell in their stores. In experimenting with what items to stock and what in-store merchandising techniques to employ, warehouse managers drew on their knowledge of the clientele that patronized their locations—for instance, big-ticket diamonds sold well at some warehouses but not at others. Costco's best managers kept their fingers on the pulse of the members who shopped their warehouse location to stay in sync with what would sell well, and they had a flair for creating a certain element of excitement, hum, and buzz in their warehouses that spurred above-average sales volumes (sales at Costco's top-volume warehouses often exceeded \$5 million a week, with sales topping \$1 million on many days). Successful managers also thrived on the rat race of running a high-traffic store and solving the inevitable crises of the moment.