

Costco's Membership Base and Member Demographics

Costco had two primary types of memberships: Business and Gold Star. Gold Star memberships were for individuals who did not qualify for a Business membership. Businesses, including individuals with a business license, retail sales license, or other evidence of business existence, qualified as Business members. Business members generally paid an annual membership fee of \$50 for the primary and spouse membership cards and could purchase add-on membership cards for an annual fee of \$40 each for partners or employees (these add-on also included a spouse card). A significant number of Business members also shopped at Costco for their personal needs.

Gold Star members generally paid an annual fee of \$50, which included a spouse card. In addition, all members in the United States and Canada could upgrade to an Executive membership for an annual fee of \$100; Executive members qualified for 2 percent additional savings on qualified purchases at Costco (redeemable at Costco warehouses), up to a maximum rebate of \$500 per year. The Executive membership also offered savings and benefits on various business and consumer services offered by Costco, including merchant credit card processing, small-business loans, auto and home insurance, long-distance telephone service, check printing, and real estate and mortgage services; these services were mostly provided by third parties and varied by state. In 2009, Executive members represented 29 percent of Costco's primary membership base and generated more than 40 percent of consolidated net sales. Members could shop at any Costco warehouse; member renewal rates were about 87 percent.

Compensation and Workforce Practices

In September 2009, Costco had 79,000 full-time employees and 63,000 part-time employees worldwide, not including approximately 9,000 people employed by Costco Mexico, whose operations were not consolidated in Costco's financial and operating results. Approximately

13,500 hourly employees at locations in California, Maryland, New Jersey, and New York and one warehouse in Virginia were represented by the International Brotherhood of Teamsters. All remaining employees were non-union.

Starting wages for new Costco employees were in the \$10.50–\$11.00 per hour range in 2008. Depending on the job classification, the median pay scales for Costco employees with five or more years' experience were in the \$17–\$22 per hour range.¹³ Warehouse employees received time-and-a-half pay for working on Sundays and were paid double time in the event they were called on to work more than 12 hours in a given shift. Median salaries for managerial positions at Costco warehouses in 2008 were in the \$55,000–\$75,000 range.¹⁴

Employees received biannual bonuses and a full spectrum of benefits that were regarded as being quite good in comparison to those of other retailers. Salaried employees were eligible for benefits on the first of the month after the date of hire. Full-time hourly employees were eligible for benefits on the first of the month after working a probationary 90 days; part-time hourly employees became benefit-eligible on the first of the month after working 180 days.

Although admitting that paying good wages and good benefits was contrary to conventional wisdom in discount retailing, Jim Sinegal was convinced that having a well-compensated workforce was very important to executing Costco's strategy successfully: "Paying good wages and keeping your people working with you is very good business."¹⁵ When a reporter asked him about why Costco treated its workers so well compared with other retailers (particularly Walmart, which paid lower wages and had a skimpier benefits package), Sinegal replied: "Why shouldn't employees have the right to good wages and good careers? . . . It absolutely makes good business sense. Most people agree that we're the lowest-cost producer. Yet we pay the highest wages. So it must mean we get better productivity. Its automatic in our business—you get what you pay for."¹⁶ In 2007, Sinegal announced his support for raising the minimum wage from \$5.15 an hour to \$7.25, saying "The more people make, the better lives they are going to have and the better consumers they're going to be."¹⁷