

### Selecting People for Open Positions

Costco's top management wanted employees to feel that they could have a long-term career at Costco. It was company policy to fill at least 86 percent of its higher-level opening by promotions from within; in actuality, the percentage ran close to 98 percent, which meant that the majority of Costco's management team (including warehouse, merchandise, administrative, membership, front-end, and receiving managers) were homegrown. Many of the company's vice presidents had started in entry-level jobs; according to Jim Sinegal, "We have guys who started pushing shopping carts out on the parking lot for us who are now vice presidents of our company."<sup>18</sup> However, Costco insisted that candidates for warehouse managers be top-flight merchandisers with a gift for the details of making items fly off the shelves; Sinegal said, "People who have a feel for it just start to get it. Others, you look at them and it's like staring at a blank canvas. I'm not trying to be unduly harsh, but that's the way it works."<sup>19</sup> Most newly appointed warehouse managers at Costco came from the ranks of assistant warehouse managers who had a track record of being shrewd merchandisers tuned into what new or different products might sell well given the clientele that patronized their particular warehouse—just having skills in people management, crisis management, and cost-effective warehouse operations was not enough.

## SAM'S CLUB

In early 2010, Sam's Club operated 596 U.S. warehouses in 48 states (the exceptions were Vermont and Oregon), 23 warehouses in Brazil, 38 warehouses in Mexico, 9 warehouses in Puerto Rico, and 3 warehouses in China. Six Sam's Club warehouses in Canada were closed in March 2009, and, in January 2010, Sam's Club CEO Brian Connell announced that 10 underperforming warehouses in the United States (including 4 in California) would be closed. Nonetheless, there were plans in place to open between 5 and 10 new Sam's Club warehouses (including relocations) in 2010. Recently, Sam's Club executives had launched a major warehouse remodeling

program; some 52 remodels were completed during fiscal 2010, and another 60 to 80 clubs were targeted for remodeling during fiscal 2011 (February 2010 through January 2011). Selected financial and operating data for Sam's Club is shown in Exhibit 6.

The first Sam's Club opened in 1984, and management had pursued rapid expansion of the membership club format. Going into 2001, there were 475 warehouse locations in the United States and 53 international locations: Brazil, 8; China, 1; Mexico, 38; and Puerto Rico, 6. Over the next nine years, an additional 121 warehouses were opened in the United States and 80 internationally. Many Sam's Club locations were adjacent to Walmart Supercenters. The concept of the Sam's Club format was to sell merchandise at very low profit margins, resulting in low prices to members. The mission of Sam's Club was "to make savings simple for members by providing them with exciting, quality merchandise and a superior shopping experience, all at a great value."<sup>20</sup>

Facility sizes ranged between 71,000 and 190,000 square feet, with an average size of approximately 133,000 square feet. All warehouses had concrete floors; sparse decor; and goods displayed on pallets, simple wooden shelves, or racks (in the case of apparel).

### Merchandise Offerings

Sam's Club stocked brand-name merchandise, including hardgoods, some softgoods, institutional-size grocery items, and selected private-label items sold under the brands Member's Mark, Bakers & Chefs, and Sam's Club. Generally, each Sam's Club warehouse also carried software, electronics, jewelry, sporting goods, toys, tires and batteries, books, DVDs, and office supplies; most had fresh-foods departments that included bakery, meat, produce, floral products, and a Sam's Cafe. A significant number of clubs had a one-hour photo processing department, a pharmacy that filled prescriptions, an optical department, and self-service gasoline pumps. Members could shop for a broad assortment of merchandise and services online at [www.samsclub.com](http://www.samsclub.com).

Like Costco Wholesale, Sam's Club stocked about 4,000 items, a big fraction of which