

Case - III

OSPM

Costco: A Different Path⁷⁷

In 2010, Costco's reputation for rock-bottom pricing and razor-thin profit margins helped the company maintain its position as the nation's fourth-largest retailer and the No. 1 membership warehouse retailer, with 572 stores (425 in the United States), 142,000 employees, and 55 million members. Sales reached \$76 billion, up 9.1 percent, reflecting, in part, a unique corporate culture that doesn't just pay lip service to the value of its employees, but maintains a reputation for honoring that value.

CEO Craig Jelinek, successor to founder and longtime CEO James Sinegal, believes that the secret to Costco's success lies in the many ways the company overturns conventional wisdom. Despite Wall Street criticism, the company is devoted to a well-compensated workforce and scoffs at the notion of sacrificing the well-being of its employees for the sake of profits. Average hourly wages of

around \$20 smash those of competitors (\$10–\$11.50 per hour). Costco's competitors attempt to improve profits and shareholder earnings by keeping wages and benefits low. As a result, Costco enjoys a reputation of having a loyal, highly productive workforce, and store openings attract thousands of high-quality applicants.

Jelinek is a no-nonsense CEO whose annual salary (\$650,000) is a fraction of the traditional pay for large corporate executives and dramatizes an organizational culture that attempts to minimize disparity between management and workers. Luxury corporate offices are out of the question. It is the "in the trenches together" mind-set that defines Costco's corporate culture, contributing to a level of mutual support, teamwork, empowerment, and rapid response that can be activated for confronting any situation. A dramatic example occurred when employees instantly created a Costco emergency brigade, armed with forklifts and fire extinguishers, whose

members organized themselves and rushed to offer first aid and rescue trapped passengers following the wreck of a commuter train behind a California warehouse store.

Whether attracting employees or customers, the need for public relations or advertising is nonexistent at Costco. Sinegal told a reporter for ABC News that the company doesn't spend a dime on advertising, with over 140,000 enthusiastic employee ambassadors spreading the word about Costco to friends and neighbors.

Equal care has been given to organizational design. Jelinek's belief in a "flat, fast, and flexible" organization encourages delegation of great authority to local warehouse managers who have the freedom and authority to make quick, independent decisions that suit the local needs of customers and employees. Moreover, Costco's new store location efforts seek "fit" between the organization and the community that it serves. Typical suburban locations emphasize the bulk shopping needs of families and small businesses, and Costco has extended its own private label, Kirkland Signature. The private label provides additional savings of up to 20 percent off of products produced by top manufacturers, such as tires made by Michelin specifically for the Kirkland label.

The rapid expansion from having one store in Seattle to becoming America's warehouse club leader and a top global retailer has come with its share of growing pains, as the organization attempts to adapt to its various environments. In the face of rapid growth, Costco management has come up against a myriad of new problems ranging from complaints of a lack of notification for management job openings to persistent complaints of a glass ceiling, providing few opportunities for the advancement of women within the organization. In response, the company has instituted online job postings, automated recruiting, the use of an outside vendor for hiring, and a recommitment to equity in promotion.

International issues are often more complex and often run up against local needs and perceptions. For example,

efforts to expand into Cuernavaca, Mexico, were viewed from the company perspective as a win-win situation, opening a new market and also providing jobs and high-quality, low-priced items for area shoppers. When the site of a dilapidated casino became available, Costco moved quickly, but suddenly found itself facing charges of cultural insensitivity in Mexico. Accusations that Costco was going to build a parking lot on land in Cuernavaca with significant artistic and national heritage led to negotiations under which the company set aside millions of dollars to preserve the landscape, restore murals, and work alongside city planners and representatives of the Institute of Fine Arts and Literature in Mexico City in the construction of a new, state-of-the-art cultural center and museum.

Indications are bright for Costco's future. New CEO Jelinek believes in maintaining the modest levels of compensation for top management and the company's above-average wages and benefits for employees. But questions loom on the horizon: How will increased globalization alter the strong corporate culture? Will Costco be able to maintain and expand its loyal customer base in the face of shifting consumer interests, as reflected in the decline of shopper traffic in physical stores and increased sales via the internet?

Questions

1. Have you shopped at a Costco store? How do you think a Costco store compares to Sam's Club, Target, or Walmart stores? What do you value most when selecting a low-priced store at which to shop?
2. With respect to competitive strategy, identify and evaluate Costco's target customers, its core competence, and how it builds synergy and delivers value.
3. Would you rate Costco's competitive strategy as pursuing differentiation, cost leadership, focus, or some combination? Why?