

The Costco Model

Costco is often cited as one of the world's most ethical companies. It has been called a "testimony to ethical capitalism" in large part due to its company practices and treatment of employees. Costco maintains a company code of ethics which states, "The continued success of our company depends on how well each of Costco's employees adheres to the high standards mandated by our Code of Ethics... By always choosing to do the right thing, you will build your own self-esteem, increase your chances for success and make Costco more successful, too."

In debates over minimum wage in the United States, many commentators see Costco as an example of how higher wages can yield greater company success, often pointing to competitors such as Walmart and Target as examples that fall short in providing for their employees. Other commentators do not see Costco's model as being easily replicable for different types of businesses, citing wages as only one of many factors to consider in companies' best practices.

Costco tends to pay around 40% more and provides more comprehensive health and retirement benefits than Walmart and Target, saving large amounts in employee turnover costs. The company resists layoffs, invests in training its employees, and grants them substantial autonomy to solve problems. U.S. Secretary of Labor Thomas Perez stated, "And the remarkable loyalty that [employees] have to [Costco cofounder Jim Sinegal] is a function of the fact that he categorically rejects the notion that, 'I either take care of my shareholders or my workers.' That is a false choice."

While few disagree with the benefits of fair treatment of employees, some commentators credit the success of Costco to its broader business model that favors higher productivity, not employee satisfaction. Columnist and economist Megan McArdle explains, "A typical Costco store has around 4,000 SKUs [stock keeping units], most of which are stacked on pallets so that you can be your own stockboy. A Walmart has 140,000 SKUs, which have to be tediously sorted, replaced on shelves, reordered, delivered, and so forth. People tend to radically underestimate the costs imposed by complexity, because the management problems do not simply add up; they multiply." Furthermore, McArdle notes that Costco mainly serves as a grocer rather than department store and caters to a generally affluent customer base in suburban areas.



Discussion Questions:

1. How does Costco, as described, match up to the “best practices” explained in the video? Where does Costco fall short? Where does Costco succeed?
2. Walmart pays its employees substantially less than does Costco, even though the two companies often compete head-to-head. How can Costco stay in business when it pays up to 40% more to its employees than its direct competitors?
3. What do you think are the most important practices for a retail company to pursue to foster an ethical environment for workers and consumers? Why?
4. A stock analyst criticized Costco, saying: “Costco continues to be a company that is better at serving the club member and employee than the shareholder.” Do you think this a fair critique? Why or why not?
5. Another analyst complained that Jim Sinegal “has been too benevolent. He’s right that a happy employee is a productive long-term employee, but he could force employees to pick up a little more of the burden.” Again, do you think this a fair criticism? Why or why not?
6. Is a company that does not follow the Costco model a “bad” company? Explain.

Resources:

Unselfishness: The World’s Most Ethical Company & Why Collaboration Works

<http://www.rohitbhargava.com/2012/05/unselfishness-the-worlds-most-ethical-company-why-collaboration-works.html>

How Costco Became the Anti-Wal-Mart

<http://www.nytimes.com/2005/07/17/business/yourmoney/how-costco-became-the-antiwalmart.html>

Connecting the Dots Between Leadership, Ethics and Corporate Culture

<http://iveybusinessjournal.com/publication/connecting-the-dots-between-leadership-ethics-and-corporate-culture/>

Why Be an Ethical Company? They’re Stronger and Last Longer

<http://www.bloomberg.com/news/articles/2009-08-17/why-be-an-ethical-company-theyre-stronger-and-last-longer>

Labor Secretary Thomas Perez Says More Employers Need To Follow Costco’s Example

http://www.huffingtonpost.com/2013/10/29/thomas-perez-costco-minimum-wage_n_4174249.html

Costco's Profit Soars To \$537 Million Just Days After CEO Endorses Minimum Wage Increase

http://www.huffingtonpost.com/2013/03/12/costco-profit_n_2859250.html

Why Can't Walmart Be More Like Costco?

<http://www.thedailybeast.com/articles/2012/11/26/why-can-t-walmart-be-more-like-costco.html>

Why Costco and Other Warehouse Club Retailers Matter

http://www.lek.com/sites/default/files/lek-why_costco_and_other_warehouse_club_retailers_matter.pdf

Ethical Leadership: A Primer on Ethical Responsibility in Management

<http://www.wiley.com/college/sc/scherm/ethicsfinal.pdf>

Firms of Endearment: How World-Class Companies Profit From Passion And Purpose

<http://www.worldcat.org/title/firms-of-endearment-how-world-class-companies-profit-from-passion-and-purpose/oclc/70167640>

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