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COSTCO "A TESTIMONY TO ETHICAL CAPITALISM"

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Abstract:

Costco is known widely for its wholesale product competitive premium gas prices, and delicious food court offerings but do we known how this come to be.

In 1976, sol Price founded price club in San Diego, California Which was a company that only provide services to business customers in its beginning days. After a few years' prices saw the future potential of the warehouses club industry and decided to expand its business operations to local companies and individual. In doing so anyone interested in purchasing merchandise from prices club had to purchase an annual membership fee to enter. In 1983 the first Costco warehouse's location founded by Jim Senegal and Jeffery Bratman opened for business in Seattle the newly established Costco became the first Company in history to reach $3 Billion dollars in sales with a six-year period.

Costco achievement as a new company made them a company of interest. Walmart CEO Sam Walton was interested in merging with Costco but lost to sol Price club merged and operated under the new Prices costo which had new owned over 200 locations across North America and generated $ 16 billion in sales annually. In 1994 Prices Left the company and its was renamed Costco Wholesale in 1997 and the remaining Prices clubs warehouses club individual. In doing so anyone interested In Pursuing Merchandises from Prices club had to Purchase an annual membership fee to to enter. In1983 the first Costco become the first company in history to reach $ 3 billion dollars in sales within a six-year Period.

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INTRODUCTION:

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 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 stock boy. A Walmart has 140,000 SKUs, which must 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.

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DEVELOPING CORPORATE VALUES:

Senegal's education in business started in 1954, when he worked at the discount chain Fed Mart as a bagger to help pay for his education at San Diego State University. He soon left college to rise the ranks at Fed-Mart, eventually working under Sol Price, Fed-Mart's founder, and a retail pioneer, for thirty years. Price impressed upon Sinegal the importance of trust in customer relationships—a part of the reason Sinegal insists on Costco's disciplined margins, honest prices, and great value. Under Price, Sinegal developed his business philosophy: "We have to obey the law, we've got to take care of our customers, take care of our people, and respect our suppliers. We think if we do those four things, pretty much in that order, that we're going to do what we must do in the long term, which is to reward our shareholders." Senegal's thinking dovetails with University of Virginia Professor R. Edward Freeman's concept of stakeholder theory: that businesses should create value for stakeholders (those beyond the central financial shareholders), i.e., those affected by the business, including employees, communities, suppliers, and other actors. As Sinegal puts it, "Our view is that you can reward the shareholders in a short term by not paying attention to one of those aspects, but you can't do it in a long term…You are either going to have labor problems, or you are going to break the law, or your customers are going to be turned off, or the suppliers are not going to want to do any business with you." He adds, "Sooner or later you are going to stumble very badly." Sinegal hopes to build an organization that will be around in fifty years, and that means Costco has obligations to all stakeholders—suppliers, employees, the community, and customers. A key part of Costco's business model, Sinegal says, is its investment in

its employees as the critical piece of serving its customers. "We count on very significant productivity," he says. "We pay high wages and have a very healthy benefit plan. Of every dollar that we spend on our business, $0.70 is on people." In her research on retail supply chain and store operations management, Zeynep Ton, an adjunct assistant professor at the MIT Sloan School of Management and the author of The Good Jobs Strategy, found that some retail companies often view employees as a cost to be minimized by way of poor pay and limited training. She found that this perspective depressed morale and consequently reduced the quality of customer service, ultimately negatively impacting the bottom line.

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A FOCUS ON EMPLOYEES AND CULTURE:

Costco's focus on its employees, on the other hand, is a clear example of what Ton calls the "good jobs strategy" of investing in employees to boost bottom-line profits. Nearly 90% of Costco's employees receive healthcare and benefits, despite half its staff being employed part-time. A 2013 Businessweek story cited an average hourly worker pay of more than $20 an hour excluding overtime, which works out to nearly $43,000 a year, assuming 40- hour workweeks. This is three times the U.S. minimum wage of $7.25 and is almost double the national average retail staff pay of $25,000 annually. It is no surprise, therefore, that Costco's turnover is a mere 5% per year for employees who have worked for Costco for over one year—compared to the national average of 67% in part time retail employees,

Why Ethics Pays: "It's Just Good Business":

Senegal's business approach shows that being humane and ethical can also be profitable. A grounded businessman among overpaid chief executives, Sinegal earns a salary and bonus that is only twice that of a Costco store manager's compensation. His CEO employment contract was singularly short: one page long, and the only contract which specified that Sinegal could be 'terminated for cause,' according to Nell Minow, editor and founder of the Corporate Library and an expert on corporate governance. Another aspect of Costco's corporate ethic is its disciplined margins and fair value. One Huffington Post article titled, "11 Reasons to Love Costco That Have Nothing to Do with Shopping" cited stock analyst research that described Costco's 15% margins as compared to the 25% markup that most supermarkets and department stores use as standard. Costco's legendary stubbornness about prices and margins can seem excessive, but the results are impressive. Its hot dog and drink combo, for example, has famously stayed priced at $1.50 since the mid-1980s. The dependable price both drives traffic into stores and allows Costco to sell four times the number of hot dogs sold at all Major League Baseball stadiums in total each year.

While some on Wall Street have complained about low earnings on the dollar, Sinegal responds that it's just good business. "You get what you pay for. We try to give a message of quality in everything that we do, and we think that that starts with the people."

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This has certainly, translated into business success: as America's second largest retailer and the seventh largest retailer in the world, Costco has revenues of over $110 billion and operates nearly 700 warehouses and stores, while earning a reputation as a fair and progressive employer. Otherson Wall Street recognize Senegal's genius: in an interview with The Motley Fool, Berkshire Hathaway's Vice Chairman Charles Munger responded to a question about his favorite company outside of Berkshire: "That's easy. It's Costco. It's one of the most admirable capitalistic institutions in the world. And its CEO, Jim Sinegal, is one of the most admirable retailers to ever live on this planet." Munger noted, "When other companies
find ways to save money, they turn it into profit. Sinegal passes it on to customers. He's sacrificing short- term profits for long-term success." Asked about the source of his approach to business, Sinegal cites the values and integrity that he learned from Sol Price. Sinegal confides that his biggest concern is maintaining the discipline to hold those values: "I worry that we don't lose sight of what it is that got us to where we are and continue to keep the same values." Those values have served Costco, and its investors and stakeholders, well.

What do Costco's Mission Statement and Code of Ethics have to do with you?

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. And a successful company means increased opportunities for success and advancement for each of you. No matter what your current job, you can put Costco's Code of Ethics to work every day. It's reflected in the energy and enthusiasm you bring to work, in the relationships you build with your management, your co-workers, your vendors and your members. 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. It is the synergy of ideas and talents, each of us working together and contributing our best, which makes Costco the great company it is today and lays the groundwork for what we will be tomorrow.

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Career Opportunities at Costco:

Costco is committed to promoting from within the company. The majority of our current management team members (including Warehouse, Merchandise, Administrative, Membership, Front End and Receiving Managers) are "home grown." * Our growth plans remain very aggressive and our need for qualified, experienced employees to fill supervisory and management positions remains great. * Today we have Warehouse Managers and Vice Presidents who were once Stockers and Callers or who started in clerical positions for Costco.We believe that Costco's future executive officers are currently working in our warehouses, depots and buying offices, as well as in our Home Office.

Organizational Cultures & Ethical Value:

The Organizational culture in Costco maintain its forces on excellence in performance. The company believes that good enough is not enough is not enough. This aspect of their organizational cultures allows Costco to push its employees further to achieve high quality services to safety customers. Efficiency is also included in Costco's organizational culture allows. Through the employee's high energy and fast motivation to maintain optimal productivity. This characteristic also contributes to the energetic buzzthat help satisfy customers based on the speed and efficiency services.

Service orientation is a typical feature in the organizational culture of retails firm like services but Costco. The emphasis on services helps align workers to the business goal of providing effective retails services but Costco facilities use work teams. This Characteristics of the company Organizational culture maximizes performances by utilizing the synergy of teams. Through teamwork employees achieve the flexibility thatenables Costco to address variation in customer preferences.

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INNOVATION & CHANGE:

Costco innovation comes in the form of a global distributor. The company identified their source of profit in membership sales instead of product sales. Its pricing strategy is designed to give the most benefits to Costco member instead of setting consumer prices solely to increase Profit margins are smaller than its competitors but gain more from its members. usually, this type of thinking is seemed more in the shipping or logistics industry. With Costcobanking $ 1600 per square foot, it dominates even Walmart with its warehouses style stores that most try to emulate.

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