

Costco history essay



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The History of Costco Wholesale DeAna Castro Wilmington University MGT 6501 Abstract Costco is a members only, international retail chain discount warehouse Club. They combine high quality merchandise with low prices. Costco began in 1976 as Price Club and restructured in 1997 as Costco Wholesales. Costco's passion, mission, and ethics have been the key to the leading membership warehouse retail giant to supply their customers with low prices. Their low cost business strategies and dedication to their employees, suppliers and shareholders have proven success. The History of Costco

The history of Costco began in July, 1976, in San Diego, California, and its name was Price Club. It was cofounded by Sol and Robert Price. The newly designed business was the first 'warehouse' business of it's kind. This retail business originally targeted other business owners, but blended retail and wholesale. Price Club had unbeatable low prices and sold bulk items. Three years later, 1979, Price Club expanded two new locations. They acquired 200, 000 members and profited 1 million dollars. Price Cub showed a loss of profits the first year, but the expansion proved profitable.

Jim Sinegal is a key player to the success of Costco because he started his career being mentored by Sol Price. He worked in the warehouse business at Price Club and another warehouse business called Fedmart, both owned by Sol Price. (Cardon). In 1983, Jim Sinegal and Jeff Brotzman would open their own warehouse club near Seattle Washington, and it was called Costco (Daft, 2012 pp. 605). One year later, Costco expanded to nine warehouses in five states. It was not long before Price Club realized they could achieve larger cliental if they served a selected audience of 'non-business' members.

This payed off by the year 1984, Price Club sales would be greater than one billion dollars and is the first company to achieve this mark in a six year period. Almost ten years later, 1993, Costco and Price Club, would merge and become PriceCostco. This merge was nicely matched because they were very similar in business model and size. The combined companies included 206 locations and generated \$16 billion in annual sales. Jim Sinegal would also become Costco's President and chief executive (Priceviewer). The merger only lasted about four years and, in 1997, PriceCostco became Costco.

Jim Sinegal remained President and chief executer (Carden, 2011). Costco's Mission statement: To continually provide our members with quality goods and services at the lowest possible prices in order to achieve our mission we will conduct our business with the following Code of Ethics in mind: Obey the law, Take care of our members and our employees, and respect our vendors/suppliers. " If we do these four things throughout our organization, then we will realize our ultimate goal, which is to reward our shareholders. " Jim Sinegal. (Costco, 2011)

Costco's operating philosophy is to keep costs down, and pass the savings on to their customers. To offer high quality brand name merchandise at prices below any other avenue of retail. They accomplish this several ways. They buy high volumes of merchandise directly from manufactures and not distributors. The merchandise is shipped directly to a selling warehouse and not a storage area, and this also reduces freight costs. Costco warehouses are located on sites where property costs are minimum not on high real

estate locations. Merchandise, or stock, is placed directly on a selling floor and on the pallets that they are delivered on.

By doing this, labor and handling, costs are reduced to save the customer money. Sales and service employees are kept at a minimal to also reduce overhead costs. Last, because Costco's has such an incredibly large membership base they have influence and power to haggle prices with their manufacturers and suppliers. " Costco is able to offer lower prices and better values by eliminating virtually all the frills and costs historically associated with conventional wholesalers and retailers, including salespeople, fancy buildings, delivery, billing and accounts receivable.

We run a tight operation with extremely low overhead which enables us to pass on dramatic savings to our members. " Jim Sinegal (corporate, 2012). Costco pride's themselves as a leading warehouse/big box retailer. Sales volume exceeds that of their competition and they use a " consumer first" business model. This business model is a creative way that has expanded sales. Costco has developed additional ways to continue to save money for their customers. They did this by creating their own brand. Costco's personal brand is ' Kirkland Signature. Kirkland, Washington's the root of Costco and is where their headquarters is located. Kirkland Signature brand was introduced to Costco stores in 1995. It was designed to be equal or better quality than national brands. Kirkland Signature products include diapers, coffee, tires, clothing, film, housewares and more. (Priceviewer). Often, national brands are co- brands with Kirkland Signature products. Some manufactures realize the success and power of Costco and have agreed to manufacture products with the Kirkland Signature label. Some companies

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include Hanes and Whirlpool. Branch, 1999). “ Costco continues to prove their “ consumer first” business model, through the creation of new and unique business concepts, included Costco Pharmacy (1986) Produce and Bakery (1987), Optical labs (1987), 1-Hour Photo (1989), Hearing Aid Centers (1994), Costco Gas stations (1995), Costco business Centers (1996), Costco Travel (2000), Costco Home (2003), and Car Washes (2006)” (Walker, 2011). Costco’s structure and culture, meets customer needs further than low prices. Costco focuses on value of it’s products but also focuses on value of it’s employees.

They believe that achieving a long term objectives of reducing employee turnover and enhancing employee satisfaction is beneficial. To accomplish this they hire employees at an above average hourly rate, they train and promote from within. Doing this, their employees feel loyalty and valued. Costco Continues to be financially successful today and has expanded internationally. Their mission and ethics have proved to be successful and beneficial to all that the organization is involved with to include, customers employees, suppliers/vendors and stockholders.

What does organizational design truly mean? Have you considered how it can work best? If yes, how? If no, why not? Organizational design is a formal process for integrating people, information, and technology. Organizations are people that have a declaration of purpose, vision and strategy. This structure matches people to the purpose it seeks to achieve a common goal or purpose. It is designed to enhance communication, information, and resources to optimize human achievement. The end product is an integrated

system of people and resources tailored to the specific direction of the organization.

Organizational design basically is an execution of an administrative plan guided by a leader/leaders. The design of the organization can work best if the people work together as a team. It will also work best, if the mission, vision, strategy, purpose and needs of the organization are identified and the goals are achievable. Organizations also work best if it's leader understands, guides and assures the process is followed and encourages creative thinking. If there is not an effective leader who does not have a mission, vision, strategy and followers, the organization can and will fail.

Costco has proven to have a successful organizational design. Describe the “Trap of favored ways of thinking”? How did it impact your thinking? In Organizations ‘traps’ can be hazardous to their success. These traps can prohibit and restrict creativity, limits capabilities and limits ability to progress into the future. Some common traps are: Group Thinking- Productive conflict is critical if common traits are shared in a group because it prevents bad ideas from being implemented without discussion or consideration. Non productive conflict is not productive and can become a hostile situation.

Group thinking is pervasive. “ We have never done it like this before” If you always do what you do, you always get what you got. Be courageous and attempt change. Make sure to make meaning changes. “ You’re Gooder” syndrome- Respect is over emphasized to their authorities and lacks candor, honesty and courage. Inbred Culture When hiring employees is based on time, one year of service and loyalty rather than exceptional performance.

Problems will arise. The leadership chain of command will be incompetent and will breed more incompetence. Arbitrary Directives and policies are determined by top management.

If decisions and policies are made with randomness and for unknown reason then those are signs that indicates that the leader is disconnected and out of touch. This truly impacted my thinking because I was not aware and I learned many things! It made so much since why organizations struggle, fail and succeed. It caused many flashbacks to my military career, and also, my teachers, mentors and friends. When I think about this, in reference to Costco, any of these trapped ways of thinking could have jeopardized their success. “ The Ugly Face” often stifles an organizations growth. How? Did you position to circumvent it in your design?

The ugly face refers to organizations that exploit employees, the global economy, or the natural environment as instruments of domination that furthers selfish needs and dominance. Taking what they need and throwing or destroying what isn't needed. “ Whether by design or default, organizations often have a large negative impact on our world. ” (Morgan, 1998 pp. 261). Pollutants, poisons and other cancer causing hazards are ingested or promoted by food and tobacco companies. Similar threats are caused from environmental pollutions that are legally and illegally dumped in water and land.

Contaminated air, land and water hurt people causing cancer or other health problems and big corporations that cause these hazards are sometimes not penalized. These organizations place profits before human welfare. Foreign

countries are easily manipulated by employment with hazards, disease, and degradation. Costco has circumvented many of the “ ugly face” views by taking care or rewarding their customers, employees, and suppliers. They take care of their employees by giving them a substantially higher pay than other companies, they promote from within and they are rewarded and valued as people.

Globally, Costco has expanded to foreign countries and has provided employment and opportunities for others by creating employment, giving them higher above average salaries and valuing them as people with respect and appreciation. References Branch, S. (1999, 09 06). Inside the cult of costco. *Fortune*, 140(5), Retrieved from [http://web.ebscohost.com/ehost/detail? \[email protected\]](http://web.ebscohost.com/ehost/detail? ) Cardon, B. (n. d.). Costco company history. Retrieved from <http://goarticles.com/article/Costco-Company-History/4651134> Costco Wholesale Corporation SWOT Analysis. 2011) Costco Wholesale Corporation SWOT Analysis. Daft, R. (2013). *Organizational theory & design*. (11 ed. , pp. 54-61). Canada: South-Western, Cengage Learning. Walker, S. (2011, 05 16). The history of costco. Retrieved from http://www.vendor.com/_blog/VENDORCO_BLOG/post/The_Hisory_of_Costco Retrieved from <http://www.costco.co.jp/eng/costco.htm> Retrieved from <http://phx.corporate-ir.net/phoenix.zhtml?c=83830=irol-homeprofile> Retrieved from <http://priceviewer.com/costco/costco.htm> Retrieved from <http://www.referenceforbusiness.com/history2/91/Costco-Wholesale-Corporation.html>