

Costco vs. Sam's Club

New reasons to join or switch

Gallon jars of mayonnaise and 30-roll packs of toilet paper have made warehouse clubs seem appropriate mainly for platoon-size families focused on staples. But if you haven't joined, you could be missing out on a widening range of choices. Today's clubs not only stock some smaller sizes but also sell a wider range of services and more luxury products. And as always, there are no sweaty palms when you pay: The deals are great, day in and day out.

The nation's biggest clubs, Costco and Sam's Club, with 95 million cardholders between them, might seem like clones. But there are differences that can guide your choice if you haven't joined, or lead you to switch clubs. To determine which one deserves your membership (\$40 to \$100 a year), we shopped at both, compared their prices with those charged by competitors, interviewed experts, and reviewed data from readers surveyed by the Consumer Reports National Research Center. The highlights:



Illustration by Carl Wiens

- Despite the clout of Wal-Mart, Sam's Club's parent, as the largest retailer on the planet, readers gave higher overall scores to Costco for groceries (better perishables), electronics and small appliances (lower prices), and eyeglasses (better service).
- Return policies are generous, but Sam's Club is superior for electronics. At Sam's, you have six months to return a computer; you can return anything else anytime. At Costco, you have 90 days to return most electronics, but you can return other purchases anytime.
- If you know what to shop for, you can save a lot. In our comparison, club prices were up to 63 percent lower than the average price of other sellers. See [Product savings](#).
- It can be easy to run up your bill. An informal poll of club shoppers who visited our Web site, ConsumerReports.org, suggests that as many as half spent more than they intended.
- Low prices do not mean crummy goods. The clubs now sell diamonds and fine wine, Waterford and Swarovski crystal, Coach handbags, and Omega watches. Although some designers are reluctant to sell to clubs for fear of "cheapening" their brand name, more are climbing aboard.
- If you order online at www.costco.com or www.samsclub.com, you gain greater choice within a brand and category, and you'll find hundreds of unusual items such as caskets (at Costco) or a Cessna jet (Sam's).

THE BIG PICTURE

In stores that cover 130,000 square feet or more, the clubs stock around 4,000 items, a fraction of the number in a supermarket. But they also offer services, such as home mortgage loans, auto financing (the rates were lower than at E-Loan), roadside assistance, cell-phone plans, check printing, real-estate brokerage, vacation packages, event tickets, vision centers, and on-site gas stations. And they have pharmacies, open to members and nonmembers alike. (Sam's charges \$4 for most generic drugs, up to a 30-day supply. Costco charges \$10 for 100 pills for most generics.)

About one-fourth of the merchandise is constantly changing, says Michael Clayman, editor of Warehouse Club Focus, a trade publication. By tinkering with the mix and selling goodies such as iTunes gift cards for less than face value, the clubs entice you to come back often and search for new stuff.

Another lure: "road shows," limited-time offers of unusual goods such as Oriental rugs, grandfather clocks, pianos, and recliners. "Products that are limited in availability make the customer feel that if they have to go home and think about it, it won't be there tomorrow," says Pamela Danziger, a consumer-behavior expert.

HOW THEY DIFFER

Despite the surface similarities, there are differences between these kings of clubs. Costco has fewer stores than Sam's, and they tend to be in more affluent locations, experts say, which means higher-income shoppers and fancier merchandise: expensive wines (how about a \$1,750 bottle of Château Cheval Blanc Premier Grand Cru Classé?), \$100 designer jeans, specialty foods, and store-made meals. During our visits, Costco also had more ritzy brands, such as Joseph Abboud, Kenneth Cole, and Ralph Lauren.

Each club is selling more and more goods under its own labels. Costco offers 330 Kirkland Signature items, from Mediterranean sea salt to cosmetics (made by Borghese). Most sell for at least 20 percent less than name-brand competitors. We have rated highly many Costco products we've tested in recent years, including detergents, paper towels, batteries, and gas barbecue grills.

Sam's Club's Members Mark line offers 400 items, from infant formula to anodized aluminum cookware (at 50 percent average savings over the national brands). We've highly rated Members Mark All Natural Granola with Raisins. Sam's also sells its own wines under several labels. It does not carry major Wal-Mart brands Great Value and Sam's Choice.

Industry experts say that Sam's Club can't quite shake its reputation of being "in business for small business," the company's original slogan, dropped in recognition of the growing importance of other customers. Sam's has more shopping hours reserved for business members than Costco does. And when we visited, Sam's still featured a broader selection of products geared to commercial customers, such as restaurant and food service equipment (which home cooks might appreciate, too) and janitorial supplies.

That doesn't mean Sam's is frumpy. Besides jewelry and designer items, you'll see merchandise from Apple, Sony, and Bose. Sam's has also introduced more than 100 products that claim to be organic or socially responsible, such as "fair trade" certified coffee designed to ensure coffee growers a fair price.

As for store employees themselves, Costco's appear to be better off. Costco's average hourly wage is \$17.25, employees contribute 10 percent of their health insurance premiums, and the turnover rate is 17 percent. The average hourly wage for full-time Wal-Mart workers is \$10.11. A spokeswoman said the hourly pay at Sam's Club isn't necessarily the same, though she wouldn't say what it is. Citing company policy, she also declined to reveal employees' share of health-care costs and the turnover rate.

Both clubs try to wow shoppers as soon as they step inside with electronics and jewelry. But Sam's had better sign-age in the stores we visited, with billboards at the head of each aisle, making it easy to find what we were looking for. Sam's also had a dedicated lane for flatbed carts. None of the stores we visited had express checkouts.

A main difference among services is that Sam's sells pet insurance and Costco doesn't. (*Consumer Reports* doesn't generally recommend pet insurance.) Other differences: Sam's Web site features product auctions and accepts orders, which are readied for in-store pickup. The service is free, but you'll still have to stand in line to pay.

WHAT BOTH OFFER

In various surveys of *Consumer Reports* readers, Costco and Sam's Club have usually earned high scores for low prices. We found exceptional deals, such as a 58-inch Panasonic plasma TV for \$500 less than at Sears; and odd ones, such as first-class stamps for less than the post-office price. Savings were also impressive for books, software, groceries, and makeup. But we found better deals online for electronics such as digital cameras and flash memory. And supermarkets offer bigger temporary discounts on basics such as laundry detergent and cereal, sold at a loss to lure shoppers.

Clubs undersell other stores by cutting expenses to the bone and buying huge quantities directly from manufacturers. In addition, club products carry an average profit margin of 11 percent, says Stephen Hoch, marketing professor at the Wharton School of Business; other retailers mark up goods 25 to 50 percent. Clubs make their money on membership fees; price markups cover operating expenses and other overhead, explains Frank Dell, president of Dellmart & Co., a management consulting firm.

In exchange for low prices, club shoppers must live with minuses such as Bunyanesque sizes--6-pound cans of green beans, gallon jugs of blue cheese salad dressing, and multipacks of normal-size containers. Jumbo sizes of snacks can be hazardous to your waistline: You'll need willpower to go easy on the 30-ounce bags of Doritos and 20-packs of Skinny Cow ice cream sandwiches.

Nor do you have a lot of choice within categories. Clubs mostly carry top-selling brands. We saw Bertolli olive oil and Tone's spices at Sam's, and Filippo Berio and McCormick at Costco. The mix can change quickly because clubs purchase goods from whatever manufacturer offers the best deal. One week you might find Kellogg's Raisin Bran, the next week Post, but not both at the same time.

The selection in home electronics, office equipment, clothing, and small appliances can be hit-or-miss. Merchandise turns over rapidly and isn't always replenished. Colors and sizes might be limited, for instance, to blue or gray polo shirts, and iPods in black or white.

Clubs sometimes feature models not sold elsewhere. We found TV sets, a KitchenAid mixer, and a Dyson vacuum cleaner made exclusively for Sam's and Costco. The clubs' version might be similar, but with different colors or accessories. (The mixer had 25 more watts than comparable models sold elsewhere.)

That tactic lets the clubs sell a "unique" product while allowing manufacturers to maintain good relations with retailers selling similar items at a higher price. Seong Ohm, a senior vice president at Sam's Club, says such "derivative" products always include extras such as faster processing in a computer or additional inputs on an HDTV. Extras are nice, but they make it hard to comparison shop.

Don't expect help when you shop. Outside the pharmacy, tire, and optical departments, service is virtually nonexistent, and our readers have given clubs generally low marks for service. Nor do warehouse clubs accept manufacturers' coupons, supply shopping bags, or have fitting rooms.

Although products you order online are shipped to your home (coffins can go to the specified funeral home), you have to haul store-bought merchandise yourself. That includes large items.

HOW TO SHOP SMART

If you control the urge to splurge, club membership can pay off. Here are tips to help you win the warehouse-club game:

- Make a list and stick to it.
- Know how to identify super-bargains. At Costco, ".97" at the end of a price generally indicates discontinued or slow-moving products. At Sam's, a "C" at the end of the item number denotes a canceled item.
- Compare the club's unit prices to those at your supermarket for heavily discounted staples. Supermarkets might be less expensive.
- For big-ticket items, compare the club price to that of other retailers by going to sites such as PriceGrabber.com or BizRate.
- Consider splitting large buys with friends. Otherwise, don't buy in bulk perishables or medications with a short shelf life (check the expiration dates). You'll end up tossing a lot away.
- Try unfamiliar products judiciously. You don't want to get stuck with, say, a gallon of Brand X Vidalia onion salad dressing.
- Pay with cash; it's a reality check on how much you're spending.
- Shop on weekdays, preferably when the store opens or in midafternoon. That's when crowds tend to be lighter.
- Not sure about joining? In many states you can request a day pass at Sam's Club and pay a surcharge, typically 10 percent over what members pay. Costco used to have a similar program, but discontinued it. Now, only members can purchase there.