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Big business

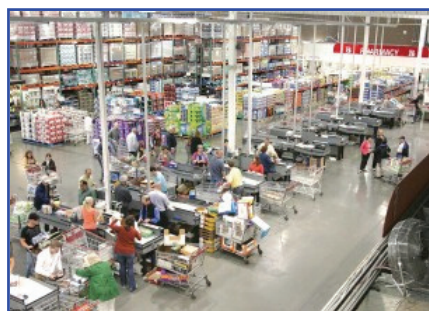
June 29, 2010

By Warren Kagarise

Costco plans bargains in bulk from modest Issaquah headquarters

Every trip through a cavernous Costco Wholesale warehouse feels like a treasure hunt.

The company brings Dom Pérignon and Bud Light, platinum-set diamonds and scoopable cat litter, Prada handbags and Michelin tires together under the same flat roof.



Costco members line up to check out with carts full of their purchases at the flagship Issaquah warehouse. By Greg Farrar

The quest has been carefully designed for shoppers — 57.4 million Costco members worldwide. Shoppers must traverse vast retail plains and scan the jungle of exposed metal shelves for bargains in order to find loot — discounted Ugg boots, say, or smoked salmon.

Inside the Issaquah warehouse, customers hunt for deals in a retail ecosystem spread across 155,000 square feet. Costco cachet knows no class, no income. Part of the appeal, executives and industry watchers said, stems from the treasure hunt concept. Shoppers return to Costco for basics, yes, but also for the thrill of a surprise bargain.

“No matter what level of economic strata you are, you like good stuff,” company Chief Financial Officer Richard Galanti said. “Now, sometimes you have to choose to buy the chicken versus the steak, but the fact is, we’ve got some great stuff.”

The philosophy has made the Issaquah-based company the third largest retailer in the United States, the eighth largest on the planet and No. 25 on the Fortune

500.

The average Costco in the United States pulls in just under \$140 million in sales per year. The closest rival, Wal-Mart wholesaler Sam's Club, rakes in about half as much per warehouse.

Costco — the empire built upon limited selection, generous sizes and a frills-free atmosphere — employs 2,700 people in Issaquah, more than any other business.

CEO Jim Sinegal, a company cofounder and a millionaire septuagenarian famous for lunching on the \$1.50 hot-dog-and-soda combo at the food court, runs the retail colossus.

Under Sinegal, Costco has consistently earned plaudits from employees and members — as well as occasional ire from Wall Street — for how the company does business.

Main Street appeal

Like the sprawling warehouse looming 400 yards away, Costco corporate headquarters has no frills.

Sinegal occupies a nondescript office open to passers-by. Galanti works in a barebones space punctuated by a mini-fridge stocked with store-brand, Kirkland Signature bottled water.

The main building served as a Boeing communications center before Costco relocated there. Sinegal thought the marble foyer looked too fancy, but after he realized the cost to rip out the marble, he balked.

The thrifty Sinegal offers some of the most generous wages and health benefits in the industry.

Jody Heymann, director of the Institute for Health and Social Policy at McGill University in Montreal, examined Costco as part of a six-year study — published in May — of the wages and benefits offered to low-level employees.

“While Wall Street sometimes rewards in the short run, in the long run, the companies that are outperforming are the ones taking a social-investment strategy,” Heymann said.

Companywide, employees earn, on average, about \$19.50 per hour — or, the study showed, about 42 percent higher than average wages paid by Sam's Club, the closest competitor. Costco also pays almost 90 percent of employees' health care costs.

“Wall Street sometimes asks, ‘OK, well, it's great that you pay more, and yeah, your employees are great, but have you tried 18? Or 17.50?’” Galanti said. “And the answer is no.”

Costco rewards employees in other ways, too.

The company doles out prime parking spots — situated beneath the headquarters buildings — to employees based on tenure, not hierarchy. So, the accounts payable clerk parking next to Galanti, a Costco employee for 26 years, has worked for the wholesaler for almost as long.

“We've done a good job of walking the walk, not just because it plays well in Peoria, but because it's the right thing to do,” he said.

Kirkland Signature, Issaquah address

Costco dwarfs all other Issaquah-based businesses in size and scope — a multibillion-dollar retailer with 568 outposts spread across 40 states and four continents.

But the headquarters campus could just as easily be in Redmond. Costco planned to relocate there from Kirkland in the early 1990s, but the proposal collapsed amid concerns about traffic congestion.

The same unease almost kept Costco out of Issaquah. The chain vowed never to open a warehouse in Issaquah after city officials and residents thwarted a 1989 attempt to build a store along Northwest Gilman Boulevard.

Bolstered by a survey of Issaquah residents showing demand for a warehouse, Costco opened a warehouse at Pickering Place in September 1994. The company completed the headquarters move to Issaquah in 1996.

Former Mayor Rowan Hinds said welcoming Costco to the city required a gamble.

“Do we leave it like it is and let the land sit vacant, or do we change the zoning to allow something else to happen?” he said.

Hinds recalled spending a day at the Salmon Days Festival with Costco cofounder Jeffrey Brotman before the company established a beachhead in Issaquah. Brotman assuaged concerns about the mega-development.

Mayor Ava Frisinger, then a councilwoman, and other officials toured a local Costco to prepare. The super-sized products awed the future mayor, a onetime medieval literature student, as she “walked around with the kind of gaze I usually give to the tracery in Gothic cathedrals,” she recalled.

The project still caused public outcry — for a time, anyway. Frisinger recalls bumping into former Costco opponents shopping at the Issaquah warehouse.

Bare necessities, in bulk

Trips to Costco warehouses started to inch upward in early 2008 — about the same time gasoline prices climbed into the stratosphere and the national economy nosedived.

“Every night on the news, somewhere — whether it was Missoula, Mont., or Los Angeles — where's the cheapest place to buy gas? Costco,” Galanti said.

“We got new sign-ups because of it, and then that segued into the bad market. Turns out that the bad economy also helped us some.”

Customers curbed spending on high-end items — furniture and jewelry, for instance — but Costco continued to do a brisk business in groceries and other essentials, like toilet paper and laundry detergent.

Spending on extras has boosted the chain this year. Galanti said the recession-induced drop-off in travel created a run on patio furniture.

Dan Geiman, a Costco analyst at Seattle brokerage firm McAdams Wright Ragen, said competitive prices for staple items buoyed the company during the recession.

“Costco has held their own,” he said. “There’s no question about that.”

The chain earned high marks from more than 30,000 shoppers in a Consumer Reports study released in early June. Survey respondents declared Costco to be the best among the 11 most-popular chain stores in the nation.

Because bargains and bulk carry international appeal, Costco has successfully exported the brand. The company operates warehouses in seven nations outside the United States.

Costco opened a store in Australia last August, and the company plans to expand into a still-undisclosed nation in Western Europe next.

Despite dominance by global brands, national tastes influence the products offered at international warehouses.

Costcos in Taiwan sell the rotisserie chickens with the heads still attached.

Japanese customers buy jumbo containers of Downy fabric softener, because customers claim the soapy scent smells like America.

The chain yielded to local custom in Korea, and added tanks populated by live fish to warehouses. The company planned to offer “the freshest dead fish,” Galanti said, but after seafood failed to sell, Costco ripped out the coolers and added tanks.

Super-sized wining and dining

Costco relies on customers to build buzz about the bargain-hunt atmosphere. The company does not advertise.

No inescapable TV commercials. No radio jingles. No sales circulars in the Sunday paper.

But Costco products appear in unlikely places, although the wholesaler does not pay for product placement in films and TV shows. The infamous pastry in “American Pie” and the food arrayed on banquet tables at Hogwarts School of Witchcraft and Wizardry in the “Harry Potter” film franchise — all Costco products.

The retail Goliath has amassed impressive superlatives in the 26 years since the first warehouse opened in South Seattle.

Costco sells more fine wine than any other business on the planet — racking up \$597 million in sales during the 2009 fiscal year.

Costco represents more than 40 percent of the Tuscan olive oil sold in the United States. The company has relationships with more than 700 growers in Tuscany to meet consumer demand.

Costco imports more than 25 percent of lamb exported from global sheep capital New Zealand to the United States.

The company sells more U.S.D.A. Choice beef than anywhere else and roasts almost 1 million birds per week for grab-and-go rotisserie chickens.

The bestselling item at Costco might also carry the least cachet: toilet paper.

Michael Clayman, editor of Warehouse Club Focus, a trade publication, said the aggressive approach makes good business sense for Costco.

“They basically view every item out there as a potential item,” he said.

Costco touts high quality — think bigger stitches in Kirkland Signature underwear, larger cashews and plumper shrimp — as a reason why customers keep coming back.

“Everybody likes a deal,” Galanti said. “Everybody likes big. And we do both.”



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Written by Warren Kagarise · Filed Under [Issaquah Living - Summer](#)

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1. [Off The Press : The Issaquah Press – News, Sports, Classifieds in Issaquah, WA](#) on June 29th, 2010 8:38 pm

[...] a piece in the summertime Issaquah Living magazine inside this newspaper, I set out to chronicle how Costco [...]