Finding the Leader in You

JIM SINEGAL'S STRATEGY AT COSTCO IS TO NOT FOLLOW THE CROWD

According to CEO Jim Sinegal, "Costco is able to offer lower prices . . . by eliminating virtually all the frills and costs historically associated with conventional wholesalers. . . . We run a tight operation with extremely low overhead."

On the surface it sounds much like most large-box discount retailers who pursue a low-cost strategy in order to effectively compete. So what is the difference? For one, Costco invests in its employees. They pay nearly all full-time employees full benefits, including health care and retirement. Base wages are among the highest in the industry, and the company also promotes from within. It is not at all unusual to find a store manager who started her career with Costco. The emphasis on employees is rare in the discount retail sector. For many competitors, a low-cost strategy means low wages and restricted benefits. And, of course, devaluing employees means not learning much from employees.

How does Costco do it? Costco stores have a comparatively limited range of items, which cuts carrying costs. Most Costco stores have, at any given time, 5,000 items compared to about 100,000 for Walmart. Costco also tends to carry a greater number of higher-end products with very low margins to stimulate store excitement. As a result, Costco is the fifth largest retailer in the United States, with over 53 million cardholders and 250,000 employees. With global sales approaching $75 billion, Costco currently ranks 29th on the *Fortune* global 500 list.

In the short term Costco could probably make more money with lower wages and benefits. But that would be inconsistent with Sinegal's vision of building a long-term business. To him, treating employees well is consistent with nurturing and developing customer loyalty.

What's the Lesson Here?

In developing a strategy for your group, will you always follow the crowd? As a leader, what type of learning do you promote, and how would you design it into your operations?

units. While all larger firms are bureaucracies, smaller firms need not be. In larger firms, additional complexity calls for a more sophisticated organizational design. Such is not the case for the small firm. For smaller firms the simple design is most appropriate.

The **simple design** is a configuration involving one or two ways of specializing individuals and units. Vertical specialization and control typically emphasize levels of supervision without elaborate formal mechanisms (for example, rulebooks and policy manuals), and the majority of the control resides in the manager. Thus, the simple design tends to minimize bureaucracy and to rest more heavily on the leadership of the manager.

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The simple design pattern is appropriate for many small firms, such as family businesses, retail stores, and small manufacturing firms.[27] The strengths of the simple design are simplicity, flexibility, and responsiveness to the desires of a central manager—in many cases, the owner. Because a simple design relies heavily on the manager's personal leadership, however, this configuration is only as effective as is the senior manager.

One example is B&A Travel, a small travel agency owned by Helen Druse. Reporting to Helen is a part-time staff member, Jane Bloom, for accounting and