

Super success

Costco finds a Big Box of gold in Santa Cruz



Costco checker Angela Carter has been with the company for more than three years.

Dan Coyro/Sentinel

Local Costco exceeds expectations

By DONALD MILLER
Sentinel business editor

DAVID AUE looks at the long lines of shoppers with their carts piled high with flats of sodas, 12 packs of mouthwash, 24 roll packages of toilet paper and 10 pound bags of hamburger, plus assorted color TVs, printers, car accessories, toys, seafood, frozen burritos and fresh orange juice, and he momentarily is sated.

The general manager of the Santa Cruz Costco store is overseeing a small empire of consumer goods and groceries and supplies for small businesses. He likes what he sees these days.

At first glance, Aue, with his blond longish hair and casual clothes, looks like he should be standing at a cash register asking, "Can I have your card please?"

That would not be an unfamiliar place for the 35-year-old Aue, who started with Costco in 1983 as a part-time stock clerk.

Like the company itself, Aue has come a long way since then. Today, he's at the helm of a business that had \$92 million in sales in the fiscal year ending Sept. 1.

That was up from \$86 million in the previous year, which was the first 12 months the Harvey West Park Costco was open.

Aue looks back at that first year in bemused amazement and recalls that the parent company, PriceCostco Inc., had planned for sales some \$30 million less than the Santa Cruz store totaled.

And it's not just sales that may have Aue's superiors in the home office smiling. The Santa Cruz store's profitability has to be im-



David Aue, manager of Costco in Santa Cruz.

Dan Coyro/Sentinel

It's not just the \$92 million in sales that has them smiling. It's the profitability of the Santa Cruz store — \$3.7 million this past year.

pressing higher ups: nearly \$3 million two years ago, up to \$3.7 million this past year. That's 4 percent of sales, well above the company's profit average of 3 percent.

"We were overly conservative" in the early estimates of how the Santa Cruz store would do, Aue says. "I felt all along we would exceed that right away."

PriceCostco had gone in with a

rough estimate that a full two-thirds of local households had purchased membership cards enabling them to shop at the warehouse. They were just taking their shopping dollars to Costco warehouses in Sand City and Santa Clara County, instead of leaving them at home.

The 121,000 square foot Santa Cruz store opened in August 1994.

More about PriceCostco Corp. — Page D3

PriceCostco Regional Manager John Booth says the Santa Cruz has exceeded the company's expectations.

"We were just thrilled," he says about the higher-than-projected sales and profits. "Santa Cruz has been a very strong market for us."

Big box of revenue

THE BOOMING sales at the Santa Cruz Costco have had another beneficiary as well: the city of Santa Cruz, which reaps sales and property tax revenue from the warehouse.

Make that lots of revenue.

Mayor Mike Rotkin says that the warehouse has brought in between \$500,000 and \$750,000 a year to the city (municipal governments do not release exact sales tax figures for individual businesses).

The city, still trying to recover from the financial devastation of the 1989 earthquake, just wanted to be have a pot of money to continue to fund programs it was afraid might be gutted.

"We would have been happy if we were making a quarter of million bucks, which is what we expected," Rotkin says now. "It's worked really, really well for us. We use that money to fund public services."

City officials wanted a Costco because they knew shoppers were going to Sand City and over the hill, spending about \$32 million annually, according to Rotkin. The mayor also believes the store attracts peo-

ple to Santa Cruz who end up spending money at other venues.

Rotkin said Costco's success has not necessarily been the impetus for Santa Cruz to court other big box stores, even though the city is putting together a development across Highway 1 that could include a Cost Plus, PetsMart and Office Max.

Rotkin says the River Street project will bring businesses to the city that he believes don't compete with local merchants — and will keep sales tax revenue in Santa Cruz rather than flowing to other parts of the county.

The key, he said, is whether the store might drive out locally-owned businesses and whether the downside becomes bigger than the upside.

But even with the benefits to the city treasury, Rotkin noted that corporate-owned superstores often don't contribute as much to the local community as homegrown enterprises.

"If you had a choice between a store of a certain size ... you would go with the local store," he says. "But that's not often your choice."

The Costco way

AUE SAYS Costco has changed since he started, with increasing emphasis on service. In the old days, it was price, price, price — and help-yourself-and-good-luck getting out the door with those monster carts. Today, the company prides itself on its liberal return policy, for instance.

Aue said the other key is in mak-

Please see COSTCO — D3

Costco

Continued from Page D1

ing employees feel good about their jobs.

Among the local products featured at Costco are Odwalla fresh juices — Aue says when Odwalla's production is down and the supply runs out, he gets a lot of complaints — and Alfaro's Bakery in Watsonville. Goods from both companies are now sold in Costco stores throughout the region.

Some companies, such as cereal maker General Mills, have gone from offering Costco generically wrapped products in large sizes, to opening special production plants that only churn out the oversize cereal boxes Costco sells.

Aue said that 60 percent of his sales are made to small business owners, including many local restaurants. This is only appropriate since the chain was founded on serving small businesses, which have access to the store an hour earlier each day than the general public.

Costco turns over merchandise quickly. Christmas started at the end of August and will end in early December. The whole concept is volume driven.

"Obviously we can never carry enough items to satisfy everybody," Aue says. "There's a curve when sales start to decline; you don't want to get stuck. Our philosophy is, 'early in, early out.'"

Big ticket items like home electronics are big sellers for this Costco, which for now doesn't have to fight off any huge superstore competitors like Fry's.

The store just keeps turning over merchandise. What's there one week, often is gone, for good, the next.

Meanwhile, Costco's newest thing is a private credit card, which offers an annual 1 percent rebate on purchases.

Aue describes the Costco experience — the size, the huge packages, the prices, the free samples and events like the weekly fresh seafood "road show" — as "unique, exciting." The Costco food court — an improvement over the old hot dog stands the stores used to feature — racks up strong sales, Aue says. Oh, the price of a hot dog and soda is the same as it was 10 years ago — a \$1.50.

"That's our all-time staple thing," Aue says. "It's part of the whole atmosphere — the trip to Costco."

The big bully

"SOME PEOPLE said, 'the big bully is coming in,'" Aue says, recalling complaints from local merchants about the first "big box" chain in Santa Cruz County.

Mayor Mike Rotkin says Costco does not compete with most local stores since it doesn't offer a wide range of items in specialty categories; the items it does offer are in super quantities and it does not offer comparable service.

"It hasn't had the negative impact people predicted ... I don't know of any businesses in Santa Cruz that have failed because of Costco," Rotkin said.

At the same time, it's hard to believe \$92 million in Costco sales hasn't come at the expense of local merchants.

Dan Zanotto is general manager of locally owned Zanotto Family Markets, which has a supermarket in downtown Santa Cruz. Zanotto says the Santa Cruz store has suffered a decline in business since Costco arrived, although there is another major factor involved as well.

"There's no question they're doing a lot of business there," Zanotto says. "We have felt an impact."

But the store also has been hurt by the opening of a Longs Drug store on Mission Street, to compete with the Front Street Longs that also drew shoppers to Zanotto's.

"We just stick to our basic format of service, quality and selection," Zanotto says. "We try to take care of our customers. We do things a Costco can't do."

"They are doing a lot of business. But they can't take care of everybody."

Now with other superstores such as Staples already here, and with

About PriceCostco

■ DATE OF INCORPORATION: Price Club, 1976; Costco, 1983; PriceCostco: Oct. 22, 1993

■ CORPORATE ADDRESS: 999 Lake Drive, Issaquah, Wash. 98027

■ WEB ADDRESS: <http://www.pricecostco.com>

■ TOP OFFICERS: Jeffrey H. Brotman, chairman of the board; James D. Sinegal, president and CEO; Dick DiCerchio, executive vice president; Richard Galanti, chief financial officer.

■ WAREHOUSE SIZES: 70,000-160,000 square feet (Santa Cruz is 121,000 square feet)

■ NUMBER OF WAREHOUSES: 266

■ AREAS OF OPERATION: 21 U.S. states, eight Canadian provinces, six Mexican states, United Kingdom, Korea, Saipan.

■ ANNUAL REVENUES (1996 fiscal year): \$19.2 billion, an increase of 7.3 percent from 1995's \$17.9 billion. Comparable warehouse sales increased 5 percent over the year. Profits for the 1996 fiscal year were up 15 percent, to \$248.8 million or \$1.22 per share. In the first five weeks of the new fiscal year, ending Oct. 6, PriceCostco reported revenues were up another 10 percent over the same period a year ago.

■ NUMBER OF EMPLOYEES: 52,700 full- and part-time; 40,100 in U.S..

Number of cardholders: 25 million.

■ STOCK PRICE: \$22 as of Oct. 16. Year high: \$22.12; year low: \$13.62

■ PRICECOSTCO MISSION STATEMENT:

1. Obey the law
2. Take care of our members
3. Take care of our employees
4. Respect our vendors
5. Take care of our shareholders



Dan Coyro/Sentinel

Costco has been wildly successful in its first two years in Santa Cruz.

Toys R Us opening next month and Circuit City coming in around the first of the year, even Costco may have to look over its shoulder at the competition.

The company's merchandising policy, however, keeps it separated from other giant stores, Aue says. Rather than selling Barbie dolls and separate collections of accessories, for instance, Costco will offer an all-in-one package of dolls and accessories.

Costco also "took a lot of heat" Aue says over traffic problems on River Street caused by the overnight influx of legions of shoppers. Now with new traffic lights and turn lanes, the complaints have dwindled, Aue says, although the planned project across Highway 1 could start up the whole hue and outcry again.

Rating the boss

ANGELA CARTER has worked for the Santa Cruz Costco since just after it opened. She came from a Costco in Livermore.

Carter is a cashier. They're the folks who add up items at hyper speed, all the while bantering with "cashier assistants," who are the employees pulling items off carts and restacking them.

"We just have a really great group of people," Carter says, in a brief break from the front lines.

Carter lives in Capitola and says that while it's expensive to live here, even with the bonuses a cashier gets, "I live real comfortably thanks to Costco." She works 35 hours a week at the store.

Carter says it sometimes gets stressful, with the pace and the

scale of things, especially at Christmas, but "you learn how to make things go smoothly."

Of Aue, she says, "He's awesome. He's the best. He's easy to talk to."

Aue's boss, John Booth, the company's regional manager in Livermore, has worked with Aue for four years.

"He's a very caring manager," Booth says, adding that Aue is active in United Way and works with at-risk kids.

Aue has moved around with Costco and its successor corporation, PriceCostco. He started in Portland, moved on to San Bruno and Santa Clara before landing the Santa Cruz job, a post he clearly relishes (64-oz. jars of relish are another Costco staple).

"I feel very blessed to be here," Aue says.

The store employs 190 people, up from 140 when it opened; Aue has two assistants and 18 managers and supervisors.

About half the workers are there fulltime.

Aue says Costco employees are the "best compensated retail people on the planet Earth," with clerks topping out at \$14.67 an hour. Clerks can reach that wage in a couple of years and after that receive bonuses twice a year. Last year, these bonuses, which reflect how a particular store is doing, totaled \$3,000 for eligible Santa Cruz employees.

Aue says Costco pays well to "buy loyalty" from employees. He points to a yellow note pinned to his office door, reading, "The way your employees feel is the way your customers feel."