

## *Rival Pay and Benefit Strategies in Mass Market Retail: The “Costco Model” vs. the “Wal-Mart Model”*

by Sharryn Kasmir

Wal-Mart and Costco are both giants of the American retail landscape, but their employment policies are dramatically different. One-fifth of Costco workers in the US are unionized and, despite paying higher hourly wages and generous medical and retirement benefits, Costco is still competitive with lower-paying chains, such as Sam’s Club. According to a *Business Week* report, Costco has recently matched Sam’s Club in sales volume – but with one-third fewer workers.<sup>1</sup> In large measure, this is because Costco’s employee turnover is lower and employee productivity is higher. Today, there are 136,000 Costco employees worldwide working in 529 Costco stores in the US, Canada, UK, Taiwan, Korea, Japan and Mexico.

In January of this year, Greg DeFreitas and I talked with Frank Lopez and Kevin Matejka of Local 210 of the International Brotherhood of Teamsters, the main union representing Costco Wholesale workers in eleven warehouses throughout the Metropolitan area. Frank and Kevin both worked at Costco and were shop stewards before they joined the full-time union staff. Frank is now a business agent and Kevin a business agent/trustee of Local 210.

**Question: Could you tell us a little bit about your backgrounds? Where did you grow up? How did you become interested in unions? What jobs did you have before you got involved with the union?**

**Kevin Matejka:** I was born and raised in New Jersey, by the Jersey shore. I have a business degree from Rutgers University, and I worked in the health insurance field, the employee benefits side, for a number of years. As a result of the Clinton Administration’s attempt to restructure the health insurance industry many health insurance carriers reorganized and or downsized. As a result, my position was eliminated.

The Hazlet, NJ Costco Wholesale, which happened to be within a mile of my home, opened in 1991. I had taken a part-time position to earn some extra money for the holidays. When my position was eliminated by the insurance company, I decided to work full time for Costco. I started out working on a cash register. I also worked as the member service supervisor, that’s security at the front door, and in the membership department. The last couple of years, I worked as the payroll clerk and also was responsible for handling employee benefits for the warehouse employees.

I was a shop steward at Costco for at least four years, maybe longer. And there was an attempt to decertify the Teamsters by another union making numerous false promises, between 1998 and 2000. I strongly believed in and supported the Teamsters. We just didn’t feel the other union was in our best interest. So I joined with a number of other employees to fight and retain the Teamsters as our union. I helped educate fellow employees as to the value of keeping the Teamsters. Ultimately, we were successful. Over 79% of the people voted to keep the Teamsters.

At that time, Angelo Martin, who has since passed away, was the Principal Officer of Local 210. Angelo offered myself and Frank the opportunity to come aboard Local 210 to represent the Costco workers. Both of us accepted and have worked for Local 210 ever since. I represent over 1,000 members in the New Jersey warehouses, and Frank represents over 1,100 members in the New York warehouses.

**Frank Lopez:** I was born and raised in Puerto Rico. I moved to New York when I was 11 years old. I grew up in Brentwood on Long Island. I have an Associate's degree in business administration and accounting. I was going for my Bachelor's degree but have not yet finished.

I graduated from high school in 1986, and right after I joined the Navy. After my years of service, when I came home, I started just working jobs here and there, not staying long in any of the jobs, six months, eight months, whatever. I kept moving from job to job. So in 1996, I just happened to drive down the road, and I saw this big warehouse named Costco. It's only a mile from my house, but I never saw it before. I said, "Let me pull in. Let me get an application."

After filling out the application, I got my three interviews and within the second day of my application, I was hired as a part-timer. But I was working more than 50 hours a week. After a few months, I got my full-time status. I worked in every department, helping out as much as I could. I was also helping out the only Steward we had in the building at the time, translating for our Spanish coworkers. That's how I got stewards training.

The business agent at that time asked me to step up to the plate and become a union steward. And that's what I did. I served as a steward for almost three years. On September 10th, 2001, I joined the Teamsters Union as a business agent, but before that, like Kevin said, we were working to keep the Teamsters in Costco.

**Q: So you were both shop stewards at the time of the attempted decertification.**

**FL:** Yeah, but we didn't know each other. We had meetings at the local union hall where we saw each other, but we didn't know each other personally.

**Q: How many Costcos in the New York Metropolitan area are represented by Local 210?**

**KM:** Six out of eight warehouses in Long Island, five out of ten in New Jersey. Besides Local 210, which is New York and New Jersey, there's Local 592, in Richmond, VA and Local 311, which is the Baltimore, Maryland area. There are over 3,300 Teamster union workers on the East Coast. That includes New York, New Jersey, Maryland and Richmond. In California, there are over 13,000 employees represented by California Teamster locals.

**Q: In the press, if you see Costco compared to Wal-Mart or Sam's Club, Costco is portrayed as a better employer. It pays better, better benefits. From your point of view, what do you see?**

**KM:** I think it's understated. Comparatively speaking, in the retail industry, Costco employees are the highest paid. Starting at \$11 an hour at Costco versus starting at \$7 and change at Wal-Mart or Target – that's a very, very big difference. Costco, far and away. Every single employee that's hired here, within a few months has the opportunity for medical benefits, for themselves as well as their families: life insurance, medical, dental, vision. They have phenomenal benefits. As I said, years back I was a salesperson for employee benefits, so I can tell you. Industry-wide, Costco is probably top 10% as far as benefits that they provide for their employees.

A lot of insurance plans will cover your children up until age 18, and 21 if they're a student. So kids who are 22 or 23 years old in college no longer have health insurance. They get a part-time job at Costco and are able to get medical coverage for themselves.

**Q: Are Part-timers covered?**

**KM:** Part-timers and full-timers are entitled to receive health benefits after six months of employment. There's a little bit of difference in the contributions paid by full-time and part-time employees; however, it's negligible.

Costco looks to promote within and to provide opportunities for full-time employment. So if you've been there for eight years and you're still part-time, I would say that is your decision. Because seniority is very big in the

union warehouses, so you have the opportunity for postings for full-time positions as they become available, based on your seniority. If you've been there that many years and you've not gone full time, I would say generally you don't want to be full-time.

**Q: What are the major issues in terms of working conditions or safety?**

**FL:** Well, we have a clause in our contracts that forces the company to maintain clean, safe conditions for the employees. If not, there's always OSHA out there, and we can call them up and they'll come in and do what they've got to do and enforce the rules, and maintain a safe working environment in the warehouse. The things that the employees look for is like the pallets, make sure that they're all safe, make sure nothing's tipping over, ready to fall. If at any time they catch something like that, they quickly call the managers and change the situation right away.

**Q: What about in the nonunion warehouses?**

**KM:** Maybe, if we could backtrack, if you're asking, the biggest complaint that I would have about Costco is the consistency. Although Costco will tell you they try to be consistent, from one warehouse to the other it is not. The way they administer certain policies and procedures may be heavily enforced in one warehouse, in another warehouse it's not. Each warehouse, I think, is actually a reflection of the character or personality of the warehouse manager. If you have an authoritarian type of manager, very hard-nosed, you're going to find the warehouse is run that way. If you have a more relaxed, compassionate manager, you'll find the warehouse is run that way. And the employees feel that. So even though they all have the same rules corporate-wide, they're not necessarily run that way.

**Q: I imagine that having the union evens out those inconsistencies.**

**KM:** You know, here's a perfect example. Costco is very sensitive to payroll and work hours, and they monitor every hour on the hour, their sales versus hours. And they're constantly checking and monitoring. So if they're behind what their projected sales are for that day, they'll look to cut hours: "We need to send somebody home."

Now, in a union a building, you have the protections of your guaranteed hours and your seniority. In the nonunion buildings, they are covered by what they refer to as the "employee agreement," and they are guaranteed a schedule of 25 hours for part-timers and 40 hours for full-timers, very similar to what we have. However, we've heard of many instances in certain nonunion warehouses where employees were told: "You need to go home. You can use vacation time or sick time, but you need to go home." They'll look to send the highest-paid workers home to limit their payroll.

In a union building, you cannot do that. In some nonunion buildings, it doesn't occur. We've been told by many workers who have gone from a union to a nonunion building that it does occur, and they've actually look to come back to the union buildings.

**Q: What issues do you think motivated Costco workers in New York and New Jersey to organize?**

**KM:** Costco merged with Price Club back in 1993 or '94. Costco was nonunion, Price Club was union. When they merged, the warehouses that were union remained union, and the ones that were nonunion, the original Costcos are still nonunion.

**Q: So no new warehouses were unionized since then?**

**FL:** None have been organized.

**Q: Why not?**

**FL:** I guess the employees feel that they're getting probably the same pay and benefits from the company.

**KM:** In our union's opinion, the nonunion employees benefit from the union. Costco will pay the nonunion buildings the same as the union, to try to create a disincentive for anybody to go union. There have been occasions where we have attempted to organize a building, and we've made inroads, and we've had cards signed, but all of a sudden, they will change warehouse managers, again, from the iron-fisted warehouse manager all of a sudden to a very nice, compassionate new warehouse manager, and all those problems seem to go away. The workers become pacified in there.

We strongly believe in representation. But ultimately, any time we've made inroads to organize, Costco has just tried to squash it, for lack of a better word, but not by union busting or any kind of nasty tactics. They'll go in, and they'll say, "Why are these employees looking to go union?" "Well, because this is happening." And they'll try to rectify that situation, and they will pacify these unhappy employees to avoid the possibility of them seeking union representation.

**Q: Do they hold meetings to dissuade employees from joining the union?**

**KM:** I strongly feel that they do. I mean, do we have evidence? Do we have pictures? No. But we've heard stories from people that were there. But generally, there's problems within a warehouse that prompts interest to go union. Once that happens and Costco gets wind of the possibility of unionizing, Costco immediately reacts to squash such an attempt. They look to go in there and resolve any kind of issues, any kind of problems that are in that building, pacifying those employees and thus trying to avoid any union organizing attempts.

**Q: You both came into organized shops, and you fought the decertification, but the Teamsters haven't successfully organized any new Costcos since '93?**

**FL:** No and no other union has been able to do the same, not even the UFCW.

**Q: That's significant because you're talking about a company where there is a union. You'd think that there would be some movement.**

**KM:** Because they are receiving some of the benefits of a union in Costco without paying union dues. It's like having your cake and eating it. Nonunion employees in my opinion reap the benefits of their union counterparts.

**Q: What about grievance procedures and the other things you need a union for?**

**KM:** A lot of nonunion employees aren't aware of that. If you've never had something you may not realize what you are missing. The employees who realize the true importance of a union are those who have left union buildings and transferred to a nonunion building. But a person that stays in a nonunion building has never had the representation and may not truly realize the importance of having representation.

A nonunion employee who is fired for no reason is just gone and you never hear from them again. If there are 200 people in a warehouse, 199 weren't fired. Unfortunately, the 199 are really not that worried about that one person. Such things don't happen in a union warehouse. There needs to be just and proper cause for a termination of a union employee. If not, they have the grievance procedure in the union contract to protect their rights. In the union buildings, your schedule, your start times, your job postings, everything is strictly seniority.

Like I said, somebody leaving a union building going to a nonunion building realizes, because they've had something, they've had the union contract, and then they no longer have those protections once they leave the union warehouse.

**Q: Are the pay and benefits exactly the same, or are there some differences between union and nonunion?**

**KM:** Hourly wages may be the same. Everybody starts out at \$11 an hour.

**FL:** And you get raises and bonuses based on number of hours worked.

**KM:** However at the end of the year, if you want to compare W-2s. If I am in a union building, and I know I'm getting my 40 hours a week and my seniority allows me to get Sundays, when I can get time-and-a-half. Come the end of the year, if I've got my guarantee where nobody can send me home unless I decide to go home, I will earn that \$45,000 at the end of the year. But the person in the nonunion building, when you start to cut hours, two hours here, three hours there, that \$45,000 come the end of the year is \$41,000, \$42,000. Are they getting paid the same per hour? Absolutely. But they are not earning the same come the end of the year in many cases.

The thing is, in the union warehouses, there is seniority, and in the nonunion building there is not. There's nothing preventing a nonunion warehouse manager, from saying, "Well, Frank over here is a new employee getting \$11 an hour, and Joe over here is getting \$19 an hour. I'll put Frank on Sunday." That's a dramatic cost savings when you're trying to control payroll, when you're getting time-and-a-half for working on a Sunday. If you take away a Sunday from a more senior employee you can be taking away almost \$4,000 per year out of their pocket. In warehouses with over 200 employees that can be a dramatic savings in wages over a year's time.

So, I mean, if you want to put things side by side, X amount of dollars per hour, it may look the same, but come the end of the year, it may not be. I can't say that in all cases, because there are some nonunion warehouses that are so busy that they can't have people working enough hours. But we have been told stories by many former union members in the nonunion buildings where it does happen.

**Q: When Price Club and Costco merged, did the warehouses get different pay or benefits?**

**FL:** When we had the merger, everything remained the same.

**KM:** Because there were certain differences at the time. What they've tried to do over time was to assimilate the two. For example, at the time of the merger the union building employees received 1.6 times their actual hourly rate per hour on a Sunday, whereas the nonunion building employees earned 1.5 times So, there were differences in salary. Jim Sinegal (founder and CEO of Costco Wholesale) had a professional relationship and mutual respect with Sol Price (founder of Price Club). Costco emulated Price Club in many ways and was in my opinion why the merger between the two has been such a good fit. From what I recall there was a gentleman's agreement between the two not to be in direct competition with each other.

The merger of Price Club and Costco Wholesale resulted in a few hundred warehouses. As a result of Jim and Sol's agreement there were very few locations where Costco and Price Club were in the same geographic locations. If I remember correctly I don't believe there had to be any closing of warehouses as a result of the merger. So, I mean, to me it was actually a merger that was made in heaven.

**Q: A lot of people who are pro-labor are talking these days about the need to organize in the service sector, to organize women and immigrants, and to think internationally about connections between unions. Have you gotten any experience from your work in Costco and your involvement with the union that gives you insight into where the labor movement needs to be, and what the future is for the labor movement?**

**KM:** Well, I'm concerned, because, obviously, it's no secret, the number of union members has decreased over the years. I've seen first hand how important it is to have the protection of the union and for union workers to earn a wage where they can have the dream of a home, raise a family, and send their children to college. And I've seen where many jobs have been lost, sent overseas. Okay, it's cheaper to produce that product in China. Well, how many people have you just put out of work? I think it's very important to keep jobs here in the

United States. I don't necessarily think people see it until it's too late and they are the one affected by loss of jobs in this country.

As far as organizing internationally, I don't work on that level. I do think it's important to organize, for unions to go forward. I know the Teamsters, within the last couple years, has taken a very large role under Jimmy Hoffa to try to organize, and they realize that is the lifeblood of the unions, to grow and to organize. And a number of different unions have united together to join the Teamsters to have a bigger voice and a similar vision of organizing in an effort to help our union grow.

We are trying to be more heavily involved in politics. Within the last eight years, labor has taken a big hit from the Republican administration. I'm not saying we should support Democrats solely. I'm a firm believer in supporting the politicians that are looking to support labor. I know, Jimmy Hoffa and different union leaders have tried to get guarantees from current candidates that are out there now that they are going to support labor and labor friendly legislation, in order for us to support them. The Teamster's DRIVE (Democrat, Republican, Independent Voter Education) program is an effort to educate voters and support candidates who support labor. So you can see, it's not Democrat, it's not Republican. It's everybody. We're looking to support and be heavily involved in politics. We think that's going to help our futures by supporting politicians that are going to help support labor.



*Frank Lopez and Kevin Matejka*

**Q: What about you, Frank? Have you seen anything through your work with the union that gives you insight into what needs to happen in the future?**

**FL:** Well, I've talked to a lot of employees; because I'm bilingual, they communicate a lot with me. Those who have left Costco to go back to their countries because now there's a warehouse that just opened up down there, you know, or there's some manufacturing company that came from the U.S. and built a place down in their country. So people from that country leave the U.S. to go there, because now they have a job. They're close to their families, whereas before there was nothing for them there. And there are two Costco locations in Puerto Rico and approximately 30 in Mexico.

**KM:** That's one of the benefits of being an employee of Costco: that you can transfer. I mean, in New York, if I'm making \$19, you're just barely getting by. But if I take that \$19 an hour and I transfer down to Florida or South Carolina, North Carolina, you can live quite well there on such an hourly wage. I mean, many people

have gone down there, sold their homes up here in the NY/NJ area and made a lot of money off of their home and gone down there and purchased similar or larger homes for dramatically less.

**Q: And they'll keep you at the same pay level?**

**FL:** Yes, but it is something we have heard they are starting to look into in the future, a geographic difference in pay.

**Q: In the warehouses that are unionized, is everybody in the Teamsters?**

**KM:** Except the opticians, hearing aid technicians, and pharmacists.

**FL:** But everybody else, including supervisors. In Brooklyn, which is nonunion, Local 340 the butchers' union went in and they organized the Costco butchers, but after the three years they voted out the union.

**Q: What's the biggest issue that faces the membership in the future?**

**KM:** Actually, the biggest struggle and the biggest thing that our members are looking for is a pension. With the last negotiations, we fought very hard for a pension for our members. The employees turned down what Costco had to offer because they strongly wanted the pension, the same pension that's part of the California Teamsters' Contract, the Western Conference of Teamsters' pension plan. We wanted that same pension for our employees.

Going back a few contract negotiations, the argument always was that Costco didn't want to implement the pension plan here because they didn't feel as though the Local 210 pension was sufficient, whatever the liability problems might have been. So we tried to remove that roadblock and say, we don't have to put our members into the Local 210 pension plan. Our ultimate concern was for our members. If that's a problem, put them into the West Coast Teamsters' pension. We could care less which pension fund it was, as long as it's a quality pension fund, that's our major concern.

We had negotiations and meetings with Costco Wholesale representatives to try and allow our members the opportunity to vote for a pension plan. Two stewards, Rome Aloise, the International Brotherhood of Teamsters-Costco Rep, and all three Principal Officers of Locals 210, 311 and 592 flew out to San Diego and met with Jim Sinegal to try and persuade him to allow our members to vote for the opportunity for a pension like the California Teamster enjoyed. Unfortunately, Jim Sinegal's feeling was that Costco knows best how to direct their employees' money for their retirement, by keeping it strictly in the company-sponsored 401(k).

The West Coast Teamsters have a 401(k), as well as the pension. The contributions made to California and East Coast Teamster employees by Costco are virtually the same; however, they are allocated differently. 100% doesn't go into the 401(k) on the West Coast, a percentage goes into the 401(k) and a percentage goes to fund the pension plan.

**Q: How much does Costco contribute to the 401(k)?**

**KM:** They match up to 50%, giving a maximum of \$500 per year. But the thing was, our members spoke. We did surveys, we did interviews, we did questionnaires. Almost everyone wanted a pension. And it's there already with the West Coast Pension. Well, they would have the best of both worlds. We were proposing a 401(k), as well as the pension just like our California Teamsters enjoy.

As part of the pension employees would be eligible, I believe, for up to 10 years back-service credits, depending on their years of service with Costco.

**FL:** Yes, up to ten years.

**KM:** Up to ten years' back-service credits. It was a fantastic opportunity. I mean, as a union, financially, we had nothing to gain other than giving our members what they wanted and we feel they deserved. They wanted a pension and we fought to put the pension in. We've agreed to maintain an open dialogue with Costco as far as implementing a pension, and we're still actively pursuing it. And that was our, as well as our members biggest disappointment in the last contract negotiations

We fought very hard for it, but ultimately was it worth striking for? I mean we didn't lose anything as far as benefits. There were pay increases. There were not any give-backs and ultimately we still had the best package of any retail industry out there. So do you strike for that? But we were disappointed. You're giving West Coast Costco employees something you don't want to give to your East Coast employees. That's probably our biggest disappointment and surprise considering the California Teamsters have it already. We felt like our members were being treated like second-class citizens.

That's our argument: give to one what you're giving the other. Let the people have that choice, and let them decide. If they decide they don't want it, the issue's off the table, but let them make the choice. And Jim Sinegal ultimately felt as though, no, this is what was best for them and the company. Though in my opinion, he was making their choices for them and not allowing them to decide for themselves.

**Q: Is the 401(k) only invested in Costco?**

**FL:** No, it has Costco stock and different mutual funds.

**Q: And there's profit sharing?**

**KM:** Yes, depending on your years of service, you get a certain percentage added to the 401(k).

It's not like we were saying, "We want to put 3,000 of our members into a pension just so the union's going to make money." If somebody wanted to make that argument, why would we agree to want to put it into the West Coast Teamsters' pension?

So, I mean, as far as we were concerned, to have that ability for a member to get ten years back-service credits, in our opinion, it was a home run. There were many managers in Costco when they heard that, and Frank knows it, with the ten years' service credits, there were managers that were talking about going back to being hourly just to get that pension and back service credits.

We fought the fight for the pension, but Jim Sinegal would not budge. We were very disappointed.

**Q: It's interesting because the pension would give workers in a union warehouse a real advantage. Do you think Costco does not want to agree to the pension because they are afraid it will encourage nonunion warehouses to organize?**

**KM:** I don't know. Was the reason why they did not want to give us a pension that they were concerned that the nonunion buildings may all of a sudden want to become union to get a pension? They have it on the West Coast.

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NOTES

<sup>1</sup> "The Costco Way. Higher Wages Mean Higher Prices. But Try Telling Wall Street." *Business Week*, April 12, 2004.