

# The High Cost of Low Wages

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**W**al-Mart's legendary obsession with cost containment shows up in countless ways, including aggressive control of employee benefits and wages. Managing labor costs isn't a crazy idea, of course. But stingy pay and benefits don't necessarily translate into lower costs in the long run.

Consider Costco and Wal-Mart's Sam's Club, which compete fiercely on low-price merchandise. Among warehouse retailers, Costco—with 338 stores and 67,600 full-time employees in the United States—is number one, accounting for about 50% of the market. Sam's Club—with 551 stores and 110,200 employees in the United States—is number two, with about 40% of the market.

Though the businesses are direct competitors and quite similar overall, a remarkable disparity shows up in their wage and benefits structures. The average wage at Costco is \$17 an hour. Wal-Mart does not break out the pay of its Sam's Club workers, but a full-time worker at Wal-Mart makes \$10.11 an hour on average, and a variety of sources suggest that Sam's Club's pay scale is similar to Wal-Mart's. A 2005 *New York Times* article by Steven Greenhouse reported that at \$17 an hour, Costco's average pay is 72% higher than Sam's Club's (\$9.86 an hour). Interviews that a colleague and I conducted with a dozen Sam's Club employees in San Francisco and Denver put the average hourly wage at about \$10. And a 2004 *BusinessWeek* article by Stanley Holmes and Wendy Zellner estimated Sam's Club's average hourly wage at \$11.52.

On the benefits side, 82% of Costco employees have health-insurance coverage, compared with less than half at Wal-Mart. And Costco workers pay just 8% of their health premiums, whereas Wal-Mart workers pay 33% of theirs. Ninety-one percent of Costco's employees are covered by retirement