SOL PRICE:
FOUNDER OF COSTCO

1. Youth and Law Career

“ Sol Price was born in the Bronx on Jan.23,1916. His parents were Jewish immigrants from Russia. (Sign On San Diego.*Obituary*) “The original family surname has been lost to time. It was changed, prophetically, to Price at Ellis Island.” (Fox). After settling in New York they worked in New York’s garment industry. “ His father helped found the International Ladies Garment Workers Union, and later owned a clothing factory in Manhattan…After his father contracted tuberculosis, the family relocated to San Diego.” (Miller).

“ (Sol) graduated from San Diego High School before earning undergraduate and law degrees from the University of Southern California.” (Miller). He then practiced law in San Diego for more than a decade.”

He was the Price in the law practice Price and Nottbusch, which in 1947 merged with another firm to become Price, Nottbusch, Cory and Schwartz.” (Howell). He was also a law partner with Paul Peterson at one time. That partnership was known as Peterson and Price.

Peterson remembered Price as, “ a very dynamic hard-driving individual with very high standards who expected people around him to have the same devotion to value that he did”. Peterson added that Price was very generous to persons in need. “ He was a liberal, no question. Liberal in the sense of caring about his fellow man… He believed in helping people. He believed in improving humanity. That’s a good word for him – humanitarian.”(Sign On San Diego, *Obituary*).

2. Fed-Mart

In 1954 Price inherited a vacant warehouse in San Diego. While looking for a tenant two of his clients asked him, “ to take a short trip to Los Angeles to give his opinion on an unusual business they had come across. The clients were involved in the wholesale jewelry business and they had been selling watches to a non-profit, member-owned retail operation in Los Angeles called Fedco. Price made the trip north and noticed that Fedco’s facility was similar to the warehouse he had inherited. He asked his clients to look at his warehouse, suggesting that his building could be used for the same purpose. His clients agreed, marking the beginning of FedMart and the first traces of the membership club industry.” (FedMart).

“ The business was begun in 1954, started with a $50,000 capital investment. Price solicited the help of eight individuals, who each invested $5,000, and he convinced his law firm to invest the remaining $10,000. Price obtained inventory from his clients, beginning with the two jewelry wholesalers. Another client, who was involved in the furniture business, provided Price with a small selection of furniture. A third client sold liquor, giving Price’s FedMart the odd mix of jewelry, furniture, and liquor. He opened membership to government employees of all levels – federal, state and local. Despite the less than comprehensive selection of goods, Price’s business thrived from the start, collecting $ 4.5 million during its first year in business, four times the total projected by Price and his investors.” (FedMart).

The first Fed-Mart (original spelling) was opened in December, 1954. In the 1960s, after 13 stores had been opened in California, Arizona and Texas, Price opened membership to the public. (Sign On San Diego,*Obituary*).The membership fee was originally $2 for life but was later changed to $2 per year.(Fox).

From the beginning, “ Price believed that the corporation’s chief duties were to obey the law, please customers, please employees and satisfy stockholders, in that order.” For customers the goal was to offer rock bottom prices, “by such practices as slashing advertising to near zero, eschewing credit cards and limiting executive salaries.” For employees the goal was to pay, “close to the highest prevailing wages in the community.” “Unlike many of his retail competitors, Price maintained good relations with union members – and made sure that nonunion workers got the same benefits as union workers did.” (Facebook).

Price’s championing of the customer is illustrated by this comment from an employee in the early days of FedMart. “ I remember him threatening to fire me because I was too successful on a promotion. I bought a big consumer electronics closeout and sold out in one week at a 50 percent gross when we were probably running electronics at a 25 percent margin. He just raised holy hell that I went up on margins so much; the benefit should have been passed on to the consumer.” (Markowitz,).

Price, himself, had this to say in an interview in 2003, “ I never allowed anybody at Fed-Mart to use the word ‘discount’. The whole philosophy was: How do we sell stuff at the lowest markup rather than the deepest discount? I never allowed them to use superlatives or comparative pricing or to have sales. All those things were gimmicks. We tried to look at everything from the standpoint of, ‘Is it really being honest with the customer?’ If you recognize you’re really a fiduciary for the customer, you shouldn’t make too much money.” (Helyer). Sol’s son Robert emphasized that fiduciary vision at the time of his father’s death, saying, “ He saw himself as a trustee, a fiduciary of the customer. Everything he did, he did it as if he were the customer.” (San Diego Union-Tribune, *Obituary*)

Price was a hands-on manager from the beginning. He empowered his employees but at the same time was tough on them. Markowitz offers the following two quotations from two admiring former associates to make the point. ------ “ (Y)ou have to be strong to stand up to Sol's towering personality. He may be difficult to work with, but I tell you the quality of honesty and integrity that starts at the top and permeates an organization is what gives it its stability and direction." -----" Sol takes care of his people. As long as you worked and produced for him, he was very protective. He gave you any opportunity you wanted." (Markowitz).

One employee who took full advantage of the opportunity was Jim Sinegal who later founded Costco. As Sinegal recalled his first job at Fed-Mart, " It wasn't that great a job. I was getting a buck and a quarter an hour. But it was exciting. Sol was a major part of that excitement. He was not big on compliments, but you never doubted what was on his mind. Ever. He was always able to discover everything we were doing wrong. He just had a knack for it." (Boyle).

Sinegal was soon chosen by Price to turn around Fed-Mart's main store in San Diego. As Sinegal recalls, " When I was 26 Sol made me the manager of the original San Diego store, which had become unprofitable. I was supposed to narrow down the selection and get out of troublesome categories like apparel. We had way too much apparel. So here I was, this kid, and I was given tremendous responsibility. As a result of simplifying the process we were able to get it back into the black." (Boyle).

Ortega broadens and qualifies the above assessments of Price's personality in the following comparison of Price and Wal-Mart's Sam Walton. " The two men had much in common as discounting pioneers of the same generation.. (but) came from right angles to one another in their approaches to life and work. Price liked to claim he read the *Daily Worker* instead of the *Wall Street Journal.* Early on, when Price Clubs didn't accept credit cards, he said ironically that the reason was that 'it's against my religion for people to go into debt to shop.' He was considerably more generous with benefits and wages than other discounters, Walton included. And, unlike Walton in those days, Price gave money to charities generously and often through a foundation he created and to which he handed $70 million. At the same time, Price was renowned as autocratic and ruthless, even with his own family." (Ortega, pp.144-145).

It is not clear to what extent the term "ruthless" would resonate with employees. Certainly the guestbook for Price's funeral is full of loving comments (as would be expected) such as the following (Legacy):

> " My father, Jim Dee Myers, served Sol Price and the Fed Mart stores from 1959 to 1978. He loved his years serving Sol and the FM family… Sol Price and his FM stores made so much possible to us as a family. If not for the great Fed Mart insurance it would have been a hardship for my parents when I had corrective surgery in the early 1960s at Texas Children's Hospital in Houston. Fed Mart was there for us as a family for medical needs, great pharmacies, and support of an incredible team of employees – all at a time when there were no other stores or companies like it."

“By 1975, the Fed-Mart chain had grown to include more than 45 stores in California and the Southwestern United States. Sales volume was $300 million a year compared with Wal-Mart which had 104 stores and a sales volume of $236 million in 1975. (Ortega, p.142).

In 1975, “ Price sold control of the company to a German retailing mogul, Hugo Mann. Price – whom his own son Larry described as a control freak – was supposed to stay on to run the chain, but he had a hard time not being the top man. At the first board meeting after the sale, he got into a huge row with Mann, over various changes the new owner wanted to make. So bitterly did they quarrel that at the next meeting Mann fired him and locked Price out of his office. Price had to sue Mann in court to collect his salary and to get access to his own files.” (Ortega, pp.142-143). Price’s sons, Larry and Robert, had been officers of Fed-Mart but they resigned after their father was fired (Ortega, 143).

3. Price Club

“Sol Price…quickly came up with a new idea. Chatting with people around San Diego who owned restaurants, convenience stores, newsstands, and other small businesses, he realized that many of them had to turn to five or more different wholesalers to buy their supplies and merchandise, often on unfavorable terms. If he could offer them what they needed in one place, at a reasonable price, he could carve out a new business.” (Ortega, p.143).

“ With (his son) Robert, Mr. Price started the first Price Club in 1976 in a cavernous former airplane parts factory in an unfashionable part of San Diego. The business, which offered consumer goods as varied as tires, books and household appliances at extremely low prices, proved to be the leading edge in the multibillion-dollar in-flux of big-box stores, among them Costco, BJ’s Wholesale Club and Sam’s Club.” (Fox).

The reference to Sam’s club points to a special relationship between Sol Price and Sam Walton. Walton made no secret of his admiration for Price. For example, in his autobiography, Walton declares, “ I learned a lot from … Sol Price, a great operator who had started Fed-Mart out in southern California….I guess I’ve stolen – I actually prefer the word ‘borrowed’ – as many ideas from Sol Price as from anybody else in the business.” (Walton,79-80).

When Sam Walton came out to look at Price Club and meet Sol Price for the first time, “ Price pegged him as a typical Southerner, gracious, full of compliments, and a little full of beans…He recalls Walton saying…’ Twenty-five years ago I saw your Fed-Mart in Houston, and I knew it was a big thing, but I didn’t have the money to begin in a big town, so I went back to my small town and started there. Now I have 350 stores, I’m worth $700 million, and I’m on the New York Stock Exchange – and it’s all thanks to you.” (Ortega, p.145).

" The Price Club philosophy was simple: Keep overhead to an absolute minimum. Mr. Price accomplished this by doing no paid advertising, sharply curtailing inventory (his stores typically carried only a few thousand products, with limited brand selection), saving on real estate (most stores were in out-of-the-way locations) and, for many years, refusing to accept major credit cards." (Fox).

" 'We think the secret of good mass merchandising is the intelligent loss of sales,' Mr. Price told the New York Times in 1986. " It means you have to decide what sales you are prepared to live without. Can you live without credit cards that cost you two points? Can you live without advertising? Can you live without $ 35-to-$45-a-foot occupancy costs for a prime location?'" (Fox)

" Price Club…was originally aimed at small-business owners. For an annual membership fee of $25, for instance, an accountant could buy inexpensive office stationery or a saloonkeeper could buy cigarettes and toilet paper. In its first year, Mr. Price's business lost $ 750,000. Only after membership was extended to the general consumer did it begin to thrive, and before long Price Club had become an integral part of the American retail experience." (Fox).

Once Price had worked out the kinks in his business model, he was ready to expand. And Price Club did, indeed, expand, but slowly. By the beginning of 1983 Price Club had eight stores open and there weren't any other warehouse clubs in existence. (Ortega, p.147).

But 1983 was the year when the competitive situation suddenly changed. One change agent was Price Club top executive Jim Sinegal. He left Price Club to start a nearly identical business which he named Costco. Sinegal was then ,and continued to be, a great admirer of Sol Price. Sinegal credited Price for giving him the basic model which would be used by Costco. And years later, Sinegal and industry observers would cite Costco as an improved incarnation of Price Club. Nevertheless, " When Jim Sinegal told Sol Price that he was launching a warehouse club to compete with Price's own Price Club, ' Sol was pissed.'" (Boyle). Costco ended up becoming such a tough competitor that Price agreed to a merger with it in 1993.

But in the 1980s the leading change agent was Sam Walton who opened his first Sam's Wholesale Club in April 1983, had three open by the end of that year, and had 40 open within three years. That was more than Price Club had.

"Sol Price seemed to be in no rush to stake out turf. He seemed to be as interested in the real estate end as in the stores themselves, always buying property and working to attract other big-box tenants to create shopping centers … Sol Price says he never worried about about Wal-Mart. He figured Walton wouldn't get as aggressive as he could with Sam's Clubs out of fear the chain might, as Price put it, kick the shit out of his own Wal-Mart stores. To his mind, Sam's Club was fighting with one hand tied behind its back. He was more worried about chains such as Costco, which were nearer his territory. (Ortega, pp. 146 - 147).

Walton, thus, differed from Price with respect to the growth strategy. “ Walton , “ raced to open stores as fast as possible and aimed to saturate markets to keep rivals out – even if that meant,say, his six clubs in Houston or five clubs in Dallas would end up cannibalizing each other’s sales. Better to lose sales to his own stores than to somebody else’s, Walton figured …Price, by expanding very deliberately and by focusing more than his rivals on the wholesale end of the business, got far higher sales out of each club – more than twice what Wal-Mart got out of each Sam’s Club.” (Ortega, p.148).

4. The Costco Merger

“ By 1993, shortly before merging with Costco, Price Club comprised 94 stores in the United States, Canada and Mexico, with annual revenue of more than $ 6 billion. (Fox). But, “warehouse stores had proliferated, and the industry was in trouble. As part of a shake-out, Price Club merged with Costco in 1993, creating PriceCostco, Inc. PriceCostco changed its name to Costco Companies Inc. in 1997” (Miller).

Clearly the merger of Costco and Price Club made sense in the context of an industry suffering from overcapacity. In addition, it made sense to Sol Price from an operating standpoint. When asked why he turned down a suggestion from Sam Walton to merge Price Club and Sam’s Club but then agreed to merge with Costco, Price said, “ We were good at innovating, but when it came to expanding and controlling, we weren’t so good.” (Helyar).

While Sol Price’s name is no longer on the company letterhead, his business philosophy and basic model are still very much in evidence at Costco. Periodic statements by Jim Sinegal make the point clearly.

For example, here’s Sinegal describing Costco’s pricing policy which he traces back to his Fed-Mart education. “ An awful lot of what we did at Fed-Mart was counterintuitive to people who were in the merchandising business at that time…Many retailers look at an item and say,’ I’m selling this for ten bucks. How can I sell it for 11? We look at it and say, How can we get it to nine bucks? And then, How can we get it to eight? It is contrary to the thinking of a retailer, which is to see how much more profit you can get out of it. But once you start doing that , it’s like heroin” (Boyle).

On employee compensation Sinegal’s practice and philosophy were clear replications of Price. Consider this assessment in a short article about Sinegal (*James Sinegal*).

> “ Among analysts reviews of Costco’s performance were mixed. In 2002 sales in established stores grew by 6 percent and exceeded those of its nearest competitor…Sam’s Club. However, the figures were not good enough for many investors who point out Costco’s relatively low earnings on the dollar. According to critics, the problem was that Sinegal

> was too generous to his employees. A cashier at Costco could earn up to $ 40,000 per year after four years of service, an unheard-of salary in the world of discount retail. Other retail-industry experts countered that Costco's generous compensation structure actually increased productivity and reduced loss due to turnover and theft … Sinegal viewed the sizeable salaries as a way to build the consumer base. He told the *Los Angeles Times, '* I don't see what's wrong with an employee earning enough to be able to buy a house or have a health plan for the family. We're trying to build a company that will be here 50 years from now."

On executive compensation, Sinegal adhered to Sol Price's view that the CEO should keep his salary within reasonable range of the pay for other employees. Price thought that a ratio of 10 to 1 was about right and that's how Sinegal determined his own pay (Facebook).

On sticking to a humanitarian philosophy, Sinegal said, " The thing was most remarkable about Sol was not just that he knew what was right. Most people know the right thing to do. But he was able to be creative and had the courage to do what was right in the face of a lot of opposition. It's not easy to stick to your guns when you have a lot of investors saying that you're not charging customers enough and you're paying employees too much." (Facebook)

5. PriceSmart, Family and Philanthropy

" Following the 1993 merger, Mr. Price concentrated on a real-estate investment trust (Price REIT) and other investments, and donated more than $100 million to programs aimed at revitalizing the San Diego neighborhood where he grew up." (Miller). He also co-founded yet another membership warehouse club business, with his son Robert, named PriceSmart. That business operated in Central America and the Caribbean. It operated 26 warehouse clubs in 11 countries at the time of Sol Price's death in 2009 (PriceSmart, 2009).

While Sol Price maintained a successful business relationship with one son, Robert, his relationship with the second son, Larry, deteriorated over the years. Larry had been an officer at Fed-Mart. Later Larry operated tire-installation centers in space he leased inside Price Club warehouse stores. " In 1985, after a spat between them over a family matter, Sol Price abruptly canceled his son's leases, cutting him out of the business. An arbitrator awarded Larry Price $3.7 million; and then the son hired a divorce lawyer to sue his father for more." (Ortega, p. 145). "Superior Court Judge Arthur W. Jones threw out (that) $100 million emotional-distress lawsuit…(in which) Laurence claimed that his father was cruel, cold and domineering…After seven days of trial and bitter, searing personal testimony, Jones said that Sol Price, 73, had been 'reasonable' in the raising of Laurence, 43, who, evidence showed, was a difficult child and still has serious emotional problems." (Fritsch).

Consumer crusader Ralph Nader had this to say about Sol Price's social conscience and the resultant actions (Nader):

> "Sol Price, founder of Price Clubs, was often seen as a moderately gruff man but with a heart of gold. He gave large sums of money to job training and other needs of inner city youth and child advocacy groups. He sought to alleviate poverty no matter who were the victims, including afflicted Palestinians. His biting sense of business humor was legendary. Mr. Price, a lawyer, had many causes, pressing for a tax on wealth and reforming the grand jury system which he deemed procedurally very unfair. He never could get a member of Congress to introduce a tax on wealth, no matter how many times he went up to Capitol Hill to urge such legislation. "

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