

THE CHANNEL KEEPS IT · CHAPTER SIX

The Warehouse That Paid More

Chapter Six of The Channel Keeps It

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Chapter Six of The Channel Keeps It. The whole book, with every chapter, is at business.hautelumiere.life/library/the-channel-keeps-it (DOI https://doi.org/10.5281/zenodo.23989022).

A NOTE BEFORE YOU READ

This work is offered for education and leadership development. It is not legal, financial, accounting, investment, medical or psychological advice; take the advice of a qualified professional who knows your circumstances. Companies and events are described from the public record as the author understands it; characterisations are the author's analysis. Examples are illustrative, and no particular outcome is promised to any reader.

ABSTRACT

Walk into either building and the first thing you notice is the same: concrete floor, steel racking to the ceiling, pallets of paper towels and tinned tomatoes, a forklift beeping somewhere out of sight. Costco and Sam's Club, the warehouse chain owned by Walmart, sell much the same goods to much the same kind of customer at much the same low margin. In the middle of the last decade they were the two largest firms in their category in the United States. On the shop floor, an untrained eye could not tell them apart. The difference was in the payroll. In December 2006 the management scholar Wayne Cascio set the two side by side in the Harvard Business Review , in an article called "The High Cost of Low Wages", the short form of a longer comparison he had published that August in the Academy of Management Perspectives . His figures are the case this chapter works through, and every number below is his, given as he gave it, with his own caveats attached.

CHAPTER SIX

The Warehouse That Paid More

Two rooms with the same pallets

Walk into either building and the first thing you notice is the same: concrete floor, steel racking to the ceiling, pallets of paper towels and tinned tomatoes, a forklift beeping somewhere out of sight. Costco and Sam's Club, the warehouse chain owned by Walmart, sell much the same goods to much the same kind of customer at much the same low margin. In the middle of the last decade they were the two largest firms in their category in the United States. On the shop floor, an untrained eye could not tell them apart.

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This is the first of two deeper cases in the book. Chapter 5 looked at a gift wage in 1914, made once, with conditions. This chapter looks at a wage policy held for decades, without inspection, inside a firm that competes on price in one of the most cost-conscious industries there is. It is the closest thing the public record offers to a long-run test of Akerlof's primary labour market.

The figures, as Cascio gave them

At the time of his comparison, Costco had 338 stores and 67,600 full-time employees in the United States and held, by his estimate, about half the warehouse-club market. Sam's Club had 551 stores, 110,200 employees and about forty percent of the market.

Pay. The average wage at Costco was seventeen dollars an hour. Walmart did not report Sam's Club pay separately. A full-time Walmart worker earned $10.11 an hour on average, and Cascio cites several sources suggesting that Sam's Club was similar: a 2005 *New York Times* report of $9.86, interviews he and a colleague conducted with a dozen Sam's Club employees putting it at about ten dollars, and a 2004 *BusinessWeek* estimate of $11.52.

Benefits. Eighty-two percent of Costco employees had health insurance, compared with fewer than half at Walmart, and Costco workers paid eight percent of their premiums against thirty-three percent at Walmart. Ninety-one percent of Costco's employees were covered by retirement plans, with the company contributing an average of $1,330 a year each; at Sam's Club, sixty-four percent were covered, with an average contribution of $747.

Turnover. Costco's turnover was seventeen percent a year overall, and six percent after an employee's first year. Walmart's was forty-four percent, which Cascio describes as close to the industry average. He assumes, and says he assumes, that Sam's Club's rate was the same as Walmart's.

The cost of turnover. Using a conservative estimate that replacing an hourly employee costs sixty percent of a year's pay, Cascio puts the cost of replacing one Costco worker at $21,216 and one Sam's Club worker at $12,617. Multiplied by the turnover rates, Costco's total annual cost of churn comes to $244 million, against $612 million at Sam's Club: $3,628 per Costco employee and $5,274 per Sam's Club employee.

Output. Sam's Club and Costco generated $37 billion and $43 billion respectively in United States sales in the year he examined, and Costco did it with thirty-eight percent fewer employees. He adds the qualification himself: this was "admittedly, in part by selling to higher-income shoppers and offering more high-end goods." Costco generated $21,805 in United States operating profit per hourly employee, against $11,615 at Sam's Club.

His conclusion is a single sentence that every leader who sets a wage should hear once: "These figures challenge the common assumption that labor rates equal labor costs."

What the figures can and cannot carry

Before reading the case as a gift economy, it is worth being exact about what it proves, because it is often quoted as proving more.

It does not prove that higher pay causes higher productivity. It is a comparison of two firms at one point in time. Costco differs from Sam's Club in many ways besides pay: its customers, its product range, its management, its history. Cascio names the most important of these, the higher-income shopper, himself. Any of them could account for some of the gap in sales per employee.

It rests on estimates at several points. Sam's Club's wage is a range from secondary sources, not a figure from the company. Its turnover is assumed to match Walmart's. The replacement cost of sixty percent of salary is a rule of thumb, chosen to be conservative, not a measured figure for either firm.

And it is a snapshot from the middle of the last decade. Wages, benefits and turnover at both firms have moved since, and nothing in this chapter should be read as a description of either company today, or as a view on either as an investment.

What it does show is narrower and still valuable. It shows that a firm competing on low prices, in a low-margin business, sustained a wage and benefit structure well above its nearest rival's, and that the turnover it experienced was a fraction of its rival's. It shows that, on Cascio's arithmetic, the saving on turnover alone offset a substantial part of the higher wage bill. And it shows that the firm paying more was not less profitable per worker but more. Those three facts together are enough to question the assumption that paying above the market is a cost that only a rich firm can afford.

Reading it as a gift economy

Now read the same figures through the first five chapters.

The wage is not, mostly, a gift. It is the contract. This is the first and most important observation, and it is easy to miss. Costco's seventeen dollars was not an announcement, a bonus or a favour. It was the rate, written into the terms of employment, paid to everyone in a role, year after year. In the language of Chapter 3, it sat on the contract line, not the gift line. That is precisely why it could work. A wage that is presented as generosity invites the recipient to wonder when it will be withdrawn, and invites the giver to expect gratitude. A wage that is simply the rate invites neither. It establishes, in Akerlof's terms, the reference point: what people in this firm regard as fair.

The gift is what happens on top of the contract. Once the reference point is set high and held, the effort people give beyond the minimum is the gift, and the firm's part of the exchange is to keep the line open: to keep paying the rate, to keep the benefits, not to introduce the inspections and fines that would tell people their effort was not trusted. Cascio's figure for turnover after the first year, six percent, is the closest the public record comes to measuring that line. People who had been in the exchange for a year mostly stayed in it.

The return is collective. Akerlof's cash posters shared a norm about a fair day's work. Costco's figures are firm-wide, and no number in them belongs to an individual. Sales per employee and profit per hourly employee are the output of a group that has settled on a level of effort together. Chapter 4's conditional cooperators would recognise the pattern: in a group where most people see others contributing, most people contribute.

The firm did not price the gift. Nothing in Cascio's account describes per-item incentives, fines or bonuses tied to individual metrics as the source of Costco's results. That is an absence, and an absence in a case report is weak evidence. But it is consistent with the crowding-out findings of Chapter 3. A firm that pays a high fixed rate and then adds a dense system of individual incentives on top is telling its workers two different things. The case suggests a firm that told them one.

The Ford comparison

Set Costco beside Highland Park and the difference that matters is not the size of the premium. Ford's was larger in proportion. The difference is the conditions.

Ford's five dollars was a share in profits that had to be earned by living as the company wished, checked by investigators in the home. It could be withheld. It came with a lever attached, and the lever was visible. The gift that could not be refused, in Chapter 3's terms, became a gift that could be taken away, which is worse.

Costco's premium, on Cascio's account, came as a rate and benefits, applied to everyone in a role, without a test of private conduct. It could not be withheld from a person because the firm disapproved of how he spent his evenings. That is what made it receivable as a reference point rather than a lever.

The lesson for a leader is plain, and it applies at any scale. If you intend to pay above the market, put the premium where people can count on it, on the contract line, and resist the temptation to attach conditions that let you take it back. The premium's value as a gift depends on its not being a gift in the moment it is paid.

The hard question: who can afford it

The objection a board raises to this case, every time, is that Costco could afford to pay more because its business model was different, and that the lesson does not transfer.

There are three honest answers, and Chapter 10's script for the board opens with the second.

The first is that the objection is partly right. Costco's customers and product range differed from Sam's Club's, and Cascio says so. A firm with thinner margins than Costco, or a different customer, cannot simply copy the rate.

The second is that the objection misreads the arithmetic. Cascio's point is not that Costco could afford a higher wage bill because it was rich. It is that the higher wage bill was partly paid for by lower turnover, and that the cost of turnover is routinely left out of the comparison because it does not appear as a line in the budget. A firm that compares wage rates and ignores churn is comparing one cost and calling it the total. The first step for any firm is to run Cascio's calculation on its own figures, which the tool at the end of this chapter does.

The third is that the question is not all or nothing. Chapter 5's composite kitchen did not raise everyone's pay by the full budget. It closed a measurable gap through the contract, and spent the rest on things people asked for. That is a design available to a firm of any margin. The principle that transfers is not "pay what Costco pays". It is "set a reference point people can count on, close the gap between what they are paid and what they believe is fair, and do not price what they are already giving."

What the case cannot show about the gift

There is a limit to this case that matters for the rest of the book, and it is worth stating plainly.

The public figures are about pay, benefits, turnover and output. They are not about the economy nobody invoices: the discretionary effort, the help between colleagues, the cover offered when someone is ill. Those are what this book is about, and no public report of a large firm measures them. When Cascio infers loyalty and productivity from turnover and sales per employee, he is reading the shadow of the gift economy on the financial statements, not the gift economy itself.

That is not a criticism of Cascio. It is a description of what financial reporting can see. It is also the reason Chapter 9 exists. A firm that wants to know whether its gift economy is healthy has to count things that no annual report counts, and has to count them in a way that does not crowd out what it is counting.

The living-systems reading

Ecstatic Economics describes the enterprises it admires as "pragmatically idealistic — clear about their values and flexible about their strategies." The warehouse case is a useful test of that phrase, because it is not a co-operative, a commons or a steward-owned firm. It is a listed retailer in a hard business. What it suggests is that the gift principle does not need an unusual ownership structure to operate. It needs a reference point held steadily over a long time.

In the language of Chapter 4, a high, fixed, unconditional rate is soil. It does not make anything grow. It makes it possible for things to grow, and it does so slowly, and the evidence of its working shows up years later, in a turnover figure for people past their first year. A leader who wants the root system has to tend the soil for longer than most incentive schemes last. The book's own sentence for this is the one quoted in Chapter 4: "trust circulates, and where trust circulates, value flows." The six percent is what trust circulating looks like in an annual report.

The sibling volume on patient capital and stakeholder governance (*The Long Clock*) asks why so few firms hold a policy like this for long enough to see it pay, and what in the structure of ownership and reporting pushes them to cut. It is the natural companion to this chapter.

Two rooms, again

Go back to the two warehouses. The pallets are the same. The forklifts are the same. The difference that Cascio's figures describe cannot be seen from the floor, and it is not, in the end, the wage. It is what the wage made possible over time: a room where most of the people driving the forklifts had been driving them for years, and knew where things went, and covered for each other, and did not need to be told.

That is the economy nobody invoices, showing up as a figure somebody finally did.

The Tool: The True Cost of a Wage

A calculation for a leader or a finance team, to be run before any decision about pay levels. It takes two hours with the payroll and the HR records. It follows Cascio's method and should carry his caveats.

1 · Gather four figures for the last twelve months.- Headcount in the role, averaged over the year.- Number of leavers in the role.- Average annual pay in the role.- Your estimate of the full cost of replacing one leaver, as a share of annual pay. If you have no estimate, use Cascio's conservative sixty percent and say that you did.

2 · Calculate turnover and its cost.- Turnover rate = leavers ÷ average headcount.- Cost per replacement = average annual pay × replacement share.- Annual cost of churn = leavers × cost per replacement.- Churn cost per employee = annual cost of churn ÷ average headcount.

3 · Separate first-year from later turnover.Count how many leavers had been with you less than a year. Calculate turnover for people past their first year separately. This is the figure that most closely tracks whether the exchange is holding once people are in it.

4 · Model one change honestly.Choose a proposed change in pay or benefits. Calculate its annual cost. Then ask: by how much would turnover have to fall for the saving on churn to offset part or all of that cost? Write the answer as a number of leavers per year. Decide whether that number is plausible, and write down why.

5 · List what the calculation leaves out.Write down, honestly, what this arithmetic cannot see: the effect on customers, the discretionary effort of the people who stay, the knowledge lost with each leaver, any difference in who you hire. These belong in the decision even though they are not in the number.

6 · Record the assumption.Note every estimate you used and where it came from. In a year, run the calculation again with actual figures and compare.

A NOTE FROM THE HOUSE

A wage paid above the market is a gift only when it is received and returned, and the return shows in figures a firm already keeps: who stays, what is caught, what is not wasted. A gainshare counts that return against a measure both sides sign first. Luminous Prosperity Inc. does this work inside organisations, and is paid as a share of the gain it helps find.

REQUEST A CONVERSATION

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1. Cascio, W. F. (2006). Decency means more than "always low prices": A comparison of Costco to Wal-Mart's Sam's Club. *Academy of Management Perspectives*, 20(3), 26–37. https://doi.org/10.5465/amp.2006.21903478. And: Cascio, W. F. (2006, December). The high cost of low wages. *Harvard Business Review*. Every figure in this chapter was read from the text of the *Harvard Business Review* article on 19 October 2026; the article describes itself as drawn from the longer *Academy of Management Perspectives* paper. A comparison of two firms at one time; the Sam's Club wage is an estimate from secondary sources, its turnover is assumed equal to Walmart's, and the replacement cost is a rule of thumb. It shows association, not cause, and nothing here describes either firm today or is a view on either as an investment.

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