

# Costco - The Price of Membership

**Internal ID:** S&F-STR-002

**Topic:** Competitive Strategy, Business Models, Pricing Strategy

**Related topics:** Customer Value, Membership Economics

**Industry:** Retail

**Source:** Strategy & Finance

**Publication date:** 3 October 2026

**License:** Not specified

**Decision date and information cutoff:** 9 July 2024

**Decision scope:** U.S. membership pricing

**Case convention:** This is an author-created management decision exercise. The assignment and proposed alternatives are hypothetical; company disclosures are historical. No private deliberations are represented.

## The decision

Costco's annual U.S. fees stood at \$60 for basic membership and \$120 for Executive. Those levels had been introduced in June 2017. By May 2024, the company reported 74.5 million paid members worldwide and a 93.0% U.S./Canada renewal rate. Its principal warehouse-club rivals advertised lower standard annual fees. [S1](#), Membership, p.5; [S2](#), Membership Fees, p.22; [S4](#), fee-announcement paragraph; [S5-S6](#), Membership.

Costco also made a deliberate promise about merchandise prices. Its FY2023 management discussion said the company prioritised a reputation for consistently competitive value over maximising near-term prices. It described absorbing some supplier cost increases and reducing selected prices to drive sales or meet competition, even when that reduced gross margin. [S1](#), Item 7, Overview, p.20.

Would members regard a higher access charge as compatible with that promise? Or was holding a fee introduced seven years earlier an opportunity to distinguish Costco from competing offers?

**Assignment:** Recommend either keeping the U.S. fees unchanged for another year or introducing \$65 basic and \$130 Executive fees from September 2024. Address the Executive benefit package, treatment of new and renewing members, and the message Costco should give customers. The proposed prices and date are classroom assumptions. Use only the information available by 9 July 2024.

## The member proposition

Costco's warehouses combined national brands and Kirkland Signature products across a broad set of categories, but stocked fewer than 4,000 active items in the core warehouse business. Many consumables were sold only in cases, cartons or multiple packs. Most merchandise came directly from suppliers, through Costco depots or directly to warehouses. Facilities were designed for efficient selling, handling and inventory control. [S1](#), Item 1, General, pp.3-4.

Management attributed the economics to high volumes, rapid turnover, purchasing scale and distribution efficiencies. It reported that Costco often sold inventory before payment to suppliers was required, even while taking early-payment discounts. The company described

Kirkland products as generally cheaper than national brands, while generally earning higher margins. [S1](#), Item 1, General, pp.3-4, and Intellectual Property, p.7.

In their 7 December 2023 shareholder letter, Craig Jelinek and Ron Vachris emphasised maintaining quality and value through inflationary pressure. They pointed to new Kirkland products, including cat food, shrimp, grills and golf balls, as offering savings against comparable brands. The letter did not provide a matched-basket savings percentage or household-level savings distribution. [S8](#), shareholder letter, PDF p.3.

The membership itself had two principal levels. Gold Star membership served individuals; Business membership included eligibility requirements and paid affiliate options. Each paid membership included a free household card. Eligible members could pay another \$60 for Executive, whose benefits included a 2% reward on qualifying purchases, generally capped at \$1,000 annually, and additional service benefits. [S1](#), Item 1, Membership, p.5.

By FY2023 year-end, 32.3 million members held Executive memberships. Executive members represented 45.4% of paid members and 72.8% of worldwide net sales. [S1](#), Item 1, Membership, p.5.

## Earlier fee decisions

Costco had previously changed both its access price and the maximum Executive reward. The two most recent increases established the following U.S. schedule:

| Effective date  | Basic annual fee, before → after | Total Executive fee, before → after | Annual Executive 2% reward maximum, before → after |
|-----------------|----------------------------------|-------------------------------------|----------------------------------------------------|
| 1 November 2011 | \$50 → \$55                      | \$100 → \$110                       | \$500 → \$750                                      |
| 1 June 2017     | \$55 → \$60                      | \$110 → \$120                       | \$750 → \$1,000                                    |

Sources: [S3](#), 5 October 2011, membership-fee paragraph; [S4](#), 2 March 2017, membership-fee paragraph. U.S. terms shown; Canadian coverage in the announcements differed in 2011. The 2017 announcement preceded implementation by roughly three months.

In both instances, the basic fee rose by \$5 and the Executive fee by \$10. The changes were separated by five years and seven months. Another seven years had elapsed since the June 2017 increase by the date of this exercise. The reward maximum had risen alongside both historical fee changes. [S3-S4](#); elapsed intervals calculated by case authors.

## Rival offers

Costco identified competition from other warehouse clubs and from supermarkets, supercenters, online retailers and other formats. It named Walmart, Target, Kroger and Amazon among its significant U.S. general merchandise competitors. [S1](#), Item 1, Competition, pp.6-7.

The following snapshot compares standard fees and selected membership benefits disclosed before the cutoff. Prices are annual U.S. dollars for primary memberships, before applicable taxes; temporary introductory discounts and extra paid cards are excluded. Benefits and purchase eligibility are not identical across retailers.

| Retailer   | Basic tier                | Higher tier            | Selected higher-tier benefits                                                                                                                                                                                      |
|------------|---------------------------|------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Costco     | Gold Star: \$60           | Executive: \$120 total | 2% reward on qualifying purchases, generally up to \$1,000 annually; additional service benefits. <a href="#">S1</a> , p.5                                                                                         |
| Sam's Club | Club: \$50                | Plus: \$110            | 2% Sam's Cash on qualifying purchases, up to \$500 annually; free curbside pickup; free shipping on most merchandise; early shopping hours. <a href="#">S5</a> , pp.10-11; <a href="#">S7</a> , benefits paragraph |
| BJ's       | Club Card: generally \$55 | Club+: generally \$110 | 2% back on most in-club and online purchases; 5-cent-per-gallon gasoline discount. <a href="#">S6</a> , pp.9-10                                                                                                    |

These are selected membership benefits, excluding separate co-branded credit-card rewards. Sam's programme covered the U.S. and Puerto Rico, with exclusions on qualifying purchases; its annual filing described no minimum order for eligible Plus shipping. BJ's footprint was concentrated in the eastern half of the U.S. [S5](#), Membership, p.10; [S7](#), footnote 2; [S6](#), General, p.7.

Sam's also competed through convenience: its Scan & Go mobile payment feature let members bypass conventional checkout. [S5](#), Operations, p.11. BJ's presented a grocery-value proposition. It claimed savings of at least 25% on a representative branded-grocery basket against traditional supermarkets. Its disclosed method compared unit prices for 100 selected items and excluded promotions, coupons and other membership clubs. This was BJ's own disclosed comparison, not a measurement of its advantage over Costco. [S6](#), Market and Industry Data, pp.4-5.

Standard fees were not always the entry price. For 5-15 October 2023, Sam's offered new members their first year at \$15 for Club or \$55 for Plus, against regular prices of \$50 and \$110. The terms excluded people who had been members within the preceding six months and provided for automatic renewal at then-current rates. The offer had expired by the case date. [S7](#), Membership Savings and footnote 1.

## Membership and operating results

The historical membership base and latest quarterly snapshot are below. Costco's reported counts included active memberships and memberships not renewed within the preceding twelve months. Household cards were additional cards, while Executive members were included within paid members. [S1](#), Membership, p.5.

### Exhibit 1. Reported worldwide membership

*Millions at fiscal year-end; company-reported categories.*

| Measure            | FY2021 | FY2022 | FY2023 |
|--------------------|--------|--------|--------|
| Total paid members | 61.7   | 65.8   | 71.0   |
| Household cards    | 49.9   | 53.1   | 56.9   |
| Total cardholders  | 111.6  | 118.9  | 127.9  |

Source: [S1](#), Item 1, Membership, p.5. Figures converted from thousands to millions. Reported paid members are not a count of active U.S. renewers.

Costco's renewal rate excluded Business affiliates and measured renewals during the period seven to eighteen months before the reporting date. [S1](#), Membership, p.5.

## Exhibit 2. Latest selected membership disclosure before the decision

| Measure                                  | Reported value |
|------------------------------------------|----------------|
| Worldwide paid members, 12 May 2024      | 74.5 million   |
| Worldwide total cardholders, 12 May 2024 | 133.9 million  |
| U.S./Canada renewal rate                 | 93.0%          |
| Worldwide renewal rate                   | 90.5%          |

Source: [S2](#), Item 2, Membership Fees, p.22. Counts converted from thousands. Renewal figures use the disclosed lagged definition; the combined U.S./Canada rate is not a U.S.-only price-response estimate.

The financial statements showed growing fee revenue alongside merchandise sales, operating costs and capital spending.

## Exhibit 3. Consolidated financial context

*USD millions; worldwide operations. Capex below means cash additions to property and equipment.*

| Measure                               | FY2021  | FY2022  | FY2023  |
|---------------------------------------|---------|---------|---------|
| Net sales                             | 192,052 | 222,730 | 237,710 |
| Membership fees recognised            | 3,877   | 4,224   | 4,580   |
| Operating income                      | 6,708   | 7,793   | 8,114   |
| Cash provided by operating activities | 8,958   | 7,392   | 11,068  |
| Capex                                 | 3,588   | 3,891   | 4,323   |
| Fiscal weeks                          | 52      | 52      | 53      |

Source: [S1](#), Consolidated Statements of Income, p.34; Consolidated Statements of Cash Flows, p.38; Note 1, Fiscal Year End. FY2021 ended 29 August 2021; FY2022, 28 August 2022; FY2023,

3 September 2023. The additional FY2023 week limits direct annual growth comparisons.

Membership fees were recognised over the one-year service period, net of refunds. Deferred fees were \$2.337 billion at FY2023 year-end. Executive rewards reduced reported net sales by \$2.576 billion in FY2023, net of estimated non-redemption. **S1**, balance sheet, p.36; Note 1, Revenue Recognition, p.45.

At Q3 FY2024, Costco planned annual capital expenditures of \$4.3-\$4.5 billion. It had opened sixteen warehouses, including one relocation, and planned fourteen further openings before year-end. Capital spending also covered existing facilities and infrastructure. The exercise holds that operating programme constant. **S2**, Capital Expenditure Plans, p.25.

## The recommendation

**Hold for another year.** Keep basic membership at \$60 and Executive at \$120 through the proposed review period. Retain the existing reward structure. Specify the conditions and review date for a subsequent decision.

**Raise fees from September.** Introduce a \$65 basic fee and \$130 total Executive fee for new memberships and renewals from 1 September 2024, without a mid-term surcharge on existing memberships. These amounts and mechanics are author-created terms for debate, not a claim about actual management plans at the cutoff.

For the increase alternative, use the current \$1,000 Executive reward maximum as the initial comparison. You may recommend a different reward package, transition or introductory offer, but specify its rationale, affected members and incremental cost assumptions. Earlier fee changes provide one precedent; rival offerings provide another.

Submit a two-page decision memo selecting an alternative, identifying the customers most affected and setting out the communication and implementation plan. Your recommendation should explain what Costco ought to preserve in its proposition and what, if anything, it should change. State the evidence that would lead you to reverse the decision.

## Discussion questions

1. What is distinctive about Costco's member proposition compared with the rival offers? Which customers would place the greatest and least value on it?
2. Should Costco raise fees now or hold for another year? What is the strongest argument against your recommendation?
3. Should an increase preserve the current Executive benefits or change them? How do the earlier fee decisions and rival tiers inform that choice?
4. Would introductory discounts strengthen Costco's strategy or undermine it? Distinguish acquiring a member from renewing one.
5. How should management implement and assess your recommendation? Which evidence in the packet is most useful, and what remains missing?

## Optional quantitative appendix - Exhibit 4

*Use only if assigned. These are hypothetical classroom inputs, not Costco member economics or a forecast.*

| Input                                                   | Assumption                                                              |
|---------------------------------------------------------|-------------------------------------------------------------------------|
| Baseline cohort                                         | 100,000 U.S. Gold Star members who would renew if fees stayed unchanged |
| Annual fee                                              | \$60 if held; \$65 if increased                                         |
| Annual merchandise contribution per retained member     | \$100 after relevant variable costs                                     |
| Incremental loss of baseline renewers after an increase | Test 1%, 2% and 4%                                                      |
| Other changes                                           | None                                                                    |

Compare a full membership-year contribution under the two alternatives. Assume payment at the start of the service year. Exclude taxes, refunds, new signups, tier changes and discounting. Test contribution values of \$0, \$50 and \$200. Separately, calculate the eligible annual spending at which the 2% Executive reward covers its extra fee under each price schedule, ignoring other benefits. Neither calculation predicts renewal or upgrade behaviour.

## Sources and conventions

**S1.** Costco, [FY2023 Form 10-K](#), accession 0000909832-23-000042, filed 11 October 2023; year ended 3 September 2023. Printed filing pages and sections are cited above.

**S2.** Costco, [Q3 FY2024 Form 10-Q](#), accession 0000909832-24-000029, filed 6 June 2024; quarter ended 12 May 2024.

**S3.** Costco, [FY2011 results and membership-fee announcement](#), 5 October 2011; paragraph beginning with the effective November date.

**S4.** Costco, [Q2 FY2017 results and membership-fee announcement](#), 2 March 2017; paragraph beginning with the effective June date.

**S5.** Walmart, **FY2024 Form 10-K**, accession 0000104169-24-000056, filed 15 March 2024; year ended 31 January 2024; Sam's Club Segment, pp.10-11.

**S6.** BJ's Wholesale Club, **FY2023 Form 10-K**, accession 0001531152-24-000026, filed 18 March 2024; year ended 3 February 2024; Market and Industry Data, pp.4-5, General, p.7, and Membership, pp.9-10.

**S7.** Sam's Club, **October membership offer**, 5 October 2023; Membership Savings, benefits paragraph and footnotes 1-2. Expired promotional terms are identified as such.

**S8.** Costco, **2023 annual report, shareholder letter**, dated 7 December 2023, PDF p.3. Company statements about quality and savings are attributed claims.

Historical disclosures and reporting definitions are distinguished from classroom proposals and assumptions. No post-cutoff outcome is included.