01 / CREATING VALUE

Costco

The price of membership

When does charging more help create more value?



Costco exterior, 2021. Photograph: Ambrosia LaFluer.
Wikimedia Commons · CC BY 2.0. Cropped and reproduced in black and white.

A pricing decision about trust, renewal and the economics of a long-term customer relationship.

Ron Vachris and the leadership team | June 2024

35-45 minutes to prepare / 75 minutes to discuss
Original public-source teaching case • First member edition • 1 November 2026

PRINCIPLED BUSINESS IN PRACTICE

Introduction

About Principled Business

Principled Business (PB) is a nonprofit organization that brings together business leaders to advance capitalism through education, relationships and action. It helps founders, executives and investors understand free enterprise, apply its principles in their organizations, and explain the contribution business makes to people's lives.

The PB manifesto grounds capitalism in individual agency, private ownership and voluntary production and trade. These commitments take practical form in everyday business decisions.

Creating value

The manifesto connects profit with creating value for others, whose choices reveal what they value. Costco makes this principle concrete through a membership pricing decision. Members pay for access because they expect benefits that justify the fee. A proposed increase asks leaders to consider both the economics of the relationship and the value customers receive. The case puts you in the position of choosing a policy, explaining the benefit to members, and deciding what evidence would show that your reasoning was wrong.

PB presents this case to examine how a principle can guide pricing, investment and measurement. The task is to build a defensible recommendation from the available evidence. Several policies can be argued well; each must account for customer choice, commercial sustainability and uncertainty.

What you will learn

01 Explain how a membership price connects customer value with a sustainable business model.

02 Calculate how renewal changes affect both fee collections and the wider customer relationship.

03 Recommend a pricing policy, a customer explanation and a measurable review trigger.

> **Apply it to your own business**
> Choose one price or renewal decision in your organization. What would demonstrate that customers receive enough value to keep choosing the relationship?

Source: About Principled Business; Capitalists for Capitalism Manifesto, Section 2: Creating Value.

NOTES FOR STUDENTS AND TEACHERS

Using this case study

This packet contains the case, exhibits, worksheet, sources, answers and teaching notes. Allow 35-45 minutes to prepare and 75 minutes for discussion. Have a calculator or spreadsheet available.

Pages	What to use and when
4-8	Decision, evidence, exercise and alternatives. Read before discussion.
9	Decision worksheet. Complete before reading the answers.
10	Sources and reading notes. Check the evidence and its limits.
11-12	Worked answers, outcome and teaching plan. Students: read after deciding.

For students

Read the case once to identify the decision, then work through the exhibits. Separate reported historical facts from the explicitly invented exercise. Use the information available at the case date; record assumptions when the evidence is incomplete. Complete the calculation and the worksheet on page 9. Be ready to defend your choice and name the evidence that could change it.

For individual study, write your recommendation before turning to pages 11-12. Compare your reasoning with the worked analysis, then add a short reflection on what you would retain or change. Choose one action to try in your own business.

For teachers and discussion leaders

Read the full packet and the timed plan on page 12 before teaching. You can assign pages 1-10 initially, revealing the final two pages after students commit to a recommendation. Begin with a choice or vote; record the alternatives and supporting evidence on the board.

Press students to explain the difference between fee revenue and total customer contribution. When they propose a benefit, ask who values it, what it costs and how they would test it.

> **How to assess the work**
> Look for a clear recommendation, accurate analysis with stated assumptions, attention to affected people, a fair treatment of the strongest objection, and an implementation plan with an owner and review point. Assess the reasoning rather than agreement with the historical decision.

JUNE 2024 • INFORMATION CUTOFF 6 JUNE

The decision

Costco's leadership faced a familiar question with an unfamiliar consequence: what should members pay for the right to shop? Put yourself in CEO Ron Vachris's position in June 2024. The task is to recommend a U.S. membership pricing policy using the evidence available by 6 June. There is no invented board meeting or private conversation in this case; the decision frame is a teaching reconstruction.

The U.S. annual base fee was $60. An Executive upgrade cost another $60 and offered a 2% reward on eligible purchases, subject to a $1,000 annual cap. Costco described a model built around low prices, a limited product selection and rapid turnover. Members paid both for access and for the goods they bought. [C1]

A higher fee could supply resources for a better shopping proposition. It could also ask members to surrender more of the value they already received. Those are different propositions, even if both increase reported revenue. The decision therefore cannot be settled by calculating how much an additional five dollars would produce.

In the quarter ended 12 May, net sales were $57.39 billion and net income was $1.68 billion. The company reported 878 warehouses at its May results announcement. This was not a case of a small business searching for its first viable revenue stream. [C2]

The recommendation you must make

Choose among retaining the existing fees, increasing them to $65 and $130, or delaying a change while testing a specified improvement in member benefits. The latter two are analytical alternatives supplied by PB, not a record of management's internal deliberations. Decide what evidence, communication and monitoring your recommendation requires.

> **The question behind the number**
> Would your proposed fee improve the customer relationship over time, or simply monetize members' reluctance to leave?

Read through page 8, then complete the decision worksheet on page 9. The worked answers and historical outcome are included on pages 11-12; read them after committing to a recommendation.

THE COMMERCIAL LOGIC

Two connected businesses

The membership decision belongs to a system. A member who stays may generate another year of fees, product purchases and recommendations to other households. A member who leaves can take all three away. Conversely, a higher fee that supports a materially better experience might increase the strength of the relationship. The same immediate price change can therefore have very different long-term results.

Start with the customer’s alternative

Imagine two member households. One visits frequently, buys for a large family and consistently uses the benefits. The other visits occasionally and must travel farther. These are hypothetical profiles, not survey findings. Their willingness to renew could differ even if both believe Costco offers good prices. A single average renewal rate can conceal that difference.

For an Executive member, the eligible spending required for the reward to cover the upgrade is also relevant. At a 2% reward, a $60 upgrade requires $3,000 of eligible annual spending. An illustrative $65 upgrade requires $3,250. These are arithmetic comparisons, not total savings estimates: exclusions, other benefits and shopping choices still matter. [C1; PB calculation]

What would justify a higher fee?

A credible proposal must connect additional revenue to something members value. Possibilities include sharper prices on a defined basket, shorter waits, better availability or improved service. These are options to evaluate, not claims about how Costco allocated a particular dollar. Each needs an owner, a cost and a measurable benefit. A promise to “invest in value” is too broad to test.

The leadership team must also consider customers who do not renew. An acceptable fee for the average member can still exclude a marginal household. That does not automatically make a price change wrong, but it means that aggregate satisfaction and aggregate revenue are incomplete measures of the decision’s effects.

> **What the case does not give you**
> There is no internal price-elasticity study, member-level purchase dataset or verified forecast of benefit investment. Identify the evidence you would request; do not substitute certainty for missing information.

EXHIBIT 1 • REPORTED DATA

The evidence before the decision

Measure	Q3 FY2024	Q3 FY2023
Net sales, US$ millions	57,392	52,604
Membership fee revenue, US$ millions	1,123	1,044
Operating income, US$ millions	2,197	1,679
Net income, US$ millions	1,681	1,302
Paid members worldwide, millions	74.5	69.1
Cardholders worldwide, millions	133.9	124.7

Source: C3. Both income periods are 12 weeks; 2024 ended 12 May and 2023 ended 7 May. Membership counts are period-end figures. Amounts are reported, not forecasts.

Read the denominators

At the 2024 quarter-end, renewal was 93.0% in the U.S. and Canada and 90.5% worldwide. Costco described a trailing measure covering renewals seven to eighteen months before the reporting date, excluding Business affiliates. Fees were recognized over the membership year. [C3]

Do not multiply worldwide cardholders by a U.S. fee. A cardholder is not the same as a paid membership, international fees differ, and revenue recognition spreads collections over time. Likewise, a trailing renewal rate is not a real-time response to a newly announced price.

What the table can and cannot establish

The figures indicate the scale of the recurring relationship. They do not isolate the profit earned on fees: operating costs support the entire shopping proposition. The fact that membership revenue is substantial does not make every additional dollar a costless gain.

> **Discussion prompt**
> Which number would you watch first after a fee change: renewals, visits, complaints, membership revenue, or customer contribution? Explain the mechanism and the reporting lag.

EXHIBIT 2 • ILLUSTRATIVE EXERCISE

Model the renewal decision

The following cohort is invented for learning. It is not Costco's actual membership mix, forecast or contribution model. Use a single annual renewal cohort of 100,000 U.S. memberships: 70% base and 30% Executive. Keep the mix fixed and assume equal renewal rates across tiers.

Input	Existing policy	Proposed policy
Base annual fee	$60	$65
Total Executive annual fee	$120	$130
Weighted annual fee	$78.00	$84.50
Baseline renewal assumption	93%	Test alternatives
Contribution from purchases per retained member	$200	$200

The $200 is an invented annual contribution after variable costs and rewards, excluding the membership fee and fixed corporate costs. It is not a merchandise margin or a reported Costco metric. No upgrades, new members, taxes, investment spending or changes in purchasing behavior are modeled.

Two calculations

Fee collections: cohort size × renewal rate × weighted fee.
Total cohort contribution: cohort size × renewal rate × (weighted fee + $200).

Calculate fee collections and total contribution at new renewal rates of 93%, 92%, 90% and 86%. Compare each with the existing-policy baseline.

01 Find the renewal rate that keeps fee collections unchanged from the old-policy baseline. Then find the rate that keeps total contribution unchanged.

02 Why do these two break-even rates differ? Which one is more relevant to your recommendation?

03 Change the $200 assumption. What customer behavior would make even the second calculation too optimistic?

> **Model boundary**
> This is annual cohort arithmetic, not a GAAP revenue forecast. It exposes a decision mechanism; it does not predict Costco's actual response.

ALTERNATIVES AND IMPLEMENTATION

Choose the policy

Option	Argument for it	What must be tested
A • Hold fees	Protect access and preserve the current bargain.	Would delaying prevent worthwhile investment or simply postpone a justified adjustment?
B • Raise to $65 / $130	Capture resources to sustain or improve member value.	Will retention and purchasing remain strong enough after the change?
C • Delay and test benefits	Learn which improvement members will value before changing fees.	Can a useful test be completed without misleading members or delaying indefinitely?

Each option needs a positive case. “Members can afford it” is not a complete argument for B. “Higher prices are bad” is not a complete argument for A. C also has a cost: testing takes time and may fail to reproduce the effect of a nationwide policy.

Design the first ninety days

Specify a monitoring plan that separates the announcement from actual renewal exposure. Track comparable cohorts as they receive renewal notices. Include cancellations, downgrades, visits, purchase contribution and complaints, with a clear definition for each. Recognize that household mix and seasonality may explain changes unrelated to price.

01 What customer benefit is your proposal meant to preserve or improve? State it in terms a member could verify.

02 What is the strongest argument against your chosen policy? Use the exhibit rather than a general claim about fairness or profit.

03 What result would make you pause, change the benefits or reverse course? Name a metric, a threshold and a review date.

04 Draft two sentences explaining the decision to a member who shops only occasionally. Avoid claiming that every household will benefit.

> **Decision required**
> Recommend a fee, an effective-date approach and one measurable commitment to members. State the most important uncertainty that could change your mind.

COMPLETE BEFORE READING THE TEACHING NOTES

Your decision memo

My recommendation and the customer benefit it serves

The calculation or evidence that most influenced me

The strongest objection and my response

First action, accountable owner and review trigger

Bring it back to your business

Choose one recurring price in your own business. Identify which customers create the most long-term contribution, which receive the least benefit, and what a cancellation costs beyond the lost fee. Write one question your current dashboard cannot answer.

One change I will make to how we evaluate price increases

EVIDENCE REGISTER

Sources and reading notes

C1 Costco, 2023 Form 10-K

Business and membership model; annual fees. Item 1.

Open source document →

C2 Costco, third-quarter 2024 results, 30 May 2024

Quarter ended 12 May 2024; sales, income and warehouse count.

Open source document →

C3 Costco, Form 10-Q for 12 May 2024

Income statement and Management Discussion: membership measures and revenue recognition. Filed June 2024.

Open source document →

C4 Costco, fee announcement, 2 March 2017

Prior U.S. and Canada fee change, effective 1 June 2017.

Open source document →

How this case was prepared

An original Principled Business case based on published records. Historical claims carry source identifiers. Discussion alternatives, household examples and Exhibit 2 are PB teaching constructions. No interviews, internal company records or company approval are represented. Research checked 1 November 2026.

This case uses decision-focused business-school teaching conventions. It is independently produced and is not affiliated with Harvard Business School or Costco. The worked exercises and historical outcome appear on pages 11-12 of this packet.

> **Continue learning with Principled Business**
> Read the manifesto and explore member programs at principledbusiness.org. Use these cases to practice decisions that respect people and create durable value.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Worked analysis

The old-policy fee is 0.70 × $60 + 0.30 × $120 = $78. The proposed weighted fee is $84.50. At 93% renewal, the old cohort produces $7.254 million in annual fee collections and $25.854 million in contribution including the assumed $200 from purchases.

New renewal	Fees, $m	Fee change, $m	Total contribution, $m
93%	7.8585	+0.6045	26.4585
92%	7.7740	+0.5200	26.1740
90%	7.6050	+0.3510	25.6050
86%	7.2670	+0.0130	24.4670

Two different break-even points

Fees alone: 0.93 × 78 ÷ 84.5 = 85.85% renewal.
Including purchase contribution: 0.93 × 278 ÷ 284.5 = 90.88% renewal.

The first calculation tolerates a fall of about 7.15 percentage points; the second only about 2.12 points. At 90%, fee collections rise while total contribution falls by $249,000. The missing purchase relationship is therefore economically material. All figures are PB exercise results, not a company forecast.

How to test a recommendation

A higher assumed purchase contribution makes retention more valuable and narrows the tolerable decline. Investment costs reduce the benefit further unless they also improve member behavior. Separate immediate fee collections from accounting revenue, and separate a one-year cohort comparison from the value of future renewals.

A defensible increase needs evidence that the proposed benefit and retention profile justify it. A defensible hold needs an account of the investment or opportunity it forgoes. A defensible test needs a specific question, a feasible comparison and a deadline. None follows automatically from a favorable fee-only calculation.

> **Common mistake**
> Treating the 93% observed trailing renewal measure as a proven post-change probability. The exercise uses 93% as an assumption; it does not establish causal price sensitivity.

TEACHING NOTES • READ AFTER COMPLETING THE DECISION

Outcome and teaching plan

On 10 July 2024, Costco announced a September 1 increase in U.S. and Canada fees to $65 for base memberships and $130 for Executive membership. It also raised the maximum annual Executive reward from $1,000 to $1,250. The announcement said about 52 million memberships would be affected, a little over half Executive. [C5]

That is the policy outcome, not proof that every member benefited or that renewal behavior was unaffected. The exercise cohort deliberately differs from the actual announced mix. Do not scale its results to all memberships.

Minutes	Discussion and board plan
0-10	Vote: hold, raise or test. Record the customer benefit claimed.
10-25	Board left: fee model and the first break-even rate.
25-40	Board center: include purchase contribution; identify reversals.
40-55	Board right: member differences, missing evidence and measurement lag.
55-65	Specify the policy, communication and monitoring trigger.
65-75	Reveal the outcome; compare reasoning and transfer to members' businesses.

Questions that deepen the discussion

01 Could the price be justified even if the additional revenue were not earmarked for a new benefit? What value is already being delivered?

02 Which members would leave first, and how could that selection change the $200 average?

03 How would you separate the effects of fees, benefits, service levels and the wider economy?

Transfer assignment

Within a week, review one renewal or retention dashboard. Add one measure of relationship economics that is currently missing. State what decision the measure will change and who owns it.

C5 Costco, 10 July 2024 fee announcement

Historical outcome; read after the case.

Open source document →