

Is 99% electronic pay achievable? Costco achieved it in under a year.

The Situation

Plagued by payroll disruptions outside their control, Costco began exploring ways to deliver pay on time, every time to their more than 100,000 employees at nearly 500 locations. While direct deposit was available at Costco, more than 17,000 of their employees were still receiving biweekly paper checks. Many of these employees were unable to participate in direct deposit because they lacked banking relationships. Costco needed to offer an electronic pay solution that employees without bank accounts could embrace.

The Solution

In October 2009, working closely with their payroll card provider, FSV Payment Systems, Costco introduced the PaychekPLUS! Elite® Visa® Payroll card as the preferred method to pay employees without bank accounts. With a goal of 100% participation in their sights, Costco aggressively promoted electronic pay, either to a bank account or payroll card, as the default distribution method for payroll. (Employees in states that prohibit mandated electronic pay could decline both options in favor of paper checks.) During the on-boarding process, new hires who could not produce deposit slips were defaulted to paycards, though alternatives were available. As a result of this approach, combined with a compelling paycard offering and effective marketing of electronic pay, adoption grew very rapidly, reaching 99% participation in less than one year.

Now that Costco has eliminated the vast majority of their paper checks, they can begin implementing electronic wage statements for an estimated \$3 million annual savings.

Program Implementation

With buy-in from senior leadership, Costco's payroll department led the charge to convert to electronic pay, working closely with FSV and Visa to design and implement a custom payroll card program to meet business objectives.

Educating Key Stakeholders

Beginning with payroll clerks and warehouse managers, Costco employed a highly-effective marketing and educational strategy to sell employees on the advantages of electronic pay, such as less administrative time spent on lost checks and the value proposition of the paycard option. With support from FSV, Costco delivered online training in each of its regions to the payroll clerks who were most influential in promoting the success of the program. They were even encouraged to try out the product for themselves, turning participating payroll clerks into the program's most influential advocates.

About Costco

Costco Wholesale Corporation ("Costco") is the largest membership warehouse club chain and third largest retailer in the United States and the ninth largest retailer in the world.

Program Results

	October	
(US only)	2009	2010
Electronic Pay	82%	99%
Checks	17,000	1,100
Direct Deposit:	76,000	99,700
Payroll Cards	0	6,800
Estimated Annual Savings:	\$80,000	

The Tipping Point

Already frustrated by occasional printer malfunctions along with lost or delayed paycheck shipments, the final straw for Costco was a severe ice storm that disrupted paychecks scheduled for Christmas Eve delivery. Paychecks destined for 30 Costco locations were left stranded in third-party overnight delivery trucks for weeks.

"For a company like ours that prides itself on taking care of our employees, the situation over the holidays was intolerable, but no matter how desperately you want to do the right thing, you can't expect to distribute pay to every employee in every circumstance without paycards."

Kathy Kearney
AVP of Payroll at Costco

Keys to Program Success

- Committed project team with senior leader support
- Strong working relationship with FSV Payment Systems
- Payroll clerks at each location using the card to develop familiarity
- Aggressive implementation
- Effective training to key stakeholders and employees
- Integrated marketing campaign positioning e-pay sign up

The Right Partners

"We were fortunate to have great partners in FSV and Visa to provide the support we needed to ensure the program's success," said Mark Siegel, Costco's Payroll Director. "FSV furnished a well-established, effective marketing plan and a consultative approach that helped us with the implementation process and compliance issues, and the Visa name was a great selling point with our employees."

Marketing to Employees

The extensive, integrated marketing plan positioned the sign-up process for electronic pay – whether to a bank account or paycard – like a health benefits "open enrollment" campaign. Marketing materials emphasized key benefits of Visa Payroll cards, which:

- Offer quick, convenient, free access to pay
- Enable cardholders to make purchases or pay bills wherever Visa debit cards are accepted
- Are available to all employees without a credit check
- Eliminate check cashing fees and hassles
- Let employees avoid carrying large sums of cash
- Save Costco money by eliminating paper checks
- Support Costco's "green" initiatives

Campaign awareness was promoted at each location by managers, payroll clerks and posters in break rooms. Managers showed employees without bank accounts a training DVD on the advantages and use of paycards and hosted Q&A sessions. They also provided handouts and wallet cards explaining key features, benefits and important usage tips.

While Costco considered manager and/or employee incentives, with 99% participation in electronic pay driven by the strong value proposition of payroll cards, Costco deemed incentives unnecessary.

Future Plans

Costco frequently reviews adoption rates and usage statistics to put strategies in place to continue advocating electronic pay in order to maintain participation. The company is in the process of implementing electronic wage statements, which will save another \$3 million annually. They have also begun exploring the advantages of alternate paycard uses, like off-cycle wage adjustments and termination pay (where allowed by law), which would deliver additional cost savings and productivity gains.

Would you like to exceed your electronic pay goals and drive employee satisfaction at the same time?

Consult with a paycard expert:

- Call us at 800.881.1945.
- Email sales@fsvps.com.

Learn more about FSV, electronic payroll and paycards at www.fsvps.com.

FSV Payment Systems, Inc. | 15710 JFK Blvd., Ste. 500 | Houston, TX 77032
www.fsvps.com | 832.201.6500