

NRF® STORES®

February 2006
www.stores.org

Sharing the View

Inventory **management program** lets Costco and its suppliers keep pace with sales activity

BY LIZ PARKS

Collaboration between the largest wholesale club operator in the United States and a leading provider of enterprise market information solutions and services has produced a new information management service that promises to help Costco and many of its key suppliers improve their business performance.

Unlike conventional retailers, each of Costco's facilities is a warehouse, and one of the chain's key business challenges is controlling inventory levels at each warehouse so that out-of-stocks and overstocks can be minimized.

and, in some instances, total sales for the categories that their items compete in.

Once Costco approves a supplier for program participation, IRI may approach that supplier and offer them, for an annual subscription fee, the opportunity to participate in Costco's CRX program.

Participation allows Costco's suppliers to access and utilize Costco's data in what Allen Hill, general manager for IRI's CRX programs, calls "a structured, collaborative framework that reflects Costco's unique category and geography definitions."

The exclusive program "enables the identification of mutual business growth opportunities between Costco and its



"Suppliers are not only able to look at how many items they sold last week in each warehouse, but at their inventory-on-hand in each warehouse, as well. They can see how many items they sold in a region . . . or in a city, they can see the inventory levels and, based on the sales information, they can tell if we have too much inventory or not enough inventory."

— Ed Maron, Costco

Working with Chicago-based Information Resources, Inc. (IRI), Costco was able to provide a centralized POS sales and inventory database that allows participating suppliers to manage inventory and sales data more effectively from a single, central location.

The program, which began in pilot mode in mid-2004 and was fully deployed across all categories last March, provides direct, interactive access to Costco's daily, item-level POS data in nearly real time, as well as access to inventory data from each of the chain's 350-plus domestic warehouses.

Costco retains the right to approve which of its suppliers can see the data, and suppliers get to see data only for their items,



manufacturers through improved communication and more streamlined item management," Hill says. "By leveraging the Costco CRX program, participating suppliers can see new item- and warehouse-level business opportunities and act faster, and with greater confidence, to win at the Costco retail shelf."

Tracks item sales, category share

Costco executive vice president for special projects Ed Maron says the CRX program gives Costco the ability “to provide our supplier community with standard, secure access to current and detailed information about their business at Costco Wholesale, further strengthening the communication between Costco and our suppliers.”

Costco began piloting the program in April 2004 with some of its largest food suppliers (P&G, Kraft Foods, Johnson & Johnson and Pepsico) and non-food suppliers like Michelin Tire.

Today, suppliers can track their item sales performance and, in some instances, their category share, on a warehouse-by-warehouse basis going back as much as 27 months.

The service also allows Costco and its suppliers to compare sales at a specific warehouse against Costco’s total sales in a region or across the chain’s domestic stores.

“Prior to the availability of this service, our buyers were not able to spend the time necessary to give our suppliers their past sales history,” Maron says. “Now suppliers can get that information broken down by day if they need to.”

Maron notes that the POS data is typically more useful to food suppliers.

Costco is one of the first IRI clients to provide not just POS data, but inventory data, including the daily inventory-on-hand in each warehouse at the end of each week.

“Now,” says Maron, “the suppliers are not only able to look at how many items they sold last week in each warehouse, but at their inventory-on-hand in each warehouse, as well. They can see how many items they sold in a region, like the Pacific Northwest, or in a city, they can see the inventory levels and, based on the sales information, they can tell if we have too much inventory or not enough inventory.

“That enables us, especially in the non-food area, to balance our inventory to have a much closer relationship with sales,” he says.

Item-only service

Maron stresses that Costco is in the “item business, not the category business,” adding that the typical Costco warehouse stocks approximately 4,200 sku’s. To produce reports that would be as useful to non-food suppliers as to food suppliers, IRI created

what Costco calls its “item-only” service.

“Most non-food suppliers receive data just on their products, not on the categories, because the items in non-food change so frequently,” Maron says. “They change by season or by fashion or, in electronics, by technology innovations. Item-only data is exactly what our non-food buyers and suppliers needed.”

Maron says he’s heard from many participating CRX suppliers that the POS and inventory data have improved their business.

“They’re able to take this data and use it to eliminate out-of-stocks and have the proper amount of inventory where they need it,” he says. “It’s made it possible for our non-food suppliers to program their manufacturing schedules so they can make and warehouse the right amount of product.”

Costco anticipated having more than 60 suppliers enrolled in the CRX program by the end of last year.

CRX has essentially “transformed our POS information into actionable business insights for our suppliers,” Maron says.

Costco is assessing plans to deploy CRX to its 65 Canadian warehouses, perhaps as early as this year. **STORES**

Liz Parks is a Union City, N.J.-based writer with experience covering retail, pharmacy and technology issues.

By collaborating with IRI, Costco is able to balance inventory and lift sales



For more information visit: <http://us.infores.com>