

# The Costco LAUNCH PAD

Costco likes to pile it high, so if you secure a listing there you can expect to see sales take off overnight. Pierre Levron explains to **Andrew Don** why the wholesaler takes beers, wines and spirits so seriously

**P**ierre Levron has the swagger of an accomplished car salesman as he walks the floor of Costco's 155,000 sq ft Watford warehouse, which was the second to open in the UK, in June 1994.

He approaches a couple who are pondering which wines to buy for a gathering of about 40 people. He works his Gallic charm as he discusses the merits of various products.

They look impressed by the knowledge Levron shares, which he has cultivated during his time at the UK's only warehouse club chain and strengthened while studying to become a Master of Wine.

Levron worked for the Champagne Bureau before joining Costco in August 1995 as assistant trading manager in import/export, subsequently becoming trading manager. He then held the buying role for beers, wines and spirits for 10 years. He took up his current position as assistant general merchandising manager for food, beers, wines and spirits two years ago.

The 48 year old says beers, wines and spirits are more important in the UK than in any of Costco's other world regions, which include the US, Canada, Mexico, Japan, South Korea, Taiwan, Australia and, most recently, Spain. This is because planning restrictions in the UK mean its business here is much more driven by cash-and-carry and wholesale than by retail.

The planning restrictions mean non-trade members are limited to a select group of professions and employment classifications. "We have more trade-oriented business here, which is not the case in other countries," he says.

Levron will not disclose how much the beers, wines and spirits category turns over annually. All he will say is that "it's significant due to the fact it has a big trade business".

## TARGETED RANGES

As a limited SKU business, Levron admits Costco can never sell full ranges. But this limitation appeals to suppliers because they have less competition from traditional sales channels if they get a listing.

Levron points to Campo Viejeo Gran Reserva in the Watford warehouse, which he says sells for £49.99 for six. That compares with £15-£16 a bottle in other places.

He says the company's buyers tend to pick the best quality, best-selling and best value they can find. "Vendors contact the buying team from all over the world – but mainly from Europe – on a weekly basis," he explains. "The more prepared they are – and the more they understand our business and our needs – the better.

"We don't need to cover every appellation in the world for wine. We are not looking for that. We don't need to fill gaps in the range. For us, gaps are where we don't have something that we could sell a lot of.

"We don't think of range in the same way as the big supermarkets and cash-and-carries do. If we feel the value, the saving and the quality are there, we can decide to buy overnight. And we buy a lot."

Gran Reserva Faustino, for example, is always a very good seller, he says. When he read in a magazine it had won an award he was on the phone half-an-hour later ordering a container. "Overnight we tripled the sales. When we see an opportunity, we take it."

## SUPPLIER RELATIONS

The buyers are close to their suppliers and Levron readily admits that it can therefore be difficult to end a relationship when buyers have been dealing with particular people for a number of years. Nevertheless, "customers don't want to buy the same thing all the time".

He continues: "As a buyer, you know you are important to what is sometimes a small producer. You don't want to buy the same thing all the time, but you also don't want to let down small suppliers who have sometimes been supplying you for years.

"We've got a much more personal relationship with the vendors. We are not 20 people talking to one guy. It's part of our company philosophy or core values to respect our vendors. We try to make sure they can diversify their business. We don't want to be too important for them. We don't want to be in a situation where we break a business. →

**"It's part of our company philosophy to respect our vendors... We don't want to be in a situation where we break a business"**

**Pierre Levron**

A man with grey hair, wearing a light blue checkered shirt and dark trousers, stands in a Costco warehouse aisle. He has a Costco name tag that reads "PIERR LEVRON". The aisle is filled with wooden wine racks containing numerous bottles of wine. The background shows the high ceiling of the warehouse with industrial lighting.

## COSTCO: KEY FACTS

- ↪ **UK turnover:** £1,646.3 million
- ↪ **25 UK warehouses** – 26th opens this August in Hayes, Middlesex
- ↪ **Plans to open two warehouses a year** over the next five years
- ↪ **Overseas:** 464 in US and Puerto Rico; 87 in Canada; 33 in Mexico; 20 in Japan; 11 in South Korea; 10 in Taiwan; 6 in Australia; 1 in Spain
- ↪ **UK contributes about 2.5%** of total company turnover
- ↪ **Standard size:** 140,000 sq ft in UK
- ↪ **Employees:** 5,700
- ↪ **Worldwide:** 71.2 million cardholders
- ↪ **SKUs online:** 18 sparkling, 104 still wine, 50 spirits

Levron: "If we feel the value, the saving and the quality are there, we can decide to buy overnight. And we buy a lot"

**HIGH SPIRITS**

Although the big mainstream grocery spirits brands, like Smirnoff, dominate sales, premium and super-premium spirits are performing strongly at Costco.

Levron says the overall category has been “very good” for the past three to four years and is one of the group’s “fastest growing categories”, driven largely by the move to premium where Costco offers a bigger saving. “We do very well on malt whisky, and very well on a more premium offering, premium vodka or super-premium vodka. At the same time we are doing very well on the more common basic spirits. It’s a very dynamic category.”

What’s more, the category sees strong sales right across the year. Christmas, while still important, is not as crucial as it is in other retail channels. Levron explains: “There might be some changes in terms of more display of certain lines, and we have roughly 15 SKUs of gift packs in beers, wines and spirits. If someone comes with a good offer we make the space. There will also be a few SKUs we bring in only for Christmas on the spirits side like Warninks Advocaat, Armagnac XO in a box, and a few other lines like that.”

Overall, Costco can expect to sell 30% more spirits at Christmas. But, as Levron stresses: “It won’t be anything like the percentage of total sales that you find in the rest of the market. We clear things at Christmas and don’t have stock left over in terms of Christmas lines. We want to be clear. You don’t want to give members the impression that if they wait another week they will get a better price.”



“It’s a challenge,” he shrugs. “Because how do you refresh a range like this? You don’t want to become too important to them.”

It is for this reason that Costco has rules in place where it does not go above a certain percentage of a supplier’s trade.

**LOCAL DIFFERENCES**

A certain amount of local ranging and pricing takes place across the country. The warehouse in Bristol, for example, will have a much larger selection of cider. In Leicester, it’s Tiger beer. In Birmingham, Banks’s.

“It is not the case in every warehouse, but we try to deliver more local things like ale, and we want to develop that going forward. With pricing, we do act locally on competition but otherwise everyday prices are the same. There is some variation due to reaction to local competition because we won’t be beaten on price,” Levron says.

**ONLINE FOR ALL**

Costco expanded into online shopping in October 2012, headed by Garth Morris, a Costco veteran of 21 years, which enables the business to offer an expanded selection of products. It uses the tagline, “There’s more online”.

The planning agreements that restrict non-trade membership do not exist on the internet, which enables those who might not otherwise qualify for a warehouse membership to shop at Costco. It also extends the business’s reach to communities that do not yet have a warehouse nearby. Non-members using the site pay a 5% surcharge on purchases which they can avoid by buying a £15 annual subscription.

Levron admits there is some duplication online, but the shopping site tries to stock items not

**“Penetration online is smaller than in store but it’s growing. We drive it more on fine wine than bulk wine. There is clearly a demand for more premium wine in the market”**

available in the warehouse. It is still early days, but currently there are 18 sparkling wine SKUs, with 104 in still wine and 50 in spirits. “Penetration online is smaller than in store but it’s growing,” Levron says. “We drive it more on fine wine than bulk wine. It’s very different to the traditional Tesco online wine. There is clearly a demand for more premium wine in the market.”

Examples of the premium wines and spirits online include L’Essence de Courvoisier Cognac, 70cl, for £1,399.99; U’Luvka 1.75l Polish Vodka magnum with ice bucket and 12 baseless glasses – you cannot put the glass down until its contents have been drunk – £159.99; and Château Latour 2010, 75cl, £889.99. Costco’s own-brand Kirkland Signature NV Brut Champagne retails at £109.99 for six 75cl bottles.

In the liqueurs sector, Chase’s Raspberry and Blackcurrant liqueurs sell for £19.99, 50cl, and, in fortified wines, Croft Vintage Port 1991, 75cl, for £51.99. All prices are inclusive of VAT and correct on June 26, 2014.

**OWN-LABEL STRATEGY**

Costco has a growing own-label category under its exclusive Kirkland Signature brand.

Every item sold under the label has to be approved by group chief executive Craig Jelinek and undergoes a rigorous development process with the objective of equalling or bettering the quality of the national brand while showing a minimum 20% saving.

This year Costco introduced Kirkland Signature versions of American Vodka, Spiced Rum and a 1.75l bottle of 12 Year Old Blended Scotch Whisky.

“Quality is the main thing we look at before anything else with Kirkland Signature – and price of course,” Levron says.

**WHO’S WHO OF COSTCO BUYERS**

**WINE DEPARTMENT**

**Buyer:** Debbie Harris

**Assistant buyer:** Susanna Leung  
**Inventory control specialist (ICS):** Ben Golder, Hayley Shales

**BEER & SPIRITS DEPARTMENT**

**Buyer:** Sophie Green

**Assistant buyer:** Liliane Canwell  
**ICS:** Matt Ward