

## **Costco Projects Global Beverage Alcohol Sales Of \$2.5 Billion For Its 2011 Fiscal Year**

*Issaquah, Washington-based Costco is the U.S. market's largest beverage alcohol retailer with 424 stores in 38 states. Costco also has more than 150 stores outside the U.S., including operations in Canada (80 stores), Mexico (30), U.K. (22), Japan (9), Korea (7), Taiwan (6) and Australia (1). Total global beverage alcohol revenues are projected to be up 6.4% to \$2.5 billion in Costco's fiscal 2011, which ends August 31. The warehouse club operator has aggressively pursued relaxation of direct shipping laws in recent years in U.S. courts. Shanken News Daily recently interviewed Annette Alvarez-Peters, Costco's assistant general merchandise manager-wine, spirits & beer.*

**SND:** What were Costco's total beverage alcohol sales last year and what are you projecting for this year?

**Alvarez-Peters:** In fiscal 2010, global sales were \$2.345 billion, and we're now projecting \$2.495 billion through August 31.

**SND:** What are your U.S. beverage alcohol sales?

**Alvarez-Peters:** We stopped breaking out those numbers a few years ago, but I can tell you that our foot traffic is up in U.S. stores and our average ring has remained stable. For wine, the sweet spot is in the \$7 to \$15 price point. Our wine prices range from \$6.99 to \$50 and above.

**SND:** Chainwide, what is the breakdown of sales for wine, spirits and beer?

**Alvarez-Peters:** We do 50% wine, 25% spirits and 25% beer.

**SND:** Whom do you view as your major competitors?

**Alvarez-Peters:** We watch everyone—from grocery stores to broad market independent retailers and club stores.

**SND:** Demographically, who is your customer?

**Alvarez-Peters:** The average age of our members is 50. 88% own their own home, and 35% are college graduates. The average income is \$96,800, but 41% of our members have a household income of over \$100,000.

**SND:** Which wine regions are doing well now? Which varietals?

**Alvarez-Peters:** We're seeing double-digit growth in California Cabernets, red blends and Italian reds, Rhône wines like Châteauneuf-du-Pape and Côtes du Rhône Villages. Also performing well are Spanish Albariño, Malbec from Argentina and Chilean whites.

And the sweet wine category is seeing a surge in sales, from sweet reds to Moscato to chocolate wine.

**SND:** Which regions or varieties are not doing well?

**Alvarez-Peters:** Top-end Bordeaux are struggling, as are Australian wines and Chilean reds.

**SND:** What trends do you see in spirits sales? Are consumers still trading down? How is the super-premium spirits business doing?

**Alvarez-Peters:** We didn't change our spirits mix with the economic downturn, so we haven't seen a trade-down on our spirits. We continue to be strong in the ultra-premium segment. The majority of our spirits are still carried in a 1.75-liter size. Vodka, Tequila, Scotch, and Bourbon are all doing very well—especially among the super-premium items.

**SND:** What trends are you seeing in beer?

**Alvarez-Peters:** Craft beer continues to show the highest growth. The 750-ml. craft beer segment is showing huge growth from a small base. Domestic and imported beers continue to comprise a larger percentage of volume, but they're not trending like the craft segment.

**SND:** How is your own-label business doing? Is all of it still under the Kirkland label? What percentage of your total sales is in private label?

**Alvarez-Peters:** All of our private label product is under the Kirkland Signature brand. Kirkland Signature represents around 20% of our total sales and approximately 5% of our beverage alcohol sales. We're very pleased with the Kirkland Signature growth year after year, and we continue to find new partners to source our products. We just finished our rotation of Argentine Malbec, which performed phenomenally. That's been followed by a Côtes du Rhône Villages and Friuli Pinot Grigio. Both are off to a great start. In spirits, all the Kirkland Signature products continue to do very well. Our latest entry, released in March, is a 7-year-old Bourbon that's selling terrifically. We've recently changed the Kirkland Signature beer variety pack, adding an IPA (India Pale Ale) and a Belgian Style White Ale into the mix, and our members are responding positively to this change.

**SND:** Back in 2008, your Internet sales were a small share of total revenues. Has that changed since then? What's the share today?

**Alvarez-Peters:** We're no longer in the wine business on Costco.com.

**SND:** Why was that decision made?

**Alvarez-Peters:** We had been able to ship to 8 states, but changes in interstate shipping laws left us shipping to only 3 states in 2009, so we decided to get out. It was just too small of a percentage of our business.

**SND:** What is the average size of your beverage alcohol departments?

**Alvarez-Peters:** The average Costco is about 145,000 square feet. The average alcohol beverage department is approximately 5,000 square feet, but that will vary depending on what beer, wine, and/or spirits licenses are available.

**SND:** How do you compete with superstores that focus solely on beverage alcohol and offer many more SKUs than Costco?

**Alvarez-Peters:** With an average inventory of less than 200 alcoholic beverage items, we know we can't be everything to everyone. But we think we can offer our members a fantastic shopping experience from the moment they walk in the door. We constantly rotate items in most categories—bringing in new products to create a treasure hunt atmosphere. That creates a sense of urgency for our members to buy the item when they see it, as it may not be there the next time they shop. In addition, as our members shop for their meat, seafood and other food items, we can complement their purchase with wine, beer and/or spirits. With the high price of gas these days, this can eliminate an additional shopping trip.

**SND:** How many people do you have on your team?

**Alvarez-Peters:** In the U.S., it's me and 10 buyers in charge of the category. It's a fantastic group, with 254 years of combined experience. We've all been with the company for a long time—we understand the culture, philosophy and direction. Each country has an alcohol beverage buyer, responsible for purchasing across the wine, beer and spirits categories. Their responsibilities include item selection, as we don't have a corporate item list, SKU management, sales, margin, and inventory replenishment for their respective areas. Everyone shares ideas and information. We meet often, either via conference call or in person. All buyers have the Wine & Spirit Education Trust (WSET) Intermediate Level 2 certificate. Half the group has completed the WSET Advanced Level 3, and the other half is scheduled to take the exam in September. We also have a couple of buyers moving on to WSET Diploma Level 4, and I continue to pursue Master of Wine studies.

*Annette Alvarez-Peters was named a Market Watch Retail "Leader" in 2008.*