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# Costco Wholesale market analysis

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## Costco recognized the opportunity

In 2011, Costco recognized a challenging working capital environment:

- Loan environment for SMBs was difficult and had been so since financial crisis
- Existing sources for cash and new alternatives were expensive for its suppliers
- Costco's investment yields on treasuries, commercial paper and bonds were at all-time lows

This C2FO market analysis illustrates the overall project strategy, the key criteria used to choose C2FO and the overall results generated.



### Costco at a glance

- 2nd largest US retailer (based upon worldwide sales)
- 3rd largest retailer in the world
- Diverse supply base
- C2FO market member since 2011

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“It's not often that you have an opportunity to make a fundamental change in the way business is conducted. Our partnership with C2FO is a great example of what can be accomplished when thoughtful, ethical organizations are willing to challenge the status quo.”

— JOSEPH E GRACHEK III / VP MERCHANDISE ACCOUNTING CONTROLLER / COSTCO WHOLESALE

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### Organizational goals

- Continuously improve supplier relationships
- Reduce cost and risk throughout the supply chain
- Improve return on short-term assets
- Utilize working capital in an efficient and risk-free manner



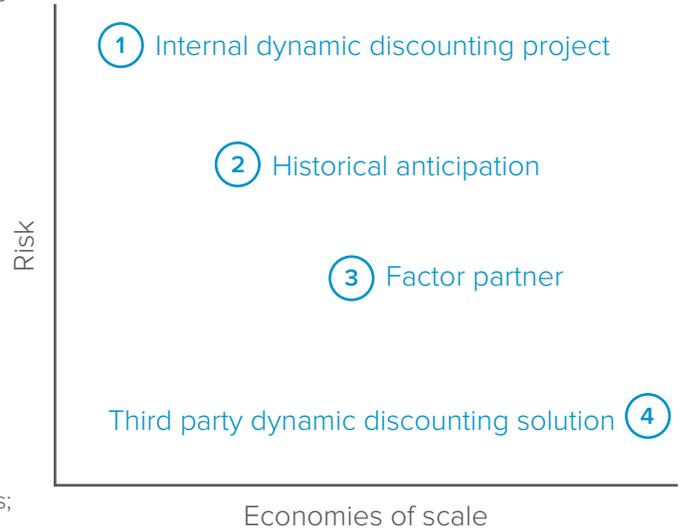
### Project requirements

- Reduce administrative costs
- Use minimal internal resources
- Generate fair return on excess cash
- Appeal to suppliers
- Consistently meet supplier funding needs

## Dynamic discounting solution “risk vs. scale” review

Costco evaluated four options based on the risk to the business and the ability to scale across our global operation.

- 1 Internal dynamic discounting project:** “Buyer push” pricing too risky; limited internal resources and suppliers could only use for Costco invoices
- 2 Historical anticipation:** Option is “do nothing” approach; doesn’t solve problem
- 3 Factor/loan partner:** Costco loses control of relationship and selling conditions; did not want to contribute to high cost finance
- 4 Third party dynamic discounting solution:** Have pre-existing supplier/buyer relationships across vertical/horizontal channels; “supplier pull” pricing is fair for suppliers



“Costco wanted to introduce a solution to this problem that was a win-win-win for Costco, its suppliers, and ultimately Costco’s members.”

— JOSEPH E GRACHEK III / VP MERCHANDISE ACCOUNTING CONTROLLER / COSTCO WHOLESALE

- C2FO shares Costco’s vision of a “win-win” solution for Costco and its suppliers
- Supplier onboarding capability is simple, highly successful and constant
- “Supplier pull” pricing lets Costco’s suppliers offer rates that are good for them and good for Costco
- It’s a network solution where Costco’s suppliers can use C2FO with Costco and with all of their other customers on C2FO

“C2FO allows us to improve cash flow at key times of the year at a competitive rate.”

 Business Unit Controller,  
Dannon

“We’ve been using C2FO for more than three years. As our business has grown so has our usage of the program.”

 Director Global A/R,  
HanesBrands

“C2FO has been a phenomenal cash flow improvement tool for us. We can collect payments in less than 10 days.”

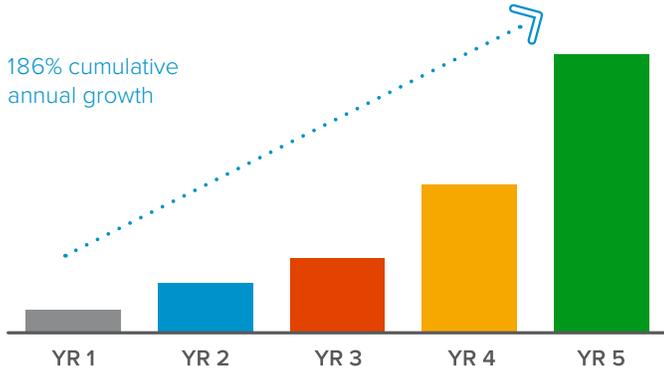
 Owner,  
Quest Products

# Costco Wholesale market analysis

## Early cash flow delivered

Costco suppliers are receiving cash early at fair rates using C2FO. For the past five years, the cumulative annual growth was 186%.

**Costco Working Capital Flows Growth**

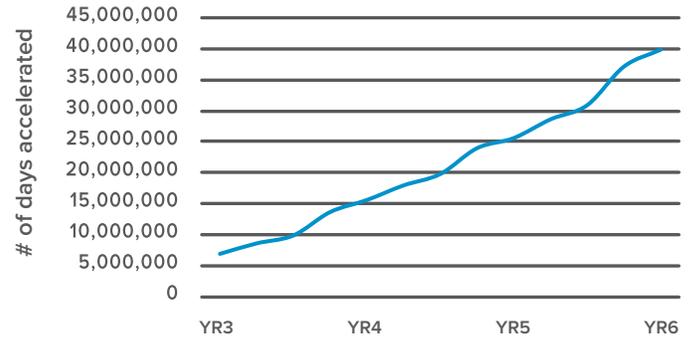


186% cumulative annual growth

## Days accelerated

Costco suppliers using C2FO are receiving cash over 22 days early. Most recent Y/Y growth in days accelerated was 49%.

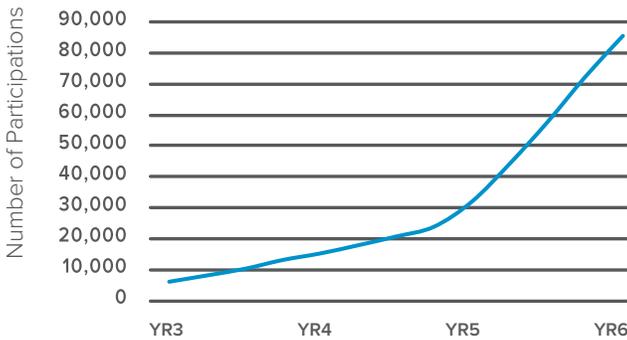
**Cumulative Supplier Participations**



## Supplier adoption

The Costco C2FO program continues to see increasing rates of supplier adoption. In the most recent year of the program, unique suppliers participating grew 141% Y/Y and total participations grew 525% Y/Y.

**Cumulative Supplier Participations**



## C2FO results

In the end, Costco chose C2FO as their third-party dynamic discounting solution provider because Costco believes that the program is fair for suppliers and significantly reduces Costco's cost of goods.

- Billions in working capital flows (in addition to static and other early pay programs already in place)
- Costco has generated significant income and has increased gross margin (in addition to static and other early pay programs already in place)
- APR is 400-500 basis points greater than yields achieved by Treasury with no incremental risk

## Optimizing income

C2FO allows a buyer to set both a desired and a floor APR, manually or automatically, to optimize supplier demand and income.

Suppliers accelerate cash at various APR %s based on alternative sources for working capital.

**One Day Results: Costco C2FO Market**



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