

# PRODUCE TRACEABILITY FOR COSTCO

SUSTAINABILITY PRO-SEMINAR



# Produce Traceability: A Holistic Approach

**“Building social transparency into a supply base often brings with it a philosophical shift away from simply ensuring that suppliers abide by the letter of a contract — or the law — to embracing a company’s own CSR and related philosophy.” - SpendMatters**

- Traceability is a tool to track product origin and processing through the supply chain.
- Traceability started because of food safety.
- Also provides transparency to the environmental and social costs and activities of each produce supply chain actor.
- Traceability can provide a safe forum for open discussion to foster innovation in supply chain operations related to social and environmental impact.

## Recommendation: Produce Traceability

- Given sustainability challenges at Costco and nature of produce industry we recommend Costco implement a traceability program.
- If legislated from as a food safety tool, Costco can also use this as a tool for environmental and social measurement and improvement.

# Costco Background

- Eighth largest retailer in the world, the fifth largest in the U.S
- 550 stores worldwide
- Won sustainable grocer of year award 2009:  
<http://addictedtocosco.com/2010/02/02/costco-named-sustainable-grocer-of-the-year/>
- Costco Membership cards are used to for food safety recalls.
  - Great demonstration of concern for traceability and customer communication
- Demographic of customers: generally middle to upper class
  - This segment is more likely to select food based on food source, organic, supplier, etc.

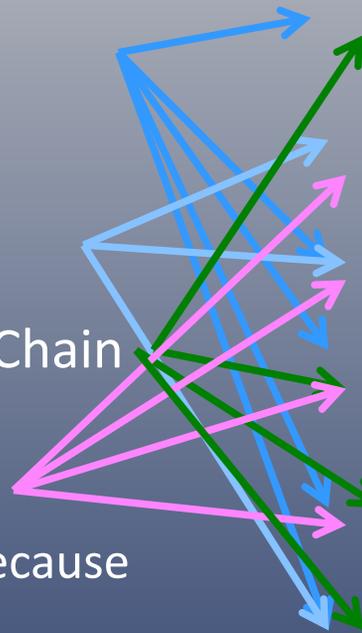
# Sustainability Challenges at Costco: It's Complicated!

## Issues

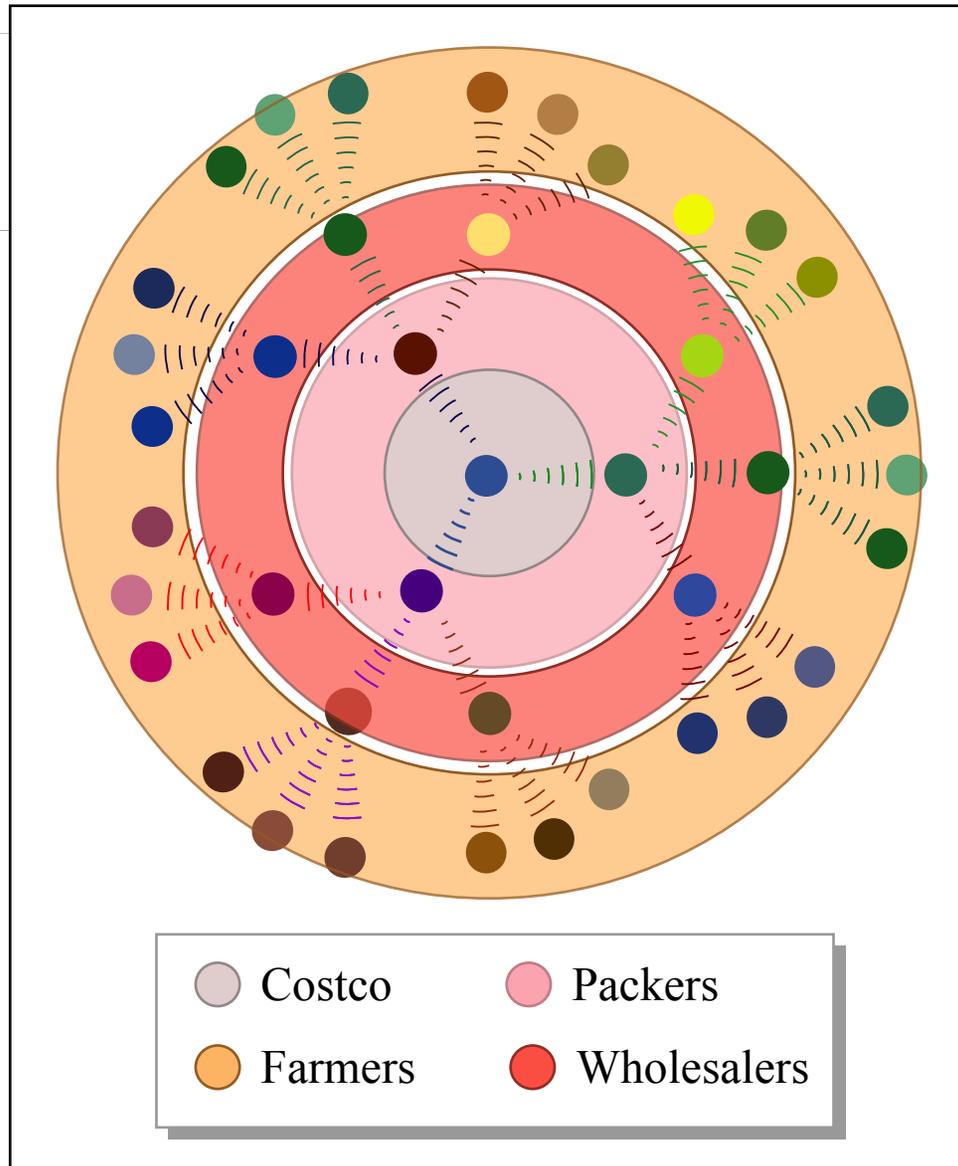
- Food miles
  - produce and seasonality
- Food safety
- Fragmentation in Supply Chain
- Energy usage at store
  - important for produce because of short shelf life
  - 500 retail stores \* 142,000 sq ft/ store = 71 M sq. ft to heat

## Risks

- Increased transportation costs
- Destruction of brand equity
- Consumer preference
- Energy price volatility
- GHG constraints
- Inventory management



# Produce Supply Chain Web



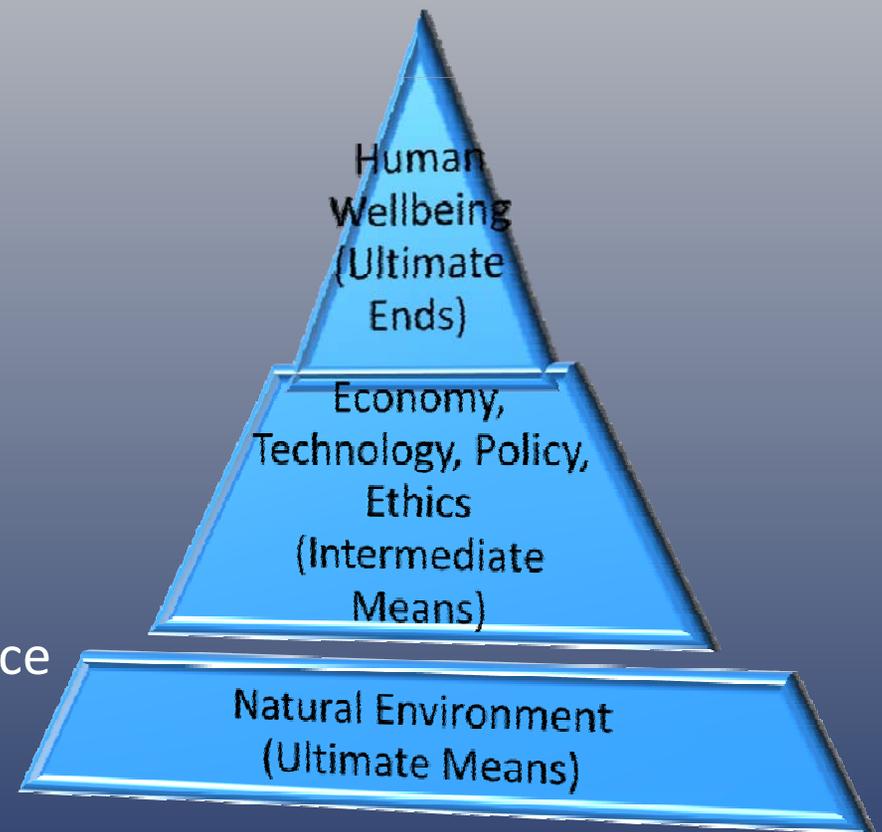
# Food Safety at Costco

## Fast Company Most Innovative Food Company Award 2010

- “You won't see ground-beef recalls or E. coli scandals at this warehouse retailer [Costco]. It's one of the very few in the grocery industry that independently tests its ground beef before selling it to consumers, eschewing suppliers that refuse testing, even if it means skipping a bargain. Costco won major food-safety points last year when Tyson finally agreed to having its meat tested.”  
<http://www.fastcompany.com/mic/2010/industry/most-innovative-food-companies>
- Costco is already providing leadership on food safety testing. Traceability will help quickly identify which supplier a tainted product comes from, to prevent future contamination

# Sustainability Framework Applied to Traceability

- Measure before you can manage
  - Traceability sets up the infrastructure to measure energy, water, and environmental impacts of specific products.
- Daly's Triangle:
  - Human Wellbeing: improves food safety, welfare of farmers.
  - ETPE: measures specific cost indicators, inventory management, improves industry technology.
  - Natural Environment: Can help reduce pesticides, food miles, inefficient agriculture practices, ultimately increases sustainability.



# Traceability in the US

- The “Produce Traceability Initiative” was launched this year, a major traceability initiative with the goal of tracing all produce by 2012
- Why? Food safety and industry accountability. “In March 2009, a watchdog agency tried to trace 40 items from retail stores to the farm where they were grown, but could do so for only 5.”
- Costco is playing a leadership role in this initiative in the industry, but has not yet joined its peers in signing onto the initiative [http://www.producetraceability.org/endorse\\_pti/index.cfm](http://www.producetraceability.org/endorse_pti/index.cfm)
- The industry initiative focuses solely on food safety and accountability
- This initiative as proposed is a long-term investment, costly, and requires global participation to be effective, providing challenges to bringing the whole industry in board (is linked to GS1)

# Produce Traceability: Best Practices

- Beef Industry: EAN-UCC System (EU)
  - Based on a barcode system
  - Traces country of birth, country/countries of fattening, country of slaughter, country/countries of cutting, approval number of the slaughterhouse and cutting hall(s)
  - Mostly focused on food safety
- Seafood Industry: TraceFish and Seafood PLUS (EU)
  - Based on a holistic approach to tracing fish for health, safety, consumer behavior, etc.
- Seafood Industry: Aquatt
  - Set up for finfish and shellfish
  - Label includes: The identity of the Member State, Name of the Farm or Selling Company, The Durability, Treatment e.g. Gutted / Steaks, Number of fish if Appropriate, Size (weight), Date of Packing, An official approval number, Harvest site or Fish Farm

# Produce Traceability Benefits and Results

- Cost savings with a more targeted approach to supply and inventory management
- Stronger relationships with suppliers
- Improved ability to isolate the source of produce safety issues
- Reduced food recall expenses
- Opportunity to market differentiated produce items
- Better perceived service to Costco members
- Competitive advantage against other grocers

# Recommendations for Next Steps

- Implement a Produce Traceability system at Costco.
- Develop metrics that encompass food safety, costs, energy, water, and other environmental and social impacts.
- Employ a unaffiliated , neutral , fair , rapid , and responsible third party to protect farmers', distributors', packers', customers' and Costco's proprietary information and rights.
- Continue to use Costco membership card information to provide personalized service, e.g. targeted promotions.
- Market surveys will give information on price premiums for fully traceable products.

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