

Understanding Trader Joe's

**TRADER
JOE'S**

May 2006

CORI@LIS
RESEARCH

Coriolis Research Ltd. is a strategic market research firm founded in 1997 and based in Auckland, New Zealand. Coriolis primarily works with clients in the food and fast moving consumer goods supply chain, from primary producers to retailers. In addition to working with clients, Coriolis regularly produces reports on current industry topics. Recent reports have included an analysis of Retail Globalization: Who's Winning" and "Understanding Costco."



The coriolis force, named for French physicist Gaspard Coriolis (1792-1843), may be seen on a large scale in the movement of winds and ocean currents on the rotating earth. It dominates weather patterns, producing the counterclockwise flow observed around low-pressure zones in the Northern Hemisphere and the clockwise flow around such zones in the Southern Hemisphere. It is the result of a centripetal force on a mass moving with a velocity radially outward in a rotating plane. *In market research it means understanding the big picture before you get into the details.*



PO BOX 10 202, Mt. Eden, Auckland 1030, New Zealand
Tel: +64 9 623 1848; Fax: +64 9 353 1515; email: info@coriolisresearch.com
www.coriolisresearch.com



PROJECT SCOPE & LIMITATIONS

The objective of this document is to give the reader, whether retailer or manufacturer, a deep understanding of Trader Joe's

- This overview of Trader Joe's has a number of key objectives:
 - Clearly explain the origin and development of this unique concept
 - Develop an understanding of historic growth and, by implication, future growth potential of the chain
 - Explore all facets of this complex store concept from multiple points-of-view
- The key limitation of this report is the extremely limited amount of publicly available information on Trader Joe's
 - Trader Joe's is a private company owned outright by reclusive German Billionaire Theo Albrecht, who along with his brother Karl, founded and still owns the global Aldi supermarket group
 - Theo bought Trader Joe's in 1979 from Founder Joe Coulombe. However, Coulombe stayed on under contract for ten years to manage the business.
 - As a result, there are no publicly available financial disclosures of any form
 - We believe this report captures 99% of the information available in the public domain about this fascinating company
- We would like to thank Trader Joe's founder, Joe Coulombe, for giving selflessly of his time in an interview that was invaluable to the completion of this project
- We are passionate about retailing and retail store formats. This report is part of a series of reports we are developing on stores and store formats that interest us. We welcome your corrections, comments and feedback, as well as suggestions for future topics.

"I think we should be traders on the culinary seas."

Joe Coulombe, Founder, Trader Joe's, 1967

DOCUMENT OVERVIEW

This report is divided into three sections: 1. history and development, 2. a concept summary and 3. the business model



DOCUMENT OVERVIEW

This first section looks at the history and development of Trader Joe's

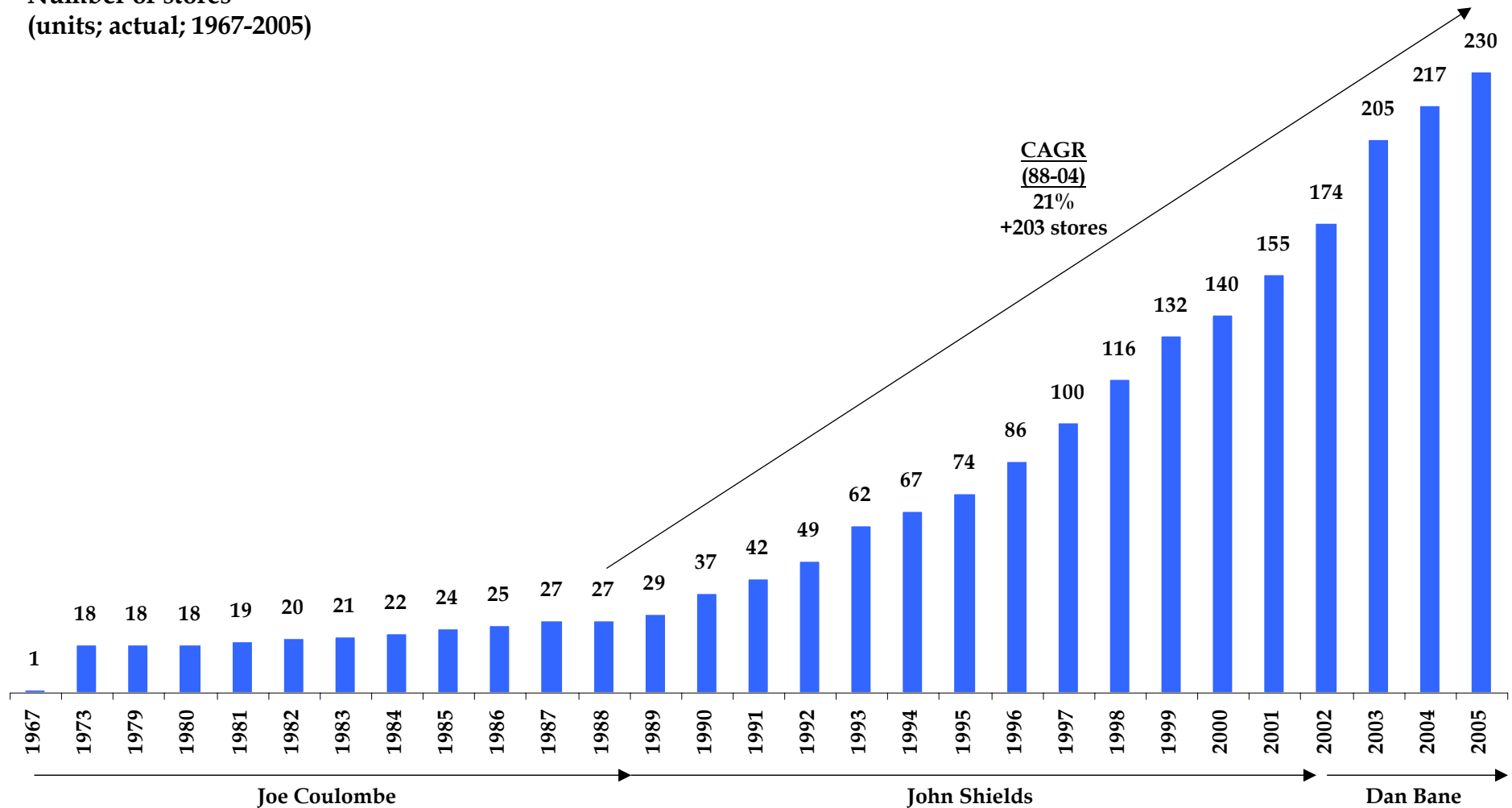


History &
Development

STORE NUMBER GROWTH

Trader Joe's has shown rapid growth in store numbers since the retirement of founder Joe Coulombe, adding 203 stores in 16 years

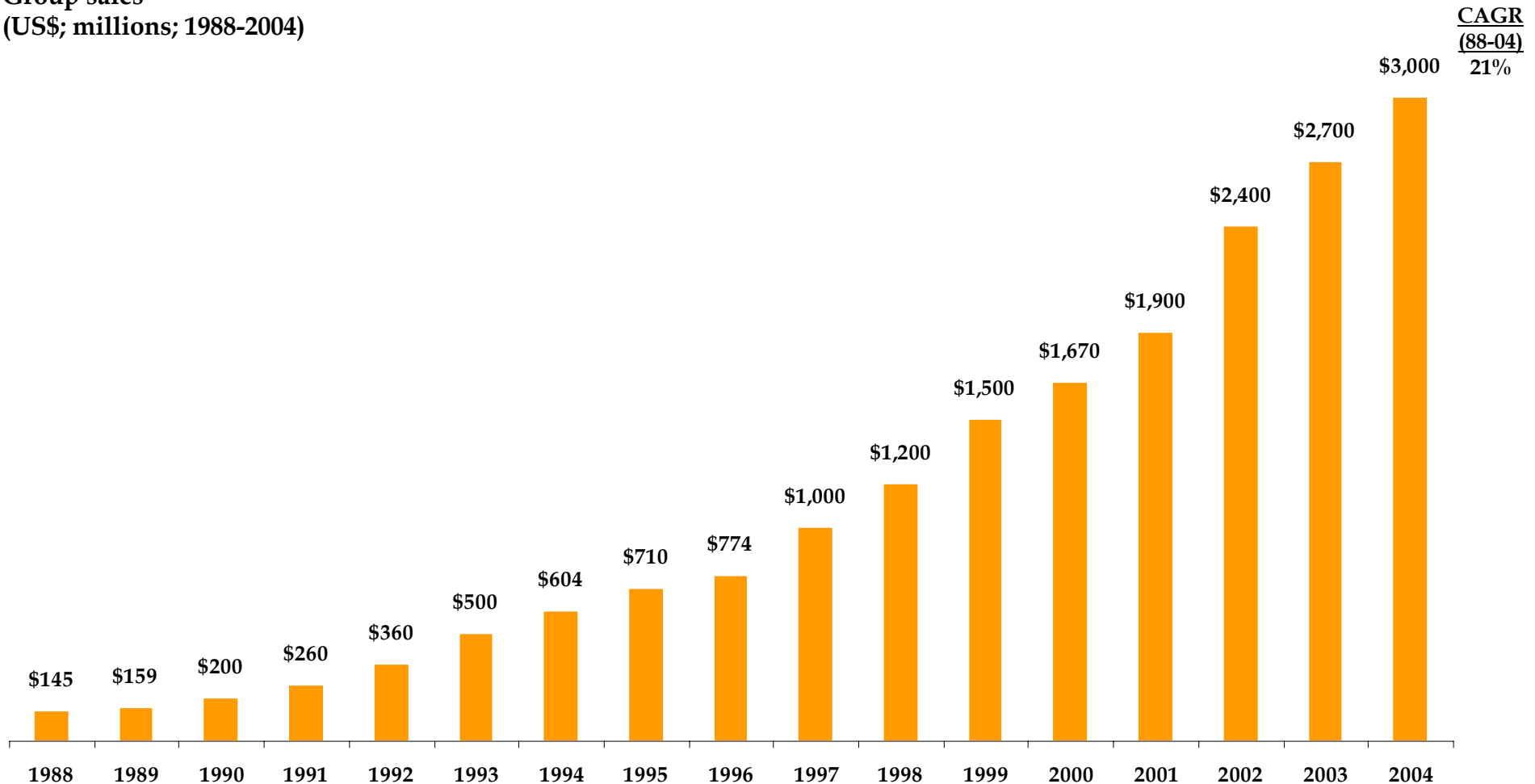
Number of stores
(units; actual; 1967-2005)



SALES GROWTH

Trader Joe's has shown strong sales growth since 1988, growing at a compound rate of 21% per year over the period

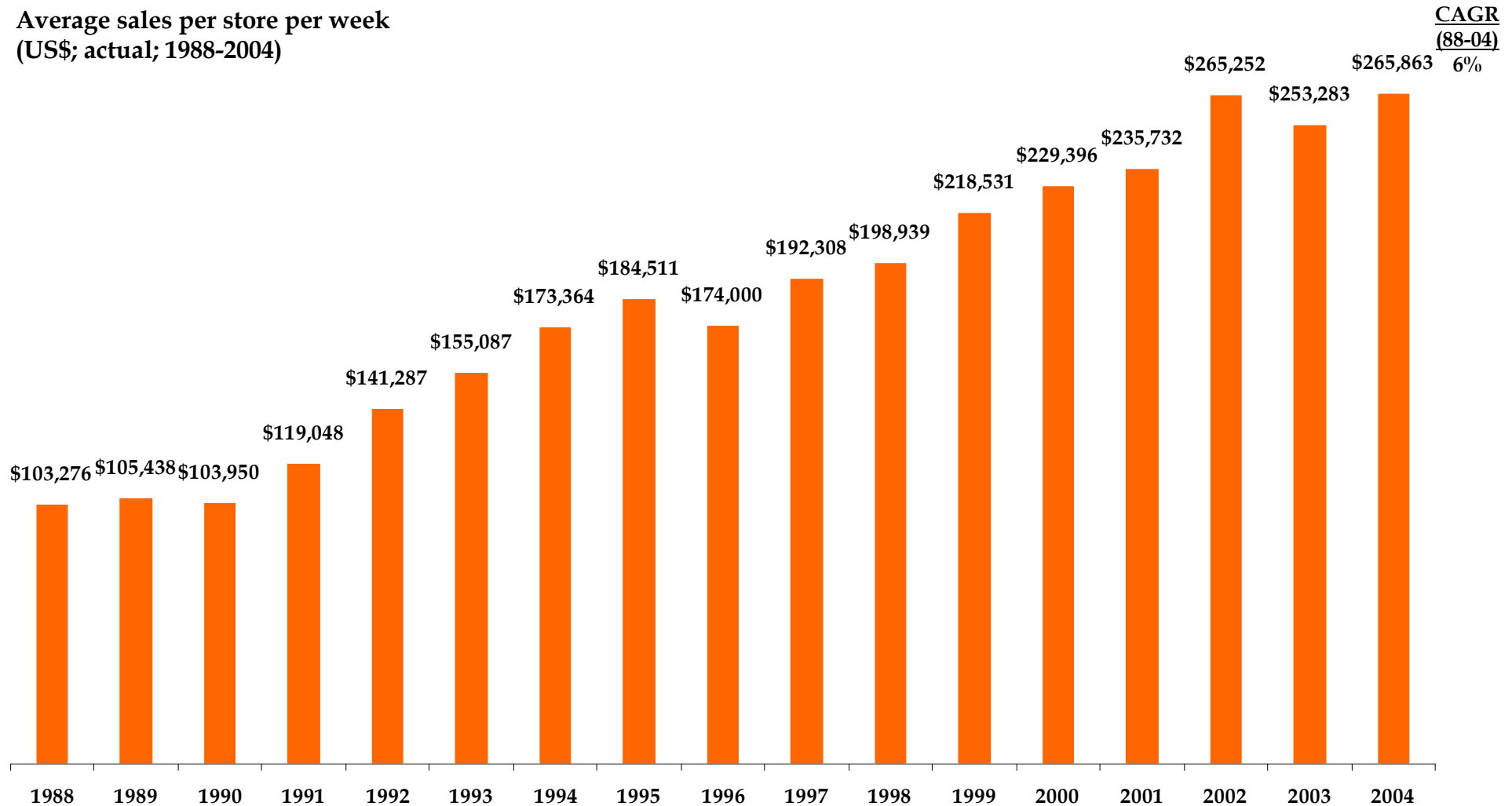
Group sales
(US\$; millions; 1988-2004)



SALES/STORE/WEEK GROWTH

Trader Joe's has grown sales per store per week at a compound rate of 6% per year since 1988

Average sales per store per week
(US\$; actual; 1988-2004)



TIMELINE

The history of Trader Joe's spans over fifty years

1952	Joseph H. Coulombe graduates from Stanford with a BA in Economics
1954	Coulombe graduates from Stanford MBA and is hired by Owl Rexall Drug Co.
1957	Coulombe starts first Pronto Market for Rexall Drugs
Late 50's	Coulombe leaves Rexall and works for Hughes
1966	Coulombe buys six Pronto Markets from Rexall
1966	Coulombe vacations in St. Barts, French West Indies – Vision of Trader Joe's realised
1967	First Trader Joe's opens in Pasadena; Coulombe begins to convert Pronto units to Trader Joe's
1967	First "Insider's Report" on imported wine started as a photocopied handout
1978	"Fair Trade" regulations lifted from wine
1979	Coulombe sells chain to Theo Albrecht and family, owners of Aldi Nord; Joe agrees to remain as CEO for 10 years
1979	Trader Joe's launches first Trader Joe's branded products
1983	Last Pronto Market closes
1987	Expands to San Diego
1988	Coulombe retires as CEO remains as Chairman; John Shields takes over as CEO
1989	Coulombe finishes 10 year contract to manage chain
1989	Expands to Northern California
1992	Expands into Arizona
1996	Trader Joe's East created; expands to East Coast; opens first store in Boston
2000	Expands into Chicago market
2002	John Shields retires; replaced by Dan Bane
2002	Launches Charles Shaw "Two Buck Chuck" wine

EVOLVING MODELS

The Trader Joe's concept has evolved over its lifetime from a conventional convenience store into an upmarket Aldi-type offer

	Pronto Market ¹	Trader Joe's (version 1)	Trader Joe's (version 2)	Trader Joe's (version 3)
Time Period	1957-1966	1967-1970	1971-1977	1977-2000
Concept Summary	Conventional convenience store	Gourmet convenience store	Gourmet, health & liquor store	Discount liquor, gourmet and health stores
# of stores	1-18			
Store Size	2,400-2,700 sqft	4,000-10,000sqft	4,000-10,000sqft	5,000-12,000 sqft
# of sku	5,000	5,000	6,000	1,100 (1980's) 2,200-3,300 (current)
New Categories Added to Mix	Bread, beverages, snacks and liquor	Gourmet groceries, party supplies	Health foods	Discount wines, private label
Ownership	Joe Coulombe	Joe Coulombe	Joe Coulombe	Theo Albrecht (Aldi Nord)
Chief Executive	Joe Coulombe	Joe Coulombe	Joe Coulombe	Joe Coulombe, John Shields, Dan Bain

THE ARRIVAL OF 7-ELEVEN

Joe Coulombe acquired six Pronto Markets, a chain he had helped to found, just as 7-Eleven was arriving in California

- **"The genesis of Trader Joe's began with Pronto Markets, which had a considerable presence in Orange County in the 1960s. But when parent company Rexall Drug Co. decided to sell off its retail ventures in 1966, Pronto president Coulombe had to decide whether to fight Southland Corp.'s burgeoning 7-Eleven empire for the corner foodstand market or to find a new niche in retailing." *Orange County Business Journal, Aug 1990***
- **"When I saw 7-11 stores coming into California in 1967, I started converting the Pronto to Trader Joe's, because I didn't want to compete with them." *Joe Coulombe, Founder, Trader Joe's, Nov 1986***
- **"The system was born of necessity. Founder Joe Coulombe launched a small convenience-store chain in Southern California in 1958 called Pronto Markets. Then came the 1960s and the arrival of the powerful 7-Eleven chain. Coulombe realized that he had to change or get run over." *Workforce Management, Sep 2004***
- **"Something of an enigma, the California-based chain has continually adapted itself to the needs and tastes of its consumer base. Trader Joe's was born as a handful of convenience stores, originally known as "Pronto Markets." When 7-Eleven moved in, Coulombe could see that he had to offer something special." *Seattle Times, Jun 1996***
- **"When Coulombe first thought of his idea, he was owner of Pronto convenience -- store franchises in California. Pronto was facing stiff competition from 7-Eleven, which had deeper pockets and could afford better locations. Unfortunately for Coulombe, the adage that 90% of a convenience store's success depends on location was proving true." *Investor's Business Daily, Oct 2004***

THE TROPICAL VISION

Joe had the vision for Trader Joe's while sitting on a beach in the French West Indies

- "Joe Coulombe lay in a hammock on St. Barts with a tropical drink in his hand. At that moment, he understood why people would pay thousands of dollars for that vacation feeling. If they'd pay thousands for that feeling, how would they react if they were offered the same type of atmosphere at home?... Returning to California from vacation, Coulombe began thinking about how he could convert his stores into outlets that resembled tropical trading posts, re-creating the vacation experience as a shopping experience." *Investor's Business Daily, Oct 2004*
- "After a Caribbean sabbatical, and backed by Bank of America financing for a buyout from Rexall, Coulombe returned with a concept of turning Pronto into an upscale market/party store located near educational centers." *Orange County Business Journal, Aug 1990*

TARGET THE EDUCATED JET-SET

Joe identified the well educated, adventurous middle class as his target market

- **"He decided it was time to make a change. Otherwise, they would have swamped us. So he decided that with the advent of the 747 jet, people were traveling more, and they had a sense of adventure. They were more willing to try new things. He also decided to focus on well-educated customers. The higher the level of education, the more likely customers are to be particular about the choices they make. And they're less likely to be swayed by network TV ads or media blitzes."** *Pat St. John, VP Marketing, Trader Joe's, Jul 1988*
- **"Two social trends struck him: rising levels of sophistication and education, and the boom in overseas travel ushered in by the jumbo jet and discount airfares. These well-educated and well-traveled people were exposed to new foods and wanted to impress their friends and neighbors with their newly acquired tastes."** *Forbes, Oct 1989*
- **"His first step was to identify his market. "What you want is a coherent group of customers, and you shape yourself around it," Coulombe said. He began building his customer profile through reading an issue of Scientific American. It reported that the share of adult Americans who'd attended college was up to 60% from 2% in 1932. He found another key bit of information in the newspaper: Boeing Corp. would be putting its jumbo 747 jets into service by 1970. Coulombe's customer profile was taking shape. He'd target the well-educated, well-traveled customer who was more likely to experiment with food and drink. Armed with that information, Coulombe rented a storefront in Pasadena. He fixed it up to look like a South Seas trading post, the trademark Trader Joe's look. He tacked fish nets and boat oars on the walls. Ships' hatches doubled as cash register counters. Employees dressed in bright tropical shirts. He stocked foods he knew were vacation favorites: Mexican salsa, exotic teas and liqueurs, hearty wines and pungent cheeses. He brokered deals with merchants around the world to get a wide variety of items."** *Investor's Business Daily, Oct 2004*

FAMILY INFLUENCES

Joe also credits family influences for the “overeducated, underpaid” concept

- “In 1953 he married Alice Steere, a fellow grad student, whose father was William C. Steere, a Stanford botany professor and later dean of the Graduate Division and later still, president of the New York Botanical Garden. It may be a bit of an exaggeration, but Coulombe says a full professor in those days earned about as much as a journeyman grocer, so it was from the Steeres and the academic community that he learned about the class of consumers that would later provide his customer base. “Part of the idea of appealing to overeducated, underpaid people came from my mother-in-law, Dorothy Steere. I saw how she managed on that salary to produce excellent food. Bill Steere taught me to drink cheap wine. For our wedding reception, held at the Steeres’ house on Mayfield Road, we went to Ruby Hill Winery in Pleasanton and bought gallon jugs of chardonnay for a dollar. Steere also taught a course in economic botany, which involved visiting small wineries like Mayacamas, which was one of the first boutiques we sold at Trader Joe’s,” Coulombe recalls.” *Stanford Business Magazine, February 2006*

THE EVOLVING MODEL

The Trader Joe's model evolved through the late 60's and 70's

- "So he went upscale, swapping soda pop and chips for wine and cheese, and he tried to improve business by talking up his goods and encouraging his workers to do the same. The combination clicked and evolved into a business that specialized in gourmet items that Coulombe would find in his travels and stock in his stores, where his workers would cheerfully tout the products to customers." *Workforce Management, Sep 2004*
- "Since the liquor industry was then artificially profitable, Trader Joe's was profitable as well." *Orange County Business Journal, Aug 1990*
- "Trader Joe's cruised easily until 1976, when California legislators deregulated the supermarket industry. Since the Depression, markets were guaranteed a profit from the sales of artificially profitable liquor and milk. Deregulation ended that. "The whole point was to sell Folger's below cost to get the suckers to buy milk and alcohol," Coulombe says. While Coulombe saw mom and pop stores fall by the wayside, unable to keep up with the competitive advantage of supermarkets, Trader Joe's changed, cut sundry products 75% and became the trendy outlet for hard-to-find beers and boutique wines. That challenge conquered, Coulombe eventually gave in to a buyout offer from West Germany's Albrecht family." *Orange County Business Journal, Aug 1990*
- "The collapse of the aerospace industry in 1971 put Coulombe in a product dilemma, since there weren't too many parties going on among Trader Joe's target audience. Coulombe grafted health food onto the liquor business, keying on the growing environmental awareness of America. Although this made Trader Joe's "downright schizophrenic," as Coulombe saw it, it was again profitable. At the same time, Coulombe started publishing the sardonic journal Fearless Flyer, which used caustic commentary to arouse environmental awareness. Customers, seeing Coulombe's emphasis on conservation, flocked to the stores to buy biodegradable soap, vitamins and bran." *Orange County Business Journal, Aug 1990*
- "You feel as if you know the guy and he cares about your health. In fact, I did used to know the guy. He lived around South Pasadena in Southern California, and he began by selling chicken-salad sandwiches. Next came something called Pronto Market, which purchased local foods from the people who offered the highest quality at the lowest prices. Somewhere along the way, the Trader Joe's label appeared. The Trader had bought the rights to package and sell all these quality products and had learned how to make a profit through volume. It's a real success story. Now, it's a corporation, no longer belonging to the guy with the chicken-salad sandwiches." *Denise Kusel, Aug 2004*

AVOIDING COMPETING WITH SUPERMARKETS

Coulombe avoided directly competing with supermarkets on price

- “Doing things differently became a habit for Coulombe. For instance, he refused to use loss leaders -- products sold at a loss to get customers into the store. His criterion for products (in addition to the taste test): If he couldn't make a profit on it, the product was gone. Coulombe even quit selling Coca-Cola in the 1980s, because it was always on sale somewhere else as a loss leader. He kept prices low by bargaining with cash and buying by the truckload. He also carefully studied and took full advantage of government regulations. California's fair-trade laws set retail price floors for dairy items and alcoholic beverages. Store profit was guaranteed, and there was little competition among retailers. But private-label wines weren't covered by the law, Coulombe learned. So he contacted vineyards and bargained with them to sell their wines under the Trader Joe's label. Lower-priced than better-known labels, the wine flew off the shelves.” *Investor's Business Daily, Oct 2004*

SALE TO THEO ALBRECHT

In 1978 Coulombe sold Trader Joe's to Theo Albrecht, owner of Aldi Nord, but agreed to remain on as Chief Executive for ten years

- **"He... sold out to German grocery magnate Theo Albrecht and retired. There have been two CEOs since then, both drawn from the retail industry, who refined and developed Coulombe's system, then spread it throughout the country." *Workforce Management, Sep 2004***
- **"In 1979 Coulombe sold Trader Joe's to the billionaire West German grocery tycoons Karl and Theo Albrecht. Coulombe stayed on as chief executive until last January, when he passed the reins to John Shields, a former department store executive." *Forbes, Oct 1989***
- **"Coulombe no longer owns Trader Joe's. He sold out in 1979 to a family in West Germany that operates Aldi markets there. He still runs the company -- which grossed about \$120 million last year, and is growing. Coulombe makes it clear he sold to a family, not a company. "If a company, especially an American company, would have bought us, they would take away our cash and I would have to write reports, he said, only half smiling." *Southern California Business, Nov 1986***

SLOW RATE OF EXPANSION UNDER COULOMBE

Coulombe deliberately limited the growth rate of the company

- **"I want to keep up morale - not get too far away, so we go slowly." Joe Coulombe, Founder, Trader Joe's, Nov 1986**
- **"Coulombe said he has not expanded more rapidly because of logistics. Much of what he sells is fresh merchandise, he said, and he wanted to make sure delivery details were worked out. He said he does not have a warehouse of his own, but does store things in contracted warehouses." Southern California Business, Nov 1986**
- **"I do set goals, but not goals to have 50 stores in so many years... We set qualitative goals, goals in terms of what kinds of products we will sell and their value and price ratio. We try to treat our vendors well, and our employees well. That is a qualitative goal. We have about 250 fulltime employees and there is almost no turnover. We are in no race (with anyone). What we are in is a belief that every year the number of traveled and educated people will rise and thus the opportunity for Trade Joe's will rise." Joe Coulombe, Founder, Trader Joe's, Nov 1986**
- **"The chain has a long tradition of hands-on top management. Its founder, Joe Coulombe, ran the company for eight more years after he sold it in 1979. At that time he said he could not imagine expanding beyond 26 stores, that being as far as he was willing to drive to manage them and maintain quality." Strategy & Leadership, Jun 2002**

TIME TO MOVE ON

Coulombe retired in 1988 and has pursued other projects since

- Currently sits on a number of boards and runs “www.winejoe.com” a website about his travels to the vineyards of the world
- “I've gone on to other things and am occupied with my work on the boards of Cost Plus (CPWM) and True Religion Apparel (TRLG) - I'm chair of the audit committee of both companies. When I have free time, I'm absorbed in the problems of painting.” *Joe Coulombe, Founder, Trader Joe's, April 2006*
- “At age 58 I had to make a decision. If I was going to leave, this was the time to do it if I was going to tackle a major project.” *Joe Coulombe, Founder, Trader Joe's, Aug 1988*
- “What is your next project?” “I don't know. What I'm trying to do is to have a complete open mind. I'm getting one phone call a day from people trying to finance me in what ever I want to build. I'm just trying to clear my mind of doing the same thing for 30 years.” *Joe Coulombe, Founder, Trader Joe's, Aug 1988*
- “Coulombe retired in 1989, but sits on the boards of Bristol Farms, Cost Plus Inc. and PIA Merchandising Services Inc.” *Investor's Business Daily, Oct 2004*
- “On the shaky premise that one person can make a difference, I lament the passage of the real Trader Joe, Joe Coulombe, from helmsman of Trader Joe's to whatever enterprise he goes into. Notwithstanding Coulombe's high praise for his successor, one can only feel apprehensive about the future. Will our supplies of Shortbread Bobbies and Psyllium Husks continue unabated? What about the luscious Twining's Earl Grey tea-at about half Safeway's price? But price and exotic foods are not the whole picture for me and, I'm sure, hundreds of other customers. It is, perhaps, the unfailing courtesy and swift attention by the crew; the congenial atmosphere; the joy of browsing through all the tempting gastronomic surprises (an unopened jar of Chinese chestnuts in syrup still sits in my cupboard-a monument to my curiosity and cowardice); the passionate prose of the Fearless Flyer newsletter, and the style of the man at the top. Of course, I shall continue to shop at TJ's and sample the curious fare from the far-flung corners of the earth as I have done for the past 10 years or so. But will it be the same?” *Rita Dupree, Reporter, LA Times, Aug 1988*

THE WISDOM OF JOE

While the original Trader Joe has left the business, his personality created its culture

- **"He is a fantastic merchant... Joe has a sense of what people want."** *Bernard Fields, former Thrifty executive, Mar 1992*
- **"I believe you gain customers one at a time, though you can lose them (through dishonesty) in droves."** *Joe Coulombe, Founder, Trader Joe's, Nov 1986*
- **"The important thing is to appreciate the beauty of food."** *Joe Coulombe, Founder, Trader Joe's, Mar 1988*
- **"The French cooked long-simmering stews because they had adequate firewood... The Irish only had peat with which to distill their whiskey... The reason the Chinese have woks is because they don't have any fuel. You have to get it done fast."** *Joe Coulombe, Founder, Trader Joe's, Mar 1988*
- **"He particularly enjoyed going to France and buying wines and other foods for his stores. Much of the wisdom he accumulated over the years was documented and added to by subsequent buyers and now guides how the company selects products from suppliers all over the world."** *Strategy & Leadership, Jun 2002*
- **"I do believe that everybody should grow tomatoes -- even if you live in an apartment, they grow like weeds -- and there are other foods like that that anybody with any kind of a piece of ground can grow. They're a great value because they're nearly free, and home-grown tomatoes are nothing like those miserable Styrofoam things you get in the supermarket."** *Joe Coulombe, Founder, Trader Joe's, Jul 1988*
- **"Then there is the French paradox - the perplexing phenomenon of the French suffering less heart disease than Americans despite eating more cheese and oils and drinking more wine... Studies have credited the health of the French to the European tradition of eating meals slowly, munching on fewer snacks and drinking more wine... These customs are in peril. Wine, which was long sipped to avoid dysentery from tainted water, is consumed less in France as municipal water supplies improve and bottled soda becomes more popular, he said. And where villagers used to retreat for lunch breaks of several hours, they are now eating on the run at fast-food restaurants."** *Joe Coulombe, Founder, Trader Joe's, Mar 1988*

TRADER JOE'S UNITS BY STATE

When Coulombe retired in 1988, the chain had 27 outlets located in Southern California

Trader Joe's units by state in the US
(# of units; 1988)



REPLACED BY JOHN SHIELDS

Joe was replaced by John Shields, a department store executive and friend from school

- **“Shields, 61, a former VP of operations at Macy's California and Mervyn's Department Stores, retired in 1987 and moved with his wife to Indian Wells, Calif., where he proceeded to craft his golf game at the Indian Wells Country Club. After five weeks of not breaking par, however, he received a fortuitous call from a former Stanford University fraternity brother, Joe Coulombe, who was Trader Joe's CEO and founder. Coulombe said he was encountering problems with the business, and asked Shields to do some part-time consulting. After a few months, he went even further - he asked Shields to take over as president of the company, and later additionally as CEO. Coulombe became chairman, and later retired. Shields made several significant changes to the business, which until his arrival had been run relatively conservatively. He loaded the stores with as much fun and interesting merchandise as he could find, as many as 1,500 skus at a time. He worried less about carrying products continuously, and more about carrying products that were new and unusual. He also reduced the emphasis on alcoholic beverages, from 50% of sales to 20%.”** *Chain Store Age, Dec 1993*
- **“When Joe Coulombe, who was two years ahead of me in school, was beginning to fool around with the initial concept of the company, it was called Pronto Markets. They were very small convenience type stores. I helped Joe write the original business plan, what we called at that time, the "White Paper." So almost from the very beginning I was in on the concept. Over the years Joe would send me the monthly reports and a whole series of things, so I really followed the company very closely. Joe had some of the initial ideas of the company. I took some of those, expanded them, and added my own ideas. Trader Joe's has just been an evolution.”** *John Shields, CEO, Trader Joe's, Mar 2003*
- **“Shields, who rarely wears a tie, runs the company from its no-frills headquarters in South Pasadena, Calif. He sees the company's hands-off owners, the Theo Albrecht family of Germany, just three days a year. All profits are reinvested in the company, he said, and there are no plans to go public.”** *Portland Oregonian, Jan 1995*

FOCUSED ON GROWTH

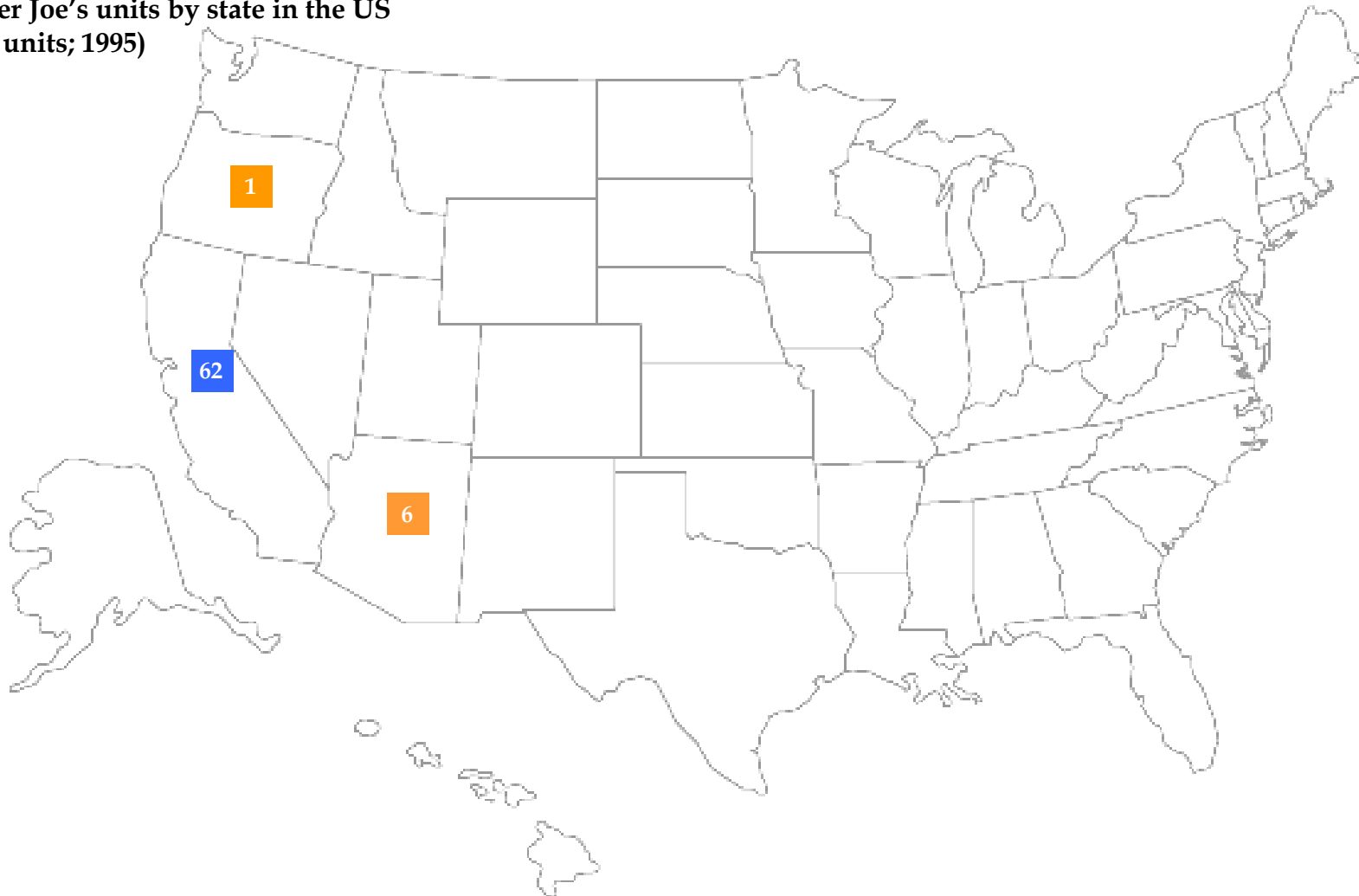
Shields focused on growing the business

- **"He left the company in superb shape. It was financially very sound with exceptional personnel. Since then, we've continued to grow at a very acceptable pace." *John Shields, CEO, Trader Joe's, Aug 1990***
- **"What was the most challenging task that you undertook as CEO?" "This was probably the decision about whether or not Trader Joe's could expand. I became the CEO in January of 1989. As early as 1991 I became concerned over the long-term growth of the company. I have always thought that an organization must be a growth company, and I was very concerned about where we would expand geographically. We were a west coast company. And at that time I thought the west coast could probably support 100 Trader Joe's stores. So I said, "Fine, what do we do after that?" We had the Pacific Ocean on the west, Canada in the north, Mexico to the south, deserts and mountains to the east. And I did not want to attempt any international expansion. So that left really only the lands to the east. Realistically there are not any population centers to the east until you get to the Midwest. That meant we had to make a geographical leap to the east. Very few retailers have successfully done this. Most who have tried that big a geographical leap have stumbled, and stumbled badly. As a matter of fact, while I was at Mervyns we tried to do the same thing, expanding from the west coast to Texas, and it was a disaster. So I had been hurt by that, and I wanted to make sure that we did not do the same thing." *John Shields, CEO, Trader Joe's, Mar 2003***
- **"I don't agonize over things, I just do them." *John Shields, CEO, Trader Joe's, Dec 1993***

TRADER JOE'S UNITS BY STATE

Under Shields the chain began to expand into neighboring western states by 1995

Trader Joe's units by state in the US
(# of units; 1995)



EAST COAST EXPANSION

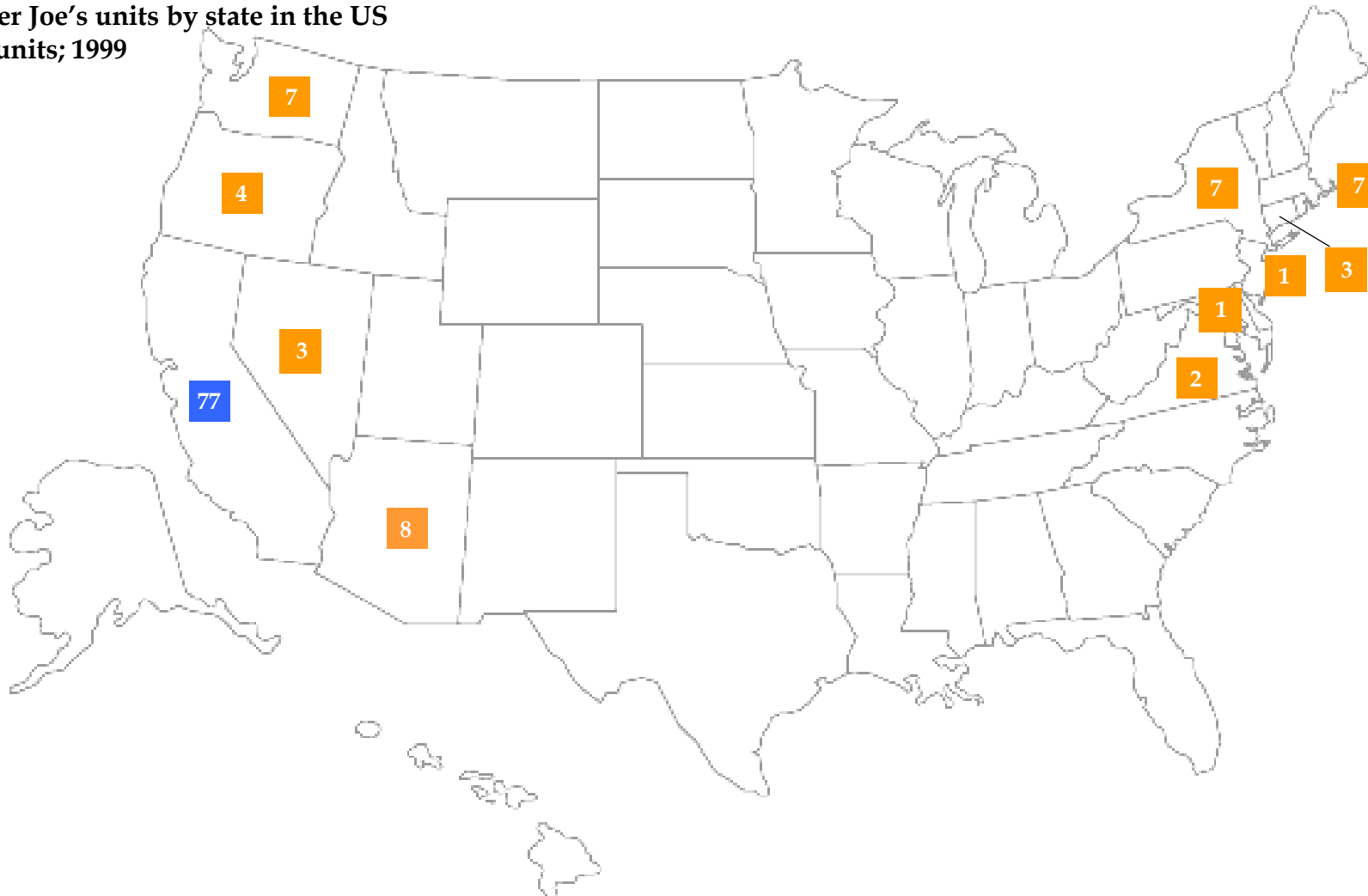
In 1996 the company made a major commitment to expand to the east coast

- **“After a serious study, we became convinced that the 500 mile corridor from Boston, to Washington DC was truly Trader Joe's country. It has more colleges and universities than any other area of the US. We spent almost a year putting together a business plan to expand. We were very conservative. We estimated that we would lose money for the first three years, but we projected that we could break even at the end of the third year. And we had a cash cow on the west coast, so we could make the expansion without any outside funds. I still had real reservations whether we could transfer the company culture 2500 miles away. The culture of the company is very important to Trader Joe's, and we spent a lot of time on this issue. We finally decided if we could move a cadre of about 25 existing employees to the east coast, we could do it. So, in September of 1996, we opened our first two stores in Boston. That was a gutsy move, 2,500 miles away. By the end of 2001, we had 48 stores, now going from Chicago to Boston to Washington These stores are very profitable, so in retrospect, it was the right decision. But it was very challenging.” *John Shields, CEO, Trader Joe's, Mar 2003***
- **“We have been every bit as successful at obtaining new customers who want good food at good prices on the East Coast.” *Doug Rauch, President, Trader Joe's East, Aug 1999***
- **“The move east seems well timed. Gourmet supermarkets like Austin, Texas-based Whole Foods Market, New York's Dean & DeLuca, and Washington, D.C.-based Sutton Place Gourmet are among the fastest-growing sectors of food retailing today. The specialty-foods market now accounts for about 10 percent of the \$400 billion-a-year grocery business and is growing at a rate of 7.1 percent a year, compared with flat sales growth for the overall U.S. retail food market since 1989. What's driving the growth? Aging baby boomers interested in more healthful food are a factor. The nation's growing Hispanic and Asian populations also have played a role in changing American eating habits. In addition, increasing foreign travel appears to have whetted Americans' appetites for exotic foods. As a result, even mainstream supermarkets now carry balsamic vinegar, arugula, and dozens of kinds of olive oil once found only at gourmet shops. And ethnic foods from enchiladas to pot stickers are increasingly commonplace in supermarket freezers. Indeed, sales of salsa (\$617 million last year) now outstrip those of plain old American ketchup (\$600 million).” *US News & World Report, Jul 1997***

TRADER JOE'S UNITS BY STATE

The chain expanded to the East Coast in 1996; by 1999 the company had strong operations on both coasts

Trader Joe's units by state in the US
of units; 1999



LA GROCERY UNION STRIKE

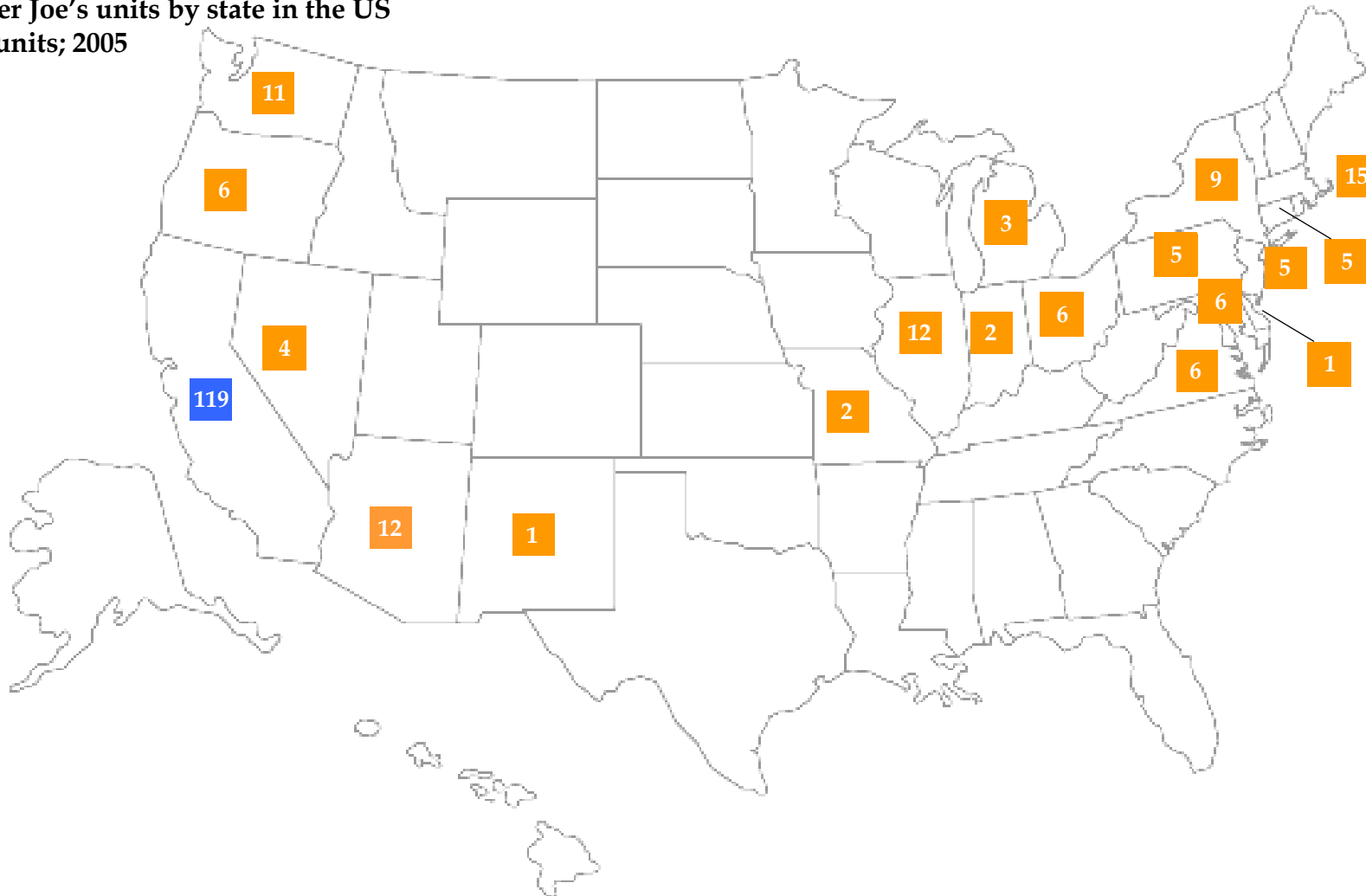
The 2003 grocery union strike in greater Los Angeles provided a major boost for the non-unionized Trader Joe's stores in the area

- "Lynda Tysdale shopped at Trader Joe's occasionally before the strike, but now she's hooked. Tysdale said she is not going to return to Ralphs, where she previously did grocery shopping before the strike began. "I'm not going back and the reason is they went for too long being spoiled and needed to settle it sooner," she said. "Everyone pays something for insurance." Peg Holland also vowed never to go back to the striking grocery stores. "I'll never go back," she said. "Never. I'm totally opposed to the way they bonded together and locked out grocery store workers." Other customers said they will continue to shop at Trader Joe's after seeing the quality of products they offer. "I wanted to honor what they were doing so I didn't cross the picket line, but in the process I developed a liking to all these other stores," said Sheri Hauratty. "I didn't realize all the stuff they had here (Trader Joe's)." Genevieve Mickunas said she will also continue to shop more at Trader Joe's after using it as her main market during the strike. "I may go back to the grocery store for emergency items, but I'm going to primarily stay here. I've discovered a lot of great things I can get for less here," Mickunas said. Mike Humphrey, the Captain of the Laguna Niguel Trader Joe's, said the sales at the store increased close to 20 percent during the strike. "We've gained a lot of customers, but whether or not they want to stay is up to them. "But hopefully the quality, pricing and service they got here will bring them back." *Orange County Register, Mar 2004*

TRADER JOE'S UNITS BY STATE

Currently Trader Joe's is in the process of filling in its portfolio and expanding into the midwest

Trader Joe's units by state in the US
of units; 2005



STRONG GROWTH AHEAD

There is still lots of room for Trader Joe's to grow

- **"Trader Joe's has done a great job on both coasts, and the rest of the country is now theirs for the taking. The company has carved a very special niche in a business that doesn't have a lot of niches. It isn't in the health-nutrition food business, but it does do some of that, and it's not truly a wine merchant, but it does some of that."** *George Whalin, President, Retail Management Consultants, Sep 2003*
- **"Trader Joe's had revenues of \$2.4 billion in fiscal year 2002. It plans to grow by expanding from 174 stores to 800 stores at a rate of about 25 per year."** *Strategy & Leadership, Jun 2002*
- **"We just try to do a good job of what we do, trying to find the next Charles Shaw and trying to keep our hustling going on the buying side."** *Dan Bane, CEO, Trader Joe's, Jul 2003*

DOCUMENT OVERVIEW

This section attempts to summarize the Trader Joe's concept



JOE SUMMARIZES TRADER JOE'S

Coulombe has described the concept in a number of different ways

- **"I grafted a health food store on top of a liquor store."** *Joe Coulombe, Founder, Trader Joe's, Oct 1989*
- **"Basically I married a health food store to a liquor store."** *Joe Coulombe, Founder, Trader Joe's, Mar 1988*
- **"We don't regard ourselves as a freak import shop. We are not a very highfalutin' outfit. My basic customer is a school teacher making \$28,000 a year. They are on a limited budget. Our merchandise is geared to this type of person."** *Joe Coulombe, Founder, Trader Joe's, Aug 1988*
- **"We sold comparable quality for less."** *Joe Coulombe, Founder, Trader Joe's, Oct 2004*

EMPLOYEES SUMMARIZES TRADER JOE'S

Employees summarize the concept in a variety of ways

- **“Trader Joe's is a chain of neighborhood grocery stores selling high-quality domestic and imported foods and beverages at low everyday prices. Products include organic foods, fresh baked goods and deli items, vitamins, supplements, coffee and juices. The product mix changes all the time with a growing selection of some 2,500 items. Store sizes range from 7,000 to 10,000 square feet... We want to give customers the best food and beverages as we can and try to integrate ourselves into the neighborhood. We're much different than traditional grocery stores.”** *Diane O'Connor, Trader Joe's Spokesperson, Jun 2004*
- **“About 99 percent of Trader Joe's products are preservative-free or without artificial colors or flavors. But Trader Joe's isn't a health food store. We are a unique grocery store. We're not a bare-bones warehouse, and we're not the museum of fine food.”** *Doug Rauch, President, Trader Joe's East, Oct 1999*
- **“We are stores for gourmets on a budget - for people interested in good food at outstanding prices. We try to create a sense of adventure and excitement, getting people to try new things at prices they can afford.”** *John Rauch, President, Trader Joe's East, Jun 1996*
- **“Trader Joe's is not a health or ethnic food store. Our goal is to carry unique, quality items, and our business is carried by price, quality and customer service. We realize we don't carry everything, but our hope is that people would use this as the first place they shop, not the last.”** *Todd Turner, Store Merchant, Trader Joe's, Nov 2003*

OTHERS SUMMARIZE TRADER JOE'S

Numerous other commentators have tried to summarize the Trader Joe's concept...

- "Imagine a cross between a gourmet deli and a discount warehouse club, and you've got Trader Joe's Co." *Business Week*, Jun 1995
- "Part gourmet and health food store." *Forbes*, Oct 1989
- "Trader Joe's sells gourmet items, health food, organic produce, nutritional supplements and wine." *Press Telegram*, Apr 2000
- "They are kind of in a category of their own. There is nothing really like it; it's more of a 'gourmet food outlet-discount warehouse' hybrid." *Brian Todd, President, The Food Institute*, Jul 2003
- "It's really a world-class format. It's not that easy to copy because they have thousands of vendor relationships all over the world. That takes some skills to develop." *Gary M. Giblen, Research Director, C. L. King & Associates*, Jul 2003
- "There's good news for the health-conscious, price-conscious gourmet with the opening of Trader Joe's, a retail chain from Southern California." *San Francisco Chronicle*, Feb 1989
- "For those not familiar with Trader Joe's, the easiest way to describe it is to tell you what it isn't. It isn't a grocery store - you won't find Heinz ketchup or Coca-Cola. It isn't a gourmet store _ when's the last time you found chips and generic beer at a gourmet store? It's a place for people who love finding foods from around the world at unusually low prices." *The New Jersey Record*, Aug 1999
- "Although many factors play into Trader Joe's formula for success, in this cook's mind the priced-to-sell, hard-to-find ingredients and unique food items rank toward the top of the list. A walk down the food aisles can set you reeling with culinary possibilities, especially if you're short on time." *Orange County Register*, Apr 1995

OTHERS SUMMARIZE TRADER JOE'S

Numerous other commentators have tried to summarize the Trader Joe's concept... continued

- **"Trader Joe's is simply another style of limited assortment store... It's a more eclectic mix – things you wouldn't see in a regular store – items like cheeses that represent more discretionary than core purchases."** *Bob Raynsford, President, Carey, Ahrens & Raynsford Brokers, May 1997*
- **"It's one of the most interesting retail concepts in the world – unique product development and exclusively national brand closeouts. It's kind of a Zabar's concept turned into a national chain... But it's not a limited assortment store. It's a limited variety store for wannabes."** *Dave Nichol, former President, Loblaws/LIM, May 1997*
- **"Here's a quick take on the Trader Joe's hype: WHAT IS IT? A Costco-like version of Nature's, selling discounted, mostly natural food products. Features more than 800 Trader Joe's products, and other international specialty foods. WHAT YOU WON'T FIND: Fresh meat and produce, most big-name staples, most household and personal-hygiene products (except natural vitamins). ATMOSPHERE: Small store, suburban rustic, Eagles-like Muzak. Uncrowded, lots of free taste-test food. SAMPLE PRICES: Frozen calamari steaks (\$4.99 a pound); 10-ounce frozen entree -- ziti pasta with turkey sausage and bell peppers -- \$1.99; 7-ounce fat-free butterscotch caramel popcorn, \$1.09. WHERE ARE THEY? First store opened in March in an obscure corner of Fred Meyer shopping center off Canyon Road in Beaverton; second store opened (in a location plagued by failure) at 4715 S.E. 39th Ave. Third store located in old Ethan Allen building at 15391 S.W. Bangy Road (visible off Interstate 5)."** *Portland Oregonian, Apr 1995*
- **"Getting good stuff for less coin is fun."** *Lynn Welch, Reporter, Capital Times, Jun 2004*
- **"Nothing like Trader Joe's exists in New England. The company built its reputation on offering the best deals on upscale, high-quality, all-natural, private-label food; an array of preservative-free prepared meals; selected chemical-free frozen items; freshly baked breads; and service with a smile. There are no memberships, no special promotions, no jumbo packaging. There is no meat department, no fresh fish and only a limited produce department. Customers go to Trader Joe's for pantry items and for things that go into the fridge and freezer."** *The Boston Globe, Jun 1996*

OTHERS SUMMARIZE TRADER JOE'S

Numerous other commentators have tried to summarize the Trader Joe's concept... continued

- **"A mix of health food store (additive-free foods, dozens of fruit juices, vegetarian entrees), international deli and confectionary (Asian salads, burritos, brie, European chocolates), natural bakery (great selection of breads, rolls) and wine/liquor store. Add to that vitamins, biodegradable cleaning supplies and frozen poultry, seafood and such unusual vegetables as a mix of four kinds of mushrooms, frozen in such a manner that it's easy to remove just a handful -- it's as close as you can get to a full-fledged market without fresh meat and produce." *San Francisco Chronicle, Feb 1994***

STRONG CUSTOMER LOYALTY

Trader Joe's has a loyal, almost cult-like following

- **"I started out at one of our first stores in Southern California. There, it's like a cult thing. When our customers have visitors from out of town, they take them to Sea World, to the San Diego Zoo and to Trader Joe's. People from the East Coast are blown away."** *Michael Seaward, Captain, Trader Joe's Kirkland, Jun 1996*
- **"We have a loyal following."** *Jim Poppe, Regional Manager, Trader Joe's, Jun 1992*
- **"Trader Joe's has a near-cult following, especially among its prime customers - higher educated, well-traveled adults ranging from 25 to seniors."** *Press-Enterprise, Sept 1995*
- **"... a little wacky, like a cross between a religious cult and a merchant ship."** *Workforce Management, Sept 2004*
- **"It has a very distinct personality. It has a cult of customers who love going there to see what new wines have arrived. Such customer loyalty is unique these days."** *Ron Rotter, Analyst, Morgan, Olmstead, Kennedy & Gardner, Aug 1988*
- **"Like L.L. Bean Inc. or Ben & Jerry's Homemade in the early days, Trader Joe's has developed a cult following--for its bargain wines, upscale private-label foods, and manufacturers' close-outs."** *Business Week, Jun 1995*
- **"In California, Trader Joe's is a cult, in the best sense of the word. And what I love about the company is that their buyers are all real foodies - I have sat with them and talked about cashew nuts for half an hour!"** *Carol McIlroy, Fiftysense Foods, Jul 1999*
- **"In the aftermath of the LA riots in 1992, a list was circulated giving 100 reasons why people should not abandon the city. Near the top was Trader Joe's."** *The Sunday Times, Jul 1998*
- **"When I was considering moving to Orange County from the Midwest five years ago, my prospective employer listed Trader Joe's as one of the perks of living here, right up there with the beaches, mountains and comfortable climate."** *Jan Hofmann, Reporter, LA Times, Jul 1988*

CUSTOMERS LOVE TRADER JOE'S

Customers can't say enough good things about Trader Joe's...

- **"I just go crazy buying everything. Everything's so attractive and bargain priced. A lot cheaper than most stores we go to."** *Belinda Frazier, Trader Joe's Customer, Mar 1995*
- **"I actually look forward to shopping at Trader Joe's. The people are friendly and eager to help. I never leave without a smile on my face and a bag full of interesting new foods."** *Greg Samson, Trader Joe's customer, Aug 1999*
- **"My husband has had quadruple bypass and I have high blood pressure and cholesterol. We're thrilled to see that there will be a Trader Joe's here. They have lots of fresh vegetables and good, healthy food."** *Alice Shaw, Trader Joe's Customer, Jan 1996*
- **"I got the ad in the mail and thought I'd try it. In my last visit, I bought chocolate bonbons, smoked salmon, and brie. I'm back for another box of bonbons as a dinner gift... They have good merchandise at very reasonable prices."** *Bill Turkington, Trader Joe's Customer, Dec 1999*
- **"The reason I shop at Trader Joe's is I love their bread... their dog food, their hard-to-find items... And it's just wonderful food. Chocolates, half the price of anyplace else and good chocolates. And vitamins, their vitamins especially... And their eggs were wonderful. Their nutcakes, chickens, their wonderful milk. It is just a shopper's delight."** *Luella Wulff, Trader Joe's Customer, Mar 1995*
- **"I have been shopping at Trader Joe's since 1970. I have found the help always cheerful, knowledgeable and helpful. They have a great selection and not overpriced food and bargains. And many items are really bargains... especially the wines, the cheese, coffee, pates, nuts, French frozen food."** *Joe Karam, Trader Joe's Customer, Mar 1995*
- **"They have very excellent service. I love going over there for a salad, which is already made up and about five times cheaper than a salad in any restaurant. I love the pretzels filled with peanut butter. They have great desserts for unexpected company.. We go there almost weekly and at Christmas time they have excellent excellent chesses, the crackers you can't beat. I could go on and on and on."** *Alyce Baker, Trader Joe's Customer, Mar 1995*

CUSTOMERS LOVE TRADER JOE'S

Customers can't say enough good things about Trader Joe's... continued

- **"I like the concept of convenience, but I--I prefer much more the concept of bargains... Wow, this is \$4.99. This is Peno--and it's Peno. Oh, man. Uh-oh. Trader Joe's is going to break me with all their bargains. I'll spend a lot of money to get a bargain, you know?"** *Linda Pacell, Trader Joe's Customer, Jan 1999*
- **"I love Trader Joe's. The thing I love about Trader Joe's is the gourmet carmel corn there... That store just has about anything. Birthdays or Christmas I can go there and get a good bottle of wine for someone and it would be perfect... I'll probably travel anywhere just to go there to get the good atmosphere, good prices and all good quality things."** *Tracy Simons, Trader Joe's Customer, Jan 1996*
- **"I liked shopping there because I enjoy buying the wines, their fresh breads, their coffee - the prices can't be beat on their coffee, their meats, cheese. They always have salmon, which my kids absolutely love. And all of the snack foods, dried apricots. The prices are great, the food is good. They have great things for entertaining and things that aren't available in regular grocery stores. It's one of the few places I found in Santa Ana that had healthy food at good prices."** *Shelley Hernandez, Trader Joe's Customer, Jan 1996*
- **"I have a hole in my heart, and that's Trader Joe's."** *Nannette Horan, Trader Joe's Customer, Apr 1998*
- **"Everything's really good, but cheap -- like ridiculously cheap. You don't even understand how cheap."** *Elizabeth Aquino, Trader Joe's Customer, Apr 1998*
- **"I had never shopped at Trader Joe's until a friend turned me on to the frozen French onion soup. Now I'm a regular at the Lynnwood store... My husband has become a Trader Joe's salsa-holic. I find something new every time I go... I heard someone raving about the flaxseed and soy chips, which I never would have tried on my own. Now they are a staple in my pantry."** *Stacie McMillan, Trader Joe's Customer, May 2004*
- **"If you're going to eat well, you have to put some effort into it. I defy anyone not to make a wonderful dinner party from these aisles."** *Merrill Hawkins, Trader Joe's Customer, Jul 2003*

CUSTOMERS LOVE TRADER JOE'S

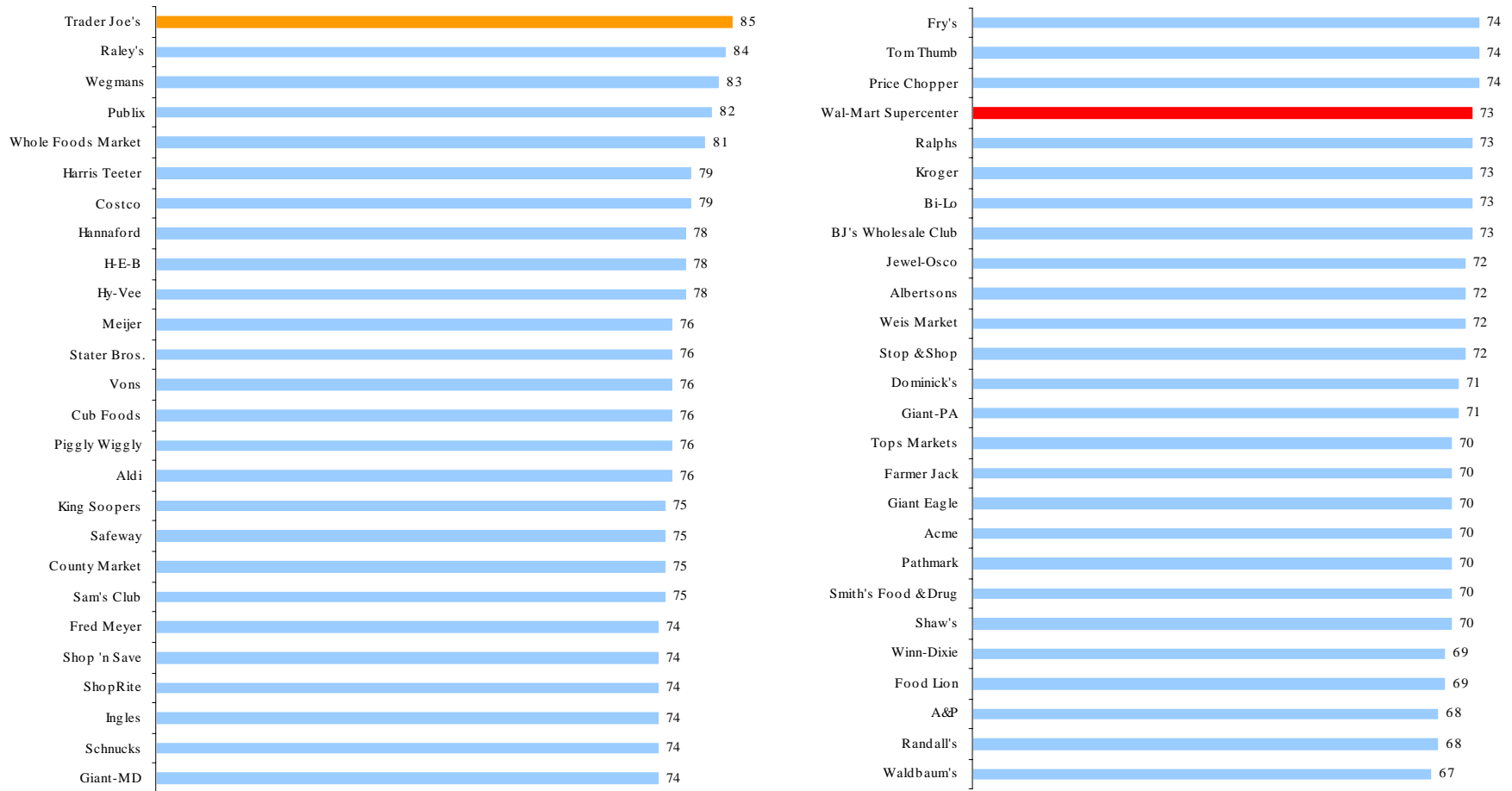
Customers can't say enough good things about Trader Joe's... continued

- "After a 10-hour day, I don't feel much like cooking. Trader Joe's has better prices and a lot of foods you can't get anywhere else." *Elaine Connell, Trader Joe's Customer, Jul 1998*
- "Trader Joe's food tastes better. And their bread is just wonderful." *Patty Brewer, Trader Joe's Customer, Jul 1998*

CONSUMER REPORTS – NUMBER ONE

In a 2003 survey of 25,000 Consumer Reports readers, Trader Joe's ranked number one out of 52 supermarket chains

Reader's score rating general satisfaction with US supermarket chains
(100=perfect; n=25,000+)



CONSUMER REPORTS - BY CATEGORY

Trader Joe's scored highly across the board

Reader's satisfaction rating by category by select US supermarket chains
(5 tier scale; n=25,000+)

	Overall Score	Price	Checkout Speed	Service	Cleanliness
Trader Joe's	85				
Wegmans	83				
Whole Foods Market	81				
Costco	79				
Aldi	76				
Wal-Mart Supercenter	73				
Kroger	73				
Winn-Dixie	69				

REPORTERS LOVE TRADER JOE'S

Reporters also can't say enough good things about Trader Joe's...

- **"A friend and I shopped a Chicago Joe's last fall. We came home with cheap bottles of fine wine, lobster bisque and other treats. I bought one-pound bags of Tempting Trail Mix made with peanuts, dried cherries, chocolate chips and peanut butter chips; and dirt-cheap almond butter and Blueberry Muesli, also sold in one-pound bags. And I didn't feel my son was eating junk when he gobbled up TJ's Cinnamon Schoolbook Cookies, which contain no preservatives, artificial colors or flavors." *Lynn Welch, Reporter, Capital Times, Jun 2004***
- **"Trader Joe's has changed my life. I never used to shop at two places, never went to the health-food store and the grocery store, or the farmers' market and the grocery store. But now I have to do Trader Joe's and the grocery store, because of their low prices." *Judy Walker, food writer, Arizona Republic, Jun 1996***
- **"On a recent Sunday I died and went to culinary heaven. Actually, I left work at the end of the day and went to Trader Joe's... I was like a kid at Christmas when I visited the Beaverton store. There were samples to try, packages to examine, foods to buy; \$46 later, I was happy. My cart was a colorful jumble of products, among them stuffed pizza filled with grilled eggplant, baked blue corn tortilla chips, frozen chicken tamales, frozen calamari steaks that I thought Mom would like, canned hearts of palm, low-fat granola, Double Rainbow chocolate sorbet (just a touch of fat and priced at only \$1.89 per pint). And, of course, jars of Fat Free Spicy Black Bean Dip to replenish my stock." *Portland Oregonian, Mar 1995***
- **"Sometimes, food shopping can be a drag. First you have to find a parking space that isn't occupied by runaway shopping carts. Then you try to find your own cart preferably one without a rattling wheel that only steers sideways. Then you walk up and down every aisle and, depending on how hungry you are, buy a bunch of things you'll throw out when they turn green in a week or two. Then you take it all out of the cart and stack it on the check-out line. Then there's the bagging, the car loading, the car unloading, several treks up the stairs and finally, as if this is a reward, you get to put it all away. So when Trader Joe's opened in Nov promising that shopping would be fun at their new market in Westfield, the thought "just like root canal," crossed my mind, and I promptly forgot all about it. Then came a letter from a reader, stating that she loved the place and suggested I take a look. As is true in most cases where someone (me) who thinks they know everything finds they know very little, she was right. It is really fun to shop at Trader Joe's." *Star-Ledger, Feb 1998***

REPORTERS LOVE TRADER JOE'S

Reporters also can't say enough good things about Trader Joe's... continued

- "Back in the days when I lived in Hollywood (which, unlike its name would imply, is among the less-glamorous residential neighborhoods in Los Angeles), there was a grocery store called Trader Joe's that I relied on for what became the staples in the kitchen of my little apartment. At Trader Joe's (TJ's), I could afford a generous log of Silver Goat chevre, frozen haricots vert that were labeled with the more humble moniker "green beans," and bottles of bright-green virgin olive oil - all better and cheaper than their supermarket counterparts. On my slim salary, I could stock up on all the fine foods that my palate and cooking style craved but my budget wouldn't support. Trader's (we were on a first-name basis) became my first stop when preparing food for a formal dinner party, or just packing a picnic. The store's appeal, no doubt, lies in its oxymoronic existence: Fine foods, low prices, food- and wine-savvy Hawaiian-shirt-clad clerks. Its combination of quirky good taste and thrift has earned it a West Coast following that rivals what Emeril enjoys. (There's even a fan-clubbish newsletter, the Fearless Flyer, for dedicated shoppers, featuring new products and sometimes recipes such as those that follow.) When I moved to Northeast Ohio, Trader Joe's was the one Californian perk that Los Angeles-area friends and colleagues couldn't imagine life without - never mind the Pacific Ocean. Their pity was so great that on several occasions during my first year in Ohio, I received a FedEx box from California, full of groceries from Trader's: Avocados, candied ginger and Hawaiian-style honey mustard potato chips. More recently, I have been proud to let those sympathetic senders know the good news: Trader Joe's has come to Cleveland." *Laura Samuel Meyn, Reporter, Plain Dealer, Apr 2004*

DOCUMENT OVERVIEW

This section analyzes the Trader Joe's business model



MISSION STATEMENT

Trader Joe's mission statement is as follows:

"At Trader Joe's, our mission is to bring all our customers the best food and beverage values to be found anywhere, and the information to make informed buying decisions. There are more than 2,000 unique grocery items in our label, all at great everyday low prices. We work hard at buying things right: Our buyers travel the world searching for new items; we work with a variety of suppliers who make interesting products for us, many of them exclusive to Trader Joe's' and we make special purchases which are presented to us throughout the year. All our private label products have their own angle - i.e., vegetarian, Kosher, organic or just plain decadent - and all minimally processed ingredients."

UNDERSTANDING THE BUSINESS MODEL

This section looks at the Trader Joe's business model across the "Five P's"



ALDI VS. TRADER JOE'S

The quarter century ownership of Aldi founder Theo Albrecht has clearly influenced the Trader Joe's business model

Comparison of business models: Aldi vs. Trader Joe's (model)

	Aldi Model	Trader Joe's Model
Price/Promotion	<p>Low price leader Everyday low prices No specials or promotions Minimal advertising Basic price/item flyer</p>	<p>Low price leader Everyday low prices No specials or promotions Minimal advertising Fearless Flyer</p>
Product	<p>Limited Range (~800sku) Primarily private label (95%+) High quality Basic household items Consistent range</p>	<p>Limited Range (~2,500sku) Primarily private label (80%+) High quality Gourmet, organic and liquor Constantly changing range</p>
Process	<p>Simple systems Efficient distribution Case-ready merchandising (RTD)</p>	<p>Simple systems Efficient distribution Cut-case merchandising & hand stacking</p>
Place	<p>Small footprint (8,000-10,000sqft) Low rent locations Spartan, low cost décor & fitout</p>	<p>Small footprint (8,000-10,000sqft) Low rent locations Nautical, low cost décor & fitout</p>
People	<p>Strong company culture High sales per labor hour Well paid staff</p>	<p>Strong company culture High sales per labor hour Well paid staff Friendly staff</p>

UNDERSTANDING THE BUSINESS MODEL: PRICE/PROMOTION

The first section looks at the price/promotion element of Trader Joe's business model

1. Price / Promotion



LOW PRICES

Trader Joe's offers its customers low prices and value for money

- **"But the main ingredient of Trader Joe's success is upscale food at down-market prices. For example, the chain sells more brie cheese in the United States than any other retailer, and at \$5.99 per pound, it's roughly a dollar less than what others charge. At the Cambridge store, olive oil sells for \$5.49 a liter versus \$3.99 for a half liter at the closest supermarket. There are also moderate prices on microbrews, including Trader Joe's own Stingy Joe's Honey Wheat Beer (\$4.99 per six-pack), and a wide selection of wines selling for under \$5 a bottle." *US News & World Report, Jul 1997***
- **"Because the dollar is weak, Muscadet has become pricey and Merritt's chardonnay is offered as a substitute. The suggested retail price is \$8.50 a bottle; Trader Joe's is \$1.99." *New York Times, Jul 1987***
- **"There are certain organic frozen foods and vegetarian meals that literally cost two times as much at Safeway... That's what it comes down to, it's price and choice." *Margie Bondy, Trader Joe's Customer, Nov 2003***
- **"I love it. I saw salsa, and it was \$1.39. Comparable prices for salsa at other places are \$4. I work down the street, so I come in here all the time." *Rasheena Harris, Trader Joe's Customer, Sep 2003***
- **"Prewashed organic salad greens vs. head lettuce. Imported cheeses that cost roughly a third of what they cost in the deli section of a leading grocery. Imported olive oil and real Balsamic vinegar from Modena, Italy, may look expensive compared to commercial salad oil and wine vinegar, but they are bargains." *Seattle Times, Jun 1996***
- **"How far does a buck go today? Trader Joe's sells a 1-pint pilsner for 99 cents." *Orange County Register, Aug 1993***
- **"It's delivering the value proposition, day in and day out." *Ralph Sloan, Partner, GroupRed Retail Design Consultancy, Jan 2004***

EVERYDAY LOW PRICING & NO SPECIALS

Trader Joe's runs true everyday low pricing and doesn't have specials, coupons or promotions

- **"Our philosophy is to offer everyday prices and no weekend specials or special sales."** *Bernie Jassmann, Captain, Tucson Trader Joe's, Nov 1994*
- **"We don't have specials or coupons to try and fool people. We're for people curious about food, but not someone who's rich."** *Doug Rauch, President, Trader Joe's East, Oct 1999*

SAMPLE PRICES

Trader Joe's offers everyday low prices on its products

Trader Joe's price survey by select items
(US\$, actual, Dec 2004)

- Vegan chocolate chip cookies, \$ 3.29
- Vegetarian corn dogs, \$ 2.49
- Ground buffalo steak burgers, \$ 5.49
- Wild forest chanterelle mushrooms, \$ 7.49
- Low-carb spicy and ranch nacho triangles, \$ 1.79
- Soy and flax seed tortilla chips, \$ 1.79
- Beef flank steak stuffed with spinach and feta cheese, \$ 7.39/lb
- Boneless skinless chicken breast, \$ 3.99 per pound
- Fresh whole-milk mozzarella, \$ 2.69 for 8 ounces
- Almond cheese alternative, \$ 3.29 per pound
- Organic yogurt, 79 cents for 6 ounces
- Soy alternative sour cream, \$ 2.29 per pint
- Organic milk, \$ 4.99 gallon
- Frozen mango chunks, \$ 1.99 for 24 ounces
- Tiramisu torte, \$ 5.99
- Pear and gorgonzola thin-crust pizza, \$ 4.29
- Middle Eastern flatbread, \$ 1.06
- English white Stilton cheese with cranberries, \$ 8.99 per pound
- 100 percent recycled toilet paper, \$ 2.99 for 12 rolls
- Organic free-range eggs, \$ 2.89/dozen
- Triple berry O's, \$ 2.79
- Soy granola, \$ 2.79
- Roasted corn tortilla chowder, \$ 2.19
- Black and white truffle oils, \$ 8.99 for 8.5 ounces
- Macadamia nut oil, \$ 6.99 for 8.5 ounces
- White balsamic vinegar, \$ 1.49 for 16 ounces
- Assorted dried pastas, 69 cents per pound
- Cilantro walnut pesto, \$ 2.99
- Wasabi mayonnaise, \$ 2.29
- Cashew butter, \$ 3.29
- Soy bean butter, \$ 2.99
- Organic trek mix, \$ 3.99 per pound
- Organic trail mix bars, \$ 1.99
- Toasted sliced almonds, \$ 2.78 for 8 ounces
- Almond meal, \$ 2.99 per pound
- Organic vodka sauce, \$ 2.69
- Castille soap, \$ 2.99 for 16 ounces

MERCHANDISING

In-store merchandising is basic, to reflect the low price image

- **"We have a habit of stocking right out of the box, in cut trays... That's something that's kind of unique to Trader Joe's. Floor-stacking a lot of products gives customers the idea that things move so quickly out of our stores that we don't have time to put them on the shelf... It's hard to say if popped popcorn sells better that way. Some customers know what they are looking for and find it whether it's in the snack aisle or somewhere else. But we also go through a lot of popcorn off the shelf."** *Kimberly Sprinkle, Assistant Buyer, Trader Joe's, Sep 1993*
- **"New and unusual products are heavily promoted in-store, as well as through consumer mailings and on the company's web site."** *Progressive Grocer, Dec 1997*
- **"Products, such as wine, frequently are accompanied with comments written by employees."** *San Jose Mercury News, Jan 2004*
- **"Trader Joe's clerks even list their own recommendations in the wine aisle."** *Marin Independent, Nov 2003*
- **"Displays are simple and change from day to day, save for frozen foods, cheese and milk products, which are kept in refrigerated cases. Baked goods are laid out on stacked trays that can be wheeled around, and fruit and vegetables - a sometime thing since only bargains are stocked - are usually up front so customers will not miss them... Although the store's marketing technique counts on keeping the customer's sense of adventure fresh, certain items, among them cheese, dried fruit, wine and coffee are in regular supply, but not necessarily the same kind from one shipment to the next."** *New York Times, Jul 1987*

SIMPLE AND SPARTAN **Trader Joe's stores are simple and Spartan**



SIGNAGE - ARTISTS

Stores are brightened up with the work of "creatively inclined" employees

- "What started with the company offering "creatively inclined" employees opportunities to use their talents in the work place has grown into a full-blown policy of using artwork to individualize each store." *Valley Tribune, Dec 2004*
- "Many stores have resident artists on staff, hired specifically for that purpose. It's part of our philosophy. We want to be a neighborhood store, and artists are a good way of making that happen. We celebrate it." *Dan Bane, CEO, Trader Joe's, Dec 2004*
- "This store has a European countryside theme, but since its beginnings, Trader Joe's has had a very Hawaiian, nautical theme, so I'm incorporating the old and the new... I'm working on a six-panel, 48-foot mural titled "Tropical Tuscany... It's nice not having to go out and hustle work. It's great to get up five days a week and know I'm going to be doing art most of the day... It's nice to be able to affect people in such a positive way. We need more smiles, more laughter and more color." *Pablo Galvan, Resident Artist, Trader Joe's Foothill, Dec 2004*
- "When I began painting out in front of the store, I suggested parents could leave children, ages 3 and up, under my supervision to draw and create while parents shop. It's not really day care, but I keep an eye on them while mom or dad go shopping. This way the kids get to go outside and be creative instead of having to hold onto the shopping cart while mom picks out the cheese." *Pablo Galvan, Resident Artist, Trader Joe's Foothill, Dec 2004*



INFORMATION

Trader Joe's attempts to provide its customers with as much information as possible

- "Their mission is to bring customers the best food and beverage values and the information they need to make informed buying decisions." *Business Wire, Apr 1999*
- "In addition to the surprises found around every corner of the store, there is literature about all of the products at the stores' checkout areas. Information includes listings of all types of food, such as Trader Jose' sodium-free foods, fat-free foods and kosher foods. Each brochure is divided by category bakery, beverages, breakfast foods, candy, coffee and tea, cookies, dairy, dried fruit, fresh, fresh juice, frozen, groceries, refrigerated and snacks." *Fairfield County Business Journal, Aug 1999*
- "Trader Joe's has worked to attract more customers through a strong education program. Each store has an information area where consumers can get printed material about the company's products and services. During SN's visit, materials describing its coffee and maple syrup were available. Other flyers listed products appropriate for special diets, such as gluten-free selections or cheese made from vegetable-based rennet. Gluten is a grain-based protein that gives cohesiveness to dough. The protein causes allergic reactions and digestive problems in some people. Those on gluten-free diets do not consume wheat, oat, barley or rye derivatives. Trader Joe's has a list of dozens of gluten-free baking goods, beverages, candies, frozen entrees, grains and cereals, groceries and snacks. Rennet, meanwhile, helps separate the curds and whey in milk to make cheese. Though most forms of rennet come from animals, there are also vegetable and microbial forms that are acceptable to lactovegetarians. A flyer at the information area lists all products that are made with different forms of rennet. Based on SN's visit, information and education are a top priority to the chain. Dozens of ceiling danglers describe the company's products, how they're obtained and how to serve and preserve them." *Supermarket News, May 1997*
- "Trader Joe's has an extensive selection of literature printed up on inexpensive colored paper - but it gets the job done: "Commonly Asked Questions," "Sodium List" (by department, which specific items are sodium free, very low sodium and low sodium), "99% Fat Free Products (same deal), "Definitions (explaining today's food terminology/labeling), "Kosher" list and more." *Frozen Food Age, Feb 1997*

SAMPLING

In-store sampling of Trader Joe's brands is a regular occurrence

- "Despite its small size, about 6,000 square feet, the Oceanside unit caters to its customers in a number of ways. For instance, a sample table set up in the rear of the store held bowls filled with Trader Joe's tortilla chips, Hawaiian Justice potato chips and salsa. It also had two carafes of coffee, one of which was filled with Trader Joe's house blend, while the other contained decaffeinated Espresso DiRoma. Also, as customers entered the store, they were greeted by a demonstration area, placed underneath a sign "A Taste of Trader Joe's." During our visit, Trader Joe's chicken potstickers were being offered." *Supermarket News, May 1997*
- "I had my doubts about a "One-Pound-Plus" bar of Trader Joe's imported French chocolate, but an astute sales clerk didn't let me walk away wondering. "If you want to try that chocolate before you buy it, I have an open bar in the back," she said. "I was just eating some during my break." I went home with a bar of bittersweet and a bar of milk chocolate." *Seattle Times, Jul 1996*
- "Bigger Trader Joe's Opens... Outside, the smell of barbecued hot dogs drew customers to a stand of giveaways that included sodas, shaved ice and potato chips. Employees carried trays of strawberries dipped in chocolate. Those who made it the back of the tropics-themed store took away slices of cheesecake covered in blueberry preserves and whipped cream." *Press Enterprise, Jul 2003*
- "On a Saturday in December, Trader Joe's was sampling cheesecake snacks dubbed Dessert Miniatures in three flavors: vanilla, peanut butter and chocolate raspberry mousse. From Edelweiss Patisserie of Medford, Mass., a 30-pack with 10 of each flavor sold for \$9.99." *Discount Store News, Jan 2003*

VERY LIMITED ADVERTISING

Trader Joe's makes very limited use of advertising other than the Fearless Flyer

- "You won't find Trader Joe's touting specials in the Los Angeles Times. The company uses some radio spots, but it relies mostly on word of mouth and the Fearless Flyer, a 20-page newsletter published five times a year. Some 2 1/2 million copies of the newsletter go out every other month." *Forbes, Oct 1989*
- "Trader Joe's keeps in touch with its customers through advertisements on radio and through a highly humorous newsletter Coulombe himself writes or edits called the "Fearless Flyer." *Southern California Business, Nov 1986*
- "Except for our occasional news through a publication called the 'Trader Joe's Fearless Flyer,' all of our advertising has come from word-of-mouth." *Todd Turner, Store Merchant, Trader Joe's, Nov 2003*
- "For the past 20 years Trader Joe's, the discount wine and gourmet grocer, has published an irreverent but informative newsletter called the Fearless Flyer. The South Pasadena-based chain does some radio advertising, but company officials say that the newsletter, more than anything else, draws customers into their stores to buy North Atlantic sea scallops, Orange Roughy and Armenian string cheese." *Orange County Register, Oct 1987*

INSIDER'S REPORT / FEARLESS FLYER

The Fearless Flyer is both informative and humorous, reflecting the personality of Coulombe

- "I married Consumer Reports with Mad magazine. Consumer Reports is too paranoid. I respect their research, but feel a little bit down after reading it. There's very little joy of life in Consumer Reports. I added the Mad Magazine elements to leaven the loaf." *Joe Coulombe, Founder, Trader Joe's, Oct 1989*
- "Joe Coulombe is a genius with an off-the-wall sense of humor." *Pat St. John, VP Marketing, Trader Joe's, Apr 1990*
- "The Flyer pokes fun at Trader Joe's but does provide a great deal of information and represents considerable research. Many people keep back issues... The Flyer reflects my philosophy of a fragmented world: What is in it cannot be said in 30 seconds on television." *Southern California Business, Nov 1986*
- "Joe Coulombe started the Flyer, then called the Insider's Report, in 1967 as a photocopied handout on imported wines." *LA Times, Apr 1990*
- "Printed on cheap newsprint, the Flyer is chockablock with cutesy essays describing current specials, food and wine tidbits and consumer information, all illustrated with wry cartoons." *Forbes, Oct 1989*
- "The Fearless Flyer... aims to be informative and fun rather than hard-sell in nature." *Pat St. John, VP Marketing, Trader Joe's, Oct 1987*
- "Its signature black-and-white, no-frills advertising flier, called "Fearless Flyer," started years ago as an internal newsletter to inform employees about the European wines the store carried. Customers caught wind of it and the page evolved into a 24-page tabloid the company mails out three times a year. The flier also contains recipes and detailed descriptions of various products." *Portland Oregonian, Jul 1999*
- "Thumbnail sketches of new products offered in his stores, accompanied by short, zany essays and off-the-wall cartoons aimed to please highly literate shoppers from the university campus communities around Los Angeles." *Supermarket News Dec 1993*

SAMPLE FLYER COVERS

The Fearless Flyer is full of cartoons, colour and text

TRADER JOE'S
A Grocery Store of Great Values.

Holiday Guide, 2004

Holiday Helper
Gift-Giving Guide.....page 7
Holiday Party Fun.....pages 16-17
Baking Nuts.....pages 14-15

Coastal Wines
Cab, Merlot and Chardonnay

These wines combine superior vineyard grapes from a fine sea coast weather allows grapes to ripen slowly. The result will benefit and perfect wine-making. The powerful signature yields rich intensity for red wines. We feature our most vineyard wine quality available and have with the best-known varieties. Chardonnay is light-bodied apple notes with the aroma of freshly-picked apples. Some and variety Cabernet Sauvignon has the aroma of strawberries and the taste of wild berries. Merlot is a classic wine, versatile across and flavors of berries and plums.

Belgian Chocolate Truffle Hubs Imported from Belgium

This exciting selection of seven truffle varieties comes from the sophisticated **Châli Lalle** in the European capital of **Chocolate Truffles**. The Hubs are coated with a white chocolate shell and then topped with a dusting of gold or a chocolate decoration. If the wrapped hub is not pronounced "single truffle" and just "truffle hub" and we guarantee them so it's easy to make a good look at these little Belgian beauties. We finished with a flourish of heavenly ribbon.

The price on this Hub is much to our taste! We're selling each 5.5 ounce **Trader Joe's Belgian Chocolate Truffle Hubs** for \$3.99. This guide is only available for the holidays, so when it's gone, it's gone.

Premium California Walnut Halves • A Crazy \$3.99 per Pound

We know that when you're in a hurry, there's nothing better than a good quality product. (Even though you'll find some prices in this bag that look a little bit better.) Halves have a more dramatic presence and are actually quite lovely to look at and taste. You'll want to make sure you're getting the best.

We're selling each one-pound bag of delicious **Premium Walnut Halves** for \$3.99. This is simply a great price for the high-quality product.

Already cooked - just thaw and serve
Jumbo Shrimp • \$6.99 per pound
Our Lowest Retail Ever!

Trader Joe's price on **Jumbo Shrimp** (30-40 shrimp per pound) has never been so appealing. In the past, we've sold jumbo shrimp at our usual low retail rate of \$9.99 per pound. Now, we're just swimming around here. We have beautiful live frozen, cooked tail-on shrimp for \$6.99 per pound. Here's the kicker - this is not a sale. How do we do it? We negotiated hard, made our commitments early and secured an extraordinary deal - just in time for the holidays.

Just wait, there's more! We're doing the work for you. These cooked shrimp are cooked, peeled and deveined. They're ready to pop (over 200 pieces per pound) as much as you'd like and save the rest for another time.

We're selling **Trader Joe's Jumbo Shrimp** for just \$6.99 per pound, every day. The lowest price we've ever achieved for cooked jumbo shrimp is \$7.99.

Ho, ho, ho!
Seasoned greetings!

TRADER JOE'S
Everyday LOW PRICES.
Unique foods and beverages from the exotic to the rustic.

Fearless Flyer, March 2004

Adventurers encouraged. Shoppers applauded. Values await.

- Delight your palate without challenging your wallet. At Trader Joe's, high quality doesn't mean expensive.
- Enjoy the spirit for that mouthwatering hot-and-ent meal, all the while having a bit of fun while you shop.
- Discover a delicious **Smoked Gouda** from Holland (page 11) or a tasty **English Toffee** (page 21).

Purple Moon Merlot and Shiraz
\$4.99 per bottle

Legend has it that many moons ago, folks spent their nights waiting for a purple moon to appear around the moon, signaling the risk of time for a grape harvest. In reality, wine makers today just like to get the most bang as they have found other ways to produce ideal harvest conditions.

Purple Moon Merlot delivers time to the grape. **Rose** and **Shiraz** each have a deep garnet color with hints of violet. This elegant wine has a spicy, ripe blackberry and plum aroma with notes of chocolate and coffee.

Purple Moon Shiraz is a rich, luscious wine with depth and complexity, revealing a hint of history and a touch of mystery with a luscious plum and spice finish.

Both of these wines can be enjoyed here, and will continue to impress with age over the next few years. For more on **Purple Moon Merlot** or **Shiraz** for just \$4.99 per 750ml bottle. This is just an excellent start for a wine that's

Premium WILD Salmon Patties
\$3.99 per pound

Trader Joe's **Premium Salmon Patties** are made from wild salmon that was caught in the cold waters of the north in the Pacific Ocean. They're a great source of protein, each patty is 99% fat free and has only 80 calories.

Preparation is simple. Just pan-fry a few minutes on each side, or bake in the oven, grill or microwave these patties. Whether cooking smacked your palate, 10 minutes in the next time you'll spend cooking the seafood patties. You can make a delicious, quick meal by serving the patties on a bun or roll as a sandwich or over a bed of mixed greens with a little oil-based dressing. Each one-pound package contains 5 patties. You'll find them in our frozen.

181

FLYER – AN EFFECTIVE TOOL

The Fearless Flyer is an effective tool for the company

- **"The newsletter is an effective sales tool. Each time the Flyer comes out, the stores experience a substantial increase in business for about two weeks; the size of the spurt varies according to the products advertised."** *Mike Parker, Senior Vice President, Trader Joe's, Apr 1990*
- **"Trader Joe's has established a good clientele that looks forward to the Fearless Flyer and appreciates it."** *Steven Koff, President, Southern California Grocers Assn., Apr 1990*
- **"Reader response is mostly favorable, though some people have written in to say: "You mean to tell me you cut down a tree for this?""** *Pat St. John, VP Marketing, Trader Joe's, Apr 1990*
- **"Despite the competition, Trader Joe's chain, stretching from San Diego to the San Fernando Valley and soon with stores in the Bay Area, grew rapidly, due in part to a cleverly written newsletter that is sent five times a year to 3 million subscribers, at no charge. The newsletter sells close-out and special-purchase wines better than a carny barker."** *LA Times, Feb 1988*

FLYER - CHEAP & EASY TO PRODUCE

The Flyer is relatively cheap and easy to produce, especially now it is only available in-store

- **"The company has stopped issuing the Fearless Flyer through the mail, but will continue to distribute it in stores. The price of postage and newsprint are such that this is the only way we can keep this going, for now." Pat St. John, VP Marketing, Trader Joe's, Jan 1995**
- **"The Flyer's illustrations are culled from old periodicals such as Frank Leslie's Sunday Magazine and Girl's Own Paper, and from adventure books, including "The Boy Traveler in Mexico" and "The Young Nimrods in North America." ... Pat St. John, who produces the Flyer with graphic artist Sonny De Guzman, is surrounded by old books, the source of much of the mailer's lively material, at the specialty stores' headquarters... They are fashioned into cartoons by the addition of sometimes corny captions." LA Times, Apr 1990**
- **"We can make changes in copy up to the last moment. If a ship gets lost on the water with a caseload of wine and won't be in the stores when this flyer comes out, we can yank the item and put something else it. It takes two minutes." Pat St. John, VP Marketing, Trader Joe's, Oct 1987**
- **"For Trader Joe's, desktop publishing has made the task of of reaching its 2.8 million customers five times a year much easier. " Orange County Register, Oct 1987**
- **"It comes out five times a year, contains 20 pages, features 80 to 100 products per issue and is mailed to 3.5 million households in California." Pat St. John, VP Marketing, Trader Joe's, Apr 1990**
- **"Each edition costs \$375,000." Forbes, Oct 1989**
- **"The per issue cost is about \$400,000, excluding employee time. " Pat St. John, VP Marketing, Trader Joe's, Oct 1987**
- **"It had a mailing list of more than 800,000 until rising delivery costs forced the company to distribute it in stores." Business Week, Jun 1995**

CORNY CARTOONS

The Fearless Flyer is filled with corny cartoons



FLYER – FUNNY & INFORMATIVE

The fearless flyer is a funny and informative look at food...

- **"We try to appeal to our customers' minds as well as to their tummies."** *Pat St. John, VP Marketing, Trader Joe's, Jul 1988*
- **"Trader Joes functions like a grassroots organization in that it mails out its "Fearless Flyer several times a year, with information and little-known facts about products, such as ginkgo biloba tablets. "The ginkgo (gin'koh) tree, Ginkgo biloba L., has survived for 200 million years. Originally grown in China, the ginkgo was brought to Europe over 200 years ago and now is used as an ornamental, tree," the flyer intones before presenting pertinent information about Trader Joes ginkgo product. The Fearless Flyer also lists every product and price in the store, including Tofutti treats, Fat Free Nacho Cheese Dip, Soy Vey Veri Teriyaki (a marinade), Ahi Tuna Steaks, Promax Bars, Average Joe Pizza, Chili & Lime Tortilla Chips and about 800 other items."** *Fairfield County Business Journal, Aug 1999*
- **"In a narration of pistachios, Fearless Flyer talks about how they're valued in Iran. There's a history of coffee and some amusing legends about other products. A Mideast Feast sounds great: "Picture if you will: swaying palm trees overhead with balmy breezes carrying the intoxicating smell of falafel with just a pinch of parsley." It's like the J. Peterman catalogue of food products. "** *Star-Ledger Newark, Feb 1998*
- **"The current issue, for example, asks its readers: Why buy a certain \$3.99 Cotes du Rhone from Trader Joe's, which managed to secure 4,000 cases? Because the obscure chateau's vineyards extend just seven acres beyond the demarcation line for the more famous Chateauneuf-du-Pape."** *Business Week, Jun 1995*

FLYER – FUNNY & INFORMATIVE

The fearless flyer is a funny and informative look at food... continued

- “Five times a year, Fearless Flyer, a guide for the shopper, is issued free to a mailing list of 2,700 customers; some customers regard it as a kind of illustrated correspondence course in California and European wines. A recent issue, for example, contained the information that Falcon Crest, a label of Spring Mountain winery, generally regarded as one of the finest small Napa Valley wineries since its founding in 1968, produced a 1982 Chardonnay with a suggested retail price of \$10.50. Trader Joe's, it reported, had snapped up the last 5,594 cases, which it was selling for \$3.49 a bottle. Or take the 4,000 cases of John B. Merritt Sonoma Chardonnay. John B. Merritt, according to the guide, is a label occasionally used for a wine of unusual interest by Bandiera Winery, a small, northern California concern founded in 1937. The chardonnay in question is a dry, acid wine, like a Muscadet, the celebrated "fish" wine from the Loire Valley, the report in Fearless Flyer continues. Because the dollar is weak, Muscadet has become pricey and Merritt's chardonnay is offered as a substitute. The suggested retail price is \$8.50 a bottle; Trader Joe's is \$1.99.” *New York Times, Jul 1987*
- “Among the advertisements for the 1987 Merlot de Bordeaux, the natural yeast and garlic wafers for dogs and cats and the 96% fat-free chicken chili is a turn-of-the-century woodcut featuring 10 dogs seated at a formal dinner table. "Bone appetit!" the caption says. It's a characteristic quip from Trader Joe's Fearless Flyer, an overgrown advertising circular that regularly lands in the mailboxes of 350,000 San Gabriel Valley households. The Flyer, distributed in one form or another for 23 years by the South Pasadena-based specialty grocery chain, is not your everyday supermarket mailer. There are no glossy photographs and it touts no sale prices, because the company doesn't have sales. It is printed on inexpensive, recycled newsprint, uses 19th-Century woodcuts fashioned into quirky cartoons, and has a breezy editorial voice that dishes out equal parts self-promotion and food trivia. For example, for anyone baffled by the difference between prawns and shrimp, the Flyer explains that prawns are larger and are grown in fresh water, while shrimp are exclusively from salt water. And if you want to know the top apricot producer in the world (it's Turkey), you'll find the answer on the front of the April, 1990, issue.” *LA Times, Apr 1990*

FLYER – FUNNY & INFORMATIVE

The fearless flyer is a funny and informative look at food... continued

- **“One features a public television announcer saying: “. . . and after Julia Child has shown us how to make tarte aux pommes for your holiday dinner, we'll switch to the Los Angeles Coliseum, where the Raiders will show us how to make turnovers.” Another pictures two women in conversation. One declares: "It's an annual post-holiday seasonal adjustment. It involves recalculation of fuel intake in relation to energy expenditures, and takes into account specific maintenance requirements, with an eye to lowering the level of questionable constituents." Her companion replies: "Yes, I'm on a diet, too!" ... Another cartoon, appearing next to advertisements for oatmeal cookies and Pirouline mint wafers, shows an academic-looking gentleman droning on in front of a classroom full of young men: "Providing that the motion is under a constant force, the kinematics of the situation dictate that, as the molecular friction resists the momentum of the sheer component, intolerable vectors develop in a semirigid medium-and that's how the cookie crumbles!"” *LA Times, Apr 1990***
- **“Nuts. Cheese. Wine. Those few words on the signs outside Trader Joe's five Orange County stores offer only the slightest clue about the eclectic assortment of merchandise inside. But the signs are just about the only place this maverick market chain runs short on verbiage. Nearly every product that Trader Joe's offers includes not only the item itself, but the tale of how it was made and the saga of how it came to land in the acquisitive (but particular) hands of Joe himself. Shopping here is not only an educational experience but an opportunity to share in the thrill of the quest. Check out the description of a quart of Trader Joe's Premium Blended Apple-Blackberry Juice (\$1.49), for example, and you will learn how the apple harvest went in Santa Cruz last fall (very well, thanks), how organic farming is monitored (by the California Certified Organic Farmers organization), the fact that tree-ripened apples "have a higher `Brix Content,' which is a measure of the natural fruit-sugar solubles in the juice," as well as what happens when even a drop of unripe blackberry juice gets into the mix (a potential disaster). Or how about that chunk of Stilton cheese at \$3.99 a pound? Before asking you to make a commitment, TJ's takes you on a journey through the history of British cheese, all the way back to a mention by Daniel Defoe in 1722. You get advice on how to eat it ("with well-aged Port wine, but true aficionados like it with apple pie or even with a few biscuits and a stalk of celery for breakfast"), and then you get the story of TJ's vice president who sampled more than a dozen varieties before settling on this one.” *LA Times, Jul 1988***

INFORMATIVE EXAMPLES

The Fearless Flyer always tells a story

Tons of Tulips At Bloomin' Good Values

Our intrepid Buyer traveled to Holland recently to ensure that we're getting the very best tulips at the best possible price. As a result, we were able to tip toe around the standard method of buying flowers, and we're now buying them more directly. This year, we're happy to say our low price will remain consistent throughout the season. We committed early, negotiated hard and put the petal to the metal.

We're offering colorful, cut tulips in several bright and cheery hues. Whether you prefer the subdued beauty of pastels: light pinks, yellows and white or the vivacious bright hues like red, hot pink and orange, we've got a broad selection. We're selling each **tulip bunch** (containing 10 stems) for just **\$4.69**.

This spring, we have some glorious deals on all manner of picturesque plants and flowers. You pick the flowers. Leaf the great pricing to us.

Chunks of Ripe, Sweet Mango \$1.29 for a one pound bag

Our **Fresh-Frozen Mango Chunks** are as close as you're going to get to tropical intrigue without an airline ticket! Frozen, they taste like a fruit popsicle. Thawed, they can be added to a fruit salad, chopped up for a relish, blended into a smoothie or stirred into a sauce for poultry. If you've ever tried to carve up a mango, you know this is a tricky undertaking. Now we've done the peeling and cubing for you! This is one of our most popular products.

We're selling each one pound bag of **Trader Joe's Mango Chunks** for just **\$1.29**.

DAVE NICHOL STEALS A GOOD IDEA

Dave Nichol stole the insider's report name and concept, then later bought the name

- "There's very little unique merchandising, and this is unique... I stole the name and concept of Trader Joe's Insider's Report for President's Choice [Loblaw's private label]... It is safe to say that President's Choice owes the majority of its success to Trader Joe's." *Dave Nichol, former President, Loblaw's (LIM), Jun 1995*
- "Like many things, the revolution began in California... Nichol passed through Los Angeles on a wine-tasting vacation when he happened to drop in at a specialty food store called Trader Joe's, where he found "this funny little comic book" called Trader Joe's Insider's Report... To Mr. Nichol, it was irresistible... While Trader Joe's Insider's Report was mailed to a select audience of sophisticated spenders, Mr. Nichol's flash of genius was to simplify the concept enough to make it appeal to a mass market." *Supermarket News Dec 1993*
- "The Insider's Report is a newspaper supplement that presents President's Choice products to the consumer in an unusual and interesting way. It was the brainchild of Trader Joe's, a gourmet supermarket chain in South Pasadena, Calif. Nichol liked the newsletter so much he bought the rights to the name." *Supermarket News Dec 1993*
- "The Insider's Report looks like a cheap comic book. It has stories about products, sort of a mixture of Consumer's magazine and Mad Magazine, with all sorts of cartoons in it that are not very funny. I have French bulldogs as pets and we have French bulldogs doing lots of things. It is printed on the cheapest recycled paper that we can find. It is filled with dumb bulldog jokes, and yet it has created a cult following." *Dave Nichol, former President, Loblaw's (LIM), Dec 1993*
- "When Mr. Nichol decided last year to introduce Insider's Report in U.S. supermarket chains owned by Loblaw, Mr. Coulombe, still publishing his original comic book in Los Angeles, was not pleased. "We didn't really make any moves to protect our copyright in Canada, but when it came to the United States, we got very uptight," he says. Ten years ago, Mr. Coulombe and a battery of lawyers spent eight months and hundreds of thousands of dollars in court to make another publisher quit using the title Insider's Report for a magazine about entrepreneurs. Loblaw's assault from the north did not wind up in court. Instead, Loblaw paid Trader Joe's an amount that Mr. Coulombe will not disclose for the North American rights to the name. The originator still publishes his own comic book; but now it's called Trader Joe's Fearless Flyer." *Supermarket News Dec 1993*

UNDERSTANDING THE BUSINESS MODEL: PRODUCT

The second section looks at the role of product in the business model



INTELLIGENT LOSS OF BUSINESS

Trader Joe's doesn't try to be everything to everyone

- **"We don't sell cigarettes, soft drinks or Gallo. And you can't count on us for anything."** *Joe Coulombe, Founder, Trader Joe's, Sept 1987*
- **"We are not trying to be everything to everybody."** *Pat St. John, VP Marketing, Trader Joe's, May 2004*
- **"We aren't a full-service supermarket and don't want to be."** *Doug Rauch, President, Trader Joe's East, Jul 1997*
- **"We can't stock every product. We try to find items of quality at good prices."** *Pat St. John, VP Marketing, Trader Joe's, Apr 1994*
- **"Trader Joe's won't supplant the neighborhood supermarket. There are no meat counters, very little produce, no pharmacy, few staples such as toilet paper or sugar, and no fresh fish."** *US News & World Report, Jul 1997*
- **"We're not going to be a full-service supermarket. We're not going into the magazine business. We're not going into the light bulb business. We want to keep our store environment small and focused on private-label products that you won't be able to find any place else but Trader Joe's."** *Pat St. John, VP Marketing, Trader Joe's, Dec 2004*
- **"I don't think our success here comes from trying to be the one- stop place that has everything. We don't try to do that. We don't have a lot of the peripheries like the dry cleaner or the pharmacy. We just try to have quality products at low prices, and we want people to come here first and then go elsewhere if they still have to."** *John Persichitte, Captain, Naperville Trader Joe's, Nov 2003*
- **"Trader Joe's sells several types of peanut butter, but don't expect to find Skippy or Jif. And there's a good selection of cereals, but no Wheaties or Rice Krispies. In fact, shoppers at Trader Joe's will be hard-pressed to find any familiar brands. That's because the California-based retailer has combined an assortment of unusual private label and specialty foods - from frozen mango chunks to super premium pumpkin ice cream - at low prices and has built a cult following in the process."** *The New Jersey Record, Dec 1999*

LIMITED RANGE

Trader Joe's focuses on a limited range of products

- **"The average Trader Joe's store may have eight different kinds of olive oil and a half-dozen varieties of coffee, but only one brand of milk or toothpaste... You can't find a wide variety of national brands at Trader Joe's, but we still may have the best price on what someone wants."** *Doug Rauch, President, Trader Joe's East, Oct 1999*
- **"We are not actually a grocery store, or a health food store. We offer a limited selection of a lot of different foods, minus meat and produce. We cater to the well-educated people, many of whom by and large are interested in food and different ways of eating. Our customers are label readers and up-to-date on health issues. Take rice, for instance, we don't have 10 boxes of Uncle Ben's Rice, we have rice imported from Italy and India and offer special rice blends."** *Pat St. John, VP Marketing, Trader Joe's, Jan 1995*
- **"As a result, Trader Joe's carries about 2,000 items - known in the trade as SKUs, or shop-keeping units - while traditional supermarkets have 20,000 or more items. In addition, there are no service counters, such as deli and butcher; much of the produce is prepackaged, and there are no sales, no coupons, and no special promotions."** *The New Jersey Record, Dec 1999*
- **"With only about 10 percent of the number of products found in a typical full-service supermarket, Trader Joe's doesn't aim to provide everything you need. Instead, it entices you with things you never knew you wanted, like that tub of dried figs."** *Fast Company, Feb 2004*
- **"Rather than carry, say, 15 brands of olive oil, we will choose our favorite and sell that one under our brand."** *Doug Rauch, President, Trader Joe's East, Jun 1996*
- **"They try it, buy a couple of items, and usually they like it. Then they come back and buy a few more."** *Doug Rauch, President, Trader Joe's East, Dec 1999*
- **"But customers still say they can't do all their grocery shopping at Trader Joe's because although it offers a variety of imported foods and wines and frozen foods, it doesn't carry many essentials, such as batteries and trash bags."** *Portland Oregonian, Jul 1999*

HIGH QUALITY PRODUCTS

Trader Joe's products are consistently high quality

- "For me, it started when my friend opened a jar of cherries. They were like no cherries I'd ever had before. They were so intensely flavorful, I had to know where they came from." *Jessica, Trader Joe's Customer, Jun 1996*
- "The taste panel crunched away at seven kinds of plain corn chips -- not tortilla chips, not nacho- or ranch- or teriyaki-flavored but regular, all-American corn chips. The winner by a good margin turned out to be the most economical and a house brand at that. Trader Joe's (12 ounces, \$1.19) won top honors because the chips are thick and crunchy with honest corn flavor not disguised by too much salt. Only one panelist thought they were too dry and wouldn't buy them; the other four would." *San Francisco Chronicle, Jul 1991*
- "Trader Joe's is a good bet if you want to eat light and healthy on a budget. Last weekend, I sampled three salad meals in as many plastic containers. All were made by Trader Joe's and each was less than \$3. The chicken half of a curried chicken salad (\$2.89) was delightful: sprightly spicy curry blended with small additions of fruit in a mayonnaise base. The salad's non-chicken half, however, was uneventful; it consisted of only a couple of cherry tomatoes in lettuce. The turkey pita sandwich with couscous salad (\$2.99) included all sandwich ingredients and two pitas, one of which promptly tore when I took it out. The other pita functioned perfectly, and the rest of my dining experience went smoothly and pleurably. The last salad I tried was a classic Greek salad (\$2.19). A zesty dressing - made of canola oil, red wine vinegar, garlic, oregano, basil, parsley, sugar, black pepper and salt - invigorated the feta cheese and kalamata olives. If these salads aren't enough to satisfy your appetite, supplement them with Trader Joe side orders of, say, couscous salad or wild rice and soy bean salad. Each side order is delicious, filling - and under \$3." *Arizona Daily Star, Dec 1998*

SECONDARY SHOP

Trader Joe's is designed to act a secondary shop for most customers...

- "An average Trader Joe's has about 2,500 products in stock, and most patrons use to the store to supplement their normal grocery shopping - though some people may not have to shop elsewhere." *Doug Rauch, President, Trader Joe's East, Oct 1999*
- "Our store isn't meant to be a one-stop shop. We don't carry mundane items such as trash bags or bread crumbs. The emphasis is on being a unique grocery store with foods from the exotic to the basic... Trader Joe's also works hard to create a unique shopping atmosphere, an important element when you're trying to sell lifestyle shopping." *Cassie Jones, Captain, Trader Joe's Parole, Jun 2003*
- "Like Whole Foods - one of Trader Joe's primary competitors - the company serves largely as a secondary store for customers of the major supermarket chains. Fewer than 2 percent of grocery store patrons in San Diego County use Trader Joe's as their primary destination for food, according to a survey conducted last year for The San Diego Union-Tribune." *San Diego Union-Tribune, Sep 2003*
- "Most shoppers will patronize the store on an 'occasional basis. It's typically not chosen as a primary store." *Bert Hambleton, Hambleton Resources, Aug 2004*
- "Few people do all their grocery shopping at Trader Joe's, but survey results suggest many do their fill-in shopping there. While almost 17 percent of shoppers surveyed here last year by Scarborough Data said they had shopped at Trader Joe's in the past week, only 2 percent said it's the store they shop at most often. Still, that 2 percent was enough to rank it in the Scarborough survey as the sixth-most frequently shopped grocery store in the area. (See chart over page.)" *Seattle Times, May 2004*
- "Along with businesses such as Whole Foods Market, Trader Joe's caters to an increasingly expanding segment of grocery buyers where "the experience of shopping" matters more than just buying products at bargain-basement prices. Customers with more money and time are choosing to shop where the products reflect either healthier lifestyles, political and social attitudes or simply indulge quirky tastes." *The Capital, Jun 2003*

SECONDARY SHOP

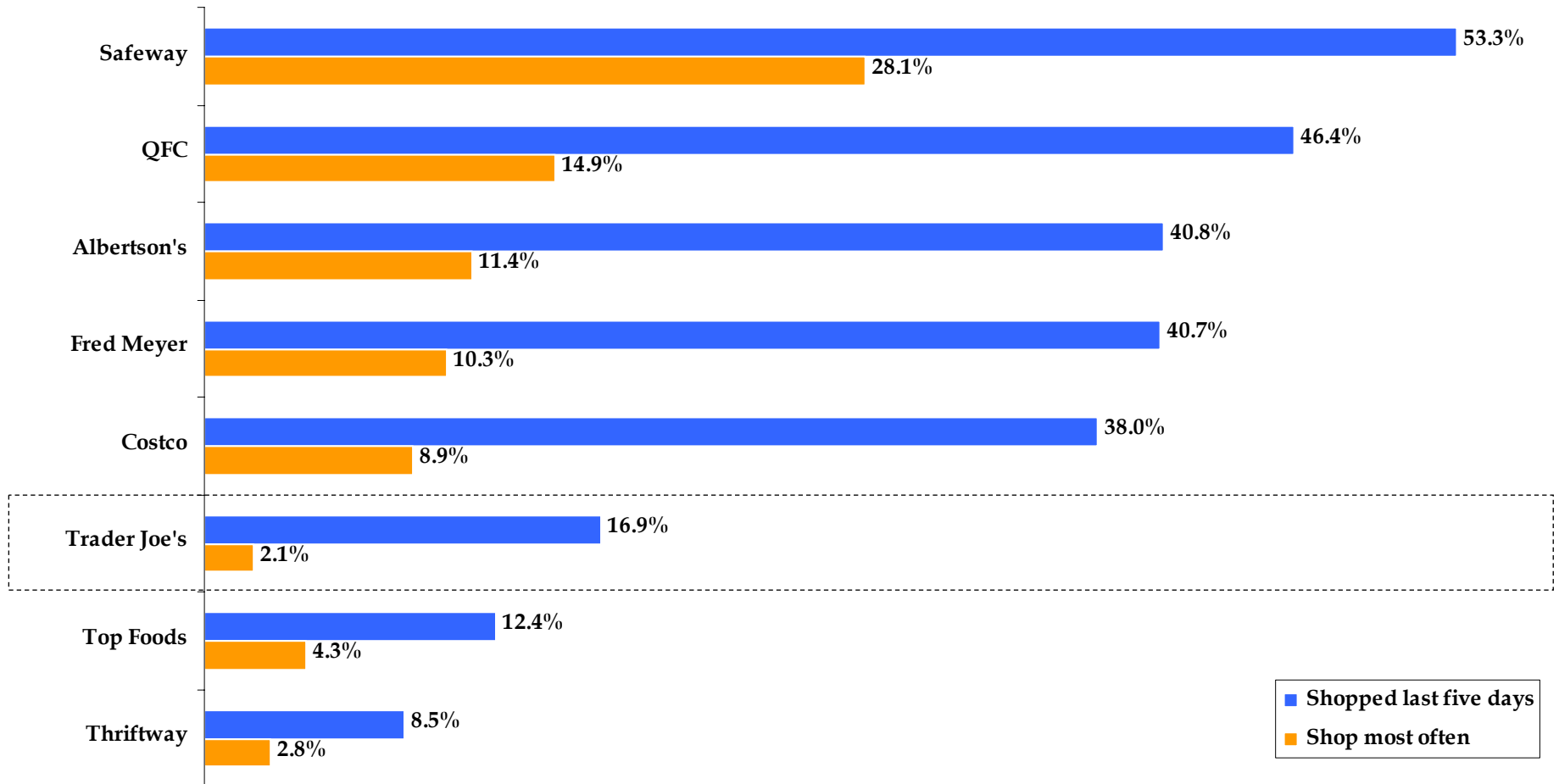
... a fact consistently recognized by its customers

- **"I come here sort of secondarily. I buy meat and milk products at other places. But I come here for canned goods and cheese. I love the dry-roasted almonds. I'm a big fan. I can't wait for the University Place store to open." Sandra Godfrey, Trader Joe's Customer, Dec 2004**
- **"We come here about once every two weeks to store up." Tom Deets, Trader Joe's Customer, Sep 2003**
- **"It has a lot of great stuff. I don't do all my grocery shopping here, I come here to get my favorite stuff." Mary Gibb, Trader Joe's Customer, Jun 2003**
- **"I shop at Albertson's and Safeway, but go to Trader Joe's once a week for granola, dairy products, meatballs, simmer sauces, snack items and pasta. They have great prices and great quality, plus items that make a dinner extra-special with no effort on my part." Patsy Jacoy, Trader Joe's Customer, May 2004**
- **"My wife and I shop at Trader Joe's in Parole at least once a week for our favorite items... Total Greek Yogurt with honey and Trader Joe's Yellow Cling Peach Halves in light syrup. But we don't do our big shopping here, we do that at regular grocery stores." Nick Capousis, Trader Joe's Customer, Jun 2003**
- **"They have unique things that none of the other stores have. They have a wonderful Key lime pie, and their cakes are as good as any around, at half the price... But they don't carry a lot of things I want." Ruth Kreloff, Trader Joe's Customer, Dec 1999**

SHOPPING FREQUENCY IN SEATTLE

Trader Joe's achieves respectable penetration (nine outlets) in the Seattle market, primarily as a secondary shop - in a market of three million people, where it has been for eight years

Shopped in last five days and shop most frequently by chain in Seattle
(Survey; May 2004)



SPLIT SHOPPING A TREND

Trader Joe's is exploiting the trend towards split shopping

- **"Elaine Connell does her serious grocery shopping once a week at a Sam's Club near her suburban Las Vegas home. But a couple of times a week she hits an unusual chain grocery that tantalizes her driving-home-at-dinner-time taste buds. No bigger than an Eckerd's, Trader Joe's has won her over with heat-and-serve entrees like \$1.29 chicken enchiladas, \$2.99 goat cheese pizza and \$3.49 shrimp Louie... Supermarket shopping has taken on a split personality. Most Americans hit a big store for weekly load-ups, then make two trips weekly for a single meal or a few staples. It's one of several trends dramatically reshaping the way supermarket executives expect to be doing business in a decade. New threats from Internet shopping services, Wall Street demands for more consolidation among the big chains and a younger generation that just doesn't like supermarkets are the leading forces molding the supermarket of tomorrow. Suddenly, "convenience" is a buzzword for industry brass who once thought low prices, clean stores and huge selection were the winning recipe. So far, though, few supermarkets cater to the time-pressed consumer's need for speed like Trader Joe's. Never mind that this puny grocery store has virtually no brand-name goods. Or that the selection is one-thirtieth of today's standard supermarket. Or that the decor is so drab that the seafood department is marked only by a fishing net strung over a cheap wood panel wall. Trader Joe's? 113 stores in five states average \$10-million a year in sales, almost equal to the business done by a full-size Kash n' Karry about six times as big. One Trader Joe's in west Los Angeles racked up \$22-million in sales in 1997. That's as much business as the biggest Publix, Winn-Dixie or Albertsons in stores eight times as large." *St. Petersburg Times, Jul 1998***
- **"Consumers have told us they use Trader Joe's when they want to pamper themselves. ... For the trendy-shopper set, the person who's looking for the newest thing, Trader Joe's is part of their schtick." *Joan Vieweger, Vice President, Perspectives/The Consulting Group, Jun 1996***

EVERYTHING FROM... Trader Joe's stocks...

- "...everything from French grape-seed oil to hormone-free chicken to an assortment of environmentally-kind cleaning products." *Chain Store Age, Dec 1993*
- "...everything from lime tortilla chips to peanut butter dog biscuits." *Press-Enterprise, Apr 1999*
- "...everything from Nutella hazelnut spread to ground buffalo patties to artichoke tapenade and shiitake mushroom sauce." *Portland Oregonian, Jul 1999*
- "...everything from California wines and goat cheese to chocolate covered almonds and imported cookies." *LA Daily News, Dec 1993*

SUCH AS...

Such as?

- "Cheeses, breads (from top local bakeries), wines, an extensive array of private label entrees, imported goods, jams and jellies, maple syrup, specialty pet foods, sun-dried tomatoes, vitamins and health supplements and pasta sauces are some of the things you'll find. But there's not much fresh produce and the fish is frozen." *Boston Herald, Jun 1996*
- "The products at Trader Joe's include the likes of artichoke antipasto, organic vodka sauce and roasted pinjur sauce, all crammed into the shelves. And then there are the famous wine offerings, including the near mythical Two-Buck Chuck, otherwise known as the Charles Shaw brand at \$1.99 a bottle." *San Jose Mercury News, Jan 2004*
- "Trader Joes sells wine -- always wine, nuts, cheese, dairy products, fresh juices, frozen food, candy, bakery items, dog food, sausage, imported beer, coffee and some produce, among similar items. Trader Joe's sells about 5 percent of the entire California pistachio crop, is the 13th largest retailer in almonds, the leading retailer of Brie and English cheese and among the largest sellers of Canadian cheese, maple syrup and wide rice." *Southern California Business, Nov 1986*
- "Let's see, a pound of Taiwanese Black Tiger shrimp, a jar of Time Machine house-brand vitamin C, some unsalted "all natural" blue corn tortilla chips, a bottle of Perrier Jouet Grand Brut champagne and a slice of French Brie... Trader Joe's claims it sells more Perrier Jouet Grand Brut and imported Brie than any other retailer in the country... Trader Joe's regular shoppers never really know exactly what goodies, aside from the champagne and French cheese, they will find on the eccentric merchant's shelves. They do know that whatever shows up, the odds are good it will be high quality, tantalizingly hip or irresistibly cheap. Or all of the above." *Forbes, Oct 1989*
- "Trader Joe's carries an extensive line of domestic and imported foods and beverages, including wines, beers, fresh bakery and deli items, fresh fruits and vegetables, vitamins and supplements, coffees, juices, frozen foods, nuts and dried fruits, pet foods, milk and eggs, housewares and gifts. The Trader Joe's concept is also distinguished by all prices being everyday value prices. According to company officials, the product mix at Trader Joe's is a combination of on-going items under the Trader Joe's label and specially purchased items from around the world." *Business Wire, Apr 1999*

SUCH AS...

Such as?

- **"If it's raspberry sorbet, authentic Australian wine or maybe hand-crafted beer on your shopping list, look no further." *Las Vegas Review-Journal, Oct 1995***
- **"People are looking for items such as olive oil spray, green lentils, Spanish saffron, sun-dried marinated vegetables, artichoke pesto and pickled garlic... We have some very unusual items that consumers won't find in other stores." *John Persichitte, Captain, Green Valley Trader Joe's, Jun 1995***
- **"I was delighted with the availability of so many neat things under one roof that are worth buying, or at least considering. Some interesting items worth mentioning: lowfat lemon ginger or pumpkin scones; Peaberry coffee; vegetarian dog biscuits, food and treats; lemon ginger Echinacea juice; peach cider; yummy peanut butter-filled pretzels (they were available as samples); Stinging Joe's beer and Fat Weasel ale; chocolate peanut butter spread; lots of fun hors d'oeuvres; chocolate UFOs; vanilla almond crunch and maple pecan crunch cereals; about 30 fresh breads, including alfalfa sprout and sunflower sesame seed. Next, some serious bargains: Vermont or imported goat cheese at \$4 for 11 oz.; double Gloucester at \$4.40 per pound. In fact, there must be 50 kinds of cheese, and they all are priced well below the competition, averaging \$4-\$5 per pound. I found a perfectly runny, gooey triple creme brie for under \$5 per pound. Trader Joe's label wines run \$3.50 for Merlot and Cabernet Sauvignon, \$5.50 for Chardonnay; a zillion shapes of pasta average 70 cents per pound; spices about \$1.50 per bottle; a bag of frozen red, yellow and green peppers at \$1 (a great idea for quick meals); two crab cakes for \$3; 90 percent lean ground beef at \$2.30 per pound." *Star-Ledger Newark, Feb 1998***
- **"Recently faced with a last-minute workday dinner party, I stopped by Trader Joe's on my way home to pick up the makings for a desperation dinner that I could be proud of. I grabbed Artichoke Pesto, bagged assorted lettuce, fresh linguine, log-shaped goat cheese and Cheese Spread With Garlic and Spices from the refrigerated deli. Fire Roasted Red Peppers, Raspberry Salsa, dried apricots imported from Turkey, Melange a Trois (a mixture of frozen red, green and yellow bell pepper strips), a skinny baguette of French bread and pecan halves flew into my basket. Not to forget the delectable Gingerbread Biscotti Dipped in White Chocolate and a pint of Lemon Sorbet; these folks would probably want dessert. I passed by the frozen Old Fashioned Cheesecake and the tempting Tiramisu." *Orange County Register, Apr 1995***

SUCH AS...

Such as?

- **"I never fail to find 20 bucks worth of fun stuff at Trader Joe's. Let me heartily recommend their frozen gyozas, dumplings filled with meat or vegetables or mixtures. Excellent for dim sum or hors d'oeuvre. For simpler snacking, crack open containers of Trader Joe's salsa and blue corn chips. The tomatoey melange is mildly spicy and jazzy with cilantro (or, in the case of "hot," manageably fiery). It's the only brand I've found with no preservatives. The chips are light and crispy, and add a nice bit of character to a snack basket."** *Orange County Register, Dec 1993*
- **"A great number of foods, including pasta and bagels, contain oat bran. Selections range from name brands such as Carr's crackers and Alta Dena dairy products to a full line of Trader Joe's own merchandise - usually without salt, preservatives or artificial ingredients. Examples are Trader Giotto's pasta sauce and Trader Joe-san's tofu."** *San Francisco Chronicle, Feb 1989*
- **"The chain is also known for its coffees, fresh juices, health foods and tabletop utensils."** *San Francisco Chronicle, Jun 1988*

SOME BRANDS

Trader Joe's stocks a few brands, but less than in the past

- "But branded products are also available. During a recent visit to its Oceanside, N.Y., store, SN saw Ocean Spray Juices, Dole Sorbet, Yukon Gold Potato Chips, Budge Gourmet frozen dinners, PowerBars, Ghirardelli chocolates, Snyder's of Hanover pretzels and Carr's water biscuits." *Supermarket News, May 1997*
- "They also offer some bargain deals on brand-name items. They carry some very, very respectable lines at, I won't call them dirt cheap, but very reasonable prices." *Joan Vieweger, executive vice president of Perspectives/The Consulting Group, Jun 1996*
- "Some of the offerings are brand names, such as Birds Eye frozen dinners (99 cents to \$1.19), Ocean Spray frozen fruit juice bars (99 cents) and Boodles gin (\$8.49), among items available currently." *LA Times, Jul 1988*

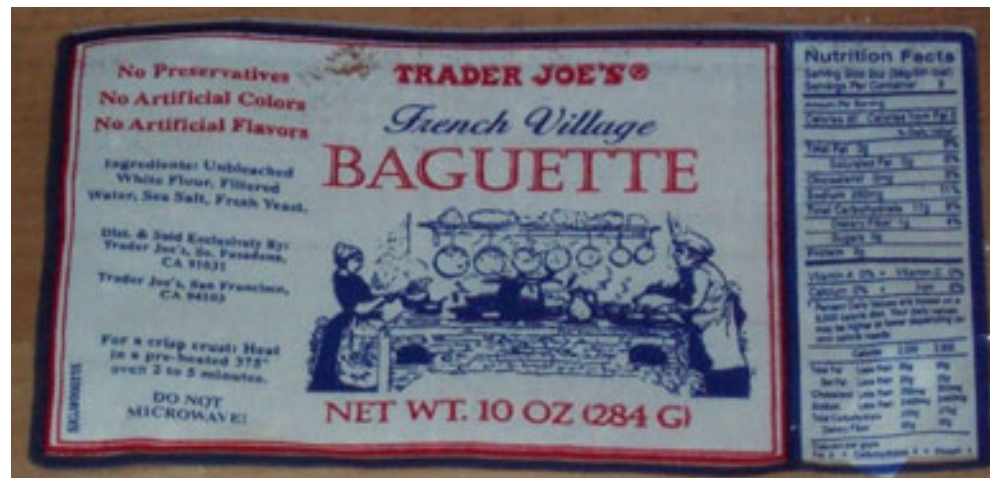
PRIMARILY PRIVATE LABEL

More than 80% of products carry the Trader Joe's brand

- **"Many of the 2,500 to 3,000 products the stores plan to stock will carry the Trader Joe's label. The inventory is markedly smaller when compared with the 30,000 to 40,000 items stocked by a typical supermarket." *Doug Rauch, President, Trader Joe's East, Dec 1999***
- **"About 80 percent of Trader Joe's items are on the house label. The company works with a variety of suppliers that make products exclusively for Trader Joe's." *Cassie Jones, Captain, Trader Joe's Parole, Jun 2003***
- **"More than 80 percent of the food is Trader Joe's own private label... Trader Joe's food selections have no MSG or preservatives." *Pat St. John, VP Marketing, Trader Joe's, Oct 1995***
- **"About 85 percent of Trader Joe's merchandise is packaged under the company label, including many items that are made by the same major food companies behind the better-known brands." *Doug Rauch, President, Trader Joe's East, Dec 1999***
- **"What we try to do is be world-class on product – 70 percent of the items found in our stores are items that we discovered and put our label on." *Dan Bane, CEO, Trader Joe's, Jun 2002***
- **"As it has grown, Trader Joe's has shifted from stocking its stores with buyout items to buying products from manufacturers and putting on its own private label. About 85 percent of the store's products carry a Trader Joe's label." *Portland Oregonian, Jul 1999***
- **"Trader Joe's gets most of its sales from its own private labels (90 percent versus an industry average of 21 percent) because its customers learned to trust the chain's judgment." *St. Petersburg Times, Jul 1998***
- **"Of its 2,500 products, nearly 80 percent are private-label foods produced and packaged exclusively for Trader Joe's by hundreds of vendors in places like Thailand, Lithuania, Italy, Greece, Israel, Denmark, Canada and the United States. By contrast, conventional supermarket chains like Safeway and QFC typically carry 25,000 products; most are national brands, with 16 percent private-label products." *Tacoma News Tribune, Dec 2004***

PRIVATE LABEL - CARTOONS

Early Trader Joe's private label (ca early 1980's) used copyright free illustrations similar to those in the Fearless Flyer



PRIVATE LABEL - SIMPLE AND LOW COST

Many bulk packed Trader Joe's private label products use cheap one or two colour labels



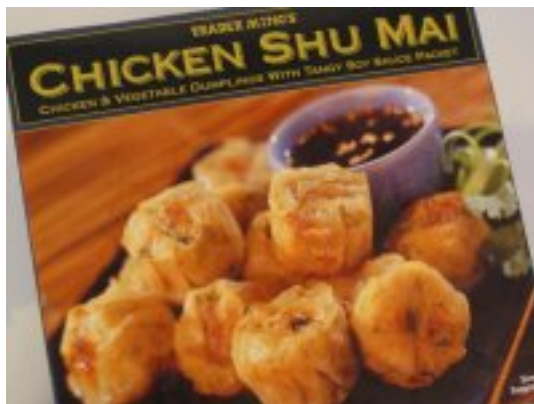
PRIVATE LABEL - ART

Trader Joe's also went through a period of using art works as packaging backgrounds



PRIVATE LABEL - MODERN

Today, with over 200 stores, Trader Joe's can afford expensive full color custom designed packaging



PRIVATE LABEL STRATEGY

Strong private label gives Trader Joe's three advantages: a strong brand image, lower prices, and unique items

- **"People couldn't believe it when we stopped carrying Gallo. About 15 years ago, [i.e. when Theo Albrecht bought the business] we realized that we couldn't offer any better price than a supermarket on a lot of the big brands, so we shifted our focus entirely to unique brands that allow us to be leaders in quality and value."** *Michael Seaward, Captain, Trader Joe's Kirkland, Jun 1996*
- **"We began expanding its use of private labels 25 years ago, to take pressure off food suppliers who were being criticized by other retailers for selling too cheaply to us... We're not egomaniacs, but with private-label wines we were able to break the price, and it's the same thing in food."** *Doug Rauch, President, Trader Joe's East, Jul 2003*
- **"Trader Joe's has approached private label in the way it should be--using the European model. Go and find out what the consumer wants and create a product for a consumer need rather than copying what's out there. The reason people make it a destination trip is because the stores have unique products that aren't available anywhere else."** *Frank Dell, President, Dellmart & Co, Mar 2004*
- **"The primary reason for private labeling is to save our customer some serious money without sacrificing quality... Starting 25 years ago, the company decided to buy directly from manufacturers, not through distributors, and put the same product in Trader Joe's name, minus the preservatives and artificial ingredients... Private label allows us to deliver unique groceries at great prices."** *Trader Joe's Fearless Flyer, Mar 2004*
- **"Their large private-label selection demonstrates the potential of store brands. It shows that private label can be more than a cheap price-alternative; it can build store loyalty."** *Gary Giblen, Managing Director, Smith Barney May 1997*
- **"There are things here that just aren't available anywhere else... Trader Joe's maple pecan crunch cereal, Trader Ming's frozen Chinese chicken dishes and Trader Giotto's gourmet pizza... I like the high quality, the variety and the low prices."** *Tom Deets, Trader Joe's Customer, Sep 2003*

PRIVATE LABEL = LOW COST

Private label allows the company to get its products at the lowest cost

- **"We also cuts costs by creating brands under its own labels." Doug Rauch, President, Trader Joe's East, Jul 2003**
- **"The secret is private label brands... About three quarters of what we sell is a Trader Joe's label. That not only allows us to control for quality, but to buy in volume and keep down the price." Bill Tsukamaki, Captain, Trader Joe's Beaverton, Jul 1995**
- **"Trader Joe's maintains its low pricing by stocking store-brand products as the majority of its inventory. In the frozen-food case, Trader Joe's label covers 85% or more of the items. Rauch noted the company uses the private-label strategy to deliver better value to the customer. Manufacturers who work with the chain do not have to pay the high costs of advertising and marketing associated with branding, Rauch explained, and the lower production costs are passed on to the consumer. " Supermarket News, Apr 1998**
- **"Private label enables us to do many things that the supermarkets aren't able to do. We have full control over every product that is in the Trader Joe's label - everything from the formulation to the design of the packaging to the way it's distributed to the price we set. We're not dealing with big brokers. We're not dealing with manufacturers' slotting allowances. We're not dealing with vendor kickbacks. We're not dealing with a lot of things that go on commonly in the industry. Private label allows us more efficient control of our own products." Pat St. John, VP Marketing, Dec 2004**
- **"The policy of private labeling allows the company to buy for less and ultimately to charge lower prices." Doug Rauch, President, Trader Joe's East, Jun 1996**

HEALTHY & ENVIRONMENTALLY FRIENDLY

Trader Joe's branded products follow clear guidelines

- **"All of the private labels carried in, the stores are unique and consist of unusual recipes, all-natural quality ingredients and are nutritious. No artificial colors or flavors are found in any of the Trader Joe's products."** *Fairfield County Business Journal, Aug 1999*
- **"Products carrying the company brand have no preservatives or artificial ingredients, and paper goods are recycled, but Trader Joe's is not a natural foods store. Most items are, however, 'minimally processed,' because that's what customers want."** *Doug Rauch, President, Trader Joe's East, Dec 1999*
- **"All of the chain's products are preservative-free and are sampled by a tasting panel before being purchased by the company. Its organic chicken broth, for example, comes from free-range chickens raised without the use of antibiotics, stimulants or hormones and fed organic feed made with corn and soybean flakes. It also sells organic soy desserts, organic frappelatte and organic romaine hearts."** *Portland Oregonian, Jul 1999*
- **"Its formula is no secret. It develops or imports unusual foods for sale under the Trader Joe's label--or Trader Giotto's or Joe-san's, if apt. And it leverages its volume to insure it has the lowest price. For example, it's the largest retailer of brie in the U.S.--at \$3.99 per pound, a dollar less than most supermarkets. It keys in on trends important to its young, educated customers: Ahi tuna is caught without nets, dried apricots are unsulfured--even peanut butter cups are all natural."** *Business Week, Jun 1995*
- **"Some of Joe's private-label products include mayonnaise without sugar or hydrogenated fat, dolphin-safe tuna, tomato sauce processed without lye, solvent-free canola oil, peanut butter made with unbleached peanuts, fruit-sweetened orange marmalade and French-grown cornichon pickles. Also offered are soda, coffee and tea; chips and snack foods; cookies; breakfast cereals; vitamins; beer and wine. Another 2,000 items round out the list."** *The Boston Globe, Jun 1996*

PERSONALITY & SUB-BRANDS

Trader Joe's quirky product names and sub-brands create a unique personality for the stores

- "Trader Joe's offers informative product descriptions heavily laced with literary allusions and even puns. Trader Joe's bagels, for example, are called "The Bagel Spinoza," after the 17th-Century Dutch philosopher. Why? "It bagels the mind." Then there's "Habeus Crispus" potato chips and their sibling for the diet-conscious, "Habeus No Saltus."" *LA Times, Jul 1988*
- "They've done a great job at romancing the product, so that what could be an ordinary can of peas has a story behind it when it's sold at Trader Joe's... Trader Joe's has attracted customers by offering them the convenience of foods that are ready to eat or easy to prepare, at a time when many people have less time to cook." *Nancy Tuzzolino, Partner, McMillan-Doolittle, Jun 1998*
- "Trader Joe's, now 45 years old, has an unusual approach: it sells upscale specialty food and wine at lower-than-average prices, and roughly 80 percent of what it stocks is sold under private labels, like Trader Joe's, Trader Jacques' and Trader Ming's... And Trader Joe's products have sassy names, like Rosencrunch & Guildenpop caramel popcorn." *New York Times, Jul 2003*
- "Trader Joe's keeps a lighthearted approach to its business, calling its \$1.99-a-bottle Charles Shaw wine "Two Buck Chuck," its Italian food Trader Giotto's, and its soap flakes Next to Godliness Powdered Laundry Detergent." *Philadelphia Inquirer, Sep 2003*
- "Examples of recent new items include "user friendly" chicken (raised without added hormones), fruitwood smoked bacon and Trader Jose's Salsa Authentica ("no namby-pamby gringo cop-out")." *Progressive Grocer, Dec 1997*
- "Coulombe gave it a name redolent of the South Seas, adventure and exotic foods. And whimsically labeled his products to make shoppers smile. Kiwi From Paradise juice, for example, or Look Ma! No Refined Sugar! Granola and the Age of Raisin Bread. But no Coca-Cola or Budweiser." *Forbes, Oct 1989*

PERSONALITY & SUB-BRANDS

...Trader Joe's quirky product names and sub-brands create a unique personality for the stores

- **"International favorites dubbed Trader Giotto (Italian), Trader Jose (Latin-American), Trader Joe-San and Trader Ming (Asian) offer shortcuts to trendy, flavor-packed dishes. These products seem to consistently be on the culinary cutting edge; from Artichoke Pesto to Layered Pesto Dip, they consistently capture current food vogues." *Orange County Register, Apr 1995***
- **"While Trader Joe's is famous for great deals on European butters, single-source chocolates and "two-buck Chuck" Charles Shaw wines, it's the private-label products - Trader Joe's cookies, chips, cereals, nuts and organic dairy products; Trader Ming's frozen stir-frys; Trader Giotto's pizzas; Arabian Joe's Middle Eastern flatbreads; Trader Zen's environmentally friendly all-purpose cleaners - that set Trader Joe's apart from its competition." *Tacoma News Tribune, Dec 2004***
- **"Trader Giotto's for the Italian goods, Trader Jose's for the Mexican stuff, and so on." *US News & World Report, Jul 1997***
- **"Trader Joe's own brand... including Pilgrim Joe's Colonial House Old Fashioned Unpressed Soap, fruit juices, baked goods and probably the chain's hottest new item, gourmet chef Wolfgang Puck's Frozen Pizzas Made Especially for Trader Joe's (\$2.99)." *LA Times, Jul 1988***
- **"Trader Jose" appears on Mexican foods like salsa; Italian goods carry a "Trader Giotto" label; "Trader Joe-san" is on the Asian products." *Boston Globe, Jun 1996***

SUB-BRANDS

Trader Joe's sub-brands are often used for ethnic foods and healthy ranges

Trader Joe's	Standard lines
Trader Giotto's	Italian
Trader Jacque's	French
Trader José's	Mexican
Trader Darwin's	Vitamins and nutritionals
Joe San	Japanese
Trader Ming's	Chinese
Pilgrim Joe's	Old Fashioned
Trader Zen's	Environmentally friendly
Arabian Joe's	Middle Eastern
Trader Jose	Latin-American
Trader Quijote's	Spanish

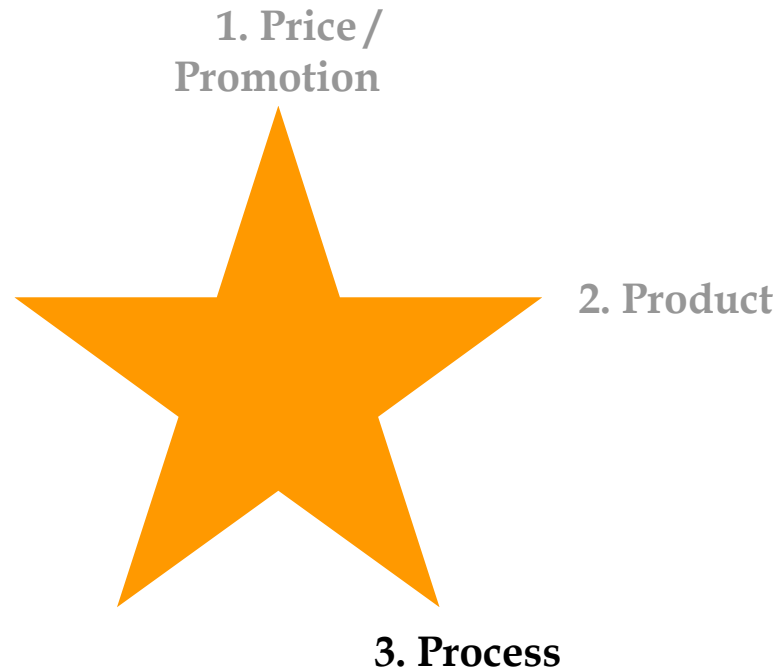
TOO MUCH PRIVATE LABEL?

The amount of private label at Trader Joe's can be overwhelming for some new shoppers

- "If there was one drawback to the experience, it was that I initially had a hard time with the fact that almost every item on every shelf in every display case carries the Trader Joe's private label. With more than 800 products in the line, things can get a bit, well . . . strange. I certainly understand why the company uses their label to control quality and prices, but Trader Joe's wine? Trader Joe's beer? Trader Joe's detergent and dog bones, juices and jams, chips and cheese dips, cereal and soda, peanuts and pad thai, shampoo and shrimp, blueberries and bread, crab cakes and candy, tuna and tamales, rice and red snapper, margarine and mayonnaise, cheesecake and chicken, vitamins and veggies, yogurt and Yogi tea, olives and oil. By the time I reached Trader Joe's cream cheese, I felt like I was in Disneyland, where even the ice cream comes in Mickey or Goofy. Still, as with any label, the degree of quality usually is reproduced throughout the line, and at Trader Joe's, the list of ingredients on the items we scanned was pure, natural and definitely high caliber." *Star-Ledger, Feb 1998*

UNDERSTANDING THE BUSINESS MODEL: PROCESS

The third section looks at the business process



PROFITABLE

Industry experts believe Trader Joe's is very profitable

- "Industry experts estimate that with its cramped stores (average size, 7,400 square feet, when a small Los Angeles supermarket runs around 12,000) and packed aisles and shelves, the chain is pulling in an enviable profit dollar for every square foot. How much? The company refused to talk numbers, but you can be certain that Trader Joe's high volume, low overhead and opportunistic buying yields fat margins." *Forbes, Oct 1989*
- "Trader Joe's is tremendously profitable, industry experts say. And Shields has said publicly that sales more than doubled over the past five years, to last year's \$605 million; same-store sales, meanwhile, have consistently grown by more than 10% a year. By locating its tiny stores--most measure fewer than 10,000 square feet--away from prime retail locations, it keeps real estate costs low. Competitors estimate that sales in its 72 stores average \$1,000 per square foot per year, double that of conventional supermarkets and more than triple that of most specialty food stores." *Business Week, Jun 1995*

LEAN ORGANIZATION

Trader Joe's runs a very lean organization

- **"If you call Trader Joe's headquarters and ask to speak to CEO John Shields, more often than not it's Shields himself who answers the phone. That's the way Shields likes to run things: With a flat organization (45 employees at headquarters run 61 stores), very open communications and no company politics."** *Chain Store Age, Dec 1993*
- **"Between me and each cashier are only two levels of supervision. That's why I make it a point to visit each store at least three times a year."** *John Shields, CEO, Trader Joe's, Dec 1993*
- **"It's a company that is kind of a loose-tight company... We have no secretaries. We're very controlling and tight about the cost structure and processes; we're very loose about how we want the stores to run."** *Dan Bane, CEO, Trader Joe's, Jul 2003*
- **"We have never been public; we don't need money. We don't owe, anybody a penny of debt."** *Doug Rauch, President, Trader Joe's East, Aug 1999*
- **"The store is open from 9 a.m. to 9 p.m. seven days a week... We don't think it's cost-effective to run 24 hours."** *Bernie Jassmann, Captain, Tucson Trader Joe's, Nov 1994*

LOW COST CHECKOUT

Until recently the chain even had manual checkouts

- **"It wasn't long ago that the stores eschewed electronic checkout scanners because they clashed with Trader Joe's low-tech image."** *Tacoma News Tribune, Dec 2004*
- **"One element that will stay the same on the East Coast Joe's is the checkout. The system is unmatched in the retail business. Brookline's manager Scott Lane says the most often asked question is "What idiot designed your registers?" Here how it works: A customer pulls a cart up to the counter. The checkers have their backs to a wall, so the carts can't be pushed through. All registers are the old-fashioned kind without computerized scanners. A checker calls out the price, one item at a time. Once checked out, the customer must back up, moving into the others waiting in line. "It takes an amazing effort in cooperation," says Lane. "But it's part of the experience." In Los Angeles, Joe's has been cited as a great place to meet a date. With all those Saabs in the parking lot vying for the same space and carts in the checkout lines moving backward, it's little wonder."** *Boston Globe, Jun 1996*

LEAN DISTRIBUTION

Trader Joe's runs a lean supply chain...

- **"We have no trucks and no warehouses so our overhead is minimal."** *Joe Coulombe, Founder, Trader Joe's, Jul 1987*
- **"This store is one of the chain's top volume stores... This location was the first to open in Northern California. We get new shipments of produce, frozen foods, refrigerated items and other goods every day. We are one of the only stores that gets replenished every day."** *James Gibbs, Captain, Trader Joe's San Rafael, Nov 2003*

WAREHOUSING

...however, they have recently built their own warehouses



BUYING TEAM

Trader Joe's has a team of twenty experienced and well traveled buyers

- "Trader Joe's has 20 buyers - its research and development team - who travel the world looking for new and interesting food products. Inspiration might come from a restaurant meal or a regional delicacy in a far-flung locale. The Trader Joe's development team then works with manufacturers to put the product in its stores." *Tacoma News Tribune, Dec 2004*
- "I was part of the buyers' team from 1977 to 1994... In that last year, I hunted for products by flying to 16 countries, including Thailand, India, Singapore, Hungary and the Czech Republic... We got some good deals on Morello cherries in Eastern Europe... Another buyer found an orchid supplier in the jungles of Thailand. Sourcing is a lot like prospecting. It's luck and knowledge." *Doug Rauch, President, Trader Joe's East, Jul 2003*
- "Trade Joe's has a staff of 18 in its buying department." *Southern California Business, Nov 1986*
- "Stock is constantly changing as its buyers travel the globe looking for new and interesting products that can be brought back, packaged and sold profitably at a relatively low price." *Workforce Management, Sep 2004*

DIFFERENT FROM OTHER BUYERS

Trader Joe's buyers reflect its target customers

- "Greenfeld literally walked into hers about eight years ago. Tired of her daily commute to a translations and secretarial job in Century City, the former French language student dropped her resume off at the Trader Joe's offices near her home in South Pasadena. The only opening was for a receptionist, but the company said she might be able to move up after six months into an assistant buyer's position. She took the job. "I was a big Trader Joe's supporter. . . . I loved the quirky little things they had and the great prices," said Greenfeld, who first shopped at Trader Joe's as a student at Occidental College, where she majored in French and minored in theater arts.
- Greenfeld had no experience as a retail food buyer, and her previous jobs were only indirectly related to food, including a job waiting tables in the Poconos in Pennsylvania. She describes herself as an OK cook. But Greenfeld demonstrated the intelligence, curiosity and interest in food that Trader Joe's looks for in its buying staff. She is now a senior buyer and oversees the purchase of such products as canned seafood and meats, frozen seafood and meats, stews, soups, sauces, pestos and pasta. She was recently named chief buyer for the chain's East Coast stores, which are scheduled to open within two years.
- With little formal training, Greenfeld relied on the advice of other buyers and her own mistakes. She once committed the company to buying tamarind soda, which flopped with customers. "Afterward, we wondered what the heck we were going to do with the stuff," Greenfeld said. It was donated to a food bank. Besides presentations from vendors, Greenfeld gets inspiration for new products by reading cooking and food magazines. She's also gotten ideas from customers, who have sent her the labels of products they found on their travels abroad. During a Super Bowl party, she got the recipe for a chunky olive pesto spread that she's trying to get into product development.
- But Greenfeld can't rely on her taste buds alone in finding successful items. She must be able to negotiate low prices from vendors in order to deliver the bargains Trader Joe's customers expect. In fact, some of Greenfeld's biggest hits include low-priced foods such as a line of instant soups that sell for as little as 79 cents.
- She must also struggle to find a middle ground between customers' demands for healthy fare and their penchant for indulgences. She prides herself on bridging that gap with popular items such as the chain's fat-free black bean dip. "Customers go wild over it," Greenfeld said." *LA Times May 1995*

TREASURE HUNT

Part of the Trader Joe's experience is the treasure hunt

- **"Everyone likes to find something new and different, and we all like a bargain. That's the spirit of our stores." Doug Rauch, President, Trader Joe's East, Oct 1999**
- **"Trader Joe's has turned shopping from a chore into a culinary treasure hunt... We want our products to be whimsical, tactile, informative, and just plain fun." Gary Hamel, Professor of International Management, London Business School, Jul 1997**
- **"Shopping at Trader Joe's is always an adventure. While there are always products we know will be there from visit to visit (such as their yummy frozen enchiladas and burritos) there are always surprises on the shelves from around the world." LA Daily News, Nov 1992**
- **"The treasure hunt strategy is held together by center store. The products on those center aisles span the spectrum from one end to the other, often including products from obscure parts of the world or everyday products made with a twist... With the strength of the store in the center aisles, the perimeter with fresh foods can't come close to competing with major retailers, in particular Whole Foods." Tom Aquilina, President, Aquilina and Associates, Mar 2004**
- **"The store's typical customer has a college degree, has traveled... and in their travels they have acquired a taste for some of the unique products we sell, ethnic products... They're adventuresome. They like to try new things... As a result, product offerings change regularly. There is a lot of product turnover." Bill Tsukamaki, Captain, Trader Joe's Beaverton, Jul 1995**

TURNOVER TURNOVER MUST HAVE TURNOVER

Trader Joe's rigorously and continuously culls nonperforming lines

- "We look at all products from the standpoint of wine. Wine is inherently discontinuous -- at some point there is no more of a specific wine. Of course we sell close outs, limited production items - as opposed to continuous plastic items. That is not to say we sell cheap products. There are many remainder items for good reasons. For example, a manufacturer may change his label and want to dispose of perfectly good existing merchandise, or a plant may close with stock on hand." *Joe Coulombe, Founder, Trader Joe's, Nov 1986*
- "Every one of our products has to make room for itself on the shelf. There are no loss leaders and there are no dogs that are sitting there because we've made an agreement with the vendor that we're going to keep it on the shelf for a certain length of time. That doesn't exist in our world." *Pat St. John, VP Marketing, Dec 2004*
- "The mix constantly changes because the stores are small and space is at a premium. If a product doesn't move well, it's phased out pretty quickly." *Pat St. John, VP Marketing, Trader Joe's, May 2004*
- "Some of my favorite items have been discontinued." *Kimberley Greenfeld, Buyer, Trader Joe's, May 1995*
- "Selectivity, and perhaps some surprises, are evident in Trader Joe's stores. What was available last week, may not be there the next week. But something just as interesting many have taken its place." *Southern California Business, Nov 1986*
- "This store carries about 2,000 items on its shelves, well below the 25,000 found at a typical supermarket... New products come in weekly. Some things stay, some don't. It is almost as if everything has to earn a spot on the shelves." *Cassie Jones, Captain, Trader Joe's Parole, Jun 2003*

TWENTY NEW PRODUCTS A WEEK

The company now introduces more than twenty new products per week

- Even the best-tasting chutney won't stay on the shelf for long if weekly sales fall below \$3,500." *LA Times May 1995*
- "The company introduces 20 to 25 products a week... sometimes we're right, and sometimes we're not... If we're not, we don't order it again and we let it run out. . . . Sometimes, that makes some customers unhappy." *Pat St. John, VP Marketing, Trader Joe's, Sep 2003*
- "In all, the stores stock about 2,500 products, adding about 20 new items a week to replace those that aren't popular. Conventional supermarkets, on the other hand, sell between 30,000 and 65,000 different products. " *San Jose Mercury News, Jan 2004*
- "We introduce about eight new products per week." *Pat St. John, VP Marketing, Trader Joe's, Dec 1993*
- "There is a new foods display case in every store where curious customers can determine which new foods they'll try that week." *Fairfield County Business Journal, Aug 1999*

FOOD AS FASHION

Trader Joe's treats food as fashion

- **"We are not a conventional grocery store. We're closer to the fashion business than the supermarket business." Joe Coulombe, Founder, Trader Joe's, Aug 1988**
- **"In 1971, health food became a very big thing. A few years ago, frozen seafood became big. We try to stay right out in front. Right now the big thing is oat bran." Joe Coulombe, Founder, Trader Joe's, Aug 1988**
- **"They are the fashion leader in food in Southern California, and they are damn near without competition." Norman H. McMillan, Partner, McMillan-Doolittle, Jun 1995**
- **"For food fans, Greenfeld's job may seem like a dream come true: She gets to sample foods from around the world, travel to giant food shows in Europe, and spend hours looking through cookbooks and food and cooking magazines. But Greenfeld and her taste buds are under constant pressure to perform by finding new products that satisfy gourmet tastes at discount-store prices. Trader Joe's treats food as fashion, and Greenfeld is one of its top designers. As one of the chain's 10 buyers, her purchasing decisions are judged every day by thousands of Trader Joe's customers." LA Times May 1995**
- **"Trader Joe's offers a vast selection of interesting foods to make cooking faster and the results tastier. Items come and go, depending on their popularity." Orange County Register, Apr 1995**
- **"You know the one soup they feature is top notch because Trader Joe's combed everything out there and picked it." John Naisbitt, Author and Futurist, Jul 1998**

DESTINATION ITEMS

However, the chain does have a core range of successful destination items

- **"I'm surprised by the similarity in the tastes of customers on the East and West coasts. A few items, such as smoked salmon, sell better in New York and Connecticut, but the frozen foods that are the number-one sales category here are just as popular in the West. Perhaps the most popular food products are jumbo cooked shrimp and peanut butter pretzels. These are destination products for us, products that are hard to find in a mainstream grocery store." Doug Rauch, President, Trader Joe's East, Aug 1999**

LOCAL RANGE

Trader Joe's allows stores to tailor the range to local demographics

- **"Each store carries 60 to 70 percent of the items available through a centralized ordering system. And each manager chooses from a list of about 1,500 items at any one time."** *Joe Coulombe, Founder, Trader Joe's, Jul 1987*
- **"Anytime you do a new market, there's going to be some differentiation... We're finding the tastes of the Pacific Northwest a bit different. We're not sure whether it's a matter of people getting used to our products. It takes six months to a year to track this."** *Bill Tsukamaki, Captain, Trader Joe's first Oregon store in Beaverton, Jul 1995*
- **"Each store is unique and run a little differently based on the demographics... We have a larger wine selection here because we sell a lot of wine - we also sell more higher-end wine. We have regular wine tastings and give wine advice all the time."** *James Gibbs, Captain, Trader Joe's San Rafael, Nov 2003*

TASTE IT FIRST

Buyers taste before they buy and only buy the tastes they like...

- "I used to feel I shouldn't be doing this, that I should be delegating it to someone else. Then I learned that the head buyer of Bloomingdale's tastes everything... I must sample about 4,000 wines a year; of course, we don't buy them all." *Joe Coulombe, Founder, Trader Joe's, Jul 1987*
- "To ensure the quality of his products, he instituted a tasting program, which has lasted more than 35 years. Coulombe and his crew tasted as many as 60 wines a day. If he was on the road, Coulombe might try as many as 200 a day. In the stores and in company literature, the theme looms large: "We taste it first. If we don't like it, we don't buy it." What became a winning concept, he said, was born of necessity. "We took a different approach," he said. "How else are you going to learn? We didn't know anything about food." *Investor's Business Daily, Oct 2004*
- "We have panels made up of people in our marketing and buying departments that are constantly evaluating food, sometimes two times a day, three or four days a week." *Pat St. John, VP Marketing, Trader Joe's, Sep 2003*
- "We don't buy anything before we taste it... Focus groups aren't necessary, because our buyers and employees are a good representation of the customer base." *Doug Rauch, President, Trader Joe's East, Aug 1999*
- "The tasting panel is no myth. We reject 90 percent of what's presented to us for a variety of reasons." *John Shields, CEO, Trader Joe's, Jan 1995*
- "The store's food selection changes all the time. The two guiding principles: stock what tastes good and can be sold as a deal. Every few hours at the company's headquarters in South Pasadena, Calif., a bell goes off signaling "tasting time." A dozen buyers, the marketing staff and the president of the company gather to nibble on prospective new items." *St. Petersburg Times, Jul 1998*
- "Every item in our stores we have tasted, tried and approved." *Doug Rauch, President, Trader Joe's East, Jun 1996*

TASTE IT FIRST

Buyers taste before they buy and only buy the tastes they like...

- **“It was Wednesday at Trader Joe's South Pasadena headquarters and buyer Kimberly Greenfeld was engaged in the weekly contest for shelf space and customers' taste buds. In a daylong food tasting, Greenfeld presented a mouthwatering lineup of foods she hoped would win the approval of her fellow buyers and eventually end up in the specialty food chain's nearly 70 stores. There was couscous-stuffed cod, mango salsa, instant Thai soup and coconut-based curry and chili-spiked pasta sauces. In the end, the cod and Thai soup were winners, but the curry had to be reworked (too hot), as did the salsa (too sweet). The pasta sauces, which could be used only as toppings, were rejected as too limited. "It was a very good tasting," Greenfeld said. After less successful gatherings, she's found herself saying, "God, what a waste of my time preparing all this and nothing passed." *LA Times May 1995***
- **“To make sure that workers keep up with the stock, stores hold weekly tastings for employees to sample the latest goods. Workers also get a 10 percent store discount, which serves as both an added bonus and an inducement to keep employees acquainted with the products.” *Workforce Management, Sep 2004***

UNIQUE, LOWEST PRICE OR OUT

Trader Joe's only stocks products that are unique or where it can offer the lowest price

- **"We don't sell cigarettes, Coke or Seven-Up or anything that is highly advertised or available in infinite supply." Joe Coulombe, Founder, Trader Joe's, Nov 1986**
- **"We either have the best prices or it's a product you can't find anywhere else. That's how we decide what goes on the shelf." Doug Rauch, President, Trader Joe's East, Oct 1999**
- **"Basic grocery items, which we can't buy any better than anyone else are not stocked." Doug Rauch, President, Trader Joe's East, Jun 1996**
- **"What you buy this week you may not be able to go back and buy next week, but you may find something else you'd like to try. We scour the world, trying to act aggressively and conscientiously as a purchasing agent for our customers. And we sell nothing on which we cannot have the best price. That's rule No. 1." Pat St. John, VP Marketing, Trader Joe's, Jul 1988**
- **"We can't carry everything. People ask us, 'Why don't you carry more sugar or flour?' I tell them, 'If we can't get a price better than supermarkets, we can't carry it.'" Lance Kuramoto, Captain, Trader Joe's Mountain View, Jul 2003**
- **"We'll decide whether to change the recipe, the pricing or the packaging. But if everybody else is selling the same thing at \$6.99, we just won't carry it unless we can get the price down to \$5.99." Patricia St. John, VP Marketing, Jul 1998**
- **"Prices are kept low by corporate buyers who won't make a purchase unless the quality and value are right. We even purchase wine and market it under our own label. At \$2.99 a bottle, it's one of our best sellers." John Persichitte, Captain, Naperville Trader Joe's, Nov 2003**

NO MIDDLEMEN

The company deals directly with manufacturers not middlemen

- **"We're really customers' buying agents. There's no middleman."** *Michele Gorski, Spokesperson, Trader Joe's, Mar 1997*
- **"We buy directly from manufacturers, cutting out wholesalers and only stocking gourmet items that we can discount heavily... Because of the way in which we buy, we're able to take another 25 to 40 percent off."** *Doug Rauch, President, Trader Joe's East, Apr 1998*
- **"Trader Joe's cuts costs by having our 18 expert buyers go directly to its hundreds of suppliers, not to middlemen... 20 to 25 percent of our suppliers are overseas."** *Doug Rauch, President, Trader Joe's East, Jul 2003*
- **"Trader Joe's cuts out the middleman and buys directly from manufacturers, a technique that allows us to sell at the lowest possible prices."** *Doug Rauch, President, Trader Joe's East, Oct 1999*
- **"Our buyers deal directly with suppliers... We buy in volume and make deals. Also we pay bottom dollar to get best quality."** *Pat St. John, Spokesperson, Trader Joe's, Jan 1996*
- **"The chain also eschews middleman distributors. Instead, it buys in huge quantities direct from manufacturers and markets the majority of the goods under the Trader Joe's."** *US News & World Report, Jul 1997*

CASH TALKS...

Trader Joe's has traditionally bought with cash upfront to get the best deal

- "People come to us to sell their products, because we are well known, because we pay cash and we give them an answer within 24 hours. We are "cash rich" and we mean to keep it that way." *Joe Coulombe, Founder, Trader Joe's, Nov 1986*
- "In most grocery chains, pricing has to factor in the manufacturer's advertising budget and a 'slotting allowance' paid to the grocery store for shelf positioning. Our system removes all those costs... We buy directly from producers and manufacturers, all transactions are cash, manufacturers deliver to a central warehouse. Some goods come from companies that need to unload a product quickly because they want the cash; we aren't averse to carrying, say, an ice cream flavor that will never be available again." *Doug Rauch, President, Trader Joe's East, Jun 1996*
- "The difference in its approach starts at the source. First, tasters travel the globe looking for new products. Trader Joe's then drives costs down by buying its goods in bulk, with cash and directly from the source. The parent company's resources allow Trader Joe's to pay cash for products." *San Jose Mercury News, Jan 2004*
- "We manage to keep prices lower than those at many supermarkets because we buy wholesale directly from manufacturers. We developed a process of aggressive buying that takes out the middleman... We'll never have Coke... We decide what we want to place in customers' mouths." *Dan Bane, CEO, Trader Joe's, Sep 2003*
- "Our buyers deal directly with suppliers... We buy in volume and make deals. Also we pay bottom dollar to get best quality. There are no loss leaders, couponing or weekend specials. The savings get passed on to the consumer. The stock changes from week to week depending on what bargains the buyers find and the availability of certain items." *Pat St. John, Spokesperson, Trader Joe's, Jan 1996*

BIG IN SOME THINGS

The company is the largest retailer in the US in many of its categories

- **"We're the nation's top retailer of nuts, dried fruits, frozen seafood and Brie."** *Joe Coulombe, Founder, Trader Joe's, Sept 1987*
- **"We sell more rice ... and pistachio than any other store in America."** *Michele Gorski, Spokesperson, Trader Joe's, Mar 1997*
- **"Trader Joe's is the largest French brie retailer in the United States, and sells 3 percent of all the wine sold in Southern California."** *Joe Coulombe, Founder, Trader Joe's, Jun 1988*
- **"The California stores say they are the largest wine merchants in the state."** *The Boston Globe, Jun 1996*

IN HOUSE DEVELOPMENT

Trader Joe's actively works with manufacturers to develop many of its products

- **"We have 11 people in research and development; a variety of palates and ethnic backgrounds are represented. We attend all the major food shows in Europe and the United States; two of our representatives just returned from a research tour of Australia and New Zealand. We read all the food magazines, plus we frequent restaurants where good things are happening... We also visit trendy food shops, such as Marks and Spencer and Harrod's in London. Outside suppliers also bring new products to our attention." *Pat St. John, VP Marketing, Trader Joe's, Apr 1995***
- **"The products are found through intensive researching." *Fairfield County Business Journal, Aug 1999***
- **"There's not enough good things to say about them. They spend a lot time working with manufacturers to develop niche products under their labels. What is so unique is the types of products--especially frozen single-serve entrees lately. They do a terrific job with high-quality, unique products at a value price." *Tom Aquilina, President, Aquilina and Associates, Mar 2004***

CUSTOMER FEEDBACK

Customer feedback plays an important part in produce and range development

- **“Where does Joe’s get the ideas for the unique flavors and foods for which the chain is known? Customers write and call in with suggestions, while TJ's buyers literally travel the world looking for new flavors and ideas. Suppliers sometimes offer something new to try.” *Fairfield County Business Journal, Aug 1999***
- **“We try to respond to customers when it's possible and it makes sense for us... Product complaints are reviewed case by case, either at the company's corporate headquarters or at the individual store and often the product in question will be replaced or money refunded.” *Pat St. John, VP Marketing, Trader Joe's, Jul 1990***
- **“Specialty food retailer Trader Joe's Co. in South Pasadena is also committed to a continuing dialogue with consumers... Interested consumers provide the company with valuable information and suggestions that often are incorporated into marketing strategies. Recently, due to consumer demand via letters and telephone calls, the company brought back a favorite trail mix containing carob chips with tropical oil. Because of the desire to offer a trail mix without saturated fat or hydrogenated oil, which wasn't feasible with carob chips, the company switched to using date nuggets in the mix. But consumers objected, and now the company offers two trail mixes, including the original formulation. Consumers are encouraged by Trader Joe's to return a problem item to their local store, where frequently the complaint can be resolved.” *LA Daily News, Jul 1990***

OTHER PEOPLE'S MISTAKES

Trader Joe's often stock closeouts or discontinued items

- "We're aggressive foragers." *Doug Rauch, President, Trader Joe's East, Jun 1996*
- "The California wine industry is in financial trouble... Of the 650 or so wineries in the state, 400 have money problems, especially those that started up in the past ten years... This is based largely on land costs. Mortgage holders are pushing for the return of their loans... There is also wine competition from other states, and countries - though there are trade barriers between states, as well as countries... The result is that Trader Joe's has been able to buy good wines at low prices. Until recently California wineries have been reluctant to sell their wine at discount prices, so we put Trader Joe's labels on their bottles. But now, they are admitting a problem and you see more and more of their own labels." *Joe Coulombe, Founder, Trader Joe's, Nov 1986*
- "Trader Joe's is constantly picking over other people's marketing mistakes. So when Bird's Eye changed the product line and packaging of its International Recipe frozen food side dishes, Trader Joe's stepped in to pick up the old inventory cheap. Result: Trader Joe's sold the Bird's Eye dishes for 79 cents each, versus \$1.49 in supermarkets. Trader Joe's also works with manufacturers and suppliers to come up with new products. Example: It recently teamed with Wolfgang Puck, one of Los Angeles' trendy chefs, and now advertises Puck's frozen apple tarts under Trader Joe's label, for \$2.99 for a package of three--the very same tarts that Puck sells under his own name in supermarkets for \$2.50 to \$3 each. The only thing missing is the fancy packaging. Over the summer Trader Joe's sold California's Chateau St. Jean chardonnay for \$7.99 a bottle. Suggested retail: \$15. How come? Trader Joe's wine buyer Bob Berning bought all that remained of the 1984 vintage. When Napa Valley's Strack's Vineyard wanted to cash out, it sold Trader Joe's 3,000 cases of one of its nicer chardonnays. Trader Joe's price: \$2.99 a bottle. Down the street, liquor stores were selling it at \$8.50." *Forbes, Oct 1989*
- "The store is full of bargains, wines especially. Buyers taste more than 8,000 samples a year. It also buys other food producers' mistakes. Just now, customers can pick up a pint of Ben & Jerry's discontinued Banana Walnut, Cherry Vanilla, or Coconut Almond ice cream for \$1.49, half the normal price. Or Danish butter cookies packed in leftover Beatrix Potter centennial tins for \$2.99." *Business Week, Jun 1995*

SMALL KITCHEN SUPPLIERS

Trader Joe's likes to work with small kitchen suppliers...

- **"Laguna Hills Resident Diana Todaro worked hard to perfect a cookie that would be healthier for her son than the ones she could buy at the store. Her friends and other parents at school functions swear by Todaro's cookies. Now her cookies are for sale at Trader Joe's and Marriott Food Services. She's looking for markets in Japan and Europe." *Orange County Register, Jun 1993***
- **"Richard Welty was a bartender and ran a trenching operation and Cherie Welty was a cocktail server when they used their money and family loans to buy Granny's Pies from Mark and Joann Bacon in 1994... Cherie and Richard Welty wanted to make sure they got the money they needed for their expansion. So they sweetened the proposal by serving up pie to Indio council members who were deciding the deal. The Weltys, who purchased the Granny's Pies store in Idyllwild from a San Diego couple in 1994, had asked the Coachella Valley city early last year for some help in building a pie-making plant at Indio Boulevard and Madison Street. They needed the plant to meet the demands of their increasingly successful wholesale business, which took off after the Trader Joe's specialty food store chain agreed to sell the couple's pecan, apple-raspberry and French apple pies... "Out of the blue, she just came in with the pies," said Lori T. Latta, the chain's bakery buyer. "It was a serendipitous thing." *California Business, Jan 1998***
- **"Diana Todaro laughingly refers to herself as a "virtual company." As the sole employee of Diana's California Cookies, Todaro sometimes feels as though she's bitten off more than she can chew. But she says she's always up for a challenge. And she's got another one on her hands as her start-up company goes global this month. "I'm a one-woman show and I think this will be the trend for many new businesses into the 21st century," says the New Jersey native. "It's a lot of work and a lot of fun." She creates her trademark cookies in her Laguna Hills home, then contracts with Bloomfield Bakers in Los Alamitos to make them. While creating a snack sounds like sugary fun, in reality it's a business that requires as much attention to detail as any other... For those stateside, Diana's California Cookies are distributed at local Trader Joe's markets... "Because I only use all natural ingredients and no preservatives, I thought stores like Trader Joe's might be interested in my cookies," she says. "So I called them and asked them if they'd be interested in looking at what I had to offer. It took over six months from the time I made that initial phone call to get in the door. But once I was there, everything happened so quickly. I brought samples of three types of cookies. They bought two the same day." From that point, it took nearly a year for her chocolate chip muesli and apple cinnamon muesli cookies to appear on grocery store shelves.." *OC Metro, May 1996***

SMALL KITCHEN SUPPLIERS

Trader Joe's likes to work with small kitchen suppliers... continued

- "Tired of sniffing their way through life, the McDowells began experimenting with different combinations of vitamins and Chinese herbs bought at Bay Area natural-foods stores. They finally came up with Airborne, an effervescent tablet that dissolves in water to create a drink with the aesthetic and gustatory appeal of lemon-lime Gatorade... Retailers like natural-foods supermarket Trader Joe's are also welcoming Airborne. "When I do products, I'm not iffy about them," says Lori T. Latta, a senior buyer at Trader Joe's. "In our nutritionist's opinion, this has merit." Direct sales are also brisk: Knight-McDowell Labs has moved 50,000 packages of Airborne, priced at \$5 to \$8, through its Web site and an 800 number." *Inc., Jul 1999*
- "Thai is pretty hot right now and Mexican food has been constantly strong here in California... We have been increasing the number of Thai items we carry. We are consistently looking at Thai restaurants and searching for the new trends. Here in California a lot of the foods have been changed to California-style. We purchase from one of the better known Thai restaurants in town, Tommy Tang's, and he produces products for us." *Richard Baltierra, Senior Buyer, Trader Joe's, Aug 1995*
- "Eureka, celebrity chef Wolfgang Puck's huge restaurant-brewery venture in West Los Angeles, has not reopened following the curfew-imposed closure following a riot a week ago. The management of the Los Angeles Brewery Co., Eureka's corporate title, decided to use the riot-forced closure April 30 as an opportunity to reorganize and try to overcome its financial problems. "We're trying to recapitalize," Puck said. "We're trying to separate the brewery and restaurant and make them into two companies." ... A recent customer, Trader Joe's, ordered 10,000 cases of Eureka-brewed beer, which they marketed under the retailer's Prospector Joe's label. "It's been doing really well," Puck said." *LA Daily News, May 1992*

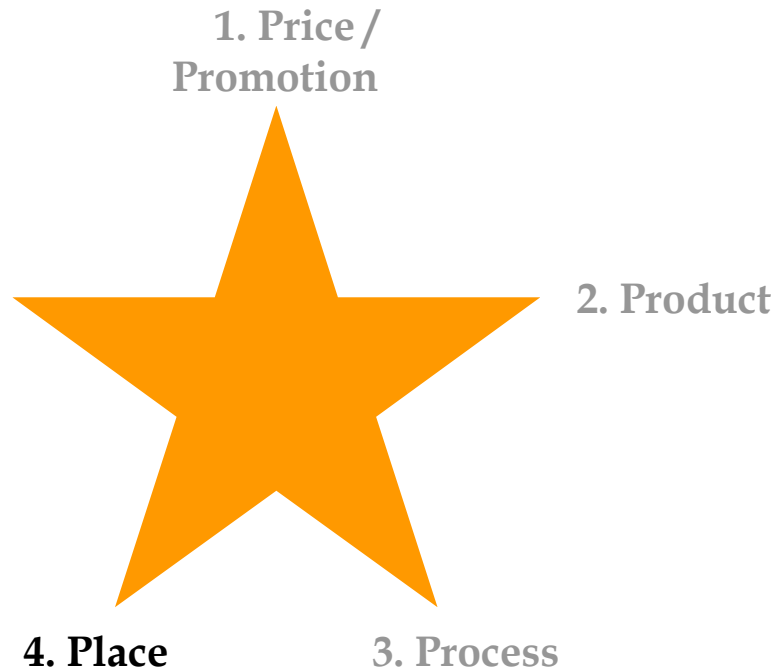
SMALL KITCHEN SUPPLIERS

Trader Joe's likes to work with small kitchen suppliers... continued

- "Fifteen years ago Jody Maroni, a.k.a. Jordan Monkarsh, the company's founder and president, started selling sausages with unusual names and flavors at a hot dog stand on Southern California's Venice Boardwalk. Today, the cylindrical creations sport unforgettable names, such as Yucatan Chicken and Duck with cilantro, serrano chiles and beer and a Maple Breakfast sausage with maple syrup, smoked bacon and cinnamon. Monkarsh refers to his inventions as "entrees within a casing." The gourmet products sell for between \$3 and \$7 a pound. "Until we came along, sausage makers fought over the breakfast, sweet Italian sausage and bratwurst segments. We grind our products more coarsely, so that consumers can see what's inside of them, such as cilantro, corn, pine nuts and other ingredients. It adds color and texture to the presentation. This works whether you're at home or whether you're a chef," explains Monkarsh. Made of poultry, pork, lamb and/or beef, the sausages appeal to nutritionally-conscious consumers looking for new tastes and less fat in their diet - the products have a fat content of 15% or less. The company, which will top \$5 million in sales this year, has experienced phenomenal growth not only in its traditional fast-food stand segment, but also in its restaurant and foodservice businesses... Furthermore, in the last year or two, the company has been doing brisk business with Trader Joe's, a Southern California-based grocery chain known for healthy, novelty items. Jody Maroni's sausages, with their good nutritional profiles, have been well accepted. "We had to succeed first in California. In other parts of the country, people are tied more towards traditional flavors and are less likely to be open to newer flavors," says Monkarsh." *Prepared Foods, Oct 1997*

UNDERSTANDING THE BUSINESS MODEL: PLACE

The fourth section looks at the role of place or location in the business model



TARGETING THE OVEREDUCATED & UNDERPAID

Coulombe consistently described the target market as the overeducated and underpaid...

- **"I designed it for people who are overeducated and underpaid." *Joe Coulombe, Founder, Trader Joe's, Mar 1988***
- **"I wanted to appeal to the well educated and people who were travelling more, like teachers, engineers and public administrators. Nobody was taking care of them." *Joe Coulombe, Founder, Trader Joe's, Oct 1989***
- **"We're not a carriage trade outlet, but there is a correlation between well-educated and high-income customers. However, many of our clients are school teachers and artists." *Joe Coulombe, Founder, Trader Joe's, Jun 1988***
- **"The ideal customer at a Trader Joe's Market is an unemployed Ph. D. on a budget - with acquired taste and not part of the mass TV culture, and maybe a wine drinker... Trader Joe's is not a market for the carriage trades... I started Trader Joe's on the premise that the number of educated people would grow, and that is what has happened... The homogenized public that responded to TV ads en mass has long since reached its peak... For people who are well educated and well travelled and have developed good taste, Trader Joe's is the best place in the United States to satisfy those tastes... However, you need not have gone to college to be well educated. Just being around for a while, you learn things... Many of our customers are older people." *Joe Coulombe, Founder, Trader Joe's, Nov 1986***
- **"Trader Joe's is not a gourmet operation. I hate the term. Trader Joe's was designed by me for people who are overeducated and underpaid. . . . The point of view of Trader Joe's is not, 'What's weird and different?' but 'What can you do to raise the level of living of schoolteachers?" *Joe Coulombe, Founder, Trader Joe's, Feb 1996***
- **"I discovered the yuppie more than a decade ago, before the phenomenon was identified and labeled by pop sociologists. Today, I cater to ouppies now. Those are older urban professionals. But my ideal customer is an unemployed Ph.D.-someone who has the ability to discriminate, but who doesn't have any money. These days, it's an unemployed stock broker who has just had his Benz repossessed. And he now wants Bordeaux Blanc for \$1.99. He wants to get something reasonably civilized to eat and drink at a fair price." *Joe Coulombe, Founder, Trader Joe's, Feb 1988***

TARGETING THE OVEREDUCATED & UNDERPAID

... as have others

- **"The folks who run Trader Joe's 29 stores out of the South Pasadena, Calif. headquarters know exactly who their customer is. She or he is well travelled and well educated, and has a sense of humor and a taste for the offbeat. Which is why Trader Joe's is looking to move into the San Francisco Bay area and reportedly Boston but has little interest in Beverly Hills. Says a company spokeswoman, "The Beverly Hills population may be well educated, but the maids do the shopping." *Forbes, Oct 1989***
- **"Our model customer would be an unemployed school teacher." *Doug Rauch, President, Trader Joe's East, Oct 1999***
- **"Their ideal customer is a professor who drives a Volvo, an old Volvo... They are very intelligent, very sophisticated. But they aren't conspicuous purchasers." *Kathy Kelley, Market Researcher, Jan 2004***
- **"Demographically, what you usually get is a higher educated customer. Education leads to higher health consciousness." *David Bloom, David's Natural Market, Jun 2003***

TARGET MARKET - PSYCHOGRAPHICS

There appear to be four “typical” shopper profiles: frugal foodie, iconoclast, sensitive parent and working couples and singles

- “Anecdotal information gleaned informally from Trader Joe's shoppers reveals several sometimes overlapping types: There's the frugal foodie looking for the next new thing; the iconoclast who resents "customer loyalty cards" and dislikes big-box retailers; the health-conscious, ecologically sensitive parent seeking organic and pesticide-free foods, environmentally friendly cleaning supplies and wholesome snacks; child-free working couples and singles who favor the convenience foods packaged just right for one or two; and a whole lot of people who like to indulge in luxuries like flowers, candy, cheese, wine and Greek yogurt without signing over their paycheck.” *Seattle Times, May 2004*
- “The stores' loyalists include an eclectic assortment of foodies, college students, sugar fiends and health nuts.” *New York Times, Jul 2003*
- “There's a nice blend of educated people who really love to eat.” *Diane O'Connor, Spokeswoman, Trader Joe's, Sep 2004*
- “Scarborough Data, a market research firm, profiles the typical Trader Joe's shopper as a college-educated, white homeowner with a median age of 44 and a median household income of \$64,000. Almost evenly divided among married people and singles, females and males, two-thirds have no kids at home. (See chart over page)” *Seattle Times, May 2004*

TARGET MARKET - DEMOGRAPHICS

Primary customers are upper income, college-educated adults, ages 25 to 45

- **"Trader Joe's primary customer base consists of upper income, college-educated adults, ages 25 to 45." John Shields, CEO, Trader Joe's, Apr 1993**
- **"Our customers are distributed across the age spectrum." Ira Cohen, Vice President, Trader Joe's West, Apr 1998**
- **"Population density is important because our concept works better economically in such areas. Our customers tend to be over 33 years old, with 80% having some college background and a higher median income level." John Shields, CEO, Trader Joe's, Mar 1995**
- **"The chain targets the over-educated and underpaid, usually locates within 2 or 3 miles of a university." SF Chronicle, Sept 1987**
- **"We're an adventure store... Our best customer is an unemployed Ph.D. They have the time and energy to read labels and a penny-pinching attitude." Michele Gorski, Director of Communications, Trader Joe's East, Aug 1999**
- **"We absolutely love the Washington DC market. You've got people who are well-traveled, educated, curious, and it already has a number of very successful specialty food, natural food and supermarket chains that show it's a food town." Doug Rauch, President, Trader Joe's East, Apr 1999**
- **"Basically we feel that the demographics of the area fit well with our target. We saw a very educated base of individuals that are curious and are interested in food. Our customers are highly educated and adventurous. They are interesting people that like to explore different eating options... We joke that the average Trader Joe's patron is an unemployed doctorate who loves to read food labels." Michele Gorski, Spokesperson, Trader Joe's, Mar 1997 [on opening a store in Westport, Connecticut, an affluent town of 25,000 residents, than has three traditional supermarkets - a Super Stop & Stop, Food Emporium and Grand Union]**
- **"Brookline, Maryland has one of the highest concentrations of epicurean-magazine subscriptions in the Eastern corridor outside Bethesda, Md. - one factor the store takes into consideration when looking for real estate." Doug Rauch, President, Trader Joe's East, Jun 1996**

EXAMPLE - CUSTOMER PROFILE IN SEATTLE

Trader Joe's attracts middle aged, middle income households in the Seattle market

Shopper profile for Trader Joe's in the Seattle market
(Survey, May 2004)

Median Age	44
Median HH Income	\$64,000
Married	54%
Female	55%
No kids at home	66%
Homeowner	74%
White	83%
Attended College	81%
White Collar	54%

SITE AREA DEMOGRAPHICS

Trader Joe's looks to locate in catchments with medium to upper income, educated people

- **"The demographics of the trade area and the available parking at a site are the two most critical factors for us... We target residents living in an areas containing at least 20,000 households with some college or postgraduate education."** *Doug Rauch, President, Trader Joe's East, Dec 2000*
- **"We have to go where there are enough people interested in what we have to sell. Riverside has enough well-educated, traveled people who read labels and care about nutrition. When we find the concentration of that kind of people we open the store."** *Pat St. John, Spokesperson, Trader Joe's, Jan 1996*
- **"The new outlet wants to be in Temecula because the area is demographically sound... the area's education and household income levels... the decision is based on a complicated formula that includes a whole lot of things."** *Leroy Watson, Senior Vice President, Trader Joe's West, Apr 1999*
- **"But we have to find the right real estate because we don't cater to the public at large. A lot of people think if the population is there, the market is there, but we target a specific clientele. Only educated consumers who know the value of what they're getting are interested in Trader Joe's."** *Michael Seaward, Captain, Trader Joe's Kirkland, Jun 1996*
- **"Boston was chosen as the first East Coast location because it's an area with a college and youthful orientation. It's one of the more European areas on the East Coast. And education breeds an interest in food."** *Doug Rauch, President, Trader Joe's East, Jun 1996*
- **"The Castro neighborhood in San Francisco - with a population of about 30,500 when including parts of Noe Valley - would be a good match for us... We perform well in gay neighborhoods like West Hollywood and Silver Lake in Los Angeles, where we have three stores, and Hillcrest in San Diego, where it has one store... We know that the gay community really supports us."** *Douglas Yokomizo, VP Property, Trader Joe's, Jun 2004*
- **"Trader Joe's plans to open a market in East Long Beach's Los Altos Center... The two existing Trader Joe's locations in Long Beach are regularly packed with customers... We chose the location to serve our target demographic: educated and upper-middle class."** *Pat St. John, VP Marketing, Trader Joe's, Jul 2000*

DEMANDING STORES

Trader Joe's is regularly inundated with requests for stores

- **"1999 Palmdale Community Survey Results: What new retail stores would you like to have in Palmdale? Trader Joe's 35.5% Disney Store 13.2% Macy's 9.9% SportMart 6.6% Costco 5.8%." *LA Daily News, Oct 1999***
- **"It's a pretty exciting moment. We have finally arrived... Trader Joe's consistently ranked No. 1 when Palmdale residents were polled about retailers they most wanted to come to their community... For nine years, we've been lobbying Trader Joe's to bring a store to Palmdale." *Jim Ledford, Mayor, Palmdale, CA, Nov 2003***
- **"We have a list of national retailers we want to bring into the city, and Trader Joe's has been at the top of that list." *James J. Cuorato, Philadelphia City Commerce Director, Sep 2003***
- **"Trader Joe's has rejected invitations to build a new store in downtown Long Beach, disappointing residents who had mounted a campaign to lure the food retailer to the Pine Avenue area." *Press-Telegram, Sep 1999***
- **"Hundreds of city residents sent letters to Trader Joe's before the chain opened a store here in the late 1990s." *Shelly Stanwyck, Economic Development Manager, San Luis Obispo, May 2004***
- **"Trader Joe's has carried on a long-running flirtation with the city; the city flirts back. So far, nothing. Trader Joe's sells quality stuff at modest prices. Riversiders are aware of this, and some, either weary from retail sojourns to Orange County or not entirely satisfied by quickie jaunts to the alcohol-free Redlands outlet, call Pasadena headquarters and demand a Trader Joe's of their own. Last spring, John Shields, the CEO, reported that he spent a whole day "driving around and trying to get a feel for the city. We found some very nice areas and some not so nice areas." Gosh. Just like a real city! The one thing Shields didn't find, however, was a Riverside location. The way Leo Orsten explains it, Trader Joe's needs "concentration" to compensate for its low mark-up. Concentration of what? College-educated, well-traveled people "who read labels, people who like themselves." But not people who "like any cheese, like any wine." It also helps if the concentration makes \$40,000 or more annually. Despite breathless rumors, Trader Joe's finds Riverside wanting. They're not headed for the downtown Marketplace. Downtowns are too dead on weekends. Don't cry for them, Galleria; they don't like enclosed malls. They'd like to be near a university, but they don't like places without concentration. That seems to be Riverside's fatal flaw." *The Press-Enterprise, Jul 1993***

SITE REQUIREMENTS

Trader Joe's looks for smaller secondary sites with adequate parking

- **"Prime thoroughfare locations are being sought near major retail shopping areas to open Trader Joe's markets... Store requirements include 8,500-10,000 sq. ft. of space, 60 on-site parking spaces, 50-ft. minimum building width, and truck high loading." Leroy Watson, Senior Vice President, Trader Joe's West, Apr 1999**
- **"The stores run 8,000 to 10,000 square feet and many of them are in remodeled buildings." Supermarket News, Dec 1997**
- **"Trader Joe's is set to open by the end of the year an 8,200-square-foot store next to Hanover Mall... The building, which once housed a Bed Bath & Beyond, has been empty for six years." Boston Globe, Jul 2003**
- **"Growth continues at a fast pace due in part to the company's flexibility when choosing its site locations. The retailer's stores may be found attached to a mall, in a strip, lifestyle or community center, or free-standing in an urban or suburban area... The company needs a minimum of 50 parking spaces at its smallest locations. Because these spaces are vital to the retailer, desirable co-tenants are attractive to customers, yet don't seek an expansive parking area, avoiding potential parking difficulties. Undesirable co-tenants may include restaurants, theaters or schools, according to the company." Shopping Center World, Dec 2000**
- **"As the second critical factor, an expansive parking lot area is crucial, whereas an extensive interior is not... Each store is designed to feel warm and open... We can adapt our look to meet the physical needs of any location... We have the highest sales per square foot of any grocery chain in America." Doug Rauch, President, Trader Joe's East, Dec 2000**
- **"To save money, stores generally are not in prime locations - the Westwood store takes up half of an old A&P supermarket near the center of town; the Wayne store is in the Berdan Shopping Center on Hamburg Turnpike - and they are open only 12 hours a day... Also, at under 8,000 square feet, stores are tiny by contemporary standards, less than one-sixth the size of most new supermarkets in North Jersey." The New Jersey Record, Dec 1999**



LOW COST SITES A KEY

Trader Joe's needs low rent or lease costs to make its low cost formula work

- **"We normally moves into sites of less than 10,000 square feet, centrally located but away from prime retail locations, where leasing costs are high."** *Pat St. John, VP Marketing, Trader Joe's, Sep 1995*
- **"The average investment in each store is about \$1 million."** *Joe Coulombe, Founder, Trader Joe's, Jun 1988*
- **"The firm's formula for keeping prices low is no secret. By locating its tiny stores--on average, 10,000 square feet--away from prime locations, it keeps its real-estate costs low."** *US News & World Report, Jul 1997*

NOT WORRIED ABOUT THE COMPETITION

Trader Joe's doesn't appear to worry about the competition

- **"We don't really have a direct competitor. We compete on items. There's a lot of our stuff people won't find elsewhere."** *John Shields, CEO, Trader Joe's, Jan 1995*
- **"The retailer's ample selection of low-priced upscale and natural/organic prices enables Trader Joe's to draw shoppers from all its competitors -- warehouses, natural-food stores, specialty retailers and the traditional supermarkets. It's one of the few true format innovations that appears to be successful."** *Gary Giblen, Managing Director, Smith Barney, May 1997*
- **"It is a very interesting niche player. They are more of a parasite that operates off the body of a whale, the traditional supermarket. They kind of co-exist."** *Kathy Kelley, Market Researcher, Jan 2004*

WAITING FOR THE RIGHT SITE

Trader Joe's is willing to wait for the right site

- "We've had tons of requests from people farther out west in Massachusetts for a store... We've been waiting for the right real estate space." *Michele S. Gorski, Director of Communications, Trader Joe's East, Aug 1999*
- "Trader Joe's, the California-based market chain already dotting the local suburbs, is opening its first Seattle store Wednesday. The 7,200-square-foot store will be on Queen Anne Hill at 112 W.t Galer St. And yes, it does boast a parking lot. "That was a very difficult thing for us to do, find an affordable place with parking in the city," said Carol Impara, the company's director of product information. So difficult, in fact, that the company has stayed on the outskirts of Seattle until now, opening stores in Bellevue, Kirkland, Burien and Federal Way. For now, the company is not planning another Seattle store, Impara said." *Seattle Post-Intelligencer, Nov 1997*

SMALL STORES

Trader Joe's stores are often cramped

- "Navigating through the company's relatively small outlets - which average about 10,000 square feet - at peak shopping times can be grueling, with customers elbow-to-elbow as they try to reach the frozen food cases containing ground buffalo and spanakopita." *San Diego Union-Tribune, Sep 2003*
- "Also, at under 8,000 square feet, stores are tiny by contemporary standards, less than one-sixth the size of most new supermarkets in North Jersey." *The New Jersey Record, Dec 1999*
- "The San Rafael store has expanded in bits and pieces over the years, stretching out sales areas by using square footage more efficiently and taking over space when neighbors leave... now with about 9,500 square feet of sales floor." *Marin Independent, Nov 2003*

VARIED EXTERIORS

The exterior of stores varies with the neighborhood



SOUTH SEAS DÉCOR

Stores are decorated with a south seas decor

- "To give the stores a feeling of adventure, Coulombe used a little bamboo, some rope, a few unlit torches and other decorations for just a hint of the tropical islands. Aside from that, the atmosphere is no-frills, with merchandise displayed right out of cardboard boxes stacked on other boxes." *LA Times, Jul 1988*
- "Nautical, with rough-hewn wood walls, fishing nets, buoys, harpoons and life rings." *Orange County Register, Jun 1992*
- "Known for its quirky Don-Ho décor... The stores are decorated with oars and lobster traps - part of the company's nautical theme of being a trader on the culinary seas. Store employees - known as "crew members" - all wear Hawaiian shirts. The Shrewsbury store will have a combined 35 full and part-time workers." *Worcester Telegram & Gazette, Oct 1999*
- "The stores have a maritime theme, intended to reinforce the idea of foodstuffs from all over the world being unloaded at the dock. The store manager's title is "Captain"; the assistant manager is, of course, "First Mate." The decor includes ship's wheels, netting and other nautical gear; when more people are needed at the checkout counters, a clerk rings a ship's bell." *Oregon Register-Guard, Jul 1998*
- "Part of Trader Joe's appeal is that despite its fancy fare, it doesn't take itself too seriously. The motif, if you can call it that, is vaguely reminiscent of Gilligan's Island. The store manager is referred to as "the Captain" and the staff, "Crew Members." Employees are clad in Hawaiian shirts and khakis. Brightly colored plastic fish hang from the ceiling. Seafaring tunes play throughout the day. Even the food selection is kind of goofy." *US News & World Report, Jul 1997*
- "Both the Oceanside and Commack, N.Y., stores have a nautical motif, complete with fish nets hanging from the ceiling and walls adorned with plastic lobsters, crabs, oars and life preservers. A sign behind the cash registers refer to the store manager as "captain" and assistant manager as "first mate." Name tags for store employees read "crew members." *Supermarket News, May 1997*
- "Joe's humor can be cornball, with the chain favoring a hokey sales approach -- seafaring store decorations, managers called "captains," assistant managers called "first mates." Workers wear Hawaiian shirts." *Boston Globe, Jun 1996*



CASUAL ATMOSPHERE

The décor is a conscious attempt to create a relaxed and casual atmosphere

- **"The store reflects a casual atmosphere like you'd see if you were on a vacation. It reflects the needs and wants of the crew. We don't have vendors tell us where to put things or merchandising mandates from corporate headquarters."**
John Persichitte, Captain, Naperville Trader Joe's, Nov 2003
- **"We obviously try and bring something different to the table and make our stores as warm and relaxing as possible."**
Sue Lafricain, Regional Manager, Trader Joe's, Mar 1998
- **"The 11,000-square-foot store is decorated with palm trees. Workers wear Hawaiian shirts, jeans or khaki shorts and smiles. And there are crowds of people -- for despite the down economy, there are usually plenty of people at Trader Joe's. In the highly competitive world of grocery retailing, Trader Joe's is an anomaly: a niche player that offers high-end gourmet food at low-end prices, often under brand names like Trader Ming's or Trader Giotto's. And so far that formula is working... The shopping experience is more than just the food, though. Shoppers shop to rock music. The milieu is an amalgamation of Beach Boys, Seattle grunge and National Public Radio... And the free coffee and food samples invite people to linger -- and buy more. "** *San Jose Mercury News, Jan 2004*
- **"Albertsons is like a real chore. This is a lot more fun."** *Sayuri Sharper, Trader Joe's Customer, Jan 2004*
- **"It's a corporation in a Hawaiian shirt. It's very focused merchandising... and it's a good understanding of who its customer is."** *Bill Cody, Professor, Wharton Business School, University of Pennsylvania, Jan 2003*
- **"It is not a quaint country store, despite the image portrayed in the company's mailer - the main means of promoting the stores. Rather, the decor is more warehouse-modern, allowing the company to keep costs down."** *The Boston Globe, Jun 1996*
- **"Not too many people want to mill around a Safeway or a Ralphs. But you like to mill around a Trader Joe's. Most people dread shopping. It's like going to the dry cleaner's... I don't think they should change anything."** *Kathy Kelley, Market Researcher, Jan 2004*

STORE OPENING CHAOS

When a new store opens it is an event

- **"Let them eat ahi jerky... In Cambridge, Mass., a long line of shoppers formed outside Trader Joe's an hour before the door slid open on its first day of business not long ago. As the locks clicked free, a perfectly sane looking woman, in all likelihood a onetime Los Angeles-area resident, broke ranks, grabbed a cart, and began running down the store's center aisle, shouting, "Yahoo!"**" *US News & World Report, Jul 1997*
- **"Santa Fe's standing as a strong market for specialty-foods stores was on display Monday, when about 100 people lined up for the opening of Trader Joe's. The early birds grabbed baskets and started filling them with organic chickens, meatless meatballs, trail mixes, frozen porcini mushrooms, imported Italian pizzas, cashew macadamia butter and inexpensive California wines. The California-based chain, which has more than 200 stores in 18 states, opened the doors to its first store in New Mexico. Plans for a store in the state's largest city, Albuquerque, will come later. But Monday, managers expected that by closing time as many as 4,000 people would stream down the aisles of the remodeled former Lowe's supermarket on Cordova Road at St. Francis Drive. Among them were Rita Goodman, who for the past 14 years has urged Trader Joe's to open a Santa Fe store, and Bill Gallagher, who said he told the chain 30 years ago they should open in Santa Fe. "They told me they wanted to fill California up first before they went national," Gallagher said. "I just couldn't wait for them to be here." "It's the only thing Santa Fe has been missing," Goodman said. Some buyers were taking whole cases of "three-buck Chuck," a \$2.99 wine in four varieties -- shiraz, cabernet sauvignon, merlot and chardonnay -- by California vintner Charles Shaw, featured by Trader Joe's at all of its stores. Before the shopping got under way, Mayor Larry Delgado, himself a long-time Trader Joe's fan, welcomed the store to Santa Fe. "I got to know Trader Joe's when we went to California to visit our children," the mayor said. "** *Santa Fe New Mexican, Aug 2004*

UNDERSTANDING THE BUSINESS MODEL: PEOPLE

The final section looks at the role of people in the business model



STORE STAFFING

The average store has six full-time and twenty part-time staff - Part time employees account for 75% of the workforce

- **"The Palm Desert store... will have about 20 part-time and six full-time positions." *The Press Enterprise, Apr 1993***
- **"The stores typically employ six full-time and between 20 and 30 part-time employees." *Pat St. John, VP Marketing, Trader Joe's, Sep 1995***
- **"The store is, in fact, now hiring for the holidays. Normally, workers are busy from 4 a.m. to midnight unloading boxes and stocking shelves, but during the upcoming holiday season, shifts could run 24 hours." *Marin Independent, Nov 2003***

HAWAIIAN SHIRTS AND LEIS

Employees wear Hawaiian shirts and leis



FRIENDLY STAFF

Trader Joe's is known for having friendly, relaxed staff...

- "It's much more personal. They'll recommend stuff. Like: 'Oh, did you try this? If you haven't tried it, go get it. Try it, you'll love it.'" *Judi Brosnan, Trader Joe's Customer, Jul 2003*
- "We try to convey a more relaxed atmosphere to our shoppers. The company is not rigid. There's no dress code for employees, no time clock. You come in here you'll find me in shorts and a Hawaiian shirt." *Bernie Jassmann, Captain, Tucson Trader Joe's, Nov 1994*
- "We gain new customers, the old-fashioned way. We earn them." *Doug Rauch, President, Trader Joe's East, Aug 1999*
- "It's the most unusual store I've been in. I've never seen anything like it. I like to see what new things they've got. And they love helping people. It's like they love their jobs." *Marianne Piriach, Customer, Trader Joe's, Jan 2004*
- "The employees' friendly faces and their automatic inquiry, "Did you find everything okay?" at checkout make for a pleasant shopping experience." *Fairfield County Business Journal, Aug 1999*
- "I shop at a local Trader Joe's and I frequently mention the company in my talks to retailers... At one recent conference in Phoenix, I brought bottles of wine from Trader Joe's to use as props and, while there, visited a local store... It was the same, this sort of family atmosphere, everybody talking to the cashier, everybody talking to each other." *George Whalin, President, Retail Management Consultants, Sep 2004*
- "... lots of friendly, well-informed clerks - somebody can tell you what wine to serve with your ceviche." *SF Chronicle, Feb 1994*

FRIENDLY STAFF

Trader Joe's is known for having friendly, relaxed staff... continued

- "I spend a lot of time whining about the lack of service these days salespeople who don't know the products, wait staff that don't understand they're in the hospitality business... That said, I observed Trader Joe's check-out counters and watched the cashiers state each product's price out loud as they were rung up (prices are clearly marked on each item). "Is this your first time here?" asked one crew member. Another suggested a sauce that might go with orange roughly, and cautioned the customer not to cook the delicate fish for longer than five minutes. And oh yes, if you don't care for any item you purchase at Trader Joe's, you can return it, no questions asked. At the entrance, there is a wall full of health information: a list of gluten-free products, how to safely handle eggs, and of course, Trader Joe's on fish, Trader Joe's fruits and vegetables, etc. Here, an educated consumer is an asset. But maybe what says the most about Trader Joe's is that they reached \$1 billion in sales this year. In a market where you won't find instant potato flakes or re-constituted anything, it seems it does pay to stand behind your name." *Star-Ledger Newark, Feb 1998*
- "Joe's, too, is known for its attention to customers. Rhonda Racine of Palo Alto, Calif., a longtime Joe's shopper, says that it's "the Nordstrom of food." Nordstrom department stores have such uncommonly good service that it surprises Easterners when they first come across it. The California crew at Trader Joe's is so nice that cynical Bostonians will find themselves wondering, "Are these guys kidding?" "This is part of our reputation," says Rauch. "Customers may be skeptical, and they may think it's insincere, but we provide a lot of customer service." Two weeks ago an exchange in the Brookline store underscored this philosophy. The doors were open, a number of staffers were stocking shelves, and an elderly man wandered in. He hadn't noticed the sign in the window announcing the impending opening date. Store manager Scott Lane spotted him and went over to say hello. The man had already started to look at the groceries. "Good prices," he told Scott. "Thank you," said the manager. "It's what we aim for." The man investigated a few more prices and then told Scott he'd come back another day. Not a single person asked the man to leave or told him the store wasn't open for business. "That's not a show," says Sege, the enthusiastic shopper, when told about the exchange. "They are very much that way." *Boston Globe, Jun 1996*

WELL PAID EMPLOYEES

The company has some of the best paid employees in retail

- **"Pay people well." Joe Coulombe, Founder, Trader Joe's, Oct 2004**
- **"We're looking for good-quality help, and they deserve a good wage." Darren Haines, Captain, Trader Joe's Santa Fe, Aug 2004**
- **"But the glue that holds the system together is generous compensation. Job postings indicate that part-time clerks earn from \$8 to \$12 an hour. Full-time employees, who typically work 47.5 hours a week, earn an average \$40,150 in the first year, according to the company's postings. That equals \$16 an hour, well above the \$12 average pay in the retail industry, according to the latest Bureau of Labor Statistics figures. These employees also earn an average annual bonus of \$950 and \$6,300 in retirement-plan contributions as well. It adds up to an average total package of \$47,000 a year. For assistant store managers, the average compensation package works out to \$94,000 a year. Store managers get an average compensation package of \$132,000, an amount that one analyst put on a par with what the manager of a giant Wal-Mart might make running a store that probably grosses six or seven times what a Trader Joe's takes in." *Workforce Management, Sept 2004***
- **"Another ingredient to the grocery chain's success is the loyalty of its workers. As supermarket giants Kroger, Albertsons and Safeway battle labor unrest - more than 70,000 Southern California workers have been on strike or locked out since Oct. 11 in a dispute over health care costs - Trader Joe's manages to pay its workers well. Clerks, on average, earn \$47,000 a year, including bonus and retirement contributions plus medical benefits; assistant store managers, \$94,000; and store managers, \$132,000." *San Jose Mercury News, Jan 2004***
- **"To ensure customers had a relaxing experience at Trader Joe's, Coulombe looked for staff members who were hard-working but also easygoing enough to ask customers about their day... He was aware that other retailers were saving money by paying lower wages. But he figured paying well would not only attract the kind of employees who'd help create the right atmosphere, but also help keep turnover costs, such as training, low. In fact, he went all the way, offering full benefits and a generous overtime policy, none of which was typical in retailing at the time." *Investor's Business Daily, Oct 2004***

INTERVIEWS & APPRAISALS

There is a focus on attitude and personality in interviews and evaluations

- **"Trader Joe's is looking for part-time Crew Members in Darien, Connecticut, to work in our unique grocery store! Come be a part of the excitement! If you like people, are ambitious and adventuresome, enjoy smiling, and have a strong sense of values, Trader Joe's may be for you." *Job Advertisement, Trader Joe's East, Sept 2004***
- **"In the first interview, if they don't smile within the first 30 seconds, they are gone." *John Shields, CEO, Trader Joe's, Sep 1994***
- **"My job interview was very informal, like a casual conversation. They wanted to know why I wanted the job, what could I bring to the store, am I familiar with the products... They definitely take a second look at a person who has good eye contact and is upbeat." *Melody Derloshon, Former Trader Joe's Employee, quoted in Workforce Management, Sep 2004***
- **"While retail experience is a plus, what really impresses managers is a helpful, friendly attitude. Job postings suggest that prospective employees should be ambitious and possess qualities that might apply equally to a cruise ship crew: outgoing, engaging, upbeat, fun-loving and adventurous." *Workforce Management, Sept 2004***
- **"Applicants for full-time positions are more thoroughly vetted. The job application requires a cover letter that must include descriptions of a favorite Trader Joe's product and the store where the applicant typically shops. The message: if you aren't familiar with Trader Joe's and can't make a convincing pitch for what's good about the stores and the products inside, Trader Joe's isn't interested in you." *Workforce Management, Sept 2004***
- **"The nature of the evaluations is also unusual. Categories in the one-page evaluation forms include standard objective measures such as punctuality and thoroughness. Other more subjective assessments include "is always friendly," "creates a genuine fun shopping experience," "engages customers when running the register," "greeted and asks customers if they need assistance while on the floor," "educates self about product features and shares with customers" and "promotes high morale in the store." Each category has a score of one to five. If an employee has a cumulative score below three, she doesn't get a raise, says a former part-time cashier at a Trader Joe's in Northern California." *Workforce Management, Sept 2004***

TRAINING

The company has strong training programs of various kinds

- **“Trader Joe's is keen on everyone being knowledgeable about the product line and the proper way to treat customers; there's a weekly tasting of about 20 items in each store and mandatory customer service videos. Managers attend Smart University in Boston (there's one in California, too) every three months for more training. There, company buyers discuss, demonstrate and taste all the products that will appear in the next Fearless Flyer, a quarterly newsletter filled with cartoons and featured products during that time period. There are no sales at Trader Joe's, just these targeted items.”** *Star-Ledger Newark, Feb 1998*
- **“Managers are never hired from outside the company, which ensures that supervisors know and understand the Trader Joe's system before they are given authority. Prospective managers go through a series of training programs, including a stint at what the company calls Trader Joe's University. It is their job to teach new part-timers the Trader Joe's methodology. While managers are reviewed annually, part-time employees are reviewed every three months, an unusually frequent rate of evaluation.”** *Workforce Management, Sept 2004*
- **“After the store closed, we would try everything from the wine to frozen pizza to candy... It was like a buffet table.”** *Melody Derloshon, Former Trader Joe's Employee, Sep 2004*

COMPANY CULTURE

The company appears to have a strong and effective company culture

- **"It's the way they pay their people, the way they promote their people. The Hawaiian shirts. It's like a party."** *Ralph Sloan, Senior Partner, GroupRed Retail Design Consultancy, Jan 2004*
- **"The company emphasizes leadership training, advancement and a collaborative work environment; the store manager is just as likely to sweep the floor as a clerk. The Captain at the Los Altos store addresses his employees - who like to drop by even on days off - as "Hey, dude!" "** *San Jose Mercury News, Jan 2004*
- **"Tim Morley is called a Specialist at the Westfield site; this is the third market he's opened for the chain. He was a great guide, and as we toured, he straightened display items, re-stacked a mountain of bread and picked up every bit of paper he saw on the floor. It's admirable that he has such pride in his job; he sees himself as a member of a team and was happy to talk about the company and its philosophy. Each store's "crew," and is headed by a store "captain," rather than a manager. The assistant manager is called a first mate, and so on down the line. Everyone wears Hawaiian print shirts, and the aura is supposed to be one of "a romantic leisure image of the South Seas," according to company brochures. I didn't pick up on that, but you might."** *Star-Ledger Newark, Feb 1998*
- **"If you were to describe four or five of the key management principles that guide your business philosophy, what would those be?" "Well, I don't know that I can keep it down to four or five, but I'll try. Let me go back again to start with integrity. You have got to be ethical. I think you have to have a clear vision and communicate that vision to the organization. I believe strongly in listening. I would spend two days a week out visiting the stores, listening to our employees and our customers. I always go back to hiring the best people you can and giving them the education and the tools they need to do the job. I have always encouraged people to be entrepreneurs. And I guess the last thing that I am famous for saying is, "Have fun." I really mean it. I remember that I used to go to all of the pre-store openings and I would talk with the new people for about two hours, and I always ended up saying, "Look, at the end of thirty days, if you are not having fun, please quit." And they would look at me with these big eyes, and I would say, "No, I really mean it. You spend most of your life at your job. If you are not having fun, get out of here." And I really sincerely feel the same way. I am almost 70 years old and I still think you have to have fun doing what you are doing."** *John Shields, CEO, Trader Joe's, Mar 2003*

EASY TO GET AND RETAIN EMPLOYEES

As a result, the company finds it easy to get and retain good employees

- **"We had more than 500 applications for 50 positions before this store opened last fall." Steven Valdez, Captain, Trader Joe's Los Altos, Jan 2004**
- **"The company is a great company. There's very little turnover here." James Gibbs, Captain, Trader Joe's San Rafael, Nov 2003**
- **"Part of the motivation for employees to stay with the company is the prospect of advancement, which is very real as the company grows rapidly. But that could quickly change. If growth were to slow, and they now had too many very well trained, very experienced or high-paid people and no place to put them, then you'd have a problem. People would get frustrated and leave." John Dantico, Principal, The HR Group, Sep 2004 [consultants to Trader Joe's]**

REDUCED SHRINKAGE

Good pay and a strong company culture reduces shrinkage

- **"The family-friendly grocery clerks that Trader Joe's tries to cultivate may be more than company ambassadors of goodwill. They may also be antidotes to employee theft. Shoplifting, employee theft and other losses, what is called "shrinkage" in retail speak, are a constant problem for shopkeepers. But it's a particularly vexing issue in the low-margin grocery industry. Analysts, consultants and some corporations say that spending extra money on hiring the right employees and then treating and rewarding them well pays off because loyal and satisfied employees tend to rip off the company less and stick around longer. The National Supermarket Research Group reports that theft and loss is 2.32 percent of supermarket sales, and 57 percent of that is estimated to come from employee theft. What's more, a 2000 study on supermarket retention rates conducted for the Retailing Research Council found that job turnover costs the average supermarket nearly \$190,000 a year in expenses related to lost business and the hiring and training of new workers. At Trader Joe's, getting shrinkage down to one percentage point below the average rate would be worth \$30 million a year, based on the company's annual revenue of \$3 billion. Improving retention 50 percent over average rates would be worth \$19 million a year spread over Trader Joe's approximately 200 stores. While Trader Joe's won't talk about its shrinkage or retention rates, another company that prides itself on similar workplace practices, The Container Store, reports that it consistently beats average shrinkage and retention rates. The Container Store cultivates loyal employees with higher-than-average salaries and benefits, extensive training and feedback, and room for advancement." *Workforce Management, Sep 2004***

APPENDIX 1: CATEGORY ANALYSIS

APPENDIX 1: CATEGORY ANALYSIS

This appendix looks at the success of specific destination categories at Trader Joe's

- **1. Wine and the Two Buck Chuck Story**
- **2. Healthy**
- **3. Adding Produce & Fresh Meat**
- **4. Ethnic Cuisine**
- **5. Frozen Meal Solutions**
- **6. Vitamins**
- **7. Holiday**
- **8. Gourmet**
- **9. Snacks**
- **10. Beverages**
- **11. General Merchandise**

1. WINE: STRONG IN LIQUOR

Trader Joe's is very strong in beer, wine and spirits

- **"Wine, beer and spirits account for roughly 18 percent of our sales."** *John Shields, CEO, Trader Joe's, Apr 1997*
- **"Trader Joe's... sells 3 percent of all the wine sold in Southern California."** *Joe Coulombe, Founder, Trader Joe's, Jun 1988*
- **"The California stores say they are the largest wine merchants in the state."** *The Boston Globe, Jun 1996*
- **"Trader Joe's, which has developed a reputation as an upscale discount outlet, sells 400 different wines at its stores. Wine sales generate about \$180 million annually for the chain, or about 12 percent of its \$1.5 billion in annual sales."** *The Santa Rosa Press-Democrat, Oct 1999*

1. WINE: WINE WAS JOE'S STRENGTH

Joe Coulombe enjoys his wine

- **"During my years as Trader Joe, I tasted at least 100,000 wines. Most of them were not terrific, but on the other hand most samples were submitted by vintners who were desperate for money. That's how Trader Joe's got those low prices. That's also how I learned that a lot of wines that are marginal can be very good--if served with the right food."**
Joe Coulombe, Founder, Trader Joe's, Nov 2004 [www.winejoe.com]
- **"We market wines from the "off" regions of the world such as Muscadet, the Loire and Alsace, Bourg, Fronsac and Touraine (France); Spain; Portugal; Australia and Germany... We may well buy one vintage of a particular wine and not the next vintage, ostensibly adopting a policy used by the British wine trade for years that has led to lower pricing for poorer wines, something that hasn't been a practice in this country... But since I'm a dedicated Rhoneophile, the chain will always have good values from the Rhone Valley in France... These are not the glitzy wines that the rich Swiss and Germans are buying up... High prices for prestige Bordeaux have us to consider the Cru Bourgeois wines that represent better values."** *Joe Coulombe, Founder, Trader Joe's, Feb 1988*
- **"There has been no physical growth in the wine business in the last five years because Americans have not learned to consume wine with their food."** *Joe Coulombe, Founder, Trader Joe's, Feb 1988*

1. WINE: CLOSEOUT WINE

Trader Joe's focuses on wine closeouts and distressed sales

- "I went through the warehouse and saw that every wine over \$10 was a California boutique. I asked myself, 'How are we buying these things? Why don't we buy these the way we buy Bordeaux, by the carload and where we get a big discount?' Instead, we will feature close-outs and special items that haven't sold." *Joe Coulombe, Founder, Trader Joe's, Feb 1988*
- "Founded in 1967 and spurred by the lifting of fair trade regulations on alcoholic beverages in 1978, Trader Joe's... acts as a direct outlet for odd lots that wineries want to unload quickly. Recently Mr. Coulombe... got a call for a well-known, small California winery that had decided to change its label. "They had 25,000 cases of already labeled Johannesburg Riesling that they wanted to unload," he said. "We tasted it and 24 hours later we agreed to buy all 25,000 cases for cash." Trader Joe also sells wine under its own label, when the firm in question does not want to have its label disclosed because the wine is being sold at a lower price." *New York Times, Jul 1987*
- "In the Northwest, wine prices already have declined, although more price slides probably will come, most likely from distressed wineries. Moreover, a new sales vehicle for just such distress is scheduled to arrive in both Portland and Seattle in 1994: Trader Joe's. Famous in California, Trader Joe's specializes in selling distress-priced wines and packaged foods in its 53 outlets. While perusing the dozens of stacked cases of wines on the floor at a Trader Joe's store in Stockton, Calif., I saw one well-known Oregon pinot noir selling for \$2.99 a bottle, which is less than its original wholesale price. The presence of Trader Joe's in the local market will likely further increase pressure for more competitive pricing among other local retailers, as well as offer an outlet for distress-priced wines from California, Europe and probably even Northwest wineries." *Portland Oregonian, Oct 1993*
- "Trader Joe's basically buys wine close-outs. TJ's tends to buy what other people can't sell." *Mike Dahdul, La Bodega, Sep 1995*

1. WINE: WINE QUALITY: LOW PRICES / MIXED LUCK

Customers try a low priced bottle and come back for a case

- "Among the good values at Trader Joe's stores last week were 1979 Crozes-Hermitage from Jaboulet at \$9.99; a marvelous dry sparkling wine called Cuvee Rouge from Culbertson of Fallbrook at \$8.99; 1983 Evenson Dry Gewurztraminer at \$1.99; 1985 Chalk Hill Sauvignon Blanc at \$3.49 (less than half its original price); and 1986 Glen Ellen Fume Blanc at \$4.99 (suggested retail is \$7)." *LA Times, Feb 1988*
- "If all you're doing is shopping for low price, you may do better at Trader Joe's; that chain features scores of economical wines at remarkably low prices. Trader Joe's is great if you know your labels, want to gamble and are willing to swoop back in after tasting a treasure and buy up the lot." *Orange Country Register, Dec 1990*

1. WINE: TOO MUCH WINE?

Following the crash of 87, the company reduced its range and focused on price

- "Trader Joe's, the Southern California chain that pioneered discount wine pricing after the repeal of Fair Trade in 1978, has seen the demand for shelf space grow to proportions never anticipated. At one point, Trader Joe's stores were so jammed with wine that they took up not only shelf space but most available floor space, with boxes stacked on boxes, and aisles jammed with more wine. Last Oct. 19, when the stock market crashed, all that ended... By adopting a policy of buying only good values, Coulombe ended the "good ol' days" when you could stop at a Trader Joe's and buy Ridge, Heitz, Diamond Creek, Trefethen, Chateau Montelena, Burgess and a dozen more producers all at discount, and while you were there pick up a few \$1.99 specials under the Trader Joe's label-wine that was purchased in bulk and bottled at Chateau Diana in Healdsburg." *LA Times, Feb 1988*
- "What we did on Oct. 19 [1987, when the stock market crashed] was to stop and look at what we were doing. Our intention for the past 12 months had been to cut down on the boutiques (small premium producers of wine), because some of them were not paying the rent on the shelf space. We felt that on Jan. 1, 1988, we would modify and severely reduce the number of boutiques that we would carry from 350 items to a range of 30 to 50 items... Under the company's new buying policy we will carry only those wines that we think are good and that are readily available, and where the winery is willing to ship it to us at best pricing thresholds... For example, two 1986 Chardonnays, from Fetzer and Parsons Creek, which we bought at maximum discount - two truckloads. We must be able to buy and use our strength to bring the consumer a better value if we're going to maintain our position in this business." *Bob Berning, Wine Buyer, Trader Joe's, Feb 1988*

1. WINE: PRIVATE LABEL WINE

Trader Joe's has had good success with its controlled label wines

- "The chain also boasts a wide selection of wines that include winery-label brands, Trader Joe's label and negotiant wines." *Bakersfield Californian, Apr 1994*
- "We're seeing a lot of secondary labels. Some of them are the familiar ones we've seen in the past, but some of them we've actually helped to create... One Trader Joe's wine is called Boar's Run. A 1987 Boar's Run Sonoma County Cabernet Sauvignon at Trader Joe's sells for \$3.49 a bottle... The winery asked us not to say who made it, but don't look at the cork... [The cork shows that the wine was made by Chalk Hill Winery, which has hired David Ramey as its new winemaker.]... It wants to move into the Ramey era of winemaking as quickly as possible. So the winery sold all 6,200 cases of its 1987 Cabernet to us." *Bob Berning, Wine Buyer, Trader Joe's, Feb 1988*
- "The 1990 Sun Ridge Chardonnay is barrel-fermented and aged in French oak. It comes from a respected Napa Valley producer better known for its Cabernet. Our price will be \$3.49. Hey, this is a \$15 wine under their label... Also, we picked up a Mendocino Zinfandel. We're calling it Willow Glen, and we'll retail it for \$1.99. I didn't think I'd ever have a buck-ninety-nine Zinfandel of this quality again, but there has been such desperation up there to move stuff... We're also selling a 1990 Willow Glen White Zinfandel from the Russian River Valley for \$1.99." *Bob Berning, Wine Buyer, Trader Joe's, Aug 1991*

1. WINE: ELIMINATE THE WINE MIDDLEMAN

New President Dan Bane made a push to eliminate the wine middleman

- **“One of the biggest wine merchants in California, Trader Joe's Co., urged wineries Friday to bypass the middleman and sell their wine directly to the South Pasadena retail chain, a move that could result in lower prices for the consumer and fatter profits for vintners. Distribution companies, which have been under attack from small wineries that want to sell directly to consumers over the Internet, now face a public battle on a second front with the assault by retailer Trader Joe's. In an advertisement published Friday in six California newspapers, including The Press Democrat, Trader Joe's President Dan Bane invited vintners to sell their wines directly to the retail chain without using a wholesaler... The company already buys roughly 10 percent of its wines directly from the winery, but would like to expand the business.”** *The Santa Rosa Press-Democrat, Oct 1999*

1. WINE: TWO BUCK CHUCK

The arrival and success of Charles "Two Buck Chuck" Shaw at Trader Joe's sent shockwaves through the wine industry



1. WINE: THE HISTORY OF CHARLES SHAW

There was a real Charles Shaw, though he went bankrupt and sold his name in 1991

- "Charles F. Shaw is real. He is a former investment banker who now lives in Chicago and works for a software company. He is not in the wine business, but he once was. A Stanford business school graduate who became enamored with Gamay Beaujolais wine while living in Europe, he moved to Napa in 1974 with a dream of producing award-winning Gamay Beaujolais. It did not work, and he tried bottling other wines. However, in 1991 Shaw and his wife divorced and sold out." *Western Farm Press, Feb 2003*
- "Charles F. Shaw was a Chicago investment banker who fell in love with the wine business and, in the late 1970's, bought 50 acres off the Silverado Trail in the Napa Valley. There, he planted gamay grapes to make a California version of Beaujolais. The Charles F. Shaw Vineyard and Winery opened for business in 1979. Eventually, Mr. Shaw was making 10,000 cases a year of gamay and sauvignon blanc. But a dozen years later, after his gamay gamble had met with little success in cabernet country, Mr. Shaw declared bankruptcy and returned to Chicago. Bronco stepped in and bought the name, keeping it in deep freeze for about another 12 years." *New York Times, Apr 2003*
- "Back in 1974, a man named Charles Shaw had a passion for producing Gamay Beaujolais in California. To this end, he largely succeeded -- it was probably the best California Gamay produced until recently. Alas, the marketplace didn't share his passion for the variety. Following his divorce in 1991, Shaw sold the label and his winery in the Napa Valley to Fred Franzia, where it lay dormant for 10 years." *Albuquerque Journal, Oct 2004*

1. WINE: FRED FRANZIA AND BRONCO REVIVE THE NAME

Fred Franzia of Bronco Wine revived the name for Trader Joe's

- "Fast forward to 2002. Because of overplanting of grapes, especially in the San Joaquin Valley, home of California's bulk box and jug wines, the state was awash in cheap wine. Especially Bronco Wine Co., the fifth-largest wine company in the country, whose annual wine sales totaled nearly 20 million cases. What was a wine manufacturer to do? Franzia, one of the more astute businessmen around, had an idea. He made the Trader Joe's chain in California an offer they couldn't refuse. He'd bottle the wine under a classy name, reviving the Charles Shaw label, and sell it to them for a song." *Albuquerque Journal, Oct 2004*
- "Bronco is not only the fifth or eighth largest winery in the state [depending on who you talk to], it is one of the largest vineyard owners as well, reportedly with more than 30,000 acres, again mostly all in the San Joaquin Valley. Bronco's president Fred Franzia is not saying where Shaw the wine/wine grapes are from. Some in the industry believe they are almost all from Bronco's own vineyards, diverted from what would be bulk domestic or distressed export wine sales. Others say Bronco is also buying surplus bulk wine from other, cash-strapped wineries for \$1 per gallon." *Western Farm Press, Feb 2003*
- "Bronco is one of only four wineries in California that owns its own distributing company. This allows Bronco to deliver Two-Buck Chuck to Trader Joe's for a reportedly meager \$19 per case. The store sells it for about \$24 per case. Outside of California, distribution costs run the retail cost to \$4 to \$5 per bottle at the same grocery chain. Started in 1973 by brothers Fred and John Franzia and cousin Joe Franzia, Bronco has grown to be one of the highest volume wineries in the state. It has a wine storage capacity of 62 million gallons and can crush up to 60,000 tons per day. Fred and John's father was a winemaker, and they are nephews of Ernest and Julio Gallo. Winemaker John Franzia is currently on the board of the Wine Institute. Fred is a former institute chairman. Fred is the most controversial of the three. In the mid-90s Bronco and Fred Franzia pleaded guilty to fraud charges stemming from mislabeling nearly \$5 million worth of wine, falsifying the varietal composition of wines such as White Zinfandel, according to the U.S. Justice Department. Bronco paid a \$2.5 million fine, and Fred Franzia was forced to resign as Bronco president and board member for five years. He was barred from doing business in the wine industry. After completing terms of the settlement with the federal government, Fred Franzia once again took the reins of Bronco and began buying wine labels, wineries and vineyards, often at distressed sale prices." *Western Farm Press, Feb 2003*

1. WINE: WINE GLUT

The low price of the wine is a result of the global wine glut

- "New vineyard plantings have produced a surplus of wine grapes in California, depressing grape prices and the cost of bulk wine. Bulk-wine prices have been in steep decline, from a high of \$10 a gallon just a few years ago to about \$1 a gallon today." *San Diego Union-Tribune, Feb 2003*
- "The two-buck Chuck phenomena has an upside. It has restrained prices on the lower end of the wine market. It has spawned a few copycats, like the Pacific Peak and Summerfield line from Golden State Vintners, the 15th-largest wine company in the country. It has undoubtedly drawn some people to drinking wine on a regular basis -- people who would otherwise might have stuck with soft drinks or beer. The economics behind two-buck Chuck are interesting. To put out a wine that sells for \$2 and make a small profit, estimates are that you must pay about \$200 a ton for the grapes. Last year, San Joaquin wine grapes were averaging about \$60 a ton. So, even though the vineyard acreage there is contracting, it would appear that two-buck Chuck will continue for the foreseeable future, assuming sales remain strong." *Albuquerque Journal, Oct 2004*
- "Two-Buck Chuck, a wine made from San Joaquin grapes but bottled in Napa Valley, has set all the floundering California wine industry twirling in disbelief like a bottle at a spin-the-bottle slumber party. The label also has funneled an enormous supply of grape price-suppressing surplus wine from vineyards and winery tanks to consumers... Regardless of how you analyze the "Two-Buck Chuck" craze, it is unquestionably the biggest thing to happen in the wine industry since the California Cooler phenomenon of the 1980s. That crested in '87 when 122 million gallons of the citrus/surplus white wine concoction were sold in the U.S. It evaporated to only slightly more than 18 million gallons by 1995. The success of coolers helped unburden the wine industry from an oversupply then, and there is hope "Two-Buck Chuck" can do the same thing \$2 at a time after time after time after time. If the Shaw wine dies as did the cooler, everyone in the wine industry hopes it is when the tanks are drained. Then everyone will toast with Bronco and Fred Franzia with a glass of Two-Buck Chuck." *Western Farm Press, Feb 2003*
- "No one is sure how long the Two-Buck Chuck phenomenon will last. Bulk wine prices have climbed to as high as \$1.50 a gallon in recent weeks, but as Mr. Posert of Bronco noted, there is a wine glut all over the world working to keep prices down. He sees the Charles Shaw wines doing well for another two to five years." *New York Times, Apr 2003*

1. WINE: FIVE VARIETIES

There are now five varieties of Charles Shaw

- **“So ... what is two-buck Chuck? It is inexpensive wine, primarily or exclusively (no one but Franzia knows) from San Joaquin vineyards, cropped at huge tonnage levels. It comes in five different varietal flavors. It comes from Bronco's huge wine manufacturing plants in Ceres and Escalon, Calif. It is blended from hundreds of different lots to give a consistent character from batch to batch, not an easy task. The Charles Shaw label indicates a Napa address and gives two-buck Chuck a certain cachet. But the closest the wine gets to the Napa Valley is when the tanker truck pulls up in the dead of night to off-load its cargo at the huge Bronco bottling facility in the industrial park near the airport on the south edge of town. By the next day, it's been bottled and is being loaded back onto transport trucks. Not unlike a flea market next to a world-class opera house, Franzia's scheme has made Napa Valley-ites absolutely livid.” *Albuquerque Journal, Oct 2004***
- **“There are four wines now in the Charles Shaw Two-Buck Chuck line: cabernet sauvignon, merlot, chardonnay and sauvignon blanc... Two-Buck Chuck has been compared with Franzia three- and five-liter bag-in-the-box wines but, in fact, those wines are not made by Bronco, but by the Wine Group, another big California company, which some years ago purchased the Franzia name. The Charles Shaw wines are relatively dry for inexpensive wines. This puts them in competition with more sophisticated table wines rather than the bag-in-a-box wines. The cabernet, the only one I have tried, is light, pleasant and easy to drink and has little varietal character. It could have been merlot for all I knew. Nondescript would not be too harsh a characterization. Nothing wrong with that: wine is supposed to accompany food and Charles Shaw will do that quite adequately. Someone referred to it recently as the ultimate fundraiser wine -- perfect for large groups of people who really don't care what they are drinking.” *New York Times, Apr 2003***

1. WINE: NOT A BAD WINE

There is broad agreement that Charles Shaw wine isn't half bad

- **"People don't keep buying bad wine at any price." *Jon Fredrikson, Wine Expert, Feb 2003***
- **"The store has a new draw since my earlier days of Trader's shopping: An exclusive contract with Charles Shaw, the infamous producer of "Two-Buck Chuck" wines (\$3.39 a bottle here), all pleasant enough to drink or cook with any night of the week. Buy it by the case at an additional 10 percent savings, and you'll enjoy a glass of decent California wine for less than the cost of a decent beer." *Laura Samuel Meyn, Reporter, Plain Dealer, Apr 2004***
- **"So what do I think of two-buck Chuck? It's a perfectly well-made wine. It has no flaws. It's balanced and has some grapey fruit. It displays a bit of varietal character. It even displays some "terroir" -- a bit of that earthiness you get from hot-climate grapes. Of the five varietals, the Shiraz is probably the best. Would I drink two-buck Chuck? Probably not on a regular basis. My problem is that I find these wines incredibly boring and simple. I tried to take notes on them once and failed -- I couldn't come up with anything in the way of description other than "grapey". These wines offer little in the way of interest or intellectual appeal. I would much rather spend three or four times as much and get a wine that speaks of something more than just "grapey." And the small amount of residual sugar makes them a bit tiring on the palate. That being said, there is a place for two-buck Chuck. I can envision myself tucking into a hamburger or a burrito and finding a glass of Chuck's Shiraz just the thing to wash it down. Wine doesn't always have to be serious and contemplative -- a simple salad lunch with a friend, where the company and the conversation are the focus, and a glass of two-buck Chuck Chardonnay fills the bill quite nicely." *Albuquerque Journal, Oct 2004***
- **"However, no one has called it bad wine. Like any wine, objectivity is in the pallet of the drinker. Most reviews have called it a good house wine. While it is from grapes produced in the warmer San Joaquin Valley, the grapes were grown with more improved viticulture techniques and therefore quality is much better than it would have been a decade ago." *Western Farm Press, Feb 2003***

1. WINE: PHENOMENON

Two Buck Chuck quickly became a cult-like phenomenon

- "People are buying it 10 and 12 cases at a time and loading their cars until the springs break... From grower's perspective, Two-Buck Chuck has helped clean out the Chardonnay surplus. It has probably cannibalized other brands. However, it has led to incremental increases in wine consumption... Two-Buck Chuck has people saying they can drink wine every night. It is definitely helping the wine business." *Jon Fredrikson, Wine Expert, Feb 2003*
- "Two Bucks. Even a novice understands that's not much to pay for a bottle of wine. Not for a glass bottle with a genuine cork and real wine (as opposed to those flavored mystery liquids in a box)... The growing acceptance of Two-Buck Chuck -- the stampede to buy as many as 10 to 15 cases at a time is a phenomenon that is repeated often at Trader Joe's throughout the state -- raises the question: How is it possible to produce, bottle, ship and sell a respectable wine for \$1.99? Rumors about that abound, including the one about a bankrupt airline being forced to dump its wine inventory." *San Diego Union-Tribune, Feb 2003*
- "Trader Joe's priced the stuff at \$1.99 a bottle, the cheapest a domestic wine has ever sold for, and the stuff started flying out the door by the caseload. The two-buck Chuck phenomenon was born. Both Trader Joe's and Franzia were taken by surprise at the public response. And they both have been laughing all the way to the bank ever since." *Albuquerque Journal, Oct 2004*
- "People were definitely skeptical in the beginning," "They had the attitude that for \$1.99, it couldn't possibly be any good... It has developed a cult following. The only thing I have ever seen that was anything like this was when we had the Liberty School cabernet for \$6 about 10 years ago. But this is much bigger than that." *Laurie Kuchinsky, Captain, Trader Joe's Hillcrest, Feb 2003*
- "Activity was slow around the pallets of Charles Shaw wine but shoppers seemed to be stocking up on lunches for the kids and dinners for the week. On Saturdays, though, customers are more likely to be seen loading cases of the \$1.99 per bottle chardonnay and cabernet sauvignon - affectionately known as "two-buck chuck."" *Marin Independent, Nov 2003*
- "We've never seen anything like it. It's sort of a reverse cult wine." *Harvey Posert, Spokesperson, Bronco Wines, Apr 2003*

1. WINE: PHENOMENON

Two Buck Chuck quickly became a cult-like phenomenon (continued)

- **"The label took on a cult-like following last fall for no logical reason, and flew out of Trader Joe's by the cases."** *Western Farm Press, Feb 2003*
- **"Move over Mondavi. Step aside Gevrey-Chambertin. And Grgich Hills, get lost. Make way for Two-Buck Chuck, at \$1.99 a bottle the hottest thing in the wine market since, well, since nothing. There's never been anything like it. The wine's real name is Charles Shaw... The Two-Buck Chuck nickname is said to have come from a Trader Joe's employee who, one hopes, was quickly made a marketing director. These Charles Shaw wines first appeared last spring, with three vintages -- 1999, 2000 and 2001 -- arriving simultaneously. But it wasn't until late fall that sales started to move... So-called cult wines like Screaming Eagle and Grace Family Vineyards are produced in tiny quantities by small wineries and sold at astonishingly high prices. Two-Buck Chuck appears to have reversed the process by attracting thousands of customers who ordinarily pay much more for their wine. Suddenly, it's chic to boast that you are serving a \$2 wine... Wine chat rooms on the Internet quickly took up the Two-Buck Chuck story and are credited, at least in part, for the wine's rapid rise to fame. Two-Buck Chuck is a phenomenon of the current California wine market, which has been hard hit by the economic downturn and is trying to rid itself of an ocean of surplus wine. The wholesale price of bulk wine, as high as \$10 a gallon in the late 1990's, was down to about \$1 last year."** *New York Times, Apr 2003*
- **"I think the wine world and American consumers are much better off for two-buck Chuck and owe Fred Franzia and Trader Joe's a big thank-you. It may not be a wine that'll appear on my table, but there are a lot of people out there who are getting a great deal of enjoyment from the wine. How bad could that be?"** *Albuquerque Journal, Oct 2004*
- **"It has become the most successful wine brand ever without promotion. It forced Franzia to bottle round-the-clock to meet demand over the holidays. Its fame has spread by word of mouth and a few well-publicized rumors like the tale that it beat out a \$68 bottle of Chardonnay wine in a blind tasting."** *Western Farm Press, Feb 2003*

1. WINE: REASONS

In the absence of facts, customers developed their own reasons for the low price

- **"I just chuckle when I hear some of the explanations folks come up with... There are three factors at play here. First, the wine glut caused the pricing. Second, technology enables us to maintain a level of quality that keeps people coming back to buy case after case. Winemaker Larry Acoha in Ceres is in charge of the blending. It's his palate that rules. Charles Shaw isn't the richest, deepest wine, but obviously quite a few people like the taste... Because the sale of Charles Shaw wines is exclusive to Trader Joe's, there is no middleman to add another layer of cost before the wine hits the shelf... Third, the loyal following of Trader Joe's wine lovers. Trader Joe's has a real niche. A guy comes in and buys a few bottles of cheap wine. He then goes home and tastes the wines to see what he likes. Then he goes back to Trader Joe's and buys the wine he likes in quantity - before it runs out... We think this has been a good thing for the industry. People who have never bought wine before are buying wine. Even if they know nothing about wine, what do they have to lose? It's only two bucks." *Harvey Posert, Spokesman, Bronco Wines, Feb 2003***
- **"Customers often falsely believe that Charles Shaw was dumped at bargain prices by airlines that were not allowed to carry corkscrews on board following the Sept. 11 attacks. Another false legend asserts that United Airlines attempted to remedy financial problems by selling its wine inventory cheap. Charles Shaw himself is a character in an untrue legend too. The tale tells that he sold his wine cheap to reduce his wealth during a contentious divorce." *New York Times, Apr 2003***
- **"Mystic has surrounded it. It was rumored that it was a premium wine dumped by American Airlines because of a ban on cork screws on airlines. Of course, anyone who has ordered wine on a flight knows most of wine served on airlines is in a screw top, small bottle. The only wine served with corks on airlines is in first class. And, it was rumored that "Two-Buck Chuck" was a financial bailout of a premium wine from United Airlines trying to avoid bankruptcy. Neither one of those is true nor is it a fire sale Napa wine from a nasty divorce of Charles Shaw and his wife." *Western Farm Press, Feb 2003***



1. WINE: IN STORE IMPACT

The success of the wine has impacted Trader Joe's stores

- "Often in a Trader Joe's store, a worker will be assigned for an entire shift to do nothing but restock Charles Shaw wine." *Press-Enterprise, Jan 2004*
- "We are selling so many cases per day, we just put pallets out on the floor... A truck delivers a load of Charles Shaw cases daily. It is not unusual for the store to sell 12 pallets of wine in a day. Twelve pallets hold 8,640 bottles... About half the Charles Shaw purchasers buy individual bottles. The rest buy full cases or more... It's not unusual for a customer to purchase 20 cases in a single shopping trip." *Joel Hughes, Captain, Trader Joe's Palm Desert, Jan 2004*
- "They were doing 350, 500 cases a day in some stores. By the end of the year, they'd sold almost two million cases... Sales of Two-Buck Chuck could reach five million cases this year... It's the fastest-growing table wine in the U.S. wine industry's history. Here in California, they are currently outselling all the Gallo labels combined." *Jon Fredrikson, Wine Consultant, Apr 2003*
- "Customers carted off 10 to 15 cases at a time in their S.U.V.'s... They would buy a bottle, then come back for cases." *Unnamed Captain, Trader Joe's Emeryville, Apr 2003*
- "Trader Joe's has long been the dream grocer for yuppie epicures in search of Tasmanian feta cheese, carrot ginger dressing, organic flourless sprouted 7-grain bread and kindred fare... But the company's cramped stores - which combine quasi-health food offerings at cut-rate prices in rustic, tropical-like settings -- are suddenly getting the attention of mainstream shoppers pulled in by an unlikely product: cheap wine." *San Diego Union-Tribune, Sep 2003*
- "The \$1.99 price tag in Palm Desert keeps the pallets emptying." *Press-Enterprise, Jan 2004*

1. WINE: FIVE MILLION CASES

Trader Joe's has sold more than 5 million cases of Charles Shaw

- "Sales of Two-Buck Chuck could reach five million cases this year... It's the fastest-growing table wine in the U.S. wine industry's history. Here in California, they are currently outselling all the Gallo labels combined." *Jon Fredrikson, Wine Consultant, Apr 2003*
- "Although Bronco and Trader Joe's will not confirm sales, more than a million cases were reportedly sold in December alone enroute to what many believe could be an unprecedented three-million case sales level in less time than it takes to uncork a bottle of wine... Three million cases of wine equate to more than seven million gallons of wine or about 44,000 tons of grapes. To give you an idea of the significance of that, that is equivalent to about 10 percent of the entire statewide Cabernet Sauvignon crush for one season. It is like single sale taking 10 percent of a commodity produced in California. It is almost beyond belief... There are more than 6,000 wine labels sold in the U.S., but fewer than two dozen sold more than two million cases in 2001." *Western Farm Press, Feb 2003*
- "While sales figures are kept confidential for competitive reasons, I can say one out of every five wine bottles sold in California is Charles Shaw." *Tim Bekins, Wine Buyer, Trader Joe's West, Jan 2004*
- "In the nearly six months since Trader Joe's introduced the Charles Shaw cabernet sauvignon, merlot, chardonnay and sauvignon blanc at \$1.99 per bottle, we estimate Trader Joe's has moved about 1 million cases... People are buying it 10 and 12 cases at a time and loading their cars until the springs break." *Jon Fredrikson, Wine Expert, Feb 2003*
- "Trader Joe's has sold more than 2 million cases of Charles Shaw merlot and Chardonnay since it began marketing the surplus beverage at \$1.99 a bottle earlier this year. Hence, the vintages' popular nickname of two-buck Chuck. Analysts say the strategy of using wine as a loss-leader -- a ploy that has served to depress prices throughout California's struggling wine industry -- likely will help the firm break out of its specialty category and fuel an expansion that will include adding an estimated 20 stores to its roster of 200-plus outlets this year." *San Diego Union-Tribune, Sep 2003*

1. WINE: IMITATORS

The success of Charles Shaw spawned imitators

- **"The wines quickly spawned competitors, the most interesting of which happens to be called, yes, Two Buck Chuck. The difference is that with the Charles Shaw wines, Two-Buck Chuck is merely a clever, informal nickname. Two weeks ago, the new Two Buck Chuck appeared in California, at the stores of a chain called Beverages & More. Only this second Two Buck Chuck was registered with the Bureau of Alcohol, Tobacco and Firearms as a legitimate proprietary name. This other Two Buck Chuck is made at the Adler Fels winery in Santa Rosa, Calif., which also bottles private-label wines for chain stores. The winemaker David Coleman said that Beverages & More had asked him to make the wine some months ago and that he had had no idea someone else was using the name Two Buck Chuck. Mr. Coleman said he doesn't see the \$2 wine phenomenon lasting more than "three or four months." He now has a 2000 cabernet sauvignon and a 2001 chardonnay. In the meantime, he told the Wine Business Insider, a trade publication: "It's amazing how much wine is out there and how inexpensive it is. I wish I could run my car with it."**
New York Times, Apr 2003

2. HEALTHY: HEALTHY NOT HARDCORE

Trader Joe's focuses on being healthy without being hardcore

- **"We carry mainstream items - soups, chili, pastas - with no additives, no preservatives. We try to cater to the health-conscious without being "hard core." We also have beer and wine, cookies and chocolates." *Bernie Jassmann, Captain, Tucson Trader Joe's, Nov 1994***
- **"It's fast food without the guilt." *Carlene Larsson, Trader Joe's Customer, May 2004***
- **"Looking for gluten-free cereal? What about cheese made with vegetable-based rennet? Or how about some fragrant white jasmine rice? While these items may not be on the top of everyone's shopping list, they're developing a following among a growing number of consumers who want to eat more naturally and exotically. Many of these shoppers are turning to Trader Joe's." *Supermarket News, May 1997***
- **"It's not just tofu anymore: Health food stores grow in choices and in popularity... Trader Joe's: Technically, this isn't a "pure" health food store, true. That's clear from the cartons of peanut butter cups and caramel chews displayed all too conveniently by the checkout. But there are some genuinely healthy finds here. The thoughtful (and will-powered) shopper easily can fill a cart with some honest nutrition at prices that would do the serious coupon clipper proud. Vegan cookies are here too, along with a wide selection of soy and rice milks. In the juice case, the store bottles its own varieties of blended juices and smoothies, similar to Odwalla and Rocket juices. You'll no doubt sip them blissfully, without a thought that they lack the more famous name brand. There's also a small selection of organic produce and a good variety of low-fat cheeses and meat substitutes, as well as a budget-minded vitamin selection. Admittedly, it might be hard to escape Trader Joe's without sneaking some gummy pineapples in next to your whole-grain snacks. Our advice: Snag a couple of cartons of soy milk and some fat free rice cakes and all will be forgiven. Just remember, it's all about balance." *Portland Oregonian, Apr 1999***
- **"While Trader Joe's isn't a natural-food store, its wide selection of special-diet selections are helping to spur its growth. It has focused on the aging baby boomers. This is an important demographic because as people get older, their more concerned about their health. Stores like Trader Joe's are benefiting from this trend." *Kim Galle, VP of Equity Research, Adams, Harkness & Hill, May 1997***

2. HEALTHY: ORGANICS

Trader Joe's offers a range of price competitive organic products in its stores

- **"Trader Joe's customers would prefer organic products, but they are not willing to pay much of a premium for them, so we currently don't have many. We're trying to work with manufacturers to develop organic, where there isn't a large surcharge for doing so. Customers have told us with dollars that they don't want to pay 30 or 40% more for organic."**
Doug Rauch, President, Trader Joe's East, Apr 1998
- **"We don't have a dictate saying we only have organic meats, but if we can get it organic at a great price, we're as happy as little clams about it."** *Audrey Dumper, VP Marketing, Trader Joe's East, Jul 2003*
- **"Organic refers to the way products are grown or raised (in the case of livestock) and processed without using most conventional pesticides, herbicides or commercial fertilizers. Irradiation, sewage sludge, and genetically engineered ingredients can not be used in the production of foods that carry the Organic or Made with Organic label. Organic farmers strive to conserve soil and water to enhance environmental quality for future generations. We are the first nationwide retailer to be certified as an organic trader! Certification includes inspections of warehouses and processing facilities, detailed record keeping with periodic audits to ensure that Trader Joe's, our manufacturers and processors are meeting these rigorous organic standards."** *Trader Joe's in-store brochure, 2004*
- **"Now our customers are looking for organics, and we have a lot of organic products. Many of our products have always been organic, but they've never noted it on the label because it wasn't a concern. We just stocked them because they were a better product. Now we're labeling some and not labeling others and letting the products fight it out on the shelves."** *Michael Seaward, Captain, Trader Joe's Kirkland, Jun 1996*
- **"What does the name Trader Joe's conjure? Trendy young people looking for natural foods? Volvo-driving suburban moms swinging by for some organic milk and free-range chicken? Right."** *Retail Traffic, Jan 2005*

3. ADDING PRODUCE & FRESH MEAT

While it didn't originally carry them, Trader Joe's now stocks a limited range of produce and meat

- **"I plan to do all my shopping there, especially now that they're carrying fresh produce and meats. I will be their biggest fan."** *Fran Sanders, Trader Joe's Customer, Aug 2004*
- **"Also as part of its growth initiative, Trader Joe's added fresh produce and meats in the past five years."** *Portland Oregonian, Jul 1999*
- **"On the West Coast, Trader Joe's is evidently targeting the ready-meal trend with a Trader Joe's Complete Caesar Salad kit, priced competitively at \$2.89 each. A Complete Baby Spinach Salad is complete with blue cheese, candied pecans, dried cranberries and raspberry vinaigrette. Other meal solutions new to West Coast stores include Trader Joe's Chicken Suiza Enchilada Casserole and Shredded Barbeque Chicken or Pork sold refrigerated in 16-ounce tubs for only \$3.69."** *Private Label Buyer, Mar 2003*
- **"Compared to some stores, we might be a bit smaller in terms of our selection of meats, but we still have chickens, skirt steak and ribs."** *Todd Turner, Store Merchant Naperville, Trader Joe's, Nov 2003*
- **"We don't have a lot of space in our stores, so we don't carry a whole 30-foot meat section. It's maybe 10 feet and it's just a real tight assortment of really high-volume items... This summer a number of a summer-oriented items will be merchandised, including its everyday signature ground-beef patties, as well as salmon burgers, and split chicken breasts with the bone and the skin. Chicken thigh-and-leg combos will also be offered, because people tend to barbecue those a bit more. This summer, we will also be test-marketing two choice grade meats, including whole ribeyes and 2- to 3-pound whole steak roasts, for which customers can dictate the thickness of the cut. Another summer product being offered is fresh salmon fillets, merchandised in the meat case. A number of in-store displays will help cross merchandise these items with other summertime-related items, including Trader Joe's branded chips, salsa dips, sodas and other barbecue-type food favorites."** *Chris Condit, Senior Meat Buyer, Trader Joe's, May 1999*

4. ETHNIC CUISINE

Trader Joe's has a good range of ethnic cuisines

- **"Ethnic cuisines are a great category for us. We have customers who are food savvy. They've traveled and recognize the items when they come in. When they see them in our store, they get excited. People think it's an adventure to come to our stores - it's like a mini vacation."** *Rita Garlington, Product Promotion Coordinator, Trader Joe's, Jun 2003*
- **"Trader Joe's promotes its ethnic ingredients through flyers with recipes and product information. In addition, products are promoted on its Web site, along with printable recipes. Each store has an information center with in-house recipes and ingredient information, as well as vendor handouts. Last year, the specialty food store chain promoted Mario Batali's new pasta sauce with in-store demonstrations and visits from Batali himself. "He came and signed bottles and talked to people," Garlington said. "Some stores had lines of people." Garlington agreed, "Generally, our demo people are our first line in getting product information out to customers. We do very well with Asian, as well as items from the Middle East. We have a very strong demo program in our stores and these people really do a bang-up job demonstrating new ingredients."Trader Joe's holds demonstrations from dawn to dusk, seven days a week. In addition, each store uses end-cap displays that feature a complete ethnic story. Sections within each aisle are dedicated to specific cuisines, such as Mexican, Indian, Middle Eastern, Asian, and Italian."** *Gourmet Retailer, Jun 2003*
- **"The company also caters to ethnic customers, offering such items as microwavable Indian Vegetarian Meals, \$2.99 for 16 ounces, and microwavable Trader Joe's Roasted Vegetable Enchiladas, \$2.29 for a package of two. There's even something for the kids: Millina's natural organic kids' meal, which sold at 99 cents for a 15-ounce can."** *Supermarket News, May 1997*

5. FROZEN MEAL SOLUTIONS

Trader Joe's has an excellent range of frozen food and frozen meal solutions

- **"Many years ago, we were very aggressive in developing what the industry now calls meal solutions in our frozen section." Doug Rauch, President, Trader Joe's East, Apr 1998**
- **"As you face the rear of the store, frozens are early in the traffic flow, on the right. The introduction to the section is a big endcap of shrimp: colossal, jumbo and large. I guessed the frozen aisle to 44 feet long with coffins on each side. Starting on the right, headed towards the rear of the store, selection began with Trader Joe's Thai style green curry chicken. On the right side were (among other things) lower-fat shepherd's pie, polenta with roasted vegetables, mushroom turnovers, eggplant pirogues, penne al forno (for four in a 36oz heat and serve package for \$4.29), spinach and mushroom lasagna, herbed ravioli, chicken chimichangas, shrimp rolls and shrimp stir-fry." Heading back toward the front of the store, the lineup across the aisle started with frozen desserts/sorbets and soon gave us a rare glance at branded products: Rice Dream and Tofutti novelties. This was followed by cheesecakes, pies, Van's waffles, Valencia orange juice, berry medleys' asparagus spears (a single facing of 12oz bags at \$1.99 - wonder how many they sell), beans, IQF chicken, several varieties of veggie burgers, and a good selection of shrink-wrapped, value added seafood. There was also a six foot endcap of Trader Joe's meals, all 11-16oz, including chicken breast, rice bowl with chicken, pot stickers and vegetables Veracruz." Frozen Food Age, Feb 1997**
- **"The vast majority of the frozens - maybe 95% - are under Trader Joe's label. It's a well executed, brightly packaged line with interesting SKUs and competitive pricing. While Trader Joe's promotes "no artificial colors or flavoring," what's equally significant is the selection. You won't find an abundance of sizes on the same item, or me-too extensions to clutter things up." Frozen Food Age, Feb 1997**
- **"We also sell fish, though it's all quick-frozen. We have everything from scallops to probably 10 different sizes of shrimp." Todd Turner, Store Merchant Naperville, Trader Joe's, Nov 2003**
- **"Frozen food was given an entire aisle, consisting of four, 15-foot-long coffin cases on both sides. About 1.5 cases were devoted to frozen seafood; while another two held frozen desserts, toppings, ice cream and sorbet; and two carried frozen vegetable dinners, quiche, potstickers and chicken fajitas. Packaged meat, vegetables and appetizers were among the items that filled the rest of the space." Supermarket News, May 1997**

6. VITAMINS

Trader Joe's is the cheapest place in the US to buy vitamins

- *"Vitamins for us are very successful. We've got 50 different types. Everything is Trader Joe's label." Lori Latta, Senior Buyer, Trader Joe's, May 1995*
- **"Trader Joe's is the best place to buy top quality supplements at the best prices. Here's why:**
 - 1. We're selling them at prices considerably lower than similar products elsewhere whether in supermarkets, natural food stores or even vitamin shops.
 - 2. All of our supplements are made according to the highest standards, without artificial colors, flavors, or preservatives - ingredients commonly used in commercial vitamins.
 - 3. All of our nutritional supplements are assayed to ensure full potency.
 - 4. We buy our vitamins in large quantities. Since we sell so many vitamins, and we buy often, our vitamins are always fresh and potent.
- **How is Trader Joe's Able to Sell Top Quality Dietary Supplements at Such Low Prices?**
 - We buy our vitamins and minerals directly from several top manufacturers. Many of these are the same supplements sold under well known brand names in natural food stores, vitamin stores and supermarkets at much higher prices.
 - We distribute the product ourselves. No middlemen or additional costs are incurred.
 - We take our regular Trader Joe's grocery mark-up on vitamins, unlike other retailers who take a significantly higher mark-up on their vitamins.
 - Since Trader Joe's volume is large and our overhead is low, we can keep our costs down and pass the savings along to you. *" Trader Joe's website, Jan 2005*

7. HOLIDAY

Trader Joe's is especially strong in the holidays

- **"We can't stock the shelves fast enough during the holidays." James Gibbs, Captain, Trader Joe's San Rafael, Nov 2003**
- **"You could put on an entire holiday party after shopping at this gourmet and import food and liquor chain. It's tough to beat its prices on everything from California wines and goat cheese to chocolate covered almonds and imported cookies. You'll also find a myriad of gourmet stocking stuffers. And if you're making gift baskets or entertaining this holiday season, head straight for the nearest location." LA Daily News, Dec 1993**
- **"If you have a few hard-to-buy-for people on your holiday gift list, food items might be the solution. With edible gifts, you don't have to worry about size or color. We decided to pay a visit to Trader Joe's because of the large variety of food items - which are great for gifts - and also the low prices. For example, Trader Joe's has white willow baskets priced \$3.99 to \$8.99 (\$6 to \$20 retail). You can fill a reusable small basket with perhaps 17 ounces of French dijon mustard in a reusable crock for \$2.99, a box of shell-shaped Belgium chocolates with hazelnut cream filling for \$2.99, and a quart of pure maple syrup in a reusable decorative tin priced at \$5.99. Wrap the entire basket in colored cellophane, put a bow on it and you have a gift for what would retail in the area of \$40 to \$50 for about \$20." LA Daily News, Nov 1992**

8. GOURMET

Trader Joe's has a good range of gourmet foods

- "Some simply attach gourmet to anything that is expensive compared to typical supermarket fare, This is not necessarily the case. I think you can eat more interestingly without spending more money... A closer definition is individualistic products not found, otherwise, in everyday meals. In many cases, this means international offerings such as wine from Chile or coffee from Yemen... The demand for international foods has grown during the past 10 to 15 years as Americans embrace world travel... We're becoming more knowledgeable. I think people are, perhaps, traveling more and opening their minds to different foods and ways of eating. ... Something beyond meat and potatoes." *Pat St. John, VP Marketing, Trader Joe's, Aug 1999*
- "The second-place Trader Joe olive, larger in size, was praised for its crunchiness and all-around flavor and appearance. Four panelists said they would buy this olive; one might." *SF Chronicle, Dec 1996*
- "When you open up a Bon Appetit, Gourmet or any of the other cooking magazines, you'll find that recipes that call for vinegar usually call for some of the more potent vinegars, such as the raspberry or the balsamic, and have now stayed away from the wine vinegars... Trader Joe's carries private-label raspberry vinegar imported from France, and a balsamic vinegar imported from Italy. Both are packaged in 17-ounce bottles and retail for \$2.49. We have had a lot of success with the raspberry and balsamic. They have met our sales goals and meet them consistently. Flavored vinegars are gaining in popularity with consumers, but in the past when we have handled 'straight' vinegars, like cider, we didn't have any success with them. It may be because of a pricing issue. Our stores are very blue-oriented. People perceive our raspberry and balsamic vinegars as a value because when they are looking for them elsewhere they are much more expensive, and they have really come to trust our quality." *Kimberly Greenfield, Buyer, Trader Joe's, Dec 1993*
- "'Trader Giotto' (a.k.a. Trader Joe's) Caponata is a mild but rich-textured mix of all kinds of veggies: tomato, eggplant, celery, olives, onions plus honey, wine vinegar, capers, etc. (17 ounces, \$1.99; 1-ounce serving, 25 calories, 1 gram fat, 70 milligrams salt.)" *SF Chronicle, Jun 1992*

9. SNACKS

Nuts and snacks are a strong area

- **“At Trader Joe's, prepped popcorn accounts for \$1 million a year in sales - all in 10-ounce bags, of the house brand, which sell for 99 cents. Popped popcorn outsells unpopped in the chain's 57 stores in California and Arizona. Flavored popcorn generates interest and excitement and boosts overall sales figures, sources said. At Trader Joe's light caramel and white cheddar are considered staples, while jalapeno will be replaced when a new trend asserts itself.”** *Supermarket News, Sept 1993*
- **“Trader Joe's Crispy Apple Chips are distributed by Trader Joe's of So. Pasadena, CA. These fat free, salt free snacks are claimed to have no added sugar and to be a good source of fiber. Package text states, "Trader Joe's Crispy Apple Chips are prepared from ripe Granny Smith apples grown in the Pacific Northwest. The apples are carefully washed, cored, thinly sliced and dried to not more than 3.5% moisture by weight. Unlike some other apple chips, TJ's Apple Chips are dried crispy in the oven, not fried in oil, so they are fat free!" Offered in 2.5 oz. purple, green, orange and black laminate bags, these chips retail for 99 cents.”** *Product Alert, Feb 1997*
- **“The hills are alive with the sound of crunching. It's hiking season, and the search is on, not only for the ideal vista, but for the ideal energizing snack. The cognoscenti are scouting for trail mix... Our choice, Trader Joe's Cranberry Trail Mix, is both beautiful to behold and to eat. It contains that favorite New England fruit, along with golden raisins, raw sunflower seeds, whole almonds, pepitas, and cashews.”** *Boston Globe, May 1998*

10. BEVERAGES

Trader Joe's beverage section focuses on natural and healthy products

- "Across the aisle from the beer section were a variety of nonalcoholic beverages, including smoothies; Ocean Spray juices, 89 cents for a three-pack of 8.45-fluid-ounce boxes; Trader Joe's Raspberry Peach Blossom, 1.89 for a 32-ounce bottle; and New England Apple Juice, \$1.59 for 32 ounces. Bottled waters were also available, including Poland Spring, Crystal Geysir and Trader Joe's, which sold at 99 cents for 1 gallon." *Supermarket News, May 1997*
- "The latest craze in health food is the beverages and bars that promise more thinking power, increased immunity and other boosts in general well-being... Trader Joe's Lemon Ginger Echinacea (\$2.49 for 48 ounces) was considered the best of the beverage bunch. A strong ginger bite and hit of lemon mask the potentially unpleasant flavor often imparted by echinecea, which many people take to ward off a cold. Our least favorite was Ginseng Swing Herbal Refresher (\$1.79 for 16 ounces at Andronico's). Honey did little to hide the medicinal flavor and bitter aftertaste." *SF Chronicle, Jul 1997*

11. GENERAL MERCHANDISE

Trader Joe's has also imitated the Aldi program of in-and-out general merchandise specials to create in-store excitement

- "We have upgraded our general-merchandise offering by regularly stocking imported items at higher price points. The move is being made to better complement our specialty-food business... The product is J-hooked, shelved or presented in cut-cases... We plan to widen our tabletop accessories to include imported leaded crystalware, as well as hand-painted fruit- and flower-pattern ceramic serving platters and bowls, Previously, we merchandised imported ceramicware as a two-week, in-and-out promotion... People started coming in looking for the next pattern and asking: 'Is it here yet?.' The beauty of this is that you don't need a designated space because it can be merchandised anywhere in the store... Sales in the first quarter of this year jumped 100% from those a year ago... The offering is better quality items with good values at retails between \$6.99 to \$24.99. This merchandise would regularly sell for double our price points at stores like Williams Sonoma, Macy's or Crate and Barrel... We are targeting well traveled, better educated, and interested in good values in both food and nonfood categories. The ceramicware, imported from Italy in large 10,000-piece containers, are packed in corrugated floor displays. The containers are delivered to our central distribution center in Chino before they are opened. Two or three displays are then shipped to each store... Sales have been outstanding. The shippers usually sell down in 10 to 14 days, and the excitement they generate carries over until the next shipment of ceramics arrives from Italy... General-merchandise sales peak fastest when about three shippers of ceramicware or crystalware in different patterns are arranged at the front end. During a spring promotion we featured some of its priciest general merchandise -- retails ran as high as \$33.99 for 24% heavy-leaded cut-crystal bowls and vases from Schott Zwiesel, a German manufacturer... Displayed in about 3 square feet of selling space, Trader Joe candles are priced 20% to 50% lower than at other area retailers. The mix will be expanded with scented and aromatherapy varieties this fall... For Memorial Day we will cross-merchandise barbecue tool sets with red, white and blue displays of potato chips." *Annette Davidson, Senior Buyer, Trader Joe's, May 1998*

“Trader Joe's stores offer healthy products to people who are label readers and care about what they eat. Most of our customers are looking for something different you can't find at the supermarket down the street. We are not actually a grocery store, or a health food store. We offer a limited selection of a lot of different foods.”

Pat St. John, VP Marketing, Trader Joe's, Oct 1995

APPENDIX 2: INTERVIEW WITH JOE COLOUMBE

**A Conversation with Joe Coulombe
Founder of Trader Joe's**
March 2005

**Tim Morris, Managing Director, Coriolis Research interviews Joe Coulombe,
Founder of Trader Joe's on the history of the concept**

Tell me a little about the early history of how Trader Joe's was developed?

History First of all, I had been an employee of the old Rexall Drug company, my first job when I got out of Stanford when I was 20, in 1954. I quit and went to work in the semi-conductor business at Hughes Aerospace. I came back - they asked me to come back, in 1957 - to fire up a chain of convenience stores, because they had seen 7-11 in Texas, and there wasn't anything like that here [in Los Angeles].

Innovation from the start However, I didn't much like 7-11 so when we opened the first store, in 1958, we innovated a lot of things, including a lot of drugstore merchandise. In those days supermarkets did not carry health and beauty products. Pronto was probably the first grocery store in the United States to sell health and beauty aids, and we were the first to sell paperback books and we were the first to promote photo finishing.

Ice Cream We were the first to promote ice cream because, until the 1960s, ice cream was the province of drug stores. Sav-on was the largest ice cream account in the world. The Owl Drug Company, like most drug store chains, had its own ice cream plants. And the Owl Drug Company was failing because Sav-on was destroying it, and so one of the rationale for trying this experiment was to get ice cream volume back up in the plant. This is the point - the perils of vertical integration - this is A&P writ small. But also we pulled a lot of health and beauty aids out of the Owl Drug Company's warehouse and we were tied in with their photo finishing system.

Rexall was anti-union so Joe becomes the owner But they were 100% union and they didn't want to be union and so they set me up in a deal in which I was president of the corporation, I owned 49% of the common stock for \$49 and they owned 51% for \$51, but the money came from preferred stock which was to be paid out of retained earnings over time.

Life is too short So, in starting up the first store, I was going into a violently union environment. Having seen the low quality of people in 7-11, I felt that life is too short. So I started looking at the union contract. It so happens that in staffing one of these stores in those days, you staffed it with 3 people, you opened 7 to 11, so a 48 hour week for each person made a lot of sense, then you beefed it up with some part time help.

Fair wages set at median family income So I figured that, under the Union contract, a person would make if he worked 48 hours, and this came out to \$7,000 a year. That happened to be median family income for California, and so what I said was this: our average full time employee will make median family income for California, whatever it is. There are no labour negotiations here, we have an objective standard. And, by saying median family income, this gives me at least some access to the upper half of the labor pool. I can get better people. In those days benefits were not an issue. So that's where we started out from in the beginning, with a very high payroll cost relative to all other convenience stores in the United States.

Women return to work Well what I did not foresee was that all these women would go to work - in the 1970's, fifteen years later - and as a result median family income rose much more quickly than median employee income, and that is why your average full-timer in California now makes about \$50,000 a year, as median family income.

So the whole history of Pronto Markets and Trader Joe's is driven by high wages - not high wages, high incomes - because it's so important to distinguish between rate per hour and take home pay but it's driven by high take home pay.

Secret #1: Hire good people and pay them well So this is the real secret of Trader Joe's, it's the quality of the people. Merchandising comes in close, but this is the real secret. And that came from Pronto.

Did you have any experience in retailing before you set this up?

- No retail experience
I never rang a cash register until the first day we opened our first store – the first Pronto in Pacific Palisades in 1958.
Anyway, I opened about half a dozen of these things and they worked and then Mr Dart, the Chairman of Rexall, had bought Tupperware, and so he gave orders to sell the stores – he had 1,200 drug stores across the United States – and Pronto was a crumb in one of these. And he wanted to put all of his money into Tupperware, and so everything was sold off.
- Joe buys Pronto
So I didn't have any money, but I borrowed a little bit here and a little bit there and I sold half the stock to the employees and finally on a personal note Bank of America loaned me the rest of the money. On the other hand to Rexall, this is a crumb - they wanted to get out - and so they were not real hard on their bargaining.
- So I found myself with half a dozen stores, and no capital and no central structure because Owl had been doing the bookkeeping and a lot of other mess....

Getting you your Ice Cream?

- Adohr Milk Farms
That was no problem. I engineered the sale of the ice cream plant to Carnation and they gave me some. So I made a deal with Adohr Milk Farms, and we created yet another corporation and it was structured so I put in no money and all the Pronto's and they put in all the money and a nominal controlling interest. And with this money I was able to expand to 18 stores by 1966.

- Pronto was very profitable but losing it's point of difference
And the original group of stores were making a lot of money and we started expanding a, but I became even less enchanted with the convenience market. For one thing, when we started in 1958 all supermarkets chains closed on holidays and many on Sundays. Then after a big recession that we had here in 1960, they all began lengthening their hours, so one of the original premises was actually blown up.
- Along about 1965, the Boeing 707 – the first narrow bodied jet - went into service, and what it meant was that the investment per employee was radically greater than with the DC6. And I asked myself: "how can I invest more per employee in the Pronto market?"

- Liquor into Pronto
And the answer was liquor. Because in those days we had "Fair Trade" laws in California, which meant that all retail prices were fixed by the manufacturers. It was a felony to break price. So it took us maybe \$25,000 to set up a Pronto Market, but a liquor license cost \$25,000. So I began buying liquor licenses. And you had maybe another \$4,000 of inventory, and you shove it in there because it's a high value per cubic inch – it doesn't occupy a lot of space.
- Need for more differentiation...
And so by 1966, I had liquor in about a third of the stores. And so I'm looking at myself and thinking that Pronto Market really isn't a terrific platform for liquor, because by this time we had Speedi Mart, we had U-Tote-Um, and we had Circle K, and they're all convenience stores, and we've got Pronto Markets and we know internally that we're differentiated, but we aren't that differentiated.

- Adohr sells to 7-11
At this point, the owner of Adohr Milk Farms takes me to a very alcoholic lunch, at the end of which he tells me he has sold Adohr to 7-11, which has just bought Speedi-Mart. 7-11, which doesn't like unions – it's out of Texas – has decided to defeat the unions with franchising – which was what Speedi was bought up.
- You see it's balance sheet, not merchandising. Because their net worth was immensely greater than ours. And the way you get a lease with a landlord to build a store is because the insurance company will lend him the money to build a shopping center. Well, we didn't have a network and that's why most of our stores where rehabs of existing structures and that continued in the early days of Trader Joe's, because we didn't have the net worth.

- An offer you can't refuse...
So I found (A) that the 800 pound gorilla was coming to town and that (B) it now

owned my source of supply. So I figured I had three years before they would crush me, they'd make me an offer I could not refuse. But they did not want to crush me right away because I was the biggest customer of this creamery. Because I'd been taking Pronto Market locations on the idea that I could sell the most milk.

Buying out Adohr

So, I'd been piling up cash, because I'd cut back expansion, and I had a buy-out clause and the guy who had owned Adohr had inherited Malibu, see his mother had inherited this Spanish land grant and he was cash poor and he needed money to develop Malibu. So, he felt terrible about it. And so everybody at 7-11, was very nice and so I bought out their interest.

Information point #1 - the growth of college students

And then I sat down to think. And the first thing I came across, in Scientific America I found that the number of people who can go to college in 1964, of all those eligible 60% could, where as in 1932 in the pit of the depression only 2% could.

Different from the mass market

And I felt that these people would want something different than their parents, who now form the mass market of the 1960's, the people who are watching television now, and drinking Minute Maid, and eating Swanson TV Dinners, and what have you.

Focus on college graduates

Vietnam really hasn't happened yet. What I did see was a small but exponentially growing population of college graduates.

Convenience becomes a commodity

What I realized was that in the convenience store I had stumbled into a commodity business and in a commodity business it's the guy with the most capital who wins, and that's why 7-11 finally went bankrupt in 1990, along with Circle K, and U-Tote-Um, and all the others, because the oil companies moved in - Arco went into AM-PM - and oil companies have more money than anybody. Therefore today the oil companies own the convenience store business. In fact I think Circle-K was bought out by one of them, and probably U-Tote-Um also, and 7-11 is owned by Japanese.

So what I wanted was a small opportunity but what I realized was I had stumbled into too big an opportunity, a big opportunity for a small business man and so I saw this small demographic slice.

Information point #2 - foreign travel becoming mainstream

And then the other thing was that I read at the same time that the 747 would go into service in 1970 and that it would radically reduce the cost of foreign travel. And it did, and travel is a form of education, and I felt that again this would impact what people ate and drank.

Trader Joe's is born

Well, this is why it's called Trader Joes, it was to evoke images of travel to the south seas. At that time Hawaii was impossibly exotic, because you mostly had to get in a four engine DC6 to get there, the 707 had barely gone into service - I mean my wife and I went to Puerto Rico at this time and it took forever, but the new planes got you there.

South Seas images

So that's why we went with Trader Joe's, to evoke images of the south seas, and that is why to this day employees wear Hawaiian shirts and the managers are called captains, and the assistant managers called first mates.

Is this beach in the West Indies all true? You were there and you had the idea?

Yea, well, I began thinking in those terms.

Information point #3 - education = alcohol

The problem was we didn't know what would appeal to these people. But then I came across a third piece of information and that is; the correlation between years of education and alcohol consumption is about as good as you are going to find.

World's largest assortment of alcohol

And so, now I knew what we had to do, and we began running experiments in Pronto, in select demographically correct markets, like the one here at UCLA. And in 1967 opened here in Pasadena. And basically it was a Pronto Market with the worlds largest assortment of alcoholic beverages.

What sort of range would you have had in those days?



100 brands of bourbon

We had 100 brands of bourbon, 70 brands of Scotch, 50 brands of Gin, and 14 brands of tequila. You see, Fair Trade, we could not compete in terms of price, therefore one competes in terms of assortment.

So, would you have had more range than anyone at that point?

Yea, and because I leased a store bigger than my pro forma, I had extra space as an afterthought.

What sort of size was the first Trader Joe's? What sort of square footage are we talking here?

The first store...
It grew in two stages, but basically let's say it was about 8,000 sqft, and I had been thinking in the range of 5,000. I had to take a building - it was a 1911 water bottling plant.

What's the building now? Does it still exist?

Sure, it's right over here on Memorial Parkway, off California. Just get on California and go there. It's right there at the corner.

Pasadena writ large
Overeducated and underpaid

Pasadena is chock full of well educated people. And really, to a considerable extent, Trader Joe's in the mores of Pasedina writ large. And what I finally came to express is Trader Joe's is for the over-educated and underpaid. And Pasadena is the archetypal town of that sort, so I wanted to open here. But we had a dry zone around Cal Tech. There were several dry zones in California at that time, around Stanford, around Pomona, around Whittier College, and so forth.

And I could find a liquor license right there, from a liquor store a half block away - the guy was dying of emphysema - so then I had to find a building to put the liquor license into, without getting any closer to Cal Tech.

World's largest assortment of
California wine

With the extra space I accidentally created the world's largest assortment of Californian wine. In 1967 nobody was interested in wine, let alone Californian wines. We were the first to give shelf space to what later became known as boutique Californian wineries. And so we were the first to sell Schramsberg Champagne, and Heights Cellars and Martin Grey, and Freemark Abbey, and of all the elements, we haven't changed the food because we're grocers.

So, this is the first Trader Joe's - it's a Pronto Market with a big assortment of liquor stuck on. This is day one and you open the doors and you're there and...

Photo finishing for travellers

All the dry grocery is the same, the photo finishing, even more aggressive because we're dealing with travelers. There were times where we did 2% of our volume in photo finishing, we broke the price on photo finishing in Los Angeles.

Broke the price on magazines

And I broke the price on magazines. And we tried a lot of things, things which we have tried and abandoned, one way or another. Because the idea is that you only want to sell things with a high value per cubic inch.

Because it's a convenience store - you have a limited space - you don't have a 100,000 sqft monster?

Expansion begins

Yea, yea. This first version worked and so what we did was I went out and I leased some more locations and we went back and we converted some of the demographically correct Pronto Markets and we began selling of the non-demographically correct Pronto Markets - some of them to 7-11, some of them to Circle-K, whatever.

And there is a transition period here - the Trader Joe's are opening and the Pronto Markets are closing?



That took a long time. The Pronto markets were cash cows. I probably took ten years. We, sometime, we just changed the name on it but...

It was probably 78 when you closed the last Pronto?

Pronto lasts until 1986
Oh no, probably 86. There was no rush, I'm not a zealot. As long as they make money. Remember now, the pay scale is the same. That's why counting the numbers of stores doesn't mean a god dam thing really.

Anyhow, this worked for three years then, this is version 1, then in 1970 we were hit by a serious recession which was very much like what we experienced from 1990 to 1994 at the end of the cold war but it was concentrated into about 18 months. One out of every 10 houses in Los Angeles county was for sale.

Because a lot of the aerospace was down?

Economic downturn
Huge layoffs in aerospace. Very depressed conditions and I needed to do something different. Well one of our managers was a health food nut, and he had been leaning on me for a long time to experiment with quote "health foods".

Which in those day was a pretty primitive market – we're not talking the Whole Foods and the Wild Oats of today?

Oh, no, no. you had chains of true believers like Linburgs, but...

So there were actually stores around at the time? Small format stores, health food stores?

Yea, very small, about 800 sqft...

The hole in the wall and some hippy?

The biosphere
Yea, sure, we'll come to hippies in a minute. So the real turning point came in 1970, again from Scientific American, and every year in those days Scientific American - which has gone to hell since the German's bought it - devoted it's September issue to one subject. And that year they devoted it to a word I hadn't heard before - biosphere. And I had a conversion on the road to Damascus and I became what is now called a greenie.

Introduction of health food
Trader Joe's - version 2
Just grocers...
..learning about wine
Between my conversion and the long term urgings of this manager Bob Hansen I decided to marry the health food store to the liquor store. So my wife and I went up to Haight Ashbury, we walked the streets of Berkeley. I hired a hippy woman, in the summer of 1971, from UC Santa Cruz during the summer break to teach us the lingo. So we made the move in January 1971, and this is version 2. Our first private label product was granola.

Now you must understand, I can't overstate this enough, we were grocers in 1967, ten years into the business, and grocers don't know anything about wine. We knew a lot about liquor from drinking it ourselves. And so we sat down and every afternoon we pulled 60 corks until we did know something about wine. And so by 1971 we were deeply knowledgeable about wine.

And so now we sat down to learn about food. And as we moved along with this, we applied some of what we learned about wine merchandising to food.

What would be an example of that?

Bring ing wine merchandising to food
Well, it's no longer true in the stores, but in the old days, when I used to lecture at USC I'd say Trader Joe's is the only store with a vineyard specific, vintage dated canned corn. It came from a specific corn field in Iowa, which is isolated so you don't get cross-pollination issues - and it was the best god damned canned corn you've ever tasted in the world and our biggest problem was fighting the Japanese off for it.

Scarcity And so the concept of scarcity. Once there is 1966 Lafite Rothschild – once it is gone there is no more and this concept discontinuity became a very important part of our retailing – and still is – but it's become quite blurred now, because when you're running a four billion dollar company it's a lot harder, but we would deliberately, as part of this move into health foods. One of the first places we went was into nuts and dried fruits and there were times when 3% of total sales would be in cashews, when we had made a huge special buy. We would build a huge pile and then I would write this up in the Fearless Flier.

Food is not plastic

But this concept, this idea that food is not plastic, that it is not continuous like coca cola, was, very much emerged out of the concept of vintage dated wine or vineyard specific wine. We'd point out the difference between, say African cashews and Indian cashews and Brazilian cashews. You're always looking to differentiate the product, you're always trying to avoid commoditization.

Differentiate the product to avoid commoditization

Biggest in brie

When we put in cheese departments, because the health movement at that time stupidly thought that cheese was healthy – and that's how we became the biggest retailers of brie in the United States – the biggest retailers of Jarlsberg, the biggest retailer of English cheeses, and so forth.

How did you get into that business? Did you just say one day we're going to do cheese? Did you just fly to France? Where did you get the product?

Well, you start learning about cheese, you start studying it. We opened a department out in Sherman Oaks. You learn and when you get it going you install it in all the stores.

So for example, were you importing containers of cheese?

Working the regulations

Learning how to import cheese, that's a whole... you read the regulations, you hire lawyers, you learn how to play the quota game in Washington DC. We set up a half dozen dummy cheese buying companies – all that's gone now, my successors pulled out the cheese departments and I don't blame them. But anyhow, that was a big part of our business at this stage of the game.

Fresh orange juice

We put in fresh orange juice machines, what a bitch.

Vitamins

We went into Vitamins in a big way with 'Trader Darwins'.

Aimed at the well educated

Now that's another thing, all the private label was aimed at the well educated, inner jokes, the Brandenburg Brownies, the Sir Issac Newtons, all this stuff, aimed at the subliminal, so that when the well educated person walks down the aisle they know, without anything shouting at them, they know that they are in an outlet aimed at the well educated person.

In the early days can we just talk for a minute about what the private label looked like?

19th Century art

Private Labels were all based on 19 Century art, as was our publication, which I started in 1970, which for a long time was called the Insider's Report and

And then Dave Nicol bought it from you?

Dave Nicol buys the name

Dave Nicol paid me a \$100,000 for the name - which was fine by me - and we changed the name to the Fearless Flyer. Dave Nicol came down to see me and he modeled a lot of what he did on Loblaw and he has been very generous in giving credit for it.

Haunting the book stores

So, you see there is no copyright printed before 1906. And so I haunted the book stores and amassed a big library of boys adventure books and whatever, Punch, and such, from the 19th Century, and so then we used this artwork and a lot of it is still being used, both for illustrations in the Fearless Flyer and for the private label thing.

Was that to control costs using those old illustrations?

Yea, yea. Of course.

How did you do the design? I've seen an article where you talked about using Macintosh, but this is 1970, so you didn't have Macintosh?

Apple Macintosh

We didn't have Macintoshes until 1984, and we didn't go to PageMaker - a fantastic breakthrough in software - until 1986 - which disintermediated the printer - that was a fabulous breakthrough - that was what permitted us to go from 16 to 20 or 24 pages on the Fearless Flyer. It was a bitch before that.

We ran the whole company on Macintoshes - my son works for Microsoft, he is a certified Macintosh programmer - we set it all up. He wrote all the programs the company ran on until well after I left. We tried PC's, but they were miserable, we threw them out in 1984 and converted 100% to Macintosh. With Macintosh today it's a cinch - art is all cut and paste.

So, you'd have an idea for a product - this is 1970 here - and you would find some art in these books you'd collected and you'd come up with a name and you would pass that to the printers and say stick this on here...

The old style, the original, that's what I remember as a kid. Where as nowadays the quality of the art, the layout, has got a lot better.

Better is an aesthetic judgement

Better, that's an aesthetic judgment... Whether it's as effective is another issue.

Well, what I am seeing as an observer is that the newest products look almost indistinguishable from what you would find at an Aldi.

Returning to their roots under Bain

Well, that's an accident. I think that since Dan Bain took over there has been a distinct effort to go back. In other words, during John Shields era there was a dumming down effect in the stores, a lack of interest in pursuing the intellectual side of the business. With Dan Bain, he has said they want to go back to what it was before. So, I'm not criticizing John, I'm just telling you what happened under the pressure of expanding nationally, why a lot of things fall by the wayside. And in some ways I think Trader Joe's East was less affected by that than Trader Joe's West, because the headquarters are here.

Take me back to the 70's. There was this health food model, and there is liquor, there's almost an incongruity there. You had a convenience store with liquor. Was this just one day gone and their was a health food store there?

No, we would have been incapable of doing that because we didn't know anything about food. It took us - I'll come to that later...

Need to build distribution

But, we had to build a distribution system. But the centre of the store was all coming out of Certified Grocers, we didn't have the logistic capability, our volume wasn't great enough, we didn't have the skills.

Largest French wine retailer in Southern California

However, another element now - this is version 2 - in 1970, again, reading the regulations I found a hole with the Fair Trade regulations when it came to French wine, which permitted us to break the price by finding a retailer can not import directly in California, but by finding a friendly importer we could get him to post what ever retail prices we wanted, and we drove a truck through that hole and within 3 years we were the largest retailer of French wine in Southern California.

Did anyone else follow you?

Grandfather clause

Nah. And in 1971, I bought a Master Wine Growers License which had been issued in 1933 when Prohibition went off, and which had all kinds of grandfather privileges in terms of what you could do.

The state refused to give me all its privileges. I fought this in the courts but I decided to hell with it, because technically I should have been able to be my own importer, but they would never let me do that, all hell would break loose, although San Antonio Winery downtown has it – a 1933 license and they do their own importing and retailing down there.

Private label wine

But with this we then began our private label Trader Joe's program. Well now, between these two factors, you have an importer who has only a license and no distribution system and then you have all of this private label Trader Joe's wine. We had to create our own distribution system. And for many years of the project we called it Trader Joe's Winery, because it was done under that license. With this we began to line up warehouses where we could hold wine. And we began to line up Gippo truckers who could distribute it and we began to find out-sourced computers who could print the orders documents and the receiving documents.

You were outsourcing everything? Warehousing, distribution?

Price controls end on milk

Yea, yea. And so all of this was rolling and we were coining money, when the roof fell in again, in December 1976. We had had price control on milk since the pit of the great depression, and in December 1976 the milk bureaucrats decided that they would no longer enforce minimum pricing on milk to the consumer. They continue to this day to enforce it from the cow to the creamery and to the creamery to the market – although since most market run their own creameries, this is academic. Well within two weeks our gross profit on milk went from 22% to 2%.

What percent of your mix would it have been in those days?

Milk was still very significant, and there were a whole bunch of other dairy products like cottage cheese, and sour cream and so forth, which were impacted by minimum price controls. At the same time the alcohol bureaucrats in Sacramento said "Hey, wait a minute, maybe Fair Trade is in violation of the Robinson Patman Act.

Well, things had been going so splendidly, and you must remember now remember that in the dark days in 1962 when we were on the edge of Chapter 11, and I had bought out Rexall and we had no money and I sold half the stock to the employees, we still had this employee stock ownership organization.

House prices rise...

The problem came, however, in the 1970s once the real estate market recovered from that recession in 1971, housing prices began to explode because a courts ruled that a women's income had to be counted in judging the family's ability to make mortgage payments. Until that time it was almost impossible for a single woman to buy a house. As a result the price of houses went crazy.

And now.. so under the system that we had when one employee wanted to sell units, in this stock trust, why then they were put up for sale at book value, calculated quarterly, and then a new employee coming to work or somebody who wanted to buy more units, and so forth, would pick up those units. Well, what happened with the growing price of houses was that the wives, in particular, wanted to buy a house, and so all the discretionary capital in the household went on property and mortgage repayments.

Cash rich

And so what I had to do – we were cash rich – Trader Joe's hasn't owed a penny since 1975 – there have been no interest bearing debts since 1975 – I'm very conservative. I kept using corporate cash – but of course I'm the majority shareholder – so of course my interest keeps getting bigger and my interest keeps getting bigger and bigger and bigger – and my dream, one of my dreams along the way had been to create an employee owned company.

Employee stock ownership

So I said OK, instead what we're going to do is create an employee stock ownership plan. We decided to create an employee stock ownership plan. And I began working on this in 1975, we spent a lot on legal fees, we had everything set, we had the appraisal, because this has to be appraised because this was not publicly traded securities, obviously, to do this. And over time, over a period of about 15

years, I would continue to hold the voting stock but all the Class B stock would be transferred to this employee stock ownership trust. This is all set to rock and roll and these two things happen.

The trade thinks we are going to go bankrupt – and I think probably half of our employees did too...

Because of the falling price of milk?

Because of the end of Fair Trade. Because alcohol was such a big part of this. Also I'd taken some controversial moves – I was the first to accept credit cards – and nobody thought we would be able to continue that. So, I on the other hand, felt that any time the government gets out of your business it's a good deal.

Trader Joe's - version 3
So what I did in 1977, in February 1977, I launched version 3, which is the final version and I said we are going to have a 5 year plan at the end of which we will not sell anything unless we can be outstanding at it. And so...

Did you have an idea where that was going to go?

Competitors fail to respond
I knew what we had to do, but I wasn't sure how we were going to get there and so many things came along which I did not foresee. But what happened was actually none of my competitors responded to the change in the law. To be fair, it took a while, not on the alcohol, but on the milk, it took a while for it to get sorted out in the courts. Most grocers didn't understand that the legal underpinnings of the grocery industry that had existed in California since 1930s had been pulled out from under them. And so nobody started promoting liquor.

Massive range reduction
So what we did, then, first to go were the 100 brands of bourbon or scotch – 70 brands of bourbon and 30 of scotch. There was no point. Now one could compete in terms of price. Naturally you don't want to compete in terms of price if you don't make any money. But the need to compete in terms of assortment went bye-bye. And so, going into this you asked me about sku count, going into this we had about 6,000 skus available to the stores, And we slashed, we slashed, we slashed over the five year period.

Into private label bakery

Among the last skus to go were all bakery products, because, and I hired a woman, who is back working at Trader Joe's now, Lorie Lotta, a brilliant woman who had studied baking in Paris to set up our private label bakery program. And we had 17 different small bakeries.

So, 5 days a week, stores would call in their orders at midnight to an Apple 2 and then the Apple 2 would compile these and then someone would come in and call the bakeries at 4 o'clock in the morning and then and at 5 o'clock that afternoon the orders would be delivered to dock down here in the central manufacturing district, where we had, again, a gippo trucker who'd break down the orders and ship half the orders that night and the other orders the next morning. And we were told in no way could we get rid of Webber's Bread and all, no problem. And of course we did this with a health food twist and we became the biggest retailers of croissants in Los Angeles because then croissants were hot. Of course, later on they went bye-bye.

So, you ditched all major brands, because at that stage you knew what was coming, that you wouldn't be able to compete on these products in terms of price?

Dropping their wholesaler
We, you know, you just try it. And then at this time, at the same time, we opened a store in Westchester in 1979, and the district manager came to me months later and he said "Joe, you know that opening order out of Certified", he says "it's still sitting there." He says "we don't need Certified." So we dropped Certified Grocers and all conventional wholesalers. But by this time, you see, we had learned enough in terms of logistics to create our own system.

Practical people
I mean I did not build this myself, I cannot tell you that often enough, although I haven't said it so far this morning. I built this with real practical people, none of

whom had a college degree. And who figured the problems out. For example, I remember about 1981 I said, “we’re going to pull out of Certified Grocers. What the hell are we going to do about frozen food? Should we pull the frozen food out of the stores?” And they persuaded me that somehow we could put together a trucking system and a wholesale refrigerated warehouse – there is an ice plant over here in Pasadena – and we used that as the cold storage area. I mean a lot of this was ad hoc. We were able to hammer together a system in which we were no longer reliant upon any conventional source of supply.

Dropping Coke and Budweiser

By 1982 we had accomplished about 80% of this. The final thing came in 1985 when I dropped Coca Cola and Budweiser. And I had... - a lot of being a CEO is being a salesman to your our employees – and I argued with our managers for years as we did not have outstanding prices on those two products because there is no way to do it without losing money. That’s the other caveat, we will not sell anything unless we can be outstanding and make a profit. So finally, well, they said “People want it for convenience.” Now that’s true but every time you put a pimple on your image...

Nobody came in the store and went nuts?

Probably they did, but tough. We had already dropped Frito’s and Laura Scudder potato chips and everything else, Twinkies. And so...

In this process you were rolling out a lot of private label?

Tertiary brands

Not necessarily... Tertiary brands and... We did a lot of this with brewers. We brought in things like Dixie Beer, which was big in New Orleans. We brought in an excellent beer from Cincinnati called Christian Moerlian, a lot of this stuff.

Elimination of DSD

And so, part of this, what I was driving to, was a system in which there were no DSDs, no direct store deliveries. And one reason I hired John Shields in 1987 was to perfect this distribution system, because John is very good on logistics. And what we created was something in which nothing comes to the stores except through the central distribution system. And that means you don’t have all those soft drink trucks and all those bread drivers - they all steal or peddle dope or whatever – and so this leads to control over gross profit, control over shrink, where nothing gets delivered except through your own system.

Outsourcing

And we learned to ship different temperatures on the same trucks, all these things. That’s another thing, we set up our own milk distribution system, but to this day you see Trader Joe’s operated no trucks, and no distribution centers, it’s all outsourced.

Shields made a big mistake, he bought mainframe computing inhouse and they have had nightmares, real problems with that. But prior to that everything was out. We created a system of product ordering on the Macintosh, but that went to an outsourced mainframe computer.

So this then is what you know as Trader Joes – it is the 1977 chassis created in response to the end of Fair Trade on milk and alcohol.

And since then they have just been running the photocopier on that, up to 230 stores, whatever it is now?

Getting rid of the cheese departments

Yea, but a lot of things have changed. They got rid of cheese departments, that’s fine.

What did these cheese departments look like in the old days?

We actually had a department there, where wheels of cheese were cut on premise. And also we did a lot of other things - we bagged pistachios, we bagged dried apricots.

So it had this sort of deli feel about it?

Yes, and we made sandwiches.

Produce Where my successors have gone are areas where I could not go at the time. Starting with produce. We tried and tried produce and we could never make it work. But the year that I left, in 1989, the first packaged, chopped lettuce came on the market – this was a revolution (the last figure I saw was 60% of all lettuce is sold in that form. Well, for Trader Joe's that was ideal, because there is no handling. They don't have the health department approved facilities to handle produce, to rework produce on the premises. So everything has to be pre-packaged.

And we started with pre-packaged produce in Pronto Market in 1958.

What did it look like in those days?

Quality on perishables not always good It was terrible. Plastic film has evolved radically. What makes chopped lettuce is a revolution in plastic film, and so at Trader Joe's everything is pre-packaged. The quality is not very good, I have a... but it satisfies a need.

Meat The other place they went which I could never go was in selling meat. We had sold frozen meat on occasion.

Getting into frozen fish One of our breakthroughs came in 1974, when we were the first to sell non-value added frozen fish. Until that time in supermarkets all frozen fish was value added, rolled in bread crumbs or something. One of the boys found a fish processor who said "Hey there, we're having these odds and ends of this stuff left over and we can't sell it to supermarkets, we'll freeze them for you and package them for you. Huge success. And that's how we got to be the largest retailers of black tiger shrimps in the United States. And non-value added frozen fish are still a big item in the stores today.

You couldn't do meat because there just wasn't the technology to do it?

Yea. But the meat you find there today are at deli temperature. It would have been total insanity 15-20 years ago. The new gasses which make it possible are injected and the new plastics which make that possible.

Tell me about sandwiches? You were making sandwiches on site?

Yea, sandwiches, that's a terrible business. You can't do it with that kind of high wage labour.

How did that fit in with the health food thing?

Our customer are not purists

Most of our customers are not purists. I'm trying to go back to the fundamental schizophrenia of that marriage [of health and alcohol] and people who are health food conscious are very conscious of what they put in their stomachs. And people who are gourmets are also very conscious. So there is a natural interface there which has become more natural thirty years later.

I was reading an analyst presentation by Whole Foods where they said 40% of their customers are organics/natural foods type people and 60% gourmet or "like good food."

Trader Joe's influence at Whole Foods

I don't know if you know it but their private label program was created by a Trader Joe's exile – Bob Johnson – Bob quit after I left. He and another guy made a deal with Whole Foods to create their whole private label line deliberately emulating Trader Joe's but on a broader range of skus. So their 360 line is Bob Johnson and Dennis Ring – and they set up a joint venture in which they each owned half – Whole Foods and the two guys – and so about two years ago they sold out for a great deal of money and now they're doing the same thing for H.E. Butt.

The Whole Foods range- and maybe this is coming back to your influence – it doesn't have the personality that your stuff has and I think the interesting thing about Trader Joe's is that you are not afraid to break the mould, to be someone to be different, to be intellectual. And I guess that leads to one of my next questions:

no one else has followed you, in contrast with, say, the warehouse club industry. There is Oakville Grocer up in Northern California trying to do it, but...

Well Bob Johnson was in that deal after he sold his company to Whole Foods, and then he bailed out. And a guy who used to be number two at Trader Joe's and was fired, Mike Parker, is running it now, but it's in trouble.

No one has ever copied Trader Joe's.

No one else is willing to pay the wages
the wages
No, and lots of people have tried and the reason they've all failed is no one is willing to pay the wages. Again, as I said, the secret of Trader Joe's is the quality of the people. In my thirty years there we had almost no turnover of full-time employees and this has continued.

The manager here at one of the local stores just celebrated his 35th anniversary with the company, I mean this is typical of the company. They are richly benefited. Every year an amount equal to 15.4% of your pay is put into the retirement fund, this vests over a period of three to seven years, so after 7 years you own 100% of your retirement fund. And when you leave you take it all with you.

Great retirement scheme
Well, this manager is probably making \$125,000 a year with bonus, he's the manager over there, and when he finally retired and he's probably 55 now, why he's probably depart with more than a half million dollars in his retirement plan, which he can roll over into an IRA [Individual Retirement Account]. Every Christmas I get a card from somebody thanking me for the retirement plan.

Income insurance
There is income continuation insurance – it's against the law but I forced the employees to pay the premium the company pays the premiums – because if they pay the premiums, all the proceeds are tax free, and it pays you 60% of what you have been making, which is what you get after taxes anyhow, so that will cover you for up to 5 years.

There is medical insurance - a choice of an HMO or a PPO, etc.

The turnover rate is zilch.

The employees seem happy...

Institutional memory

Yea, because people don't leave, you have a huge institutional memory. The president of Trader Joe's West, Robin Gwenedd, I hired him in 1966, actually he was part of the original crew at the original store here in 1967. And the President of Trader Joe's East, Doug Rauch, I hired in 1977. Doug came out of the wholesale health food business, and we hired him specifically for his health food knowledge. And Doug did a great deal to create the vitamin program, the nuts and dried fruit program, many aspects of that program.

You see, we got into the contracting out of the roasting of nuts, it gets to be pretty complicated.

Rather than bagging it in store.

Breaking the price on pistachios
Everything is bagged out of store now, but when we had the cheese departments, we did a lot of on-site manufacturing. Especially pistachios, that was one we were able to break the price on pistachios by bagging it at store level.

What are the lessons from Trader Joes to other parts of retailing and to other people in retailing?

Demographic integrity

First of all, you must have demographic integrity – the fundamental problem with the supermarket is that they tried to be all things to all people and they failed notably with every ethnic group in the United States... and that's where all the population growth is...

So you're saying the Asians will go to the Asian supermarkets...

Yea, especially the Chinese. The Japanese are more flexible, but the Chinese are inflexible in my experience.

Different forms of demographic differentiation

And then people can also be segregated by things other than race – educational levels, cultural background – people can be segregated in terms of age.

I gave a lecture to the Produce Council almost a year ago – in the context of Whole Foods becoming... you get what's called Pharmafoods. And this is one reason why I've been saying for several years that Whole Foods is a winner is that once you get to be over 65 you're probably going to be on a special diet of some kind.

Special diets are the future

I'm a person who shouldn't eat anything with potassium in it – bananas are poison – I got all these orange trees and I can't eat it, strawberries are terrific. There were about a couple hundred people there representing all the fruits and vegetables in this market. And I said there are going to be all kind of special diets out there – various kinds of diabetes diets, low sodium. Where are these people going to go? Are they going to go to Ralph's to ask for advice on this? Not bloody likely. They're going to go to Wholefoods.

The decline of the supermarket

I also give a whole lecture on how the decline of the supermarket is also the decline of network television – because basically the supermarket, starting with Big Bear in 1930, that's the year Amos and Andy were hired to advertise Pepsodent toothpaste – and from then on brands destroyed A&P, National Tea and what have you, because of the power of the radio personalities of the 1930's and 40's and then television.

And that peaked in 1970, and sure as hell, I mean, John Wayne got the Oscar in 1970 for True Grit and that was the peak of network television, its never been that big since. And the supermarket business has never been as healthy since.

The fragmenting of the media?

Fragmentation of the media

You've got cable, you've got satellite, you've got VCRs, you've got DVDs and it's impossible for any advertising medium to again achieve the power that network TV could then.

So the supermarkets, to the extent the supermarkets focus, break themselves into pieces which is as near as I can tell is what Albertsons is trying to do, they've got a Mexican chain, they've got Bristol Farms, what else – to the extent that they fragment themselves and orient themselves to a specific part of the population – and it's not a declining part of the population – there is a future there. But in their current form they're moribund – and their labor problem only adds to this because all of their challengers are non-union.

What other lessons have you learned from history?

The role of the car

What distinguished the first Big Bear was the presence of a parking lot. But the supermarkets aren't the only ones which are moribund. The department stores have been moribund now for 25 years and terminal consolidation is going on now.

What other lessons? Where are we going?

Well, change is endemic to the capitalist system – creative destruction.

Schumpeter?

Capitalism is creative destruction

Yea. Capitalism is creative destruction.

Let me ask you about internet shopping, because I said it was never going to work...

Well, it's working, apparently, with Peapod in Boston.



Fresh Direct is doing well in New York. But other than in downtown metropolitan cities...

Internet grocery

Well, that's a valid need, with the aging population they create a valid need for, let's not call it internet shopping, let's just say it's home delivery, that's what you're talking about, isn't it, whether it's done over telephone, or catalogue or whatever. And the problems are those of home delivery. That big failed attempt in San Francisco was bound to fail because of geography. WebVan, the hills are so steep and there are so many homeless, but Boston, which is pretty much flat, Chicago, pretty much flat, Manhattan, ditto, you have a lot of issues of crime and so forth, but there is a need, and in limited places it should work. There is a market there and it has it's own peculiarities, logistical problems, like everything else.

What other lessons are there from Trader Joe's in a bigger sense? And I guess I'm still interested in why no one has copied it?

No one else is willing to absorb the payroll costs.

What about brands? The other thing to me would seem to be getting rid of brands?

Control your destiny or it will control you
I don't know. Who's the guy who was at General Electric - Jack Welch - "control your destiny or it will control you." Frankly I wouldn't be P&G these days, no matter how successful, because Wal-Mart owns them.

You pick up their 10K and they have to disclose their major customers and "Wal-Mart is 30% of our turnover."

Troglodyte situations

On the other hand, I don't know, maybe P&G owns Wal-Mart also. But it's - you get these vast concentrations of power and you get into these troglodyte situations and I don't know what these various answers are.

Aldi, for which I have the greatest respect, I was in Australia - I have a daughter who lives in Melbourne - and I went into the Aldi there - which is owned by Karl - it was fine and doing a great job. I really have a lot of respect for those people.

Aldi across the street from Super Wal-Mart

I was in Bentonville a few years ago and right across the street from a Super Wal-Mart was an Aldi just going great guns. They have focused on a part of society - people who have no money.

Canned Food Warehouse

I spent four years on the board of Canned Foods Grocery Warehouse, they have about 130 stores, they're headquartered in Berkeley. They're mostly quasi-rural. And I was on that board from 1989-1994 and that's very legitimate. I'm very interested in 99c stores - though they have a lot of problems - Dave Gold's getting very sick. And John Shields went on that board when he left Trader Joe's, but John is very sick, and has had to leave that board.

But again, the chains we are talking about - and I think it's one of the themes when you look at the wheel of retailing - are price concepts. Is it fair that in your experience that most growth chains are driven by price?

Low income seeks low prices

Well, probably, I mean after all the great part of the population is very concerned by price because they don't have any money. I was reading an interview with a woman buyer at H.E. Butt who was given \$20 dollars and told feed a family for a week on this and she came back and said now I understand why we sell so many rice and beans.

What was your attitude about price at Trader Joe's? Are you the low price leader? Are you going to be the lowest price on the best products? How do you describe price?

I really don't know - I mean... First of all, when you talk about price, the first question I ask the retailer is do you have stable pricing or do you have weekend ads?

EDLP or Hi-Lo?

No weekend ads

Yes, and so one of the distinguishing feature of Trader Joe's is there are no weekend ads. That's what I call constant pricing or stable pricing, this is also true of Costco. But there are no promotions – what you see is what you get.

Never, never discount

And you never, never, never discount. If something doesn't work you give it to charity.

After I left they tried day old bakery tables, it was a terrible idea. While I was there anything that went out of code, the manager calls the nearest church, there take it. And if a new product doesn't work you give it to the foodbank.

So if you went to Malaysia and got a container of sliced mangos and nobody wanted them?

Give it away, don't discount it

Give it to the foodbank. We had a cat food that didn't work at all and we gave it to the Humane Society.

How do you set prices, because price...

Avoid markups

You have to keep your buyers from using markups – it's a very dangerous idea. Basically an offer is made by a vendor and since the buyers – and I also had the highest paid buyers in the grocery industry – not many of them, but very deeply knowledgeable – people like Bob Johnson, Doug Rauch, Bob Bernie, the wine buyer, these people knew what the hell they were doing. And so somebody come in and ok and they put it in the middle of the Oujji Board and they put a price on it and if that doesn't work you get feedback and you learn.

No scanning

We didn't have scanning. The finally had to go to scanning. In my opinion they were compelled to go to scanning by all the produce and refrigerated meat because they were having problems in the low volume stores with shrink, and they forced them to go to scanning.

Business is an art

But your question is how do you set prices. Business is an art. So you get a feel for it. And sometimes you may set a price and make 60% - just because you're a low price thing, doesn't mean you need to operate on 10%.

Now Sol Price would say: "You just set a margin, a fixed markup" – he would say 14%, it doesn't matter what it is, if it's diamond.

Yea but he's relying on the dues from the members of his club. But that's not the way that Trader Joe's operates.

Dollars per transaction

Conversely, I was especially concerned with how many dollars were going to take place on a ring and for that reason I was willing to take, say, 10% on champagne.

So you would take a lower margin on a higher value item?

Pay your bills with dollars not margin

You pay your bills with dollars not percents. I can't say that enough. I'm on the board of Cost Plus, these are all department store people, they're always worried about their percentage gross profit, heh. You pay your bills with dollars.

How do you control your buyers from excessive rape and pillage? If they can take more margin, they will. Do you set any overall goals?

Work with them all the time

You work with them all the time. Actually Bob Johnson tells me the senior buyer at H.E. Butt it just like Trader Joe's – he sits in on all the buyers meetings. He wants to taste every new product, it's an intensive interface with the buyers. There is no way to put it on automatic pilot. And you have to let the buyers make mistakes. My emphasis is always on the dollars.

Did you do competitive price checks?

Until about 1983, we had a wonderful publication in Los Angeles called the price survey, the grocer's survey and every chain sent their price list in and every grocer's survey – in those days we had a lot more chains than we do now – and everyone know what the price books were – Ralph's, Von's, Safeway. This was shut down by an anti-trust decree – but back in those days you just had to look to know if you were a little guy.

Limited range means breathing the air

By the time I left Trader Joe's I had it down to 1,100 skus. And so when you're dealing with a small population of skus, why you're breathing the air on what's going on in that particular field, in those particular fields all the time it's not like trying to master the whole gamut. And you rely on vendors, I mean I'm very big on vendor cooperation. Vendors have brought many new ideas to us.

... **So Trader Joe's is not a complete shop, so your customer is always going somewhere else, always going to Ralph's or Costco, so...**

Opposed to items with a low value per cubic inch

I was always opposed to anything with a low value per cubic inch and as a result we never carried toilet tissue or facial tissue, now they have a little bit of toilet tissue.

Sugar is dangerous

I never carried sugar, especially because sugar is very dangerous – it comes in 60lb bales and you can throw your back out on it. At some point in the 1980's we enforced a rule that we would never carry anything where the case weighs more than 40lbs with the exception of milk crates, because we had all these women coming to work and only men will handle the milk crates.

But you must look at price?

You know what's going on

Well I've been gone for a long time, but it still operates the same way. You know what's going on out there.

More capers than the rest of the supermarkets in the United States combined

Let me give you an example: Trader Joe's sells more capers than all the rest of the supermarkets in the United States put together – they aren't interested. Now Cost Plus, they have some on the shelf there. But Trader Joe's, no one else could possibly compete with us in terms of cost. But the twist is we have the only clientele who is interested in capers.

Largest retailer of maple syrup

Maple Syrup – because my grandmother is from Vermont I grew up on maple syrup. So back there in the 1970's all we had there were two feeble brands Keri's and MacDonald's, both grossly overpriced, because that's how Safeway makes up the gross profit they lose on Folger's coffee. So we simply started going up to Quebec and bringing in 50 gallons and bottling it here. And Trader Joe's is the largest retailer of maple syrup in the United States.

Broke the price on wild rice

We broke the price of wild rice, we cut it in half. Why? Because none of our competitors are interested in selling it because their clientele is not interested in buying it.

Would you say then that it is part of how the business is done is that you look for opportunities where price gouging is going on?

[Laughs] Sure! Of course! Of course! It's just like breaking the fair trade on French wine in 1970, everybody was taking these enormous markups and man we just, man, we had our competitors going to the Department of Alcoholic Beverage Control trying to shut us down with phony regulations and stuff like that. We blew the top off the market by simply saying the emperor wears no clothes.

Vitamins? Was that another?

Vitamins

Vitamins, same thing. My best friend is a doctor and he really got me interested in vitamins and he pointed out to me how much vitamins cost and so we moved into that, as I said, very early, 1971/1972 something like that – again, a high value per

cubic inch.

Come back to this limited range – 1,100 skus, you must have a minimum offer?

Too many skus today

They're running on about 2,500 – and too many in my opinion – they have too many skus in the stores. There are too many skus and they back up in the warehouse also. But, I'm not there, that's ok. You must understand, I left Trader Joe's with no debt and a mountain of cash. The Germans have never put a penny into it, they've never taken a penny out. And so Trader Joe's biggest problem is managing cash flow, reinvesting cash flow. So they're not under the gun. And that's one reason they have to keep opening stores.

In a limited range environment, how do you manage what the range is? You can go too far in terms of limited range and too far in terms of too much range, how do you manage it?

Business is an art

Business is an art. And sometimes you learn. Something you drop, you put back in stock.

What lessons have you learned about range over the time?

Profound product knowledge

What I believe is necessary is profound product knowledge on the part of the buyers. And this is the true limiting factor, not what the customer wants. Sol Price said to my lawyer, down in San Diego: "Joe is the only person who tells people what they want, and they buy it."

The limiting factor is knowledge

The limiting factor is the amount of knowledge in the buying department. If you expand beyond the limits of the knowledge of your buyers you're going to make bad buys – and so this is the true limit on range. What my successors have done very well, obviously, is they have been able to add a lot of buyers who can master a lot of fields, especially produce, flowers.

Flowers

We tried flowers and the god dammed things died. This needed knowledge – a huge amount of knowledge – because of the shrink. But the white orchids – there's one right there that somebody bought my wife – they don't spoil, so that's a terrific product, so if I was going to create my next Trader Joe's I would stock white orchids because there's no shrink. That's another factor in deciding range.

Avoiding shrink

Avoiding kids in the store

I don't want to have kids in the store – so I refuse to sell single cans of soda pop, and I don't want to – yea you sell single candy bars but you try to be upscale in candy bars – so you're using this 70% cocoa fat. But I don't want kids in the store.

Why not? They bring the mother's? This is the classic supermarket story – the family shop.

Kids are not very educated

If you get kids, now you're into Cocoa Puffs and all the stuff that's on television and so forth. Kids are not very well educated.

It seems to me you would have had a limited range of organic baby foods, or something like that?

Well, to the best of my knowledge Trader Joe's has never dealt in baby food or baby formula. There's a big problem with that – because the babies grow up. Further more most babies are black or brown and their parents are not likely to be shopping at Trader Joe's.

Attracting the pink dollar

On the other hand, homosexuals are wonderful, terrific, high disposable income, they are not putting kids through college. Boy's Town is terrific. And Trader Joes is aimed at this clientele.

I read a quote where you said: "In the early days we didn't know anything so we tried everything"?



Bullets?

In the late days of Pronto we were doing 2% of our sales in bullets. One of our managers was a hunter and he came to me saying: "Joe, Sears is ripping the public off on bullets," and so we put in 22 shells and man, they just blew out of the store. We were coining money and then Kennedy got assassinated and so they got all these regulations so we dropped bullets. Again, a high value per cubic inch.

What else do you think you brought out of the convenience store world?

Trader Joe's is an innovator- I have a whole lecture on this - on innovation. Which is borrowing someone else's ideas, as opposed to invention. The first Pronto market innovated heavily on the drugstore, radically so.

Responding to the competition - the drive-in dairy

Then when Adohr came into the picture I had to study a serious threat which had emerged called the drive-in dairy - the population mushroomed and the number of babies mushroomed and everyone was drinking milk. And they had certain pricing advantages under the fair trade laws, and so forth. But what they were doing is they were bombing bacon, bread and eggs at the same price every day, so I put that program into Pronto markets. And that was the genesis of today's no weekend sales policy at Trader Joe's.

The origin of EDLP

So prior to that you had been doing specials?

Yea, running newspaper ads and stuff like that.

So you started with the standard convenience store model and over time you began to deviate from that until you made the leap to Trader Joe's carrying some of that architecture with you?

The egg guy

Yea. And then one of the most important things that ever happened, in 1962 an egg guy came to my office, he said: "Joe, I see you're selling a lot of large AA eggs, that's what everybody is selling. Why don't you sell Extra Large AA eggs." Well, I said, they cost more. He says: "No they don't, they cost less, nobody wants them." So, Phil Crumb was his name, God bless him. So we started selling Extra Large AA eggs at the lowest price in town in 1962 and Trader Joe's still they're right there doing it. Costco beats them.

Discontinuities of supply

But that opened my eyes. That was the first real eye opened that there are discontinuities in supply. And the reason the supermarkets never run them is Extra Large can only be laid by old hens, and in the summer time the hens die in the heat. Well, today Trader Joe's manages to find enough, but sometimes you have to switch to Jumbos, which can never be AA as they have imperfections in the shell but then have imperfections - product knowledge. That opened my eyes. There are discontinuities in supplies. There are opportunities everywhere. You just need to really get into a business and you will find something, or do it better than it is done now. Opportunity is everywhere. I learnt that on Extra Large eggs.

The lesson of deep product knowledge

Now I'm finally learning something about what I sell. This is really the genesis of Trader Joe's, it's product knowledge, it's learning why Extra Large AA eggs could be bought in the wholesale market cheaper than Large AA eggs.

It's understanding the total supply chain - these buzzwords the consultant's are selling today?

Opportunity is everywhere

Yea. When I give my lecture at the business school, they ask me "What business opportunities do you see?" And I say anywhere. The thing is you have to get into a business and get into its interstices and you will always find someplace where things can be done better than they are being done now. Opportunity is everywhere and I learned that on Extra Large Eggs. And so that's why we had such a high volume as a convenience store chain was because of program's like that, just enormously successful.

Milk in glass bottles

We were the only ones to sell milk in glass bottles. Because Adohr was the only - one of the reasons Adohr was in so much trouble was because they had been stuck in

home delivery – So they were putting milk in glass bottles, and again, competitors couldn't respond because their sources didn't have glass bottles. There is one dairy here in Los Angeles, Broguiere, which puts milk in glass bottles, that Bristol Farms carries, it's expensive, you put a dollar deposit down, but that milk tastes like milk. And I think that Whole Foods maybe carry that.

Can we talk a bit more about the invention of Trader Joe's? Trader Joe's as an innovator.

A stealer of ideas...
A stealer of ideas. You know when fair trade went off I spent a number of months studying – there was a period of about close to a year.

Stew Leonard's limited range
And I went back to Connecticut and studied Stew Leonard and that's where I got the low sku idea. 800 items. My brother-in-law lived in Darien, Connecticut and so we went back there and my sister-in-law took me to see Stew Leonard. And I had read he had 850 skus, and so I counted and I got 850 skus. It was only after that that I met Aldi with 650 skus. So I was already quite mentally prepared for the concept of limited skus.

Special buys and discontinuity
And he makes these special buys, only the difference was the buys come into the warehouse which is integrated into the store. And he'd go down to the Boston Fish market, or whatever, and make a special buy and "Wham!" move it out. Discontinuity, you can't always rely on it. He didn't deal in alcoholic beverages – he was limited under the Connecticut law.

The five year plan
So I had to decide what I was going to do. But I saw this and that was the genesis of my Five Year Plan.

Now that you say that, I can see that with Stew Leonards. Who else contributed ideas? If we have seen so far it is because we have stood on the shoulders of giants?

The Akron's interesting range
Hardly a giant, but an extremely interesting company in Los Angeles fifty years ago was called The Akron. The guy came from Akron, Ohio. And he had about a 20,000 square foot shop dealing in imported goods, it would be sort of like Pier 1 or Cost Plus. And so when we came down here broke from Stanford, when we rented an apartment, why our floor covering was Korean sea grass from The Akron. And in the fireplace it was a cheap wrought iron handle from The Akron. And a lot of our tabletop came from The Akron.

Forward looking employee relations
And he had – a very forward looking man – he signed right up with the retail clerks union, took his employees to the Ice Capades, and whatever. And that was one reason why at Pronto Market and then at Trader Joe's we had employee parties at my house every summer and every Christmas. And that tradition still continues. I had Robert Gwenard, the West Coast President over for dinner a couple of months ago along with some of the other real stalwards, and they said "Yea, we're up there" though now they have to do it in October, they can't do it... He and his wife are out there running employee parties up and down the West Coast. And probably my original idea for that came in 1954 from the guy who started The Akron, he was very forward thinking.

Only sophisticated, corrupt Los Angeles was ready
When I started Trader Joe's, I was afraid The Akron would trim its sales and come in and be a competitor. But he stupidly went back to Ohio and expanded and it just killed him, Ohio was not ready for The Akron. Only sophisticated, corrupt Los Angeles was ready for The Akron. But he was very creative.

So he had food?

He had – there was no refrigeration. But he had wine - 99c wine.

More like a Pier 1?

Yea, but it was sort of like 99c stores in terms of imported furniture and garden

supplies and so forth. It was a very interesting outlet.

Your own description of the business reminds me of your concept of the overeducated and underpaid, you were students with no money and you went there. Was he targeting the overeducated and underpaid?

I don't think he put it those terms. Basically he was one of the originators... Cost Plus started in San Francisco at the same time in the mid-1950's. The dollar is extremely strong and we can go to Taiwan and buy silverware and wherever and bring this stuff in and it's incredibly cheap. He had Danish teak, all this stuff. Simply a phenomenon of an extremely strong dollar at a time of rapid family formation.

What other retailers do you think contributed something?

I'd steal from anybody. There was a wonderful market in Lido Isle, that's in Newport Beach, you know that very upscale yacht basin 60 miles south of here, very upscale. Richard's Lido Isle Market - Dick Richards - and in Pronto market days I would go down there and he walked me through the store. And I said: "Dick the store is so dark," and he says "Yea, I don't want to sell the ceiling".

Individual coffee mugs?

He had individual coffee mugs for every customer so when they came there they got a cup of coffee. He had racks of these things. So I opened a store out in Pacific Palisades and as we collected checks we'd take the names off them and I had all these decal letters and we had cuboards above the shelving and my wife and I would spend our nights putting up the names of our customers and this worked great. About three years into this the divorces started to happen and suddenly you start having these gaps.

Joe, thank you for spending this time with us.

My pleasure.