



# Trader Joe's: Breakdowns Research

By: [Jefferson Rumanyika](#)

## Research Sources:

Website: [Trader Joe's](#)

Social Media: [LinkedIn](#), [Facebook](#), [Instagram](#), [Youtube](#)

[Trader Joe's: The Podcast](#)

Best Secondary Resources:

- Books: [Becoming Trader Joe](#), [Build a Brand like Trader Joe's](#)
- Podcasts: [Freakonomics Radio](#), [Sounds like a Cult](#)
- Articles/Blog: [Trader Joe's Grocery Revolution](#), [HBR Case](#)
- Video: [Hooked on Trader Joe's](#)

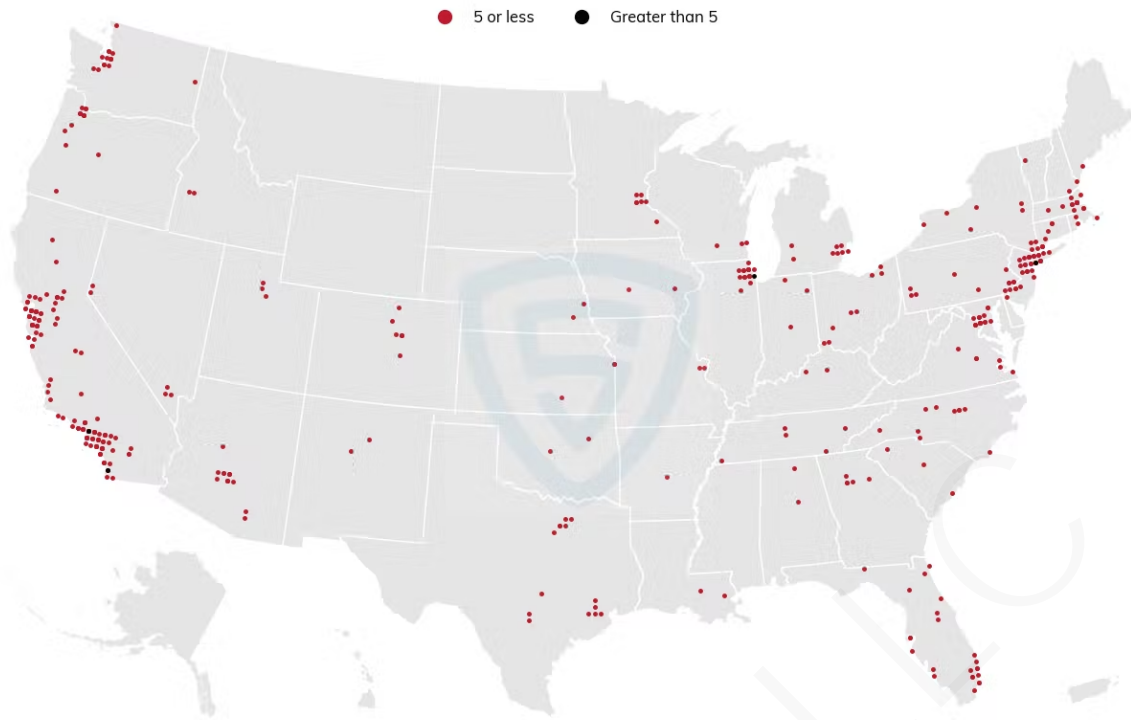
## Company History

- **1958:** In partnership with Rexall Drug Co, Joe Coulombe launches a small chain of convenience stores in the greater Los Angeles Area called Pronto Markets to clone 7 Eleven Markets grocery stores which had no presence in California because of labor issues. Joe becomes President of Pronto Markets.
- **1962:** After growing Pronto Markets to six stores, Joe buys out Rexall's shares using \$25,000 from his family savings and a Bank of America loan. Rexall wanted to exit the business to focus on producing Tupperware.
- **1965:** After reading two demographic news stories; A *Scientific American* article on the rise of college educated Americans due in part to the G.I Bill and A *Wall Street Journal* article about the *Boeing 747* going to service in 1970 slashing the international cost of travel. Joe conceives of the Trader Joe's concept to cater to that demographic of the overeducated and underemployed.
- **1967:** Pronto Markets reaches 18 locations and Joe begins the transition of Pronto into Trader Joe's. Coulombe opens the first version of Trader Joe's (a play on the name of then popular Tiki restaurant chain, Trader Vic's) in Pasadena, California as a fun-leisure party store.
- **1969:** Trader Joe's launches *The Insider's Report* (later becoming *The Fearless Flyer*) as a customer newsletter educating its customers on food and wine, distributed in store to a small but growing subscriber list. The tradition of staff members wearing Hawaiian shirts is established.
- **1970:** Joe finds a loophole in the Fair Trade pricing controls law on imported wine and takes advantage of this to offer great wine bargains at Trader Joe's stores, becoming the leading retailer of imported wines in California.

- **1972:** The first Trader Joe's private label grocery product is launched - granola. Its private label products would prove to be a huge driver of the firm's success, with canned corn (introduced in 1982) one of the most popular products.
- **1975:** Joe pays off the last of the bank loans from Bank of America: Trader Joe's has never had any fixed debt since 1975.
- **1977:** "Trader Joe's 3.0" goes into effect, shifting the business from customer oriented to buyer-oriented in the wake of deregulation, resulting in cutting back on SKUs and an expansion of the private label concept.
- **1979:** German entrepreneur Theo Albrecht (cofounder of [Aldi](#)) buys Trader Joe's from Joe Coulombe and other employee part owners. Joe stays on as CEO.
- **1985:** Newsletter changes from the "The Insider Report" to the now iconic "[Fearless Flyer](#)"
- **1988:** Coulombe retires as CEO and is succeeded by longtime friend and colleague John V. Shields. Trader Joe's makes its first big leap outside of Southern California by opening a store in the city of San Rafael in Northern California.
- **1993-1995:** Opened first stores outside California - starting in Phoenix, Arizona and shortly thereafter in Beaverton, Oregon and Bellevue, Washington.
- **1996:** Trader Joe's launches its website and opens its first stores on the East Coast in Boston, D.C. and New York.
- **2000:** Headquarters moves to Monrovia, California. Opens its first Midwest stores in Glen Ellyn and Northbrook, Illinois.
- **2001:** John Shields retires as CEO and is succeeded by Dan Bane. Price scanners were (finally) installed for quicker checkout.
- **2007:** Trader Joe's made a commitment to eliminate artificial trans fats from all private label products (along with artificial colors, flavors, preservatives & GMO ingredients)
- **2010:** Trader Joe's continues to open new stores in new regions (Nebraska, Iowa & Maine). It remains a privately held company, owned by the Albrecht family trust after Theo Albrecht's death in the same year.
- **2013:** Trader Joe's opens its 400th store in Austin, Texas.

## Business Model

- **Trader Joe's** is a national chain of neighborhood grocery stores. It operates 558 stores across 43 states in 411 cities in United States.
- It sells a limited range of approximately 3,000-4,000 SKUs in its 500+ stores of roughly 10,000-15,000 square feet.



### Trader Joe's retail store locations in the USA

Each grid point covers 10-mile radius with at least one location

Source: ScrapeHero.com



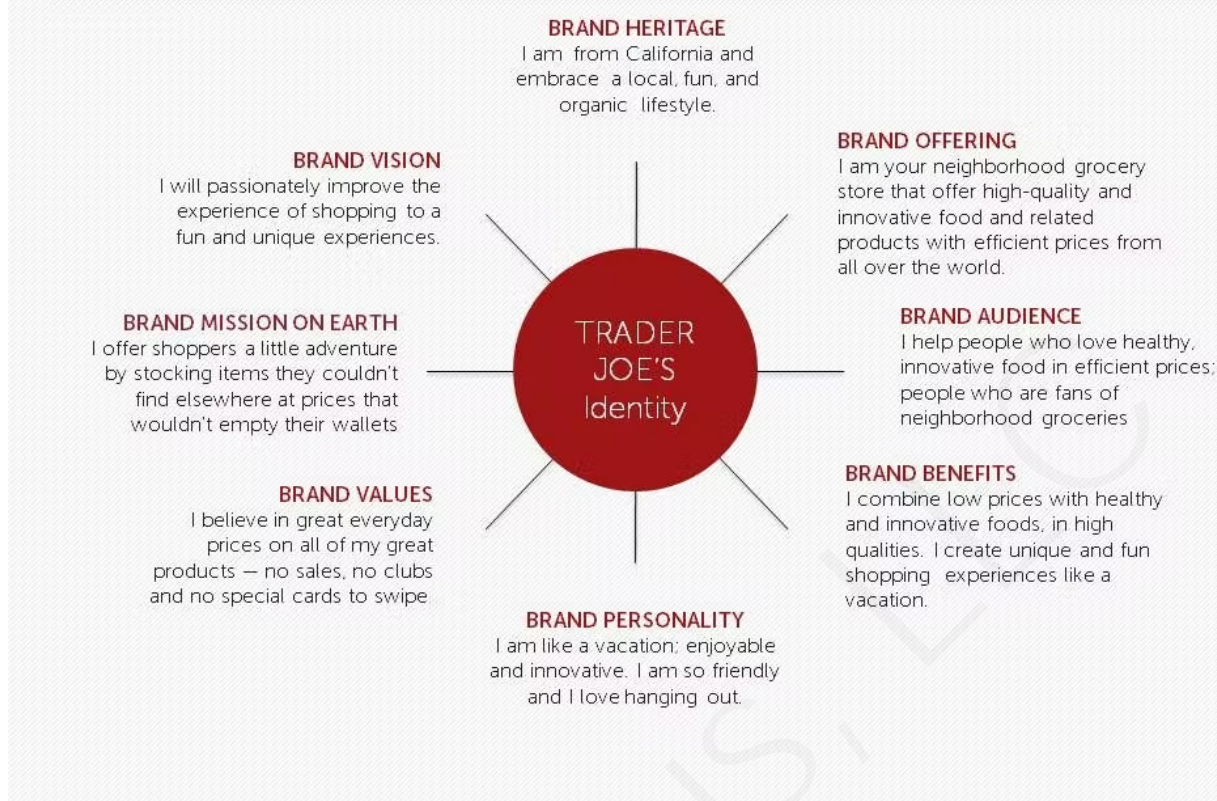
- It marries a limited SKU (Less is More) value retailing concept with an innovative experiential hard discount concept.

“We know that maintaining our everyday focus on value is vital, which is why we don’t have sales, we don’t offer coupons, and there are no loyalty programs or membership cards to swipe at our stores. Trader Joe’s believes every customer should have access to the best prices on the best products every day.” - [Trader Joe’s](#)

- The chain operates a unique and innovative business model built on **six values**
  - Product driven company - Trader Joe’s is not a store of far-out “gourmet” or exotic foods, but a store of differentiated basic products: oils, breads, cheeses, coffees, canned fish, nuts, jams, chocolate that are good enough for the customers it attracts. They look for discontinuities they know their customers will enjoy and their competitors can’t stock. Product knowledge is a key differentiator for Trader Joe’s.
  - Integrity - Trader Joe demands that each customer, vendor or supplier is treated with integrity. Integrity is defined as treating others as you would like to be treated. Inside the store, customers are not asked to see a driver’s license when paid in checks, don’t examine large denomination bills as forgeries, they don’t have disingenuous member programs that require you to show your card
  - Creating a WOW experience every day - Trader Joe’s sees brand success as the result of two kinds of customer experience: internal (what the customer feels) and external (what the customer sees and hears). The emotional basis on which customers evaluate the store matters to Trader Joe’s.
  - National chain of neighborhood grocery stores - Each Trader Joe’s store makes its own merchandising decisions and thus each one looks a little different. All the in-store signage is hand drawn right in the store. Each store is operated such that the customer thinks of the store as their Trader Joe’s.
  - No Bureaucracy - The chain has little to no bureaucracy. The head office has only a few dozen people with the managers pitching in to help with the most menial tasks.
  - KAIZEN - Trader Joe’s personnel are urged to have continual marginal improvement every day that contribute to the increasing success of the business

- “The store is our Brand” - The brand experience happens at the store and all employees act as representatives of Trader Joe’s, promoting the cultural equity of the brand and encouraging customers to turn into fanatics.
- Trader Joe’s **secret sauce** is exhibited in the following ways
  - Unique positioning and assortment - Trader Joe’s targets affluent, open-minded, and educated shoppers who are interested in new and unusual experiences. The company describes itself as a “Neighborhood Grocery Store with Foods and Beverages from the Exotic to the Basic.” Its assortment emphasizes imported and domestic organic and fresh grocery staples as well gourmet and ethnic food, with few if any preservatives or artificial ingredients. It offers a treasure hunt for food with a special twist, at affordable prices.
  - The In-store experience - The moment you enter a Trader Joe’s store, you immediately notice this is not your typical austere hard discounter. Store employees dress in brightly colored Hawaiian shirts and are called crew members (with the store manager being a “captain”), considering themselves “traders on the culinary seas.” Shop interiors look like the inside of a ship, featuring cedar plank walls and nautical decor. Each new store has its own artist to paint customized murals that reflect the neighborhood history.
  - Engaged staff - Joe Coulombe set out to pay the best wages in retailing and he was unwavering in this value as he built out the business. As a result, the personnel are upbeat and helpful, in a shift departure from the typical hard discount experience. If you ask a staff member about a product, the employee never points but instead walks you over to the location, offering to tear open a package to let the customer sample the product.
  - A fun brand - Trader Joe’s has built its entire brand on the premise that they’re going to make shopping fun. It does this is with its “zany” product **names**, highlighting unique ingredients, handwritten price tags, illustrated packaging, and custom murals.
  - High quality SKUs at low prices - Instead of bombarding its customers with options (**Paradox of Choice**), Trader Joe’s offers fewer options which convert 10X better
  - Curated products - It offers private label products from all over the world (India, Italy, Mexico, Japan). The 100% exclusive items lead to another psychological hack: for the legions of Trader Joe’s fans, the perceived *switching costs* of shopping elsewhere are too high

# Desired Identity



(Source: Company)

## Economics

### Historical Financials

All figures in US\$M	2016	2017	2018	2019
Revenue	6,743.8	7,075.7	7,907.4	8694.2
Cost of Revenue	4,888.7	5,101.1	5,666.6	6205.3
Gross Profit \$	1,855.1	1,974.6	2,240.7	2488.9
Operating Expenses	1,541	1,653.7	1,913.8	2145.5
Operating Income	314.2	320.9	326.9	343.4
Taxes and Interest	156.9	169.1	156.8	141.7
Net Income	157.3	151.8	170.1	201.7
EBITDA	443.3	452.3	496.4	570.3
Total Assets	2,462.8	2,589.4	2,972.1	3392.4
Return on Assets (%)	6.39	5.86	5.72	5.95

Return on Sales(%)	4.66	4.54	4.13	3.95
Asset Turnover	2.74	2.73	2.66	2.56
Gross Profit Margin (%)	27.51	27.91	28.34	28.63
EBITDA Margin(%)	6.57	6.39	6.28	6.56
Net Profit Margin (%)	2.33	2.15	2.15	2.32

Source: [Bright Query](#)

## Competitive Position

### Competition and Industry

- The food and consumables retailing market recovered from the effects of the pandemic with a combined sales of the companies on the [Progressive Grocer 100](#) increasing by 11% to \$2,275 trillion in 2021, compared with \$2,112 trillion in 2020.
  - [The PG 100: Ranking Top Food Retailers in North America](#)
- Among the biggest changes has been a move online. Two-thirds of Americans now [buy at least some of their groceries online](#), compared with half of Americans who did so in 2019, according to a survey fielded in early 2021 by the Food Marketing Institute (FMI).
- More than in any other industry, consumer behaviors in grocery have changed permanently. The most common behavior changes seen in post-pandemic times include visiting stores less often, spending less time in stores, making larger value purchases to stock up, eating at home more, and eating healthier.
- Some of the main competitors to Trader Joe's include *Whole Foods Market, Walmart, Meijer, Kroger, Safeway and Fairway Market*.
  - *Whole Food Markets* - An American multinational supermarket chain headquartered in Austin, Texas, which sells products free from hydrogenated fats and artificial colors, flavors, and preservatives. Whole Foods has 500 stores in North America and seven in the United Kingdom as of 2019.
  - *Walmart* - An American multinational retail corporation that operates a chain of hypermarkets, discount department stores, and grocery stores.
  - *Meijer* - An American supercenter chain founded in 1934 that primarily operates throughout the Midwest and is credited with pioneering the modern supercenter concept in 1962.
  - *Kroger* - An American retail company founded in 1883 by Benjamin Kroger that operates a total of 2,723 supermarkets and department stores throughout the United States.
  - *Safeway* - An American supermarket chain founded in 1915.
  - *Fairway Market* - An American grocery chain, founded in 1933.

### Competitive advantages:

- **Cult-like brand equity** - Trader Joe's has built a cult following across America by consistently providing customers with outstanding value in the form of the best quality products at the best everyday prices since its inception.
- **A culture of shared friendship** - Trader Joe's success can be ascribed to a feeling of shared friendship. Millions of people shop at Trader Joe's because they believe -based on millions of face to face interactions with Crew members, that the people who work there and even other customers are their friends.

- **Differentiated private label products** - Instead of national brands, Trader Joe's focuses on differentiated private label products or "no label" products. This has enabled Trader Joe's label to pick up momentum in the stores and exclusivity with certain suppliers.
- **Limited/Fewer SKU per square feet** - Trader Joe's still earns the highest gross profit margin and revenue per square feet in the industry. It allows its to provide "high value relative to size" and with few SKUs, TJ gets volume discounts and passes it on to shoppers. It also has a merchandising philosophy of discontinuing any product if they are unable to offer the right deal to the customer.
- **Great Value** - The cumulative result of Trader Joe's activities from friendly staff, treasure hunt, limited SKUs, low tech, differentiated private label, low price etc. allow it to provide great value against the competition.

## Risks and Challenges

- **Changing consumer behavior** - Consumer values and behaviors have changed post-pandemic. The most common behavior changes seen during Covid include visiting stores less often (preferring online delivery) and spending less time in stores when they do visit them.
- **Growth of Digital** - The online share of the grocery market has grown steadily since 2020. Trader Joe's has the disadvantage of being traditional in its approach to retailing and as a consequence might lose out to online retailing giants like Amazon who acquired Whole Foods Market in 2019.
- **Unionization** - Trader Joe's earned the reputation they have for being a good place to work by taking care of its employees and listening to them. This reputation started to slowly get chipped away during the pandemic as conflicts surfaced around pay and benefits in a tight job market. A Trader Joe's in downtown Minneapolis recently became the [second unionized location](#).
- **The slide from culture to cult** - The practices that build Trader Joe's brand have produced systems that are not receptive to productive criticism from the public and its employees. While employees talk about issues themselves, there is a clear sense that it would be a career-limiting move to mention them to visiting dignitaries from the regional or head office.

## Useful Resources:

Title	Type	What You Will Learn (sub-140 characters)	URL (Must be https://)
<b>Becoming Trader Joe:</b> How I Did Business My Way and Still Beat the Big Guys	Book	A blueprint of how to build an iconic shopping experience from Trader Joe's visionary founder.	<a href="#">🌐</a>
Build a Brand like Trader Joe's	Book	How Trader Joe's built the strongest brand in its category, without ever spending a cent on brand advertising.	<a href="#">🌐</a>
Should America be run by Trader Joe's?	Podcast	How Trader Joe's has a lot to teach all of us about choice architecture, efficiency, frugality, collaboration and team spirit.	<a href="#">🌐</a>
Sounds like a Cult	Podcast	Learn how Trader Joe used cult-brand marketing	<a href="#">🌐</a>
HBR Case on Trader Joe's	Article	A case study on Trader Joe's	<a href="#">🌐</a>
Why You Spend So Much Money At Trader Joe's?	Video	A documentary on Trader Joe's	<a href="#">🌐</a>
The Secret Life of Groceries	Book	An account of the American food system and its troubled supply chain	<a href="#">🌐</a>