

BY MARY GUSTAFSON

TRADER JOE'S REMARKABLE JOURNEY

In its 50th year in business, Trader Joe's still manages to thrill its customers and impart its personality into every part of its business.

The average grocery shopper these days is tired, stressed out, worried about her bank account, over-scheduled, constantly in the car and at the end of a work day, hungry — and certainly not in the mood to shop for groceries. Throw a couple of kids into the equation, and you have a recipe for a retail meltdown. However, if she's lucky, our world-weary consumer lives in a metropolitan setting full of many shopping centers — with at least one of them home to a Trader Joe's store.

Viewed by many as an oasis in a vast desert populated by homogenous, impersonal cookie-cutter grocery store formats, Trader Joe's, which is celebrating 50 years in business this year, has made it easier and sometimes downright fun to be a consumer.

Although a typical Trader Joe's store is physically smaller and carries far fewer SKUs than the average grocery store, its eclectic mix of staples and specialty products has developed a cult following — from single folks who have trouble adjusting recipes for one to senior citizens who appreciate the short distance

between the frozen foods and produce departments.

Trader Joe's is privately owned and notoriously tight-lipped with regard to the media. However, you don't need to read quarterly reports and stock prices to figure out how Trader Joe's succeeds. All you need to do is step into a store and take a good look at the strength of the company's private label products to get a sense of the Trader Joe's "experience."

A Taste of the Tropics

Trader Joe's founder, Joe Coulombe, began with a convenience store chain in and around Pasadena, Calif., in 1958, under the name Pronto Markets. In his book, *The Trader Joe's Adventure*, author Len Lewis writes that Coulombe was inspired to turn his small c-store chain into nautical-themed gourmet and specialty shops while on a vacation to the tropics. Lewis says Coulombe recognized that people often are more open to

new and exotic tastes when they are on vacation, which led him to try to re-create that experience at the retail level. He changed the name Pronto Markets to Trader Joe's in 1967.

Lewis also writes that Coulombe always believed his stores would perform best in areas that had more well-educated consumers, but not necessarily high-income consumers. Thus, he quickly recognized that communities with colleges and universities were his best markets.

Southern California's appreciation for slightly whimsical and offbeat concepts — in a commercial as well as cultural sense — also benefited Trader Joe's in the beginning. Coulombe was able to implement his tropics-themed décor, including employees wearing Hawaiian shirts; displays made out of fishing nets, wooden planks and surfboards; and sample-tasting booths fashioned to look like Tiki huts.

Gretchen Gogesch, president of Integrale LLC, an innovation consultancy specializing in consumer research and emotion-driven strategy, says retailers could stand to learn a lot from the way Trader Joe's defines its image and its products.

"Dare to have a unique point of view. Customers appreciate it and are drawn to it, especially if it's a quirky one like T.J.'s," Gogesch says. "Hawaiian shirts, in-store nautical theme, friendly employees and great food in a funky store? Who knew? What Coulombe did was celebrate that playful place in all of us."

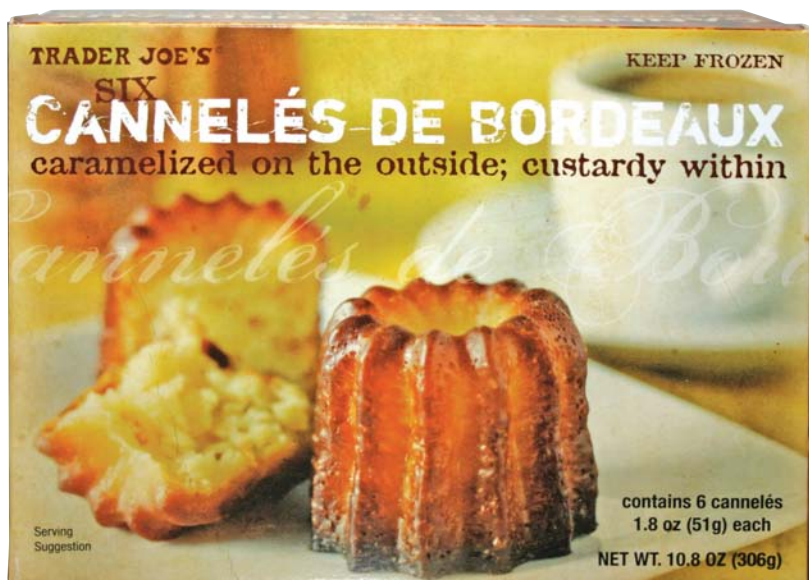
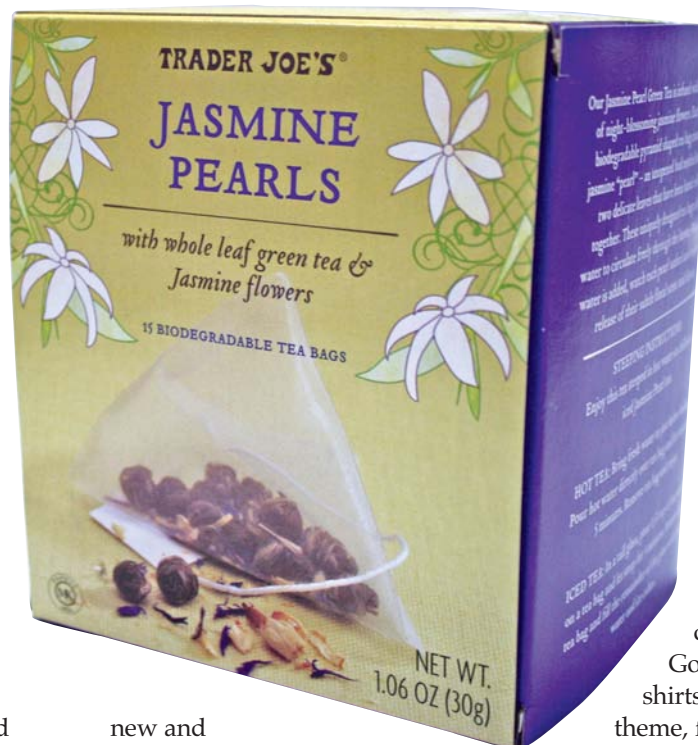
The process by which Trader Joe's develops its products reflects the retailer's informal and democratic corporate culture.

"The process is inclusive, meaning everyone can attend and give their thumbs-up/down to any product, as well as serve up ideas for how to improve something in test. Very smart. It draws from the T.J. culture established by founder Joe Coulombe, who democratized, if you will, discriminating 'taste plus palate,'" Gogesch says.

She surmises that Trader Joe's operates on the idea that you don't have to be wealthy to appreciate or have access to good-tasting food.

"That redefined the era of specialty foods and stores," Gogesch says, adding that Dean & DeLuca and Silver Palate were all the rage when Coulombe was rolling out his humble stores.

"Coulombe was likely one of the



pioneers who taught consumers that cross-shopping was cool and smart — not to mention fun,” Gogesch says.

Very early on, Coulombe diversified his inventory by buying specialty and gourmet closeouts and overstocks on items such as brie cheese and local California wines.

These types of products helped attract a more niche customer base — and eventually the attention of German brothers Theo and Karl Albrecht, who own and operate the European Aldi chain, and to whom Coulombe sold the company in 1979.

Now, headquartered in Monrovia, Calif.,



Trader Joe's currently operates approximately 300 stores in nearly 25 states and is expanding rapidly.

Building the Brand

Undoubtedly, Trader Joe's success rests on the strength of its private label products, which comprise, according to some estimates, about 2,000 products or about 70 percent of its sales. The rest of its selection, primarily in the produce, prepared meals, baked

goods and dairy departments, is filled in with national brands and regional brands that vary by location.

But it's the products that bear the Trader Joe's brand, and the variations of that brand, that are responsible for the cult following the retailer enjoys.

Lynn Dornblaser, a new products analyst at the Chicago-based Mintel International Group Ltd., says Trader Joe's employs savvy buyers and scouts who are always on the lookout for products that fit the chain's philosophy, as well as the company's commitment to sustainability, organics and innovation.

“Trader Joe's buyers are hitting all the natural and organic trade shows, traveling, visiting Whole Foods, so that's where their ideas are going to come from. They know what their ethos is, what kind of products fit with a Trader Joe's experience,” Dornblaser says. “One of the interesting things is that

they're able to take niche products, or products you can only find in a small specialty shop, and bring them to a wider audience.”

Laurie Demeritt, president and chief operating officer of the Bellevue, Wash.-based Hartman Group, says consumers seem to respond to the brand Trader Joe's almost as if it were a real person. As such, they don't differentiate between the stores' private label products and national branded products. And because they see Trader Joe's as a person, they trust that the products are safe (e.g., pesticide-free), organic and sustainable — and most importantly, taste good.

“Consumers think they can relax because T.J.'s has done all the research,” Demeritt says. “They think ‘I can have fun’ ... That's part of the feeling they have when they go there — it's very unique to the industry, and it's the most powerful marketing tool they have.”

The company's lack of big



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advertising and marketing campaigns is notable, given the popularity and consumer loyalty Trader Joe's enjoys. The company concentrates on promoting itself within its own stores, on its Web site and through participation in events within the communities in which stores are located.

Demeritt says the best example of Trader Joe's-style marketing is reflected in its own *Fearless Flyer*, which is part newsletter, part advertising circular. Or, as Trader Joe's describes on its Web site, "a cross between *Consumer Reports* and *Mad Magazine*." The *Fearless Flyer* is a small booklet printed on what looks like old newsprint. It contains information about new products and suggestions about how to enjoy them.

According to Demeritt, consumers feel an emotional connection to Trader Joe's because of what they read in the *Flyer*, the stories and narratives that appear on product packaging and the story the company tells on its Web site. That's one point of differentiation, Demeritt says, that other retailers don't offer with their private label products.

Demeritt also adds that the company's most powerful marketing tool is its own employees. At any given Trader Joe's store, the employees who stock the shelves are the same ones who work the cash registers, whereas in most grocery stores, employees are usually charged with one function or the other. Using this strategy, Trader Joe's ensures that all of a store's employees are knowledgeable about its products and can make recommendations about what's new and what's selling well at both ends of a shopping trip.

Above all, Trader Joe's employees always appear to be genuinely enthusiastic — about both the products they're selling and their desire to be helpful to customers. That way, the "Trader Joe's personality" is expressed throughout the shopping experience.

"They've kind of managed to inject a huge amount of personality and romance/mystique [into the brand]," maintains Jim Hertel, managing partner of Willard Bishop, a Barrington, Ill.-based consulting firm. "Look at all the variance on the private brand and how it communicates a story. They've created an entire personality; they

are unique in that. They aren't afraid to poke fun at themselves.

They seem to be saying, 'We're not taking ourselves too seriously, but we do take food seriously.'"

The variance of brands to which Hertel refers are the names of specific Trader Joe's product lines. For example,

Trader Ming's refers to the company's line of Asian/fusion foods; Trader Giotto's includes some Italian products; Trader Juan's represents the Latin/Mexican lines; and Trader Darwin's includes vitamins and supplements.

"Merchandising and marketing are NOT competing functions. In so many retail organizations, these functions are discrete silos," Gogesch explains. "You have to ask yourself, who wins in this scenario? If your answer is 'the organization'



consumers of her mother's generation tend to stick to what they're used to when it comes to grocery stores. Dornblaser explains older consumers are less likely to branch out

into the more exotic and ethnic foods, the kinds of products Trader Joe's is known for. Shoppers like her mom, says Dornblaser, appreciate Trader Joe's partly for the portion sizes and the affordability of products such as frozen fish, but mainly because each store's physical size — typically between 10,000 to 15,000 square feet — makes shopping a lot easier.

Arguably, one of retailer's most successful products has been its private label Charles Shaw wine, also known as "Two Buck Chuck." A July 22 article in the *Los Angeles Times* details how in the 1970s, Coulombe and his wine buyers were able to engage in "aggressive wine merchandising" to successfully sell local wines very inexpensively under the Trader Joe's label. Charles Shaw became known as Two Buck Chuck in the 1990s when some stores started selling it for \$1.99 per bottle.

But a small group of those in the retail industry find working with Trader Joe's to be frustrating. Some would-be suppliers say they would love to work out partnerships with the retailer, but can't seem to get an audience with the company. According to one supplier, Trader Joe's has a closed-door policy to new vendors. Others argue that if such a policy existed, Trader Joe's would never have new products, and would lack innovation completely.

As Hertel says, if Trader Joe's felt like this was a strategy that wasn't working, the company would change it. "It's working for them now, and I can understand the frustration from suppliers, but so far so good. If it ain't broke, don't fix it. They're probably in the mode where they feel like they've got the right formula," Hertel contends.

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Room To Grow

Even with our current rocky economy, where every company has to re-evaluate what it needs to do to stay viable, Trader Joe's still is planning expansions and faces no shortage of communities eager to welcome a new store. If its next 50 years look anything like the first 50, Trader Joe's will definitely stick around.

Trader Joe's remains fairly mum about its current and future development plans, but Hertel says he is encouraged that the Aldi family of stores, of which Trader Joe's is part, has been more forthcoming in recent months about its activities.

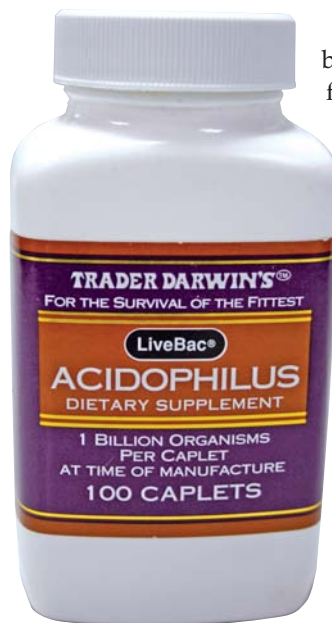
"I've seen a real opening up on the German Aldi side, in terms of talking about their plans and where they are heading, especially in the last six months," he says.

"T.J.'s has been on a real hot streak for many years. It's got a lot of space to grow geographically. When you're on that kind of winning streak, you don't need to

tell everyone what you're doing. When you've got a hot concept, there [are] a lot of opportunities," he adds.

However, that hot streak is not without its weaknesses. Trader Joe's could improve in some areas as it moves forward. Some weak spots are produce and fresh-prepared meals, a place where competitors such as Whole Foods shine. To some extent, those challenges are related to infrastructure and distribution. Hertel says Trader Joe's might be asking itself how to keep the rotational items fresh so it can surprise and delight its core shoppers.

"There certainly are not clouds on any horizon, but they've got some



built-in limitations and fixtures," Hertel notes.

One of those limitations is a universal problem for all retailer private label programs — how to compete with heavily marketed national brands when it comes to beverages, particularly carbonated soft drinks.

"Non-alcoholic beverages are a tough go for anyone in the private brand business," Hertel observes. "From a development standpoint, they have opportunities there. But it's hard. You've got strength from the national players — such strong marketers and brands in the existing space."

Dornblaser agrees, but acknowledges that Trader Joe's offers Italian sodas and sparkling

lemonades that are very well done, and adds that they are getting better at coffee and tea as well.

Gogesch greatly admires individual Trader Joe's products overall, but points to packaging as an area in which the retailer could really improve.

"Two areas that T.J.'s could pay more attention to are packaging and design. Because they've had such success with their quirky stores and positioning, and great products, consumers have given them lots of permission to not be a leader in offering great packaging or leading-edge design," she says. "Ever try to open a bag of T.J. potato chips? You nearly need a chainsaw."

Of course, no retailer can meet every demand perfectly, or afford to overhaul a department or marketing campaign every time something doesn't work. But if Trader Joe's continues to innovate like it has in recent years, it should do just fine. **PLB**

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