

The Trader Joe's Experience

The impact of corporate culture on business strategy.

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The success of Trader Joe's (TJ) markets is the result of unique business model that has built a national chain of neighborhood grocery stores. This apparent paradox requires the organization to be growth-oriented yet perceived by shoppers as customer-focused similar to "mom-and-pop" operations of the past. They have accomplished this by basing their strategy on the alignment of their unique corporate culture with a clearly defined competitive space. The purpose of this article is to explore the relationship between organizational culture and business strategy that has propelled TJ to extraordinary success. The article also offers a model for readers to consider in creating a culture within their own organization that provides a defensible competitive position by incorporating value, rareness, inimitability, and non-substitutability.[1]

History/Background

Started in 1967 by Joe Coulombe, Trader Joe's began as a convenience store but quickly migrated to a more novel design for adventurous food and beverage shoppers. Initially, TJ was comprised of 17 stores in the southern California area. By the early 1980s additional food products were introduced as the number of stores grew to 26. In 1988 they expanded to northern California. The combination of innovative products along with a service-oriented culture has created a loyal customer base that continues to grow nationally. Today, TJ has over 270 stores in 22 states with revenues exceeding \$5 billion.



Photo: johannalg

Coulombe sold the business in 1978 to the Albrecht family, owners of a multi-billion dollar retail chain in the EU. However, the company remains private. The Albrechts are passive investors—operating control was left in Joe's hands who continued as CEO until he retired in 1988. John Shields, whose background includes retail and merchandising, and who provided the operational know-how to expand the business, became CEO, a position he held until 2001. Dan Bane is the current CEO.

TJ offers an array of products that are distinct from those sold in traditional supermarkets. They do not carry national brands, but rather a host of food and beverage products along with a number of healthcare selections. Products include cheese, wine, ready-to-prepare foods, frozen items, produce, and ethnic choices, of which 75 percent carry the TJ label. Most products are offered at low prices (which differentiates TJ from competitors such as Whole Foods and Bristol Farms) but are considered to be of high quality, both in terms of taste and healthfulness. Because their stores are generally in the 15,000 square foot range, TJ offers about five times fewer products than conventional supermarkets, and new products are continuously brought in as others are phased out. To stimulate customer interest, TJ focuses on a constantly changing product mix, which further adds to their uniqueness. This continuous rotation of distinct food and beverage products creates a sense of adventure that appeals to customers, who look forward to new items.

The Mission

The TJ mantra is to offer value and a dedication to quality service through warm, friendly, committed employees along with a pledge to offer quality products. This mission requires a culture that supports loyalty and customer service through personal contact with the consumer. The commitment to the customer is captured on the TJ website, “Our Product Guarantee: We tried it! We liked it! If you don’t, bring it back for a full refund, no questions asked.” The underlying message is that TJ desires to establish a personal relationship with the customer.

Major decisions are carefully scrutinized to determine the extent to which each directly maintains a neighborhood store feel. For example, for a number of years TJ resisted incorporating scanners at their check-out stands. The concern was that customers would consider the technology a move toward becoming a traditional supermarket, and thus risk losing its image. Continuous change in their inventory mix, however, demanded that they scan bar codes at check-out. Eight years ago TJ began experimenting with this shift in technology. Piloting the technology at a few northern California stores, they were careful to be sure the sound of the ping during check-out did not get in the way of cashier/customer conversation. After several weeks of testing, the organization launched the system throughout its store operations.

Another example of the determination with which TJ committed to its mission was the decision, over 10 years ago, to construct its check-out kiosks such that customers could push shopping carts through the line rather than having to back the cart out of check out before exiting the store. The former model was aligned with small store, customer oriented operations, but with increasing shoppers became unwieldy. Again, TJ carefully assessed the impact the change would have on customers before implementing the new model. This approach to merchandising provides the customer with an adventure in shopping; [2] is, the TJ model attempts to make grocery shopping an exotic experience rather than an obligatory visit to market for staples.



Photo: Sanja Gjenero

The success of their model is evidenced by the measure of sales per square foot. TJ believes that the combination of its product line and customer service culture is responsible for revenues that are triple the square foot sales of a typical supermarket.

Growth

The growth of the organization has been achieved without debt; TJ expansion is fully self-financed. The operation remains free of union involvement—salaries and benefits are sufficient to ward off labor unrest. Advertising is limited: modest radio exposure and no television or newspaper ads. TJ does not rely on publicity, coupons, or store cards. A newsletter, the *Frequent Flyer*, featuring new products and store locations is mailed to customers three times each year and during holiday periods. They do not rely on email advertising.

Expansion is cautiously executed because the challenge associated with migrating its unique culture requires a meticulous selection and training process. Store location is determined by three key factors: density of population, educational level of the consumer, and distribution efficiencies. Market research has revealed a relationship between education and consumer choices: The more highly educated tend to travel more and, hence, are more inclined to be attracted to the unique product lines offered by TJ.

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Building the Culture

“Crew members” (the moniker for store employees) are selected, in part, because of their expressed enthusiasm and energy. Training includes skills in communication, teamwork, leadership and product knowledge. Crew members handle a multitude of responsibilities including, cashier, stocker, customer interface, and are evaluated on a quarterly basis. Turnover among full-time crew is 4 percent yearly, substantially below that of traditional supermarkets. Part-time employees comprise 70 percent of the crew members, and those wishing to be promoted to full-time can apply for the position. The managerial structure is relatively flat. Crew members report to the “first mate” (assistant store manager), who, in turn, reports to the “captain” (store manager). The store atmosphere is highlighted by a South Seas motif, crew members often wear Hawaiian shirts and banners throughout the store convey that theme. There is a casual ambiance; new products are identified on chalk boards arranged in key locations.

The first author of this article had the opportunity to study the TJ organizational culture.[3] The purpose was to assess the extent to which the espoused culture as described by management did, indeed, match the in-use culture,[4] that is, the climate as expressed by employees. The study was carried out in the greater Los Angeles area. Using the “Integrated Culture Framework” created by Mallinger and Rossy,[5] surveys and interviews were collected from crew members, first mates, and captains in five stores. The data revealed that for the most part, the espoused and in-use cultures were aligned.

Specifically, as predicted, the ability to influence, the commitment to teamwork, and an elevated level of achievement orientation was reported. Crew members indicated that they felt empowered to make decisions, were collaborative in their relationship with others, and were motivated to high levels of performance. These characteristics were demonstrated in the extent to which they were enthusiastic, hardworking, outgoing, team and customer oriented.

An unexpected finding, however, was the extent to which they were uncomfortable with ambiguity. Given the stated mission of the organization along with the relatively flat organizational design, it was thought that crew members would be encouraged to take risks and be tolerant of uncertainty. However, the relatively thin profit margins associated with the retail grocery business, along with a structured set of customer policies, requires a commitment to the Trader Joe's way of doing business, and following rules and regulations is emphasized.

In general, the data suggests that, for the most part, the in-use culture is consistent with culture espoused by management and, more critically, with the values of its unique customer base. John Shields, the former CEO, in a conversation with the authors, stated that he would address crew members at the opening of each new store to talk about TJ values and would tell them that if they were not having fun at the end of 30 days to please resign.

Implications for Practice: Competitive Space and Defensible Strategy

To be successful over the long term such a strategy has to be defensible. Jay Barney[6] in describing his resource-based view of the firm identifies four requirements for defensibility: value (in the eyes of the

customer), rareness, inimitability, and non-substitutability. In today's global marketplace with its rapid flow of information, these conditions are increasingly difficult to achieve through the traditional four P's of marketing—product, place, price, and promotion. What TJ has done is to erect barriers around its competitive space with a unique fifth P—"culture."

While other retailers have developed internal organization cultures that are unique and support their products, service, and internal management philosophy (e.g. Whole Food's "highest quality," "least processed," "naturally preserved," "self-managed teams"; and Bristol Farm's "finest assortment," "freshness," "assortment") the TJ culture is one in which customers are integral to creating the shopping experience. By delivering a shopping experience that is "innovative," "unique," and "interesting," and products that are "hard-to-find," "great tasting" from "around the world," they have been able to differentiate themselves from their closest competitors.

How they accomplish this is also markedly different from their most obvious competitors, Whole Foods (WF) and Bristol Farms (BF). For their customers TJ provides *value* not primarily through the quality of its products, as with WF and BF, but rather through their distinct shopping experience. Shopping becomes an adventure that takes them into a store whose characteristics are often in opposition to those of traditional markets: casual, low price, high service with a constantly changing and somewhat unpredictable product mix. Their culture, because it involves the customers in an ongoing sense of discovery and adventure, is both *unique* and *difficult to copy*. And because it is aligned to their specific target market rather than broad differentiation built around quality and service, it is more difficult to replicate by those companies that are serving a more expansive competitive space. Finally, at least at this time, there are no substitutes for the combination of attributes provided by the TJ culture and customer experience, because at TJ, customers become part of the culture rather than merely experiencing it.

Trader Joe's teaches us that a unique organization culture, which is carefully aligned with its own competitive business strategy and the values of its customers, can provide an effective defense against incipient competitors.

What Trader Joe's Success Can Teach Us

As competition in every industry intensifies, being good (or even great) at executing your strategy will no longer be good enough. This is even truer for retailers and service providers that cannot erect patent or other barriers to competition. What Trader Joe's teaches us is that a unique organization culture that is carefully aligned with both its own competitive business strategy and with the values of the customers, can provide an effective defense against incipient competitors. Such a strong and targeted organization culture takes time to develop and provides customers with a valuable and difficult to copy experience. It is always more complicated for competitors to imitate *who you are* than *what you do*. As with Trader Joe's, you want to make your identity and not just your products your major competitive advantage.

Challenges Facing Trader Joe's

As TJ continues its growth a number of concerns emerge. Probably most notable is the extent to which they can continue to successfully export their Crew Member culture to other, more geographically dispersed locations. To mitigate this risk, the organization brings in a cadre of experienced crew members to embed the culture in new locations.

The organization may also be limited in its ability to find rental properties at reasonable prices in areas that fit

its current customer base. At present their success has minimized this threat because of negotiating strength.

While at present TJ has no plans for international expansion, the pressure to expand domestically may at some time reach an end point. TJ management, however, believes there are sufficient markets that will offer store sites for years to come. Finally, until recently TJ has not experienced any significant direct competition. This advantage, however, may be about to end. Tesco, the UK \$90 billion grocery and general merchandise chain, announced plans to open one-hundred, 10,000 square foot stores that will offer products similar to those available at TJ. Openings in February 2008 are planned for Los Angeles, San Diego, Las Vegas and Phoenix[7] and may present the first real threat to TJ markets and could be the initial test of the sustainability of its competitive advantage.

Additional Resources

Edgar H. Schein. *The Corporate Culture Survival Guide*, (San Francisco: Jossey-Bass Publishers, 1999).

[1] Jay Barney. "Special Theory Forum The Resource-Based Model of the Firm: Origins, Implications, and Prospects," *Journal of Management*, 17, (1991): 97-98.

[2] Len Lewis. *The Trader Joe's Adventure: A Unique Approach to Business into a Retail and Cultural Phenomenon*, (Chicago: Dearborn Trade Publication, 2005).

[3] Mark Mallinger, Timothy Walter. "Climate versus Culture: Duality in the Consulting Intervention," presented at the Academy of Management, Denver, August 2001.

[4] Chris Argyris. "Teaching Smart People How to Learn," *Harvard Business Review*, (1991) 14.

[5] Mark Mallinger, Gerard Rossy. "Film as a Lens for Studying Culture and Its Implications for Management," presented at the Western Academy of Management meeting, Redondo Beach, March, 1999.

[6] Barney.

[7] Tim Gaynor. "Tesco Aims for 100 U.S. Stores by February," Reuters via Yahoo! News, April 25, 2007.

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