

Trader Joe's 2013 Case Analysis

Executive Summary:

From 1967 to 2013, Trader Joe's garnered millions of supporters and became one of the best supermarkets in America. A culmination of its constant rotation of private label products, cult-like following and its locally based company ideology can be attributed to its success. However, with the company's rapid expansion across the U.S., many believe that Trader Joe's won't maintain their original small-town approach to new stores and be able to compete with modern-day industry competitors such as Walmart. A lack of technological integration and a low-effort marketing outreach are all warning signs that the local approach won't be well received in new locations. **Appendix A** shows how dominant current players are within the industry, with Walmart grossing 118.7 million dollars in 2013. The recommendation listed below allows Trader Joe's to maintain its core competencies while increasing its competitive advantage to allow the brand to compete against industry rivals.

Recommendation: Create a location-based SKU preference network called **Trader Track** that allows regional and store managers to monitor what private label SKUs are top sellers in that specific store/region, help prioritize best sellers in each local store's specific dynamic product mix, and allow vendors to use data to purchase new items on a regional level.

With this back-end network, Trader Joe's can massively increase its competitive advantage of its small-town dynamic while maintaining its brand image and developing a proprietary technology that allows increased competition against players in the industry

Industry Dynamics: Key Issues in the U.S Supermarket Industry

U.S. supermarkets have seen their share of U.S. grocery sales fall 15% over the last ten years as new entrants such as wholesale clubs, pharmacies, and discount retailers have increased their efforts in grocery sales. Increased competition from Discount Retailers in particular threatens traditional grocery brands with supercenters that have more space and carry more items, ultimately taking more sales away from traditional Supermarkets. **Appendix B's** explanation

correlates this, with the overall measured forces having a strong impact on the potential profitability of the industry as a whole.

Trader Joe's Key Competitor Analysis:

In **Appendix A**, we see that competition in the U.S. supermarket market is largely concentrated within the first two companies. With Walmart and Kroger's revenues combined being as profitable as the next ten leading groceries on the list, it's evident that the Superstore format of these leading companies is dominating the market. Currently, we can attribute the profitability of the Superstore to its size, with the average supercenter having over 185,000 square feet and carrying over 100,000 SKUs. This is a main determinant in their success, with **Appendix J** highlighting that the grocery industry is receiving low profits using the Dupont Identity, the sheer scale of the superstore format helps mitigate any annual loss for these leading companies by them having the dominant share of profits that are available within the industry. However, while superstores house more SKUs, the average revenue per square foot of each store is significantly lower than that of a more intimate and smaller store such as Trader Joe's. With Trader Joe's boasting almost \$2,045.05 per square foot of its store compared to only \$617.16 for a superstore like Walmart, there are still ways in which the traditional grocery store model is favored within the US industry. The addition of bigger store locations such as superstores and wholesale clubs has increased the competition in the industry immensely, as seen in **Appendix B**, which highlights how the Supermarket Industry is competitive with multiple new entrants into the industry occurring, the low switching cost for consumers and the already high rivalry amongst existing competitors.

Trader Joe's Situation Analysis:

Appendix C highlights the strengths and weaknesses of Trader Joe's within its industry in general and concerning specific competitors. Trader Joe's is renowned for being a local, community-based option for organic and healthy options. The brand has a devoted legion of fans that support every facet of the brand and each store's dynamic product mix in combination with the layout of each store allows for an immersive and enjoyable customer experience. However, store

expansion, new competitors, and a new style of Grocery Store in the U.S. (Superstores) make it difficult for Trader Joe's to continue to rely on their original competitive advantage within the industry.

Appendix D highlights the competitive advantage and overall opportunity that Trader Joe's has through a VRIO framework. Its core competencies of being a smaller, more local, and private label product-heavy store separates itself from the rest of the industry. With its competitive advantage being valuable, rare, easy to imitate, and organized to capture value, Trader Joe's has a truly sustainable competitive advantage. This also is a determinant of why although **Appendix B** portrays the fact that multiple forces affect the profitability of the industry, Trader Joe's can mitigate these forces by carving out a specific position within the industry that has created a sustainable competitive advantage. If the brand were to simply enhance this idea of being locally sourced on a more local level (region/store location), it would allow for this competitive advantage to reach new heights within the industry.

Solution Criteria:

To determine which option should be used to help solve Trader Joe's problem, questions were chosen based on specific criteria that are pertinent to the overall industry and Trader Joe's Specifically. Specific Criteria can be seen in **Appendix E**

Evaluation Matrix

Using possible alternatives listed in **Appendix F** and the current recommendation for Trader Joe's, it is shown in **Appendix G** that Trader Truck aligns with the determined criteria the best and should be used to help solve Trader Joe's current dilemma.

Implementation Overview/Recommendations

Recommendation: Develop and use a location-based SKU preference network called **Trader Track** to allow managers to see what private-label items are best sellers in their store/region. By implementing this software in the back end of the company, both store and regional managers will be able to order and remove private label products daily if needed, allowing for an increased dynamic product mix within the store and a further enhancement of the brand's already sustainable competitive advantage. Enabling location-specific product mixes allows for a greater customer

experience and adds on. Which in turn generates more interest from customers and yields greater profits for the brand. A plausible timeline for **Trader Track** with milestones and possible challenges is seen in **Appendix H**:

Implementation Issues:

Multiple implementation issues can occur for Trader Track, including wrong data being reported, issues with staff training, and increased technological reliance. All possible issues can be further explained in **Appendix K**

Implementation Effects On Competitors:

As previously mentioned, Trader Track would only boost Trader Joe's Competitive advantage by enhancing its dynamic product mix and allow for increased specialization of individual regions or stores. This ultimately would allow for further product and brand differentiation from competitors.

Any competitors who are operating with more SKUs and in a larger building would not be able to replicate **Trader Track** because there is little to no product differentiation within each store. Trader Joe's sells primarily private label products, compared to larger chains such as Walmart selling tens of thousands of generic brand products that are located in most places.

Appendix

Appendix A: Top 12 Supermarkets in the United States (ranked by revenue) (2012)

Exhibit 1 Top 12 Supermarkets in the United States (ranked by revenue)

Rank	Company ^a	Grocery Sales ^b (billions)	Square Feet of Selling Area (millions)
1	Wal-Mart	\$118.7	195.5
2	Kroger	61.1	104.0
3	Safeway	35.5	53.6
4	Supervalu	28.2	48.9
5	Ahold USA	26.2	31.9
6	Publix	22.8	38.6
7	Delhaize America	18.6	45.4
8	H-E-B Grocery	13.0	15.0
9	Lone Star (Winn-Dixie)	10.4	24.6
10	Meijer	9.2	12.5
11	Whole Foods	8.8	7.0
12	Trader Joe's	7.6	3.7

Source: Progressive Grocer, "The Super 50," May 2012, http://www.progressivegrocer.com/inprint/article/id2735/artimages/PG/PG052012_table38.pdf, accessed September 2013.

Appendix B: Porter's Five Forces In the U.S Supermarket Industry

Porter's Five Forces External Analysis elaborates on the fact that although there are moderate barriers to entry within the U.S Supermarket Industry with inflated capital requirements and a decreasing amount of brand loyalty, we have seen competitors be able to enter and become large competitors in the past ten years and possibly in the near future too. This can be attributed to these larger locations being opened and the economies of scale allowing firms to make massive profits while increasing its output to levels never before seen inside the U.S Supermarket industry.

Threat of New Entrants: Strong Force

- Over the past ten years, wholesalers, discount retailers and pharmacies have entered the market and been able to offset the initial capital requirement costs with the amount of output being produced in each store alone (threat of entry is high when capital requirements are low in comparison to the expected returns)
- Low customer switching costs from one supermarket to another

Bargaining Power of Suppliers: Medium Force

- dominant food and beverage brands mass produce large percentage of items sold in Supermarkets (General Mills, Nestle, Coca Cola, Pepsico) and help stock most major U.S supermarket brands
- However, brands like Trader Joes have private label brands and create direct relationships with vendors all over the world that cut out the middleman

Bargaining Power of Buyers: Strong Force

- Decreased brand loyalty and little to no switching cost of consumers switching to other supermarkets
- Most Supermarkets sell the same product mix and only limited supermarkets create and sell diverse products or make products that are specific to their brand

Threat of Substitute Products or Services: Strong Force

- Low cost of buyers to switch to an alternate Grocery Chain
- Increased size of stores means that there is an increased amount of products offered, which allows for more possible substitutes for consumers

Rivalry Among Existing Competitors: Strong Force

- Many competitors which is dominated by Oligopolies
- Traditional Supermarkets operate on thin product margins and with new entrants into the industry, margins become thinner

Appendix C: SWOT Analysis of Trader Joe's

Strengths: • Strong Local reputation (local brand image) • Devoted customer base that loves the brand • Constantly shifting dynamic product mix allows for constant anticipation and excitement from customers • Employees are trained to be empathetic and are constantly said to be the best staff within U.S Supermarkets • Small town/Local approach to Supermarkets creates a sustainable competitive advantage • High employee application amount • Low employee turnover • Strong relationships with vendors • Ability to buy goods straight from vendors at a lower price point than competitors • Emphasis on organic, natural product selection that is more sought after by customers • Aldi owners share same principles for smaller more locally based strategy • Mass popularity of private label Trader Joes Products • Expansion into states outside of California over the past 15 years	Weaknesses: • Minimal Inventory compared to other competitors • Low Technological investment into stores • Low marketing efforts on social media • Long check out lines, not enough parking for most locations for customers • Dynamic product mix means that customers might be mad if products are constantly out of stock that they want • Independent Public Relations • No loyalty cards, or coupons to incentivize store products • Store targeted for specific customer base (hard for family to shop at store) • No social media presence makes it hard for new customers to learn about brand
Opportunities: • Increased Inflation means that stores will be more profitable • Further development of popular private label brands will garner more profit • Geographic expansion allows for Trader	Threats: • Emergence of Wholesalers, Discount Retailers and Pharmacies into industry creates greater competition and tighter margins for every U.S Supermarket • Industry Competitors looking for expansion efforts of their own

Joes to expand into new regional markets • Geographic expansion means that Trader Joes can now collaborate with more locally sourced vendors • High volume of private label brands means that Trader Joes has a high level of vertical integration within its store • Ability to view regional consumer preference allows for further synergy between store regions and vendors • Individualized placement of best selling private label product allows for further customer engagement and inter-employee engagement	• Data shows that the Superstore model is dominating the industry right now • Smaller, more personal stores (like Trader Joes) making significantly less revenue than Superstores • Additional State specific regulations and laws for Supermarkets • Increased store locations means that Trader Joes might need to find more vendors or stop using more local vendors • Integration of Back-Ended Software could be seen as Trader Joes losing core competencies of using limited technology • Shortages of organic/natural vendors
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Appendix D: VRIO Framework Highlighting Trader Joe's Competitive Advantage

What I believe is Trader Joe's Greatest competitive advantage is its resilience to stay committed to its original mission, without refusing to change or even tweak it a little for the modern-day industry. Embracing the community-based culture and having primarily private label items in lower quantities is an asset that only Trader Joe's has because they haven't strayed from the roots that Joe Coulombe believed in when he opened the flagship location in 1967. With Harvard University Annotating that over 80% of Trader Joe's inventory consists of private label goods, compared to the industry average being around 20%, the competitive advantage Trader Joe's has built for itself won't stop anytime shortly.

VRIO Analysis	Does Trader Joes have this characteristic?	Why or Why Not?	What kind of advantage does the firm have?
Is it Valuable?	Yes	Customers continue to love this local and smaller store format and in 2013 consumers said that Trader Joes was their favorite Supermarket Brand.	↓
Is it Rare?	Yes	The private label items are made solely in house by Trader Joes and the vendors in which they get any raw produce or other foods are done in	↓

		secrecy to ensure that other competitors can't copy Trader Joes Products.	
Is it Not Easy to Imitate	Yes	As long as the recipes remain a secret to other competitors and Trader Joes continues to embrace their local and community oriented company culture, nothing will change.	
Is it Organized to Capture Value	Yes	Although no coordinating systems are in place to ensure the company culture wont deteriorate from what it should be, there is in place an effective organizational structure that has been in place since 1967 and continued to be in place when Trader Joes was bought by Aldi. Demand for the private label products is still high and is fulfilling demand, so in all ways it is capturing value.	Sustainable Competitive Advantage

Appendix E: Solution Criteria

Each criteria point was chosen to highlight the brand-specific challenges and opportunities that Trader Joe's is facing within their current problem of being able to maintain their original company culture to all Trader

Joe Locations and be able to compete with modern day industry competitors. This specific criterion was created for the main idea of the strategic goals that Trader Joes are using should help the company in its current state of expansion, and in the future when expansion is finished or more clearly defined.

Embracing their current comparative advantage allows the company to continue to have a distinct sector of the industry, whether that is their private label products or their company culture, Trader Joes should continue to try and expand upon this.

For increasing competition within the supermarket, the newly announced expansion for Trader Joes is clearly an effort for Trader Joes to penetrate different markets and start competing with superstores at a national level. In order for that to occur, all efforts by the brand and any recommendation worth choosing should align with this goal of closing the profit margin gap between trader Joes and leading players within the industry.

This same idea can be applied to the point of the chosen recommendation to allow the brand to continue within its efforts of expansion. The chosen recommendation should not create any concerns for future expansions and should allow Trader Joes to continue scouting and securing more locations in other cities across the US.

For allowing further vertical integration with private label products, the chosen recommendation should embrace any competitive advantages or unique and profitable aspects of the brand as possible. With Trader Joes fostering an extreme amount of private label products compared to the industry average, the chosen recommendation should build off of and build up this rare feature of the brand.

Generating revenue and increasing/maintaining likeability of the brand go hand in hand. At the center of the final decision for the chosen recommendation should have the already loyal customer base in mind. By satisfying them and allowing for new customers to experience and enjoy the brand too, the decision will reap increased likeability and profit by making sure these groups are happy with the decision.

Continuing to benefit Trader Joes in the future is a criteria point that is often overlooked when making decisions for current problems. The chosen recommendation should not only temporarily solve a problem that Trader Joes have within the industry, but continue to aid the brand in the future when they are in a different position within the industry. Producing a decision that allows for the brand and the customer base to reap its benefits in the future is something that should be prioritized within a brands decision making process.

List of Case Specific Criteria Points for Trader Joes
Embraces/Enhances brands competitive Advantage(s)

Will it increase competition between Trader Joes and the the Supermarket Industry
Allows brand to continue to expand into more locations in the future
Allows Brand to maintain vertical integration of private label products
Will it generate additional revenue
Will maintain/ increase likeability of brand
Continues to benefit Trader Joes in the future

Appendix F

Solution Alternatives

Alternative 1: Allow for the use of more technological integration within the front-end side of the Business

- Would help boost the popularity of the brand to new customers and increase short-term revenues with increased digital marketing efforts and Search Engine Optimization for targeted customer bases, but at the cost of going directly against the company culture and angering long-time customers who believe Trader Joe to be a more local and simple brand that uses word of mouth for marketing efforts.

Alternative 2: Slow Store Expansion efforts and market Trader Joe's as a more exclusive brand

- This would allow the company to maintain company culture, but revenue would drastically decrease which would worsen the problem of Trader Joe's having increased competition within the industry.

Alternative 3 Creation of Trader Track

- Would help increase revenues by allowing each specific region/store to measure what private label items are popular in specific locations while helping buyers buy new seasonal items that specific regions would like. All while maintaining a minimal technological interface on the front end of the business.

Appendix G: Alternate Evaluation Matrix

0-49= **Low**

A Low score indicates that the specific recommendation does not fulfill the chosen criterion point at all, meaning that in that specific regard, the recommendation adds no value at all.

50-89 = **Medium**

A Medium score indicates that the specific recommendation fulfills the chosen specific criterion point to a certain degree. In some ways or in a limited way, the recommendation adds a medium amount of value. While it does somewhat achieve the chosen criterion point, it doesn't achieve it to the fullest extent possible

89-100 = **Green**

A Green score indicates that the specific recommendation fully accomplishes the chosen specific criteria point to the best of its ability. In all ways, the recommendation adds the maximum amount of value. The chosen recommendation delivers in the highest way possible for the specific criteria point

Criteria	Further Technological Integration within front end of brand	Slow Store Expansion plans and market brand as more exclusive	Trader Track
Embraces Brands Competitive Advantage	0	60	100
Increase competition between Trader Joes and Industry	90	2	95
Allows For Future Store Expansion Efforts	95	2	100
Allows brand to maintain Vertical Integration of its Private Label Products	92	75	100
Makes Additional Revenue	97	0	92
Maintains/Increases	65	89	90

Likeability of Brand			
Continues to benefit brand in the future	98	20	100

Appendix H: Possible Timeline for Trader Track

1. Interview and Select Software Development team to undertake project (1-2 Months)
2. Research and Development of Software (6-9 months)

Milestone: Complete R&D for software and create a system that includes all trader Joes suppliers and front end managers in all locations

Possible Metric to help determine this: Amount of suppliers signed up on app (# of suppliers on app/ total list of Trader Joe's Suppliers)

3. Select Location or Build Data Farm to house customer preference Data (6-12 months)
4. Early Testing in select Trader Joe's Locations (1-2 Months)

Milestone: Possibility of all flagship stores within California to use Trader Track for 1-2 months with minimal issues before releasing it to the rest of stores

Possible metric to determine this: Reported issues or repairs for App/Overall amount of time usage from stores and vendors on app within specific period

- ☐ Will help determine the amount of time the app is used for before a report or issue is sent into the system. Potentially keep app in specific region until that time is above a certain number to be decided

5. Installation of Software on Company Computers in Regional Stores throughout the U.S and Select brand buyers (2-4 Weeks)

Appendix I: Comparative 2011 Financial Performance of Selected Retailers (in \$000s)

	<u>Whole Foods</u>		<u>Kroger</u>		<u>Safeway</u>		<u>Supervalu</u>	
Revenue	\$	10,107,787	\$	90,374,000	\$	43,630,200	\$	36,100,000
Cost of Goods Sold	\$	6,571,238	\$	71,494,000	\$	31,836,500	\$	28,081,000
Gross Profit	\$	3,536,549	\$	18,880,000	\$	11,793,700	\$	8,019,000
SG&A and Other Expenses	\$	2,988,929	\$	17,602,000	\$	10,659,100	\$	8,538,000
Operating Income	\$	547,620	\$	1,278,000	\$	1,134,600	\$	(519,000)
Net Income	\$	342,612	\$	602,000	\$	516,700	\$	(1,040,000)
Total Assets	\$	4,292,075	\$	23,476,000	\$	15,073,600	\$	12,053,000
Total Liabilities	\$	1,300,770	\$	19,510,000	\$	11,384,500	\$	12,032,000
Total Equity	\$	2,991,305	\$	3,966,000	\$	3,689,100	\$	21,000

Source: Annual Reports of each firm.

Appendix J: Dupont Identity Calculation Using Appendix I

Dupont Identity:

$$\begin{aligned}
 \text{ROE} &= \frac{\text{Net Profit}}{\text{Shareholder's Capital}} \\
 &= \frac{\text{Net Profit}}{\text{Total Sales}} \times \frac{\text{Total Sales}}{\text{Total Assets}} \times \frac{\text{Total Assets}}{\text{Shareholder's Capital}} \\
 &\quad \text{Net Profit Margin} \quad \text{Asset Turnover} \quad \text{Equity Multiplier}
 \end{aligned}$$

Dupont Identity and its significance to this case:

The Dupont Identity allows us to look at a company's Return on equity (ROE) by using three important ratios (Net profit margin, Asset turnover, Equity Multiplier) that dissects the company's ROE into its most fundamental components. Overall, the Dupont identity helps gives us an understanding of a specific firms financial performance

A general rule is that the Dupont Identity value is acceptable when it is over 1

(Dupont Identity value > 1)

Sample Dupont Identify Calculation for Information from Appendix I

$ROE = (\text{Net Profit}/\text{Total Sales}) \times (\text{Total sales}/\text{Total Assets}) \times (\text{Total Assets}/\text{SE})$

Whole Foods Dupont Identity Calculation

**Net Profit Margin = $(342,612/10,107,787)$
= 3.39% Or .0339**

**Asset Turnover = $(10,107,787/4,292,075)$
= 2.355**

**Equity Multiplier = $(4,292,075/ 2,991,305)$
= 1.435**

Net Profit Margin x Asset Turnover x Equity Multiplier = .1145

☐ Since .1145<1.0, we can determine that the Whole Foods ROE isn't accepted

Kroger Dupont Identity Calculation

Net Profit Margin = $(602,000/90,034,000)$

= .00666121

Asset Turnover= (90,034,000/23,476,000)

= 3.84963367

Equity Multiplier = (23,476,000/3,966,000)

=5.91931417

Net Profit Margin x Asset Turnover x Equity Multiplier = .1518 (rounded up)

☐ **Since .1518<1.0, we can determine that Kroger's ROE isn't accepted**

Appendix K: Possible Implementation issues

Incorrect data:

Incorrect data would be disastrous for the development and overall working of the app. An example would be a vendor incorrectly inputting the amount of a finished private label good available for a store to order. With the Harvard Review article mentioning that the average store SKU count for a Trader Joe's store being around 4,000 SKU's compared to some superstores having up to 50,000 SKU's, any miscalculation for any good inside one of the brands store will be increasingly hurtful for the individual stores performances compared to an industry competitor.

Trouble with Staff training:

Trader Joes has never had this sort of backend system before the learning curve for employees and vendors might be aggressive. With employees being used to minimal use of technology, there might be an increased amount of setback since no one within the company has ever experienced this type of system before. This same mindset can be applied to the vendors. With Trader Joe's vendors most of the time working solely with Trader Joes and are smaller producers compared to more mainstream vendors, so this technological system would be unheard of for both vendors and employees.

Pushback due to new technological Integration:

With Trader Joe's being built on a company culture of local and down-to-earth features, many would potentially argue that this new system is something that Joe Coulombe would hate to have in his stores. Additionally, if for any reason the Trader Joe's customer base found out that they were technically being lied to because of the technological dependence on trader joes in the backend, it might reduce the competitive advantage of the brand and maybe reduce the likeability for the brand as well.