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Trader Joe’s: A Case Analysis of Trader Joe's Competitive Strategy

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TRADER JOE'S
A CASE ANALYSIS OF TRADER JOE'S COMPETITIVE STRATEGY

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Abstract

Trader Joe’s has been wildly successful since the store was first founded largely due to their ability to distinguish themselves from their competitors. Found across the United States, Trader Joe’s offers its consumers a unique range of private-label products to their target audience. This case analysis delves into Trader Joe’s competitive strategy and how they plan to sustain their competitive edge in the years to come.

Many factors play a role in the success of Trader Joe’s over the past years. Internally, they carry highly sought after products and have a loyal consumer base. They have found a foothold in the young and educated population. Generally, their products are highly unique and often can’t be found anywhere else. This proves very attractive to their customer base that often likes new and exciting food products.

Externally, a lot of forces are in constant motion that affects the strategic positioning and decision making of Trader Joe’s. This analysis takes a look at 5 key forces within the supermarket industry through the use of Porter’s 5 Forces Analysis. Through this, we are able to see how the major forces of buyers, suppliers, competitors, threats of new entrants, and substitute products affect the supermarket industry. Alongside this, the analysis also uses a PESTEL Analysis to analyze a variety of external forces. Through this, one can see the forces and threats on Trader Joe’s.

Knowing the supermarket environment is key to understanding the current strategy of Trader Joe’s takes on within it. When it comes to remaining competitive, Trader Joe’s falls heavily on their specialty private-label products within their compact stores. Beyond their current strategy, there are many opportunities Trader Joe’s could decide to seize. Trader Joes must find a way to remain sustainable and competitive in future years. Whether this be branching outside the United States or establishing a marketing team. If implemented, these changes would have beneficial effects on the company’s financial statements.

Keywords: Trader Joe’s, Competitive Advantage, Competitive Strategy

Description and Background

Trader Joe’s is an American chain of neighborhood grocery stores found across the nation. Trader Joe’s distinguishes itself by carrying selective private-label products not found at your typical grocery stores. Unlike most chain supermarkets, Trader Joe’s stores are quite small, typically under 15,000 square feet and carry around 4,000 stock keeping units (SKUs) per store. The typical customer they serve is educated young adults who are health-conscious and like to try new things. Because of this, Trader Joe’s pushes to introduce fresh and exciting products to their shelves weekly.

Trader Joe’s was founded in 1967 by Joe Coulombe who was born in San Diego, California. Joe Coulombe was heavily influenced by the environmentalist movement ongoing at the time and aimed to sell natural and organic foods. All of the initial stores launched by Joe Coulombe were located in the state of California. All Trader Joe's locations took on a South Seas theme. The word “Trader” in the company’s name was used to evoke this South Seas theme Joe Coulombe took on.

In 1979, Trader Joe’s was acquired by Aldi led by German grocer Theo Albrecht. Aldis was very similar to Trader Joe’s in many ways including they carried fewer SKUs than the typical supermarket and they sold mostly private-label products. Even though Theo Albrecht acquired Trader Joe’s, Joe Coulombe was given a lot of freedom to conduct business on his own terms. This idea of autonomy was reinforced by the fact the executives of Aldi only met at the Trader Joe’s headquarters once a year.

As of 2013, Trader Joe’s has continued to flourish becoming the most profitable supermarket per square foot as extrapolated from Exhibit 1 from the case (Ager, 2014, p. 11). Of the 400 stores nationwide, 172 are located in California, the same state where the company was founded. Trader Joe’s continues to remain privately-held and plans to maintain this style of ownership into the foreseeable future.

Central Issue

The main issue presented in this case is how can Trader Joe’s maintain their competitive advantage as it continues to grow into the future. In the past, Trader Joe’s has been able to effectively reach and retain new customers through their exceptional private-label products and unique atmosphere. The issue is the potential for Trader Joe’s to lose this competitive edge. A concern is if Trader Joe’s continues to expand, there is potential for them to lose their “quirk” that sets them apart from others. Rapid expansion could also lead to a bureaucratic style governing over the organization which the company actively avoids. Lastly, other grocers could enter the industry and take on a similar strategy as Trader Joe due to all the success they have. All these things could cut into their competitive advantage of Trader Joe’s and stunt their growth.

Porter’s 5 Forces

Porter’s Five Forces is a framework for analyzing a company’s competitive environment. Industry competitiveness is affected by the number and strength of a company’s rivals, the threat of new entrants, the ability of suppliers to affect profitability, the effect of customers on profitability, and the availability of substitutes from another industry.

In the supermarket industry, rivalry is intense. The supermarket industry is competitive with a lot of high-profile competitors in the industry. However, even smaller companies are able to compete in this industry. One of the things that allow smaller companies to compete is the low switching cost and lack of product differentiation. This allows them to sell the same products at very similar costs. Through all of this, intensity among competitors is a huge threat, and one of the driving forces in this industry.

Additionally, to the supermarket industry, there is a moderate initial capital investment required for new entrants. This is avoidable for established retailing stores as most of the capital expenditures are due to buildings and property. It wouldn't be too difficult for companies that sell products or merchandise to incorporate a grocery segment. This is a similar strategy that Target took on. Another factor that plays into this force is the low switching costs. This remains a high threat as customers can easily switch from one store to another. This remains attractive to potential companies entering this industry. The low switching has to do with low product differentiation in the industry. Customers can find the same products at other supermarkets which makes price such a key factor when potential companies consider entering the industry. Overall, the threat of new entrants remains moderate in the supermarket industry.

The next force to consider in the supermarket industry is the bargaining power of suppliers. Companies in the supermarket industry purchase from a lot of individual suppliers. This can be a strong threat. However, a supermarket can have their pick on the supplier of a single product. With any given product, there can be numerous suppliers which weakens the bargaining power of suppliers. This makes quality and price important to supermarkets and gives suppliers limited wiggle room in deciding these factors. Another factor that plays into the bargaining power of suppliers is the lack of forward integration. This can be a potential threat if a supplier creates a wide variety of products but typically this threat remains moderately low. Suppliers can usually achieve high levels of economies of scale of a single product or a few products and can sell them to supermarkets at a margin. Economies of scale would quickly disappear if they offered the variety of products a supermarket does. Additionally, suppliers lack the resources and capabilities to offer such a vast variety of products that would be comparable to a supermarket. Overall, this threat remains relatively low in the supermarket industry.

The fourth force to consider is the bargaining power of buyers. The buyer’s in this industry carry a very high level of bargaining power. As discussed before, the low-switching cost is an advantage to the consumers and a threat to the supermarket industry. In most cases, buyers have access to pricing across multiple stores all at their fingertips. With the rise of the internet in the 21st century, buyers have access to information and can make optimal decisions for their budget in a few seconds. With such little product differentiation between stores, price is everything in this industry. If stores aren’t able to lower their prices, they simply switch to a store that will. This gives buyers the ability to drive down prices and cut into supermarkets’ margins. Buyers also heavily influence the management of what is carried in their stores. Due to this, the threat of buyer's bargaining power is a very strong force in the supermarket industry.

The fourth force under review is the threat of substitute products. This threat remains relatively high as many places can supply food products. For one, you can obtain food products at any gas station, food truck, restaurant, or any place selling food. All these are readily available to consumers and can take business away from the supermarket industry. However, supermarkets aren't totally hurt by this as some of these substitutes are purchased directly from a supermarket. Another factor that feeds into the threat of substitute products is the low switching cost discussed in other forces. Accessing these substitute food products outside the supermarket industry is both convenient and inexpensive. Lastly, there is the threat of substitution within the supermarket industry. Supermarkets offer a wide array of products, but not always exactly the same. Certain ingredients or different variations of a product can fulfill the same need for a customer. This threat remains high within the supermarket industry due to these reasons.

The fifth and last force this analysis will consider is the intensity of rivalry among competitors in an industry. The supermarket industry is super competitive with a lot of high profile competitors in the industry. However, even smaller companies are able to compete in this industry. One of the things that allow smaller companies to compete is the low switching cost and lack of product differentiation. This allows them to sell the same products at very similar costs. Through all of this, intensity among competitors is a huge threat, and one of the driving forces in this industry.

PESTEL Analysis

A PESTEL analysis is a framework used to analyze the key external factors of an industry. This analysis looks at the political environment, economic landscape, sociocultural forces, technological developments, natural environment, and legal legislation.

Now let's take a look at the supermarket industry through a PESTEL analysis. The first factor we will look at is the political environment. Probably the biggest factor is the taxation for business. Increasing or decreasing tax rates for corporations can encourage or deter decisions of management. Taxation changes can also come in the form of tax credits or sin taxes on certain products. Another part of the political environment is labor laws. Specifically, increasing or decreasing wages minimums or benefits can be heavily politically motivated and greatly affect a company's cost of operation. Lastly, environmental laws play a factor in the political landscape of a company. Depending on the political landscape of the nation, these can bring about changes that affect the physical environment. For example, changes in carbon requirements can increase costs to a company and deter certain efforts of management.

The second factor to consider is the economic landscape in the supermarket industry. For one, rising labor costs play an important factor in industry costs. This is often tied to the steady rise in inflation that happens across all industries. Other factors include high unemployment which can result in low disposable income or vice versa if unemployment is low. Fortunately, in the supermarket industry, food is a necessity and doesn't change too much in economic downturns. Lastly, interest rates can either encourage or deter management from borrowing to finance projects. Often unemployment and interest rates are tied to the cycles of the economy. All of these factors often move all at once but can be hard to predict from management's perspective.

The third factor is the sociocultural forces. One of the biggest issues affecting the supermarket industry is the growing demographic of health-conscious buyers. This has pushed the industry to incorporate more natural and organic foods onto their shelves. This partly has to do with younger generations being more informed and concerned with the harms of unhealthy food. Lastly, there are increases in temporary workers as this is often an entry-level job. This means turnover is high and most workers are part-time.

The fourth factor is technological development. With the rise of Big Data analytics, supermarkets have been able to make more informed strategic decisions. For example, Big Data can help companies decide what products to include, potential store location, or even pricing. Secondly, technology has evolved the checkout process in stores. In supermarkets, we've seen the rise of self-checkout which has cut costs for companies and improved efficiencies.

The fifth factor we will look at is the environmental landscape. One of the biggest concerns is product choice. As shoppers have become more health-conscious, they care whether their food products were free-range, grass-fed, had GMOs, etc. Another big factor that brings about concern is the carbon footprint of a company. Shoppers care about the waste, electricity usage, and packaging of products. With the rise in technology, shoppers have greater access to this information. Lastly, the physical location of a company plays a big role in the success of the supermarket. Physical location can affect access to shoppers and access to supply channels.

The sixth and last factor we will look at is the legal effects on the supermarket industry. The biggest factor is the laws and regulators of food products. The biggest regulator of food is the Food and Drug Administration (FDA). The FDA helps regulate things such as safety and labeling of products in supermarkets. Lastly, hiring laws and labor laws affect how companies hire and oversee their employees.

Current Strategy

The company's current strategy is to carry a variety of selective private label products and produce an environment that is warm, engaging, and adventurous. Trader Joe's aims to capture the educated population who are health-conscious and willing to try new things. They aim to establish small stores in neighborhoods and carry about 4000 SKUs per store. Trader Joe's establishes relationships with private-label companies and requires secrecy with these retailers. Products rotate often, as they aim to introduce 10-15 new products each week which means they have to get rid of 10-15 current products. Unlike some supermarkets, Trader Joe's doesn't focus on advertising through newspapers since they never have sales or promotions. The only marketing done is through a flyer called the "Fearless Flyers" or the occasional radio advertisement. Moreover, Trader Joe's isn't active on any social media platform where they could interact with their customers and build exposure with potential customers. Part of this has to do with their approach to not invest greatly in technology. The other part is to keep overhead costs down from not having a marketing or social media team.

Focal Resources and Capabilities

One capability Trader Joe's uses to distinguish themselves from the rest is offering a variety of private-label products that are unique and exciting. They build upon this by offering these specialty products at affordable prices through direct channels with suppliers. Their use of secrecy enables them to protect who their suppliers are from their competitors. It also allows its suppliers to provide Trader Joe's with lower-cost versions of products. This allows producers higher profit margins compared to competitors. Trader Joe's secrecy is reinforced as they are a privately-held company. Being privately held allows Trader Joe's to not disclose financial statements to competitors.

SWOT Analysis

Now let's a look at Trader Joe's through the use of a SWOT analysis. This analysis will first cover the internal strengths of Trader Joe's. The first internal strength that comes to mind is its unique private-label products. This serves as a strength because it helps them distinguish themselves from other supermarkets by having food products that are difficult to find. Unique products mixed with the secrecy about suppliers allow Trader Joe's to make a higher profit on low-cost products.   The second biggest strength of Trader Joe's is their customer loyalty. Trader Joe's has a loyal fan-base that continually returns to their stores week after week. Most of their new customers find Trader Joe's through word of mouth of current satisfied customers. This has proved to be one of the most valuable assets to Trader Joe's.

This analysis will now cover the internal weaknesses of Trader Joe's. One of the weaknesses of Trader Joe's is its lack of marketing. They have very limited ads and can't be found on any social media platform. This is an internal function that Trader Joe's actively opts out of. Another weakness is the limited products they offer. Customers may be unable to find everything on their grocery list because of Trader Joe's small variety of products in their stores. This can be undesirable to customers who want a single store to provide them with everything on their grocery list.

The biggest opportunity for Trader Joe's is to expand further nationally or internationally. Nationally, most of their stores are located in California but have the opportunities to create a strong presence in other states as well. This could help them build market share and give them access to distribution channels between stores nationwide. As far as internationally, Trader Joe's has no presence. They could increase market share if they can expand across the border or in other similar countries overseas. A great opportunity would be in Canada because they could still access supply channels in the United States. Additionally, Canada has a very similar culture as the United States meaning there would be very little need for adaptation.

Lastly, we will take a look at external threats to Trader Joe's. The threats we will look at have been identified in our Porter's Five Forces analysis so this analysis will quickly review the major threats. The biggest threat to Trader Joe’s is market share being eaten up. This can happen through new companies entering the industry or current supermarkets adopting similar strategies as Trader Joe’s. The supermarket industry competition is intense with powerful competitors controlling most of the market share. Even so, smaller companies have proven to compete in this industry which drives market share away from Traders Joe’s. Lastly, substitute products are readily available and take away potential market share from the supermarket industry.

Focal Competitive Advantage

Their focal competitive advantage is the unique private-label products they provide. This provides them with two key advantages. The first advantage is it enables them to distinguish themselves from other competitors. Unique products are attractive to consumers because they are unable to find these products elsewhere. The second advantage of unique private-label products is the ability to charge high prices for them. This is because customers are willing to pay more for an item they perceive as unique. Private-label products have enabled Trader Joe’s to have great success over the years and continue to give them a competitive edge for the years to come.

Recommendation

The biggest opportunity I see for Trader Joe’s to address issues of growth in the future would be to be more active in digital marketing. This would enable them to grow faster by reaching a large audience of customers. This, mixed with their exposure with word of mouth would help the company grow at exponential rates. This would also help current customers feel more connected through interaction on social media platforms and other digital marketing. Trader Joe's audience is very active on social media and desires interaction with the company. It would also enable them to be knowledgeable about new products they introduce weekly. This would also increase sales of current customers who become more knowledgeable about the products they carry. Through this, they can build market share through new customers and increase retention with current customers.

Implementation of Recommendation

The way I would implement my recommendation would be to create a digital marketing team to promote Trader Joe’s. The digital marketing team would be split between an advertising team and social media team. The goal of the advertising team would be to promote Trader Joe’s products through online advertisements. The goal of this would be to showcase current products as well as introduce new products. This would keep current customers informed on changes in products in stores as well as create influence and exposure to potential new customers. Potential new customers would gain an understanding of Trader Joe’s as a whole and the products they carry in the store. On the other side of things, the social media team would be able to serve as another way to connect with new customers and increase exposure to the company. The social media team would also be able to interact with current customers to increase loyalty and retention. It tends to be a lot cheaper to keep customers than to try to attract new customers. With the implementation of my recommendation, Trader Joe's would be able to accomplish both exposure and retention of customers.

Financial Implications of Recommendation

According to a study, more than half of sales in supermarkets are influenced in some way by digital marketing (CPA, 2017). This number is expected to grow as technology continues to advance. With the implementation of a marketing team, sales would be expected to increase and Trader Joe's would remain competitive in the digital marketing front. Digital influence is on the rise and not adapting to the changes could lead to adverse effects on a company's financial statements. However, the financial implication of this recommendation would be hard to measure. This is because it's hard to track what part of revenue came from digital marketing, and what part did not. This is why expenditures in marketing are immediately expensed due to the inability to align costs with revenue. We would expect a steady increase in sales revenue. This however would come at the cost of increased cost in overhead to fund these digital marketing teams. However, this investment would be worth it to curb potential losses in market share and increase sales for Trader Joe's. Overall, implementing this recommendation would increase Trader Joe's bottom line.

Appendix

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.

[a] The list excluded warehouse clubs such as Costco, BJ's, and Sam's Club.

[b] The sales data included grocery merchandise only. The author (Progressive Grocer) omitted sales for other merchandise sold in these stores, including apparel, electronics, appliances, etc. Therefore, the sales figures here did not match published revenue reports by these companies.

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