

Inside Trader Joe's Podcast Transcript — ICYMI: How Does Trader Joe's Set Prices?

[Light upbeat music begins.]

Tara: The crew members at your neighborhood Trader Joe's get so many questions and they're pretty good at answering them.

Matt: I wonder if other grocery stores get asked some of these questions. I wonder if they answer them.

Tara: At Trader Joe's, we do answer them and sometimes our answers are a little different. Like the answer to this question, how do you set your prices?

Matt: Oh, that is a good question for an ICYMI, in case you missed it, special episode of *Inside Trader Joe's*.

[Theme music begins with no two bells at a neighborhood Trader Joe's.]

Tara: I'm Tara Miller, director of words and phrases and clauses.

Matt: And I'm Matt Sloan, the culture and innovation guy at Trader Joe's.

Tara: ICYMI, in case you missed it, how do we set the prices at Trader Joe's?

Matt: I think everybody is wondering what's up with grocery prices these days.

Tara: Yeah. And what's down? Because some of our prices are going down.

[Theme music ends. Light upbeat music begins.]

Matt: Yes, both happen. You know, at Trader Joe's, prices are a part of value and what we mean by value is offering outstanding quality at great prices. Price is what you pay, value is what you get for it. Let's dig in.

Tara: For example, take olive oil.

Matt: Yes. Take my olive oil, please.

Tara: Ooh, we need a rim shot here.

[Rimshot.]

Tara: Chris is a senior category manager here at Trader Joe's. Let's talk to him about olive oil.

Chris: Hmm. That doesn't seem like a great thing to talk about right now 'cause...

Matt: Well, tell us about why, because olive oil's been a little bit in the press recently.

Chris: Yeah. So, the laws of supply and demand seem to have kicked in and demands there, but supply has been a bit challenged. Olives grow in places that have had a

little bit less rainfall and a little bit more heat. Spain's the biggest grower of olives and they've had a couple bad harvests in a row.

Matt: How much of the world's supply of olive oil comes from Spain?

Chris: Historically it's a little over half. There has been drought and there's been excessive heat at the wrong time.

Matt: Supply, demand. This sounds like there's not enough oil. That almost always means one thing.

Chris: Higher prices. (chuckles)

Matt: Higher costs. Yep.

[Music transition.]

Matt: I think this would be a good time to get into some hair-splitting definitions 'cause there's cost and there's price. And cost is what we pay our source and price is what we charge our customers. At the risk of oversimplifying things, our prices change when our costs change.

Chris: Correct. We don't change our retails unless our costs change. That's up and down.

Tara: We actually do lower our prices. I don't see that happening in a lot of places. We're pretty good about that.

Chris: When we're lowering prices, we are all a lot happier than when we're raising prices. We are very, very reluctant to raise our retails. That's like the decision of last resort. When costs are going down, we don't wait. We lower the retails like the second we find out the cost is going down. We're gonna always offer a great value on our olive oil relative to everybody else and the best value we can.

Matt: If something goes up that can be, 'ah, it went up,' relative to where it is elsewhere, it might still be an amazing price.

Chris: Absolutely.

Tara: Part of our philosophy is that we're like a buying agent for our customers. We wanna get you the best deal. When prices are lower, people tend to buy more stuff.

Chris: It's all about the customers and the stuff.

Tara: That seems like a good place to stop.

[Transition to Cara. Music transition.]

Matt: Okay. Ready for some good news?

Tara: Always. And since we're answering the question, "Hey, Trader Joe's, how do you set your prices?" It'd be really nice to talk about prices that are going down as well, because as we said, that does happen. For that, Cara, welcome to *Inside Trader Joe's*.

Cara: Thanks, Tara. It's been a long time.

Tara: It has been. Can you refresh everyone's memory about what it is that you do here?

Cara: Yeah, I'm currently the category manager for all the snacks, nuts, and dry fruit for the company. Right now, the big talk is almonds because of the California crop. It's been super for the last couple of years. We had plenty of rain.

Matt: Almonds have kind of like a built-in supply cycle where every year isn't the same output of almonds. We see prices can go up or prices can come down.

Cara: Correct. California is the largest producer of almonds in the world. So, California...

Tara: In the world.

Cara: In the world. They produce 80% of the world's almonds. It's all grown in central California because the weather is really typical of a Mediterranean weather. You get wet climates during the summer, dry heat, so it's perfect conditions for the trees to thrive all year round. More and more farmers are planting almond crops and kind of getting away from fruit trees. All the costs and outputs are a lot lower than picking fruit. About 7,600 farms are owned by families. Third, fourth generations. We do buy direct from those farmers or cooperatives. We do buy a specific variety of almonds that we call non-perils, which is kind of like, look at fruit trees, you buy apples, for example. There's Gala, Fuji. Almonds also have a variety as well. Very good large size almonds that we sell.

Matt: They are not roasted, salted, just classic raw almonds, the orange bag. To have that for \$3.99, that is like a just a phenomenal deal.

Tara: We contract when the crop is at, is like peak, right? So, we're at a point where we can negotiate a really good price.

Cara: That's correct. We have to time it correctly. We look at our volume and amount of stores and sales.

Tara: And we sell through these things quickly.

Cara: We don't really carry anything over a year.

Tara: There's actually something that I do. I go to the nuts section of a grocery store and I look for dust because they don't sell nuts very quickly in most grocery stores and they almost always have dust on them. You are not gonna find dust on the nuts at Trader Joe's. Like they fly off the shelves like every single day. They just taste so much fresher.

Cara: Yes. We sell different varieties of nuts in almonds. We sell what we call the raw and we have a half salt and salted, and we also sell slice and sliver. So, we lowered each one of those items by a dollar.

Tara: Really?

Cara: That's correct.

Tara: So, what's the price on the roasted and salted almonds right now?

Cara: Originally \$6.99. We're down to \$5.99. And for like our baking products, like the sliver and slice, we were originally \$3.99 for eight ounces, and now we're \$2.99. That's a really great value.

Tara: For sure.

Cara: Yes.

Matt: It'll be interesting to see if a bunch of farmers rushed into almonds and created an oversupply situation. That's likely not gonna stay that way forever, but I do feel very confident in saying that what will, again, remain constant is Trader Joe's work to have an amazing price for outstanding quality. We're gonna keep at it.

Tara: Thank you for doing the work to make sure that we are able to pass on cost reductions to customers. Customers really appreciate it.

Cara: Absolutely. And I also, we should appreciate all the farmers out there.

Tara: Matt, I think we've about covered the topic of prices and value at Trader Joe's.

Matt: We have, and yet there's one more point I'd like to make, and that's really about our costs relative to our prices and the fact that we don't use a set markup or percentage that we apply to everything we sell at Trader Joe's.

Tara: That seems like it would be a pretty simple, straightforward way to do things. Why don't we do that?

Matt: Well, that's what's known in the industry as a cost plus pricing model, where regardless of the cost and regardless of the competitive landscape, you just add a fixed percentage, and that's how you price it out. Well, for us, that marketplace relativity, the comparison between a Trader Joe's price and a similar product found elsewhere, that's really important to us and we wanna make sure that our pricing is compelling. We lead with our customers in mind, and at the end of the day, we have to pay our bills and pay our folks working in stores. So we need to make a reasonable, a fair markup that's our profit on it, and that can really vary product by product or even throughout time over the course of the year.

Tara: So, does that kind of explain why, for example, on lotions or sunscreens or things in that sort of health and beauty space, our prices to our customers are so much lower, so often than similar products found elsewhere.

Matt: Yes, that is the perfect example. Other stores might have larger profit expectations for certain types of products. We don't do that. So just because the world says we need a 250% markup on this kind of product, we don't do that.

Tara: That's a real thing.

Matt: That's a real thing.

Tara: Wow. Sometimes our prices are gonna go up because costs change in the world. But if our costs go down and they often do, we lower our retail prices for our customers almost immediately. That I think really sets us apart from other folks who sell groceries.

Matt: Now I think we've covered it.

[Transition music to closing.]

Tara: ICYMI, in case you missed it.

Matt: That's how we set prices.

Tara: And that's how we make sure that our customers get a great value every time they shop at Trader Joe's.