

Transcript — Episode 41: Value and the Supply Chain at Trader Joe's

[Special bulletin noise in background.]

Tara: This just in!

Matt: (announcer voice) “Supply chain crisis for the holiday season and everything shortage!”

Tara: That's a scary headline. And here's another one (turning page): “Supply chain problems threaten economic recovery.”

Matt: How about this one (turning page)? “Price increases. Supply chain chaos, food makers grapple with higher costs.” (turning page)

[Special bulletin noise ends.]

Tara: We're not making light of a serious subject, really. These are real headlines. And as far as we know, they're accurate.

[Light music begins.]

Matt: Now these are challenging times for retailers, for grocers and for customers. And yes, even for Trader Joe's. We'd like to take some time on this episode to dig into some questions related to this topsy turvy supply chain world.

[Music ends.]

Matt: Let's go Inside Trader Joe's.

[Theme music begins and 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 marketing product guy. Now when we're faced with questions, we know the answers are in the store, your neighborhood store.

Tara: Walk into your neighborhood Trader Joe's and you'll notice something. Our shelves are full and our prices are what you've come to expect from Trader Joe's. We are focused on value every day, even during supply chain shortages.

Matt: And that's because of our buying philosophy.

Tara: Wait, wait, wait. We have a philosophy about buying?

[Theme music ends.]

Matt: Yes, Tara, we have a buying philosophy.

[Light upbeat music begins.]

Matt: It's an actual document. And one of my favorite pieces of trivia really about the first page of our buying philosophy is that the word "customer" or the plural "customers" appears 13 times on the first page. So the opening, the preamble to our buying philosophy, it's all about customers.

Tara: So it's not about gross margin and it's not about shelf space and it's not about slotting fees and it's not about planograms.

Matt: None of the above. Some of those things, being profitable and making a reasonable return on selling a product, things like that are touched on in this buying philosophy, certainly, but it's not the focus. It's not the primary objective. It's really to get to the core. And really when it comes to product, is to understand why we buy what we buy.

Tara: So our mission from a buying standpoint is to sort of be the purchasing agent for our customers, right? We go out and do this work to get great products and great prices.

Matt: That's what it's all about. It's all for our customers. And value for us is not limited to retail price. Many people have used this saying, "The price is what you pay and value is what you get." Now for us, value is an intersection or a place where two lines meet: quality and price. And you can't separate them for us. Value is made of great quality at an outstanding price.

Tara: So how do we do that? How do we make that happen in a way that might be different from how somebody else might do it?

Matt: We're different on purpose. It really revolves around actually experiencing the product. Like how do you know that the quality is great unless you taste it, unless you experience those products. So the tasting panel is certainly a big part of points discussed in this buying philosophy. It's also about being deliberately involved in that process, by working as directly with the sources of those products as possible. As being restless, as not being complacent and not waiting for things to happen, as taking this active role. It turns out that's kind of weird.

Tara: So Matt, from a product development perspective, this isn't new.

Matt: Not at all.

Tara: It's something that's been happening for a few years.

Matt: For decades.

[Music ends.]

Tara: So let's jump into the way back machine, shall we?

[Time machine activated.]

Matt: Ah, you must mean the wormhole activating, bridging automatic computer used by Mr. Peabody and Sherman, of course.

Tara: I wish. We don't have the budget for that.

Matt: Press the button Sherman, send me back into time.

Tara: (giggles)

Matt: Where are we going?

Tara: 2009.

[Serious news music, teletype.]

Tara: The year that Walter Cronkite passed away.

[Awards show. "And the Oscar goes to..."]

Matt: And *Slumdog Millionaire* won best picture.

[Bat hits ball, large crowd cheers.]

Tara: And the Yankees beat the Phillies in the World Series, all in 2009.

[Tuning a radio.]

Tara: And this commercial was on the radio.

[Trader Joe's Commercial]

Jon: When you hear Dijon mustard, thoughts come to mind of an aristocrat asking for condiments from a limousine. At Trader Joe's we'd like to replace that with a new image, big savings. This is Jon Basalone of Trader Joe's. We've always had a great price on Dijon

mustard. Recently, though, some international trade tariffs were reduced and we negotiated with our supplier for a better price. Dramatically cutting the cost for our Dijon mustard. How dramatically? More than \$1.00 a jar, and we're passing those savings onto you. Trader Joe's Dijon Mustard with White Wine is now only \$1.69 for a 13 ounce jar. That's an outstanding price for this authentic sharp tangy Dijon. At this price, Trader Joe's Dijon Mustard takes the fancy out of Dijon once and for all. Seriously, don't be surprised if the guy in the old Vega park next to you, cranks down the window and asks, "Pardon me? Do you have any Trader Joe's Dijon Mustard?" For the location of your neighborhood Trader Joe's, check us out at www.TraderJoes.com. Thanks for listening.

[Light upbeat music begins.]

Tara: \$1.69 for Dijon mustard back in 2009. What's the price today?

Matt: \$1.69.

Tara: Wait a minute. How is that even possible? How can we do that?

Matt: I think you've got to start with the question and it's a famous question, "Where's the beef?" We've got to go even further back to 1989 when the United States and the European Union really started arguing over beef and growth promoting hormones, and whether to allow such beef into the European Union from the United States and what ensued was a trade war. And the most pointedly used weapons in that war were tariffs. So these ad valorem tariffs, these added value taxes was a form of relations. So the United States said, "If you don't want our beef, we're going to tax your mustard." Really hit them where it hurts apparently. So it was a 100% value tax that in May of 2009 was repealed, removed, done away with. So up until May of 2009, our Dijon mustard was \$2.79. And our carrying cost for that mustard basically fell in half. And we were looking at that and for a moment wondering, "What do we do?" Of course, we turn to the buying philosophy and right there, our retail prices, what customers pay, don't change unless our costs change. Well, our costs did change. They went down and we actually love lowering retail prices.

Tara: But that was in 2009. And right now we're in 2021. Costs of everything have gone up. Why is that Dijon mustard still the same price?

Matt: It's partly tied to what was a little bit of an anxious feeling on our part when we knew we would have to sell more jars. So if you drive volume up, you grow the business with more jars of mustard. You spread those costs over those many more jars of mustard, the cost per jar can end up going down.

Tara: We had probably 300 stores in 2009-ish, something like that, in the 300 range. Now we have over 500 stores. So by virtue of the number of stores we're operating, we're selling more mustard.

Matt: And so what that might mean is if you're buying more jars or more of those printed paper labels, or you're coordinating ocean freight, even as ridiculously difficult as that is in this very moment, you're doing it on a larger scale basis and there's some savings that come with that on a per jar of mustard basis.

Tara: Because those costs are spread out over a larger number of jars in total.

Matt: And part of that intensive involvement in the buying process is to reduce risk for our vendors. We pay for that mustard in Euros, their local currency now. We assume the risk of that currency fluctuating so those folks can just focus on making mustard.

Tara: And our customers can just focus on getting a great value on that jar of mustard.

Matt: We sell so many jars of mustard that our Dijon mustard is often experienced as stronger than most. It's a very intensely flavored mustard. And that's because it's so fresh. Most high-end museums of fine food types of stores display mustard, but they don't sell very much of it. And a lot of times customers will tell us, "Whoa, I got a really spicy batch." It's not because the recipe changed, it's because it's so fresh. And like a month or so later, it actually mellows out a little bit.

Tara: We talked about when our costs go down, we lower our prices. When our costs go up, we try really hard not to raise the prices. I mean, we work really hard to make that the option of last resort.

Matt: There is in fact, a tremendous amount of work that goes into getting to the point to be ready, to raise a price. It's not an automatic process. So even if a cost goes up, we don't immediately raise a retail price. We begin a series of evaluations to really check that product's value. Is it still a value? It's quality at this new cost and potentially new higher price, is it still a value? And that's not a foregone conclusion that, "Oh, sure it is. We just need to raise the price." There are many instances when we'll stop carrying a product, because we think the new cost and the new retail price isn't the same value.

Tara: One of those things that makes Trader Joe's unique is that we do discontinue products and we bring in new products. Sometimes the reason we discontinue a product is because it no longer represents a value.

Matt: Absolutely. And there are things that are sort of more of a commodity type nature.

Tara: Question: what is a commodity product?

Matt: It's like a basic building block of a grocery store business: like a steak, a chicken breast, a gallon of milk, a banana.

Tara: How do we mitigate cost increases on products like that? Or can we?

Matt: We can't avoid cost increases entirely.

Tara: And no matter what store you go into right now, the price of beef is higher.

Matt: There is this basic force in the marketplace that is moving beef pricing around.

Tara: I think the other side of that is according to the buying philosophy, when, and if those costs go back down, we'll lower the price. I don't think that's something you see in most grocery stores...is a price going up and then going back down.

Matt: You really don't see a lot of prices return to their starting point.

Tara: When you talk about commodity items and when you talk about prices going up on certain things in general, it does seem like a lot of retail companies use those situations to their advantage, like raising prices in a way that kind of seems arbitrary, citing a supply and demand rationale when it's really maybe not a supply and demand situation.

Matt: And someone's taking a bet to say, I think the demand is going to be so great that I can charge five or ten times the cost.

Tara: We don't do that.

Matt: And while global economic trends at micro and macro levels are ever-changing, at Trader Joe's our buying philosophy, it remains constant.

Tara: So Matt, the reality is prices do go up sometimes and there's just no way to avoid that, right?

Matt: Yes and no. Now there are many things that we do in our work to avoid retail price increases. Let's get into four of them.

[Music ends.]

Tara: Number one (with reverb/echo on the word "one").

Matt: Whoa, nice echo.

Tara: Thank you.

[Light music begins.]

Matt: Quantity. We buy in very large quantities. Now this creates an economy of scale for our vendors because the more raw material ingredients that they buy, the lower their costs and those lower costs come on to Trader Joe's and we pass them on to our customers.

Tara: Number (with reverb/echo) two.

Matt: Hey, can I try that? Number two! (no reverb)

Tara: Don't worry. We'll add it in post.

Matt: We work with direct relationships. And by that, I mean, we work as close to the source with the producer, the manufacturer of the product, whenever it's possible. We work directly with the places that make the things that we sell. Now, this cuts out an additional layer, sometimes multiple layers of costs in the supply chain, which results in lower prices.

Tara: At the cash register...lower costs on our end, lower prices for our customers. Number (with reverb/echo) three.

Matt: Okay, now I'm hearing the echo. That's not in post!

Tara: Quick payment turnaround. Many retailers take months to pay their suppliers, really. Some retailers even offer their suppliers "low-interest loans" to cover their supplier's costs from the time an invoice is received until the retailer pays the supplier. To us that's just crazy. You sell us a product, we pay you for the product. That shouldn't be strange but in the retail business, especially in the retail grocery business, it's not the norm.

Matt: In the immortal words of J. Wellington Wimpy, "I'll gladly pay you tomorrow for a hamburger today." Or in this case, "I'll gladly pay you in 120 days or more for a hamburger today."

Tara: We have quick payment terms with our vendors and we can pay them electronically, which means they can get paid even more quickly than if we were to send them a paper check. Having cash on hand helps them to run their business more efficiently and allows them to offer us better costs for our products. Number (with a little extra reverb/echo) four.

Matt: I was letting the echo settle out, ripple out through the airwaves (echo effect fades out underneath). Now this seems basic, but we own our inventory. We don't buy it on consignment. We pay for it outright. When it's delivered, we take the risk of selling it, which means that we help our suppliers, our vendors, eliminate that uncertainty and risk on their part. And we don't ask them to come into the stores and merchandise our shelves. We do that work ourselves.

Tara: Those seem really simple to me. And maybe it's because I've just been immersed in Trader Joe's for so long, but they really work...those four ways. And the result of that, say Mandarin Orange Chicken, it's been \$4.99 since 2003.

Matt: Eighteen years. I mean, a whole generation has grown up eating Mandarin Orange Chicken, and their parents have paid the same price for it the whole time.

Tara: Bananas: 19 cents each for 20 years. Greeting cards: 99 cents since we started carrying them. Butter: still \$2.99 a pound. And it's almost turkey time.

Matt: At the same price as last year: \$1.99 a pound.

Tara: That's a crazy good price actually. Those are great turkeys. All right. Let's get to the bottom line and wrap this up.

[Music ends.]

Matt: Yeah. It's about time.

[Closing theme music begins.]

Matt: When you shop at your Trader Joe's, you expect that we're doing all the work to make sure that the things on your shopping list are top quality and at prices that just can't be beat. For us, it's that intersection of quality and price that really defines value every day in every store.

Tara: So Matt, no crew interviews, no visits to secret factories, no tasting panel audio.

Matt: Just the two of us on this one, Tara, because with this so-called everything shortage in the news, well, we just wanted to get this episode out quickly.

Tara: For our next episode we're going on the road to California's Wine Country. To make sure you hear it hit that free subscribe button.

Matt: It *is* free and worth every penny.

Tara: Until next time, thanks for listening.

Matt: And thanks for listening.