

MIT Students



Trader Joe's vs. Whole Foods Market: A Comparison of Operational Management

15.768 Management of Services: Concepts, Design, and Delivery

Grocery shopping is more diversified and evolved than ever before. Individuals across the nation have access to everything from exotic products to unique delivery services. Often, specialty stores have limited locations whereas specialty services have a limited reach. However, two retailers have expanded to hundreds of locations while adhering to unexpected market positioning for previously untargeted market segments.

Whole Foods Market and Trader Joe’s have become household names while also innovating beyond regional and national traditional chains. Despite comparable size in terms of locations, each store’s growth has operated using a very different model. This document will address the various facets for both Whole Foods Market and Trader Joe’s in order to understand how each business model has won a piece of the market pie and share of wallet.

Whole Foods Market

Background and History

In 1978, John Mackey had a vision to build a store that would meet his desire for whole, natural foods as part of the movement away from artificial, processed foods. Mackey was a college dropout, but against all odds he was able to borrow \$45,000 in capital financing and open his first store for what would become Whole Foods in Austin, Texas.¹

By all accounts it has been an incredible success and the most recent annual report (2009) reveals that there are 284 stores across most of the United States with a handful in Canada and Great Britain.²

	2009	2008	2007	2006
Sales (000s)	\$8,031,620	\$7,953,912	\$6,591,773	\$5,607,376

¹ <http://www.wholefoodsmarket.com/company/history.php>

² Whole Foods Market Annual Report (2009), pg. 3

# of Stores	284	275	276	186
Store Size (sq.ft.)	37,000	36,000	34,000	34,000
Weekly Sales (/store)	\$549,000	\$570,000	\$617,000	\$593,000

To best understand Whole Foods' evolution over the last 32 years, it is important to explore a variety of facets of the organization, ranging from its distribution networks to retail location positioning.

Distribution Networks

As Whole Foods has increased the number of retail centers that it operates, it has suffered concomitant growing pains in efficiently managing distribution of products to its stores. The chain is growing at such a fast rate that it struggles to keep up with demand for products and keep shelves stocked. The single biggest reason for inefficiency is Whole Foods' almost completely decentralized back-end. It has 12 geographic divisions, a national headquarters in Austin, regional distribution centers, bakery facilities, kitchens, seafood processing facilities, meat and produce procurement centers and a specialty coffee/tea procurement operation.³ Each geographic division has its own office, regional president, and oversees its own store network. Many outsiders scoff at its supply chain, considering it amateurish and lacking in professionalism. But with ample margins that Whole Foods commands for its products, it does not face immediate pressure to enhance efficiencies.

Dennis Szeszko, an author of this case, had the opportunity to have a private meeting with Whole Foods CEO, John Mackey, when he visited MIT at the end of October. Mackey explained that store managers are empowered to make purchasing decisions independently of the regional offices. As a result, it is possible for Whole Foods to buy potatoes from a local farmer

³ Whole Foods Market Annual Report (2009), pg. 10

who would never dream of selling his produce to a large grocery chain. Essentially, Whole Foods is differentiated because all products are sourced locally.

The stores operate under minimal governance and are given maximum freedom to source a product mix that is appropriate for their location. Whole Foods stores operate under the premise that they need these freedoms to meet the unique buying needs of its local customers. The only governing rule put in place by the corporate office is that stores must not stock products with artificial flavors, preservatives, colors, sweeteners, or hydrogenated oils.⁴

A down side to this local purchasing policy is that consistency is compromised across the chain. Every retail location carries a variety of products that distinguishes it from other stores in the same chain. Not surprisingly, it is difficult to achieve economies of scale.

Supply Chain

Mackey describes his consumers as being “part of a cult”. Whole Foods believes that the company’s emphasis on perishables and locally-sourced produce differentiates their stores from run-of-the-mill supermarkets and attracts loyal and devoted customers. However, “fresh produce” is one of the most challenging product categories to operate due to limited product shelf life and high cost of spoilage. Whole Foods has tried to circumvent most of the problems inherent in supplying fresh produce to its stores by sourcing locally and having short and flexible supply chains.

In the case of fruits and vegetables, Whole Foods has buying relationships with local farmers who supply the store with seasonal produce. Thus, if one farmer is unable to produce a sufficient amount of yellow corn or heirloom tomatoes, the shortfall can be made up by another farmer. Although challenging to perfect, these short supply chains are agile and difficult for other big retailers to duplicate.

⁴ <http://www.wholefoodsmarket.com/values/>

Whole Foods' seafood sourcing strategy is entirely different. The company recently introduced a seafood supply line for getting wild-caught Alaska salmon from stream to plate in less than 48 hours. The company has an on-site buyer in Alaska who travels to various ports fisheries open for the season. He has long-standing relationships with fishermen and is empowered to make purchasing decisions for the entire company. The freshest and highest quality "catches of the day" are flown out immediately to fulfill demand in local stores.

Due to this focus on quality, customers pay a premium for Whole Foods' one-of-a-kind produce selection and quality. Whole Foods has been derisively labeled by its critics as, "Whole Paycheck", however, indoctrinated "cultists" are happy to pay them. Whole Foods does not compete with other grocers on price and has no intention of ever competing in that arena. And since many of its products cannot be found anywhere else, Whole Foods exerts enormous leverage in terms of its pricing power. Furthermore, Whole Foods filters its product offerings and only carries pure, unadulterated foods. This is a strong differentiator which adds value to customers. Although Whole Foods operates in a low-margin industry, its operating margins are nearly double those of other large grocery chains.⁵

Staffing

Whole Foods encourages decisions to be made at the regional level; regional management is better able to understand the needs of local shoppers. This would seem to indicate that the company's growth is inhibited and that its business model cannot scale. However, Whole Foods solves this problem by decreasing the oversight responsibilities given to each regional office as the company has grown. In 2002, Whole Foods had operations in 9 regions of the United

⁵ http://www.businessweek.com/magazine/content/05_43/b3956106.htm

States.⁶ Today, Whole Foods has 12 regional offices. Thus, as Whole Foods has gotten bigger, it has actually gotten smaller.

Whole Foods has also decentralized the staffing and training of team members. Whole Foods is comprised entirely of inter-related teams; every regional office and every store are considered teams. Even, departments within a store are made up of teams with employees assigned to at least one team.

Along with being inclusive and specialized, these teams are self-directed. The impetus for driving change and improvements doesn't come from a corporate mandate, but from a grass-roots effort; excellence is a result of collective success of subordinate teams working to achieve company goals.

Whole Foods views its employees as forming the basis of the company's competitive advantage versus its direct competitors. The workers are passionate and knowledgeable, and infect shoppers with that enthusiasm. This comes at no surprise; in 2010 Whole Foods was ranked by Fortune Magazine as no. 18 on the list of the "100 Best Companies to Work For", and is one of only 13 companies to have appeared on the list every year since its inception.⁷ Whole Foods provides comprehensive medical care benefits to every one of its employees and their domestic partners, and mandates a "living-wage" of at least \$13.50/hr to the lowest paid workers at its stores. Moreover, the company caps the highest earning manager's pay at 19 times the average hourly wage, which results in a very flat hierarchy.⁸ Notably, Mackey, only pays himself \$1 per year. Many workers exclaim that working at Whole Foods is like being a member of a family (cult?) rather than working in a traditional job.

⁶ Whole Foods Market Annual Report (2002)

⁷ <http://blog.wholefoodsmarket.com/2010/01/18-on-100-best-companies-to-work-for-list/>

⁸ Lincoln, Keith. "How to Succeed at Retail: Winning Case Studies and Strategies for Retailers", pg. 163.

Inventory

Whole Foods does not use many enterprise-wide systems to manage inventory or track sales. It is difficult to get information on this aspect of their business because it is not publicly disclosed, but as of 2002 the only company-wide software that was used was accounting software. This software reports financial results from the stores, warehouses and regional offices up to the corporate offices and is responsible for making all vendor payments.

In this modern age it is almost inconceivable for a C-level executive to not have instant access to any individual store's inventory. Yet, at Whole Foods, physical inventory is not tracked at the store level. Whole Foods stores use a point of sale system to scan and record product sales, and it tracks the latest pricing for its products with the use of a master price list. However, this software only gives store managers information on what has been sold, and not what is on the shelf. Amazingly, the company orders new product largely based on visual inspection or physical count. The company has recently started to update its ordering procedures by the introduction of handheld inventory instruments that can automatically order products as they are run out. However, most store orders are still placed by phone or fax to the distribution center.⁹

Whole Foods was built as a result of acquisitions, and many of the regional offices and distribution centers use legacy software that has yet to be integrated with other regional offices or the corporate headquarters. For example, one regional office uses 18 digits to track UPC codes on products, whereas all of the others use 13 or 14 digits.¹⁰ Even if Whole Foods wanted to centralize its supply chain, it would not be able to until it upgraded and standardized its software at all of the regional offices. Clearly, if the company has not done so, then the lack of

⁹ <http://misbridge.mcombs.utexas.edu/knowledge/cases/wholefoods/MISBridgeCase-WholeFoods.pdf>

¹⁰ <http://misbridge.mcombs.utexas.edu/knowledge/cases/wholefoods/MISBridgeCase-WholeFoods.pdf>

investment means that Whole Foods is serious about having a decentralized purchasing model and having individual stores make purchasing decisions.

Quality

The first core value listed on Whole Foods' website is "selling the highest quality natural and organic products available." Whole Foods believes that its quality standards are the highest in the industry and realizes that in order to ensure product quality at the customer-facing, store level, they must trace the quality back through the supply chain, all the way to the source. They provide their suppliers with standardized product profiles and systematically test their suppliers' ability to meet specific quality goals. Ingredients, freshness, safety, taste, nutrition, and appearance are some of the key quality metrics that Whole Foods focuses on.¹¹

In addition to their own internal quality assurance procedures, Whole Foods relies on third party auditors to ensure product quality and safety. Even though it was not required, Whole Foods decided to display its commitment to product integrity by becoming the first national certified organic grocer under the USDA's organic standards.¹²

Customer Experience

Whole Foods takes special care to ensure a positive experience for customers on every visit, understanding that customers are significant advocates for the business.¹³ They appeal to the customer's senses: sight, smell, and taste. From the customer's first moment in the store, he is greeted by the brightly colored display of fresh fruits and vegetables. As the customer walks the aisles, he will often have opportunities to taste samples of certain items on display. Then in

¹¹ <http://www.wholefoodsmarket.com/values/corevalues.php>

¹² <http://www.wholefoodsmarket.com/values/organic.php>

¹³ <http://www.wholefoodsmarket.com/values/corevalues.php>

many stores, as he approaches the check-out line, the smells of the buffet-style, self-serve department might entice him to grab a bite for lunch in the store.

Along the way, this customer will likely encounter several knowledgeable specialists who will be eager to help him pick the best cheese or the perfect slice of meat. Whole Foods believes that this level of expertise is essential to achieving their goal of providing excellent customer service.

When checking out at the cash register, it is Whole Foods' attention to details that sets it apart from the competition. For example, if a customer is buying a carton of eggs, the cashier will open them to make sure that none are cracked. S/he will even place tape or rubber bands around the containers for some items to secure them for their journey to the customer's home. It is these small gestures that make the customer feel that s/he is getting superior treatment and perhaps helps to justify the marked-up prices that s/he will pay.

Corporate Social Responsibility Initiatives

Whole Foods is a purpose-driven company, striving to make “green choices” since the opening of their very first store. With a powerful mission, “Whole Foods – Whole People – Whole Planet,” it is obvious that this grocery chain has a broader vision than simply making profits.¹⁴

Whole Foods supports the community and environment through four main avenues: sustainability, wise environmental practices, community citizenship, and integrity in all business dealings.¹⁵

Sustainability

Whole Foods has a vision of a sustainable future and chooses to lead by example, creating momentum towards this ambitious goal. The primary emphasis is on organic agriculture with

¹⁴ <http://www.wholefoodsmarket.com/company/>

¹⁵ <http://www.wholefoodsmarket.com/values/corevalues.php>

special focus on the use of renewable resources and conservational principles. Whole Foods also works diligently to educate customers regarding food properties and safety.¹⁶

Wise Environmental Practices

Whole Foods believes in the “golden rule of environmental stewardship” through reducing the company’s impact on the earth, reusing materials whenever possible, and recycling and donating items to minimize waste.¹⁷ Additionally, in April of 2010, Whole Foods committed to reducing energy consumption by 25% per square foot by 2015.¹⁸

Community Citizenship

Giving at least five percent of company profits every year to community and non-profit organizations, Whole Foods is dedicated to supporting the communities in which they serve.¹⁹

Integrity in All Business Dealings

Similar to the “Respect for People” reinforcing loop that we learned in class, Whole Foods understands the benefits of creating strong partnerships based on integrity and fairness.

Retail Locations and Physical Store Layout

Physical Store Layout

The first Whole Foods Market was opened as a small natural foods store after founders John Mackey and Rene Hardy saw a need for healthier grocery options in their Austin, Texas neighborhood. Twenty years later, with over three hundred retail locations in North America, Whole Foods continues to design each store with the needs of the local community in mind, and because of this, there is no cookie cutter model for the Whole Food’s store layout, every Whole Foods Market is unique. In the words of company executives, “Whole Foods Market does not

¹⁶ <http://www.wholefoodsmarket.com/values/sustainability.php>

¹⁷ <http://www.wholefoodsmarket.com/values/green-mission.php>

¹⁸ <http://wholefoodsmarket.com/pressroom/blog/2010/04/20/whole-foods-market%C2%AE-commits-to-reduce-energy-consumption-by-25-percent-per-square-foot-by-2015/>

¹⁹ <http://www.wholefoodsmarket.com/values/corevalues.php>

have a standard store design. Instead, each store's design is customized to fit the size and configuration of the particular location and community in which it is located."

Retail Locations

While Whole Foods does customize the design of new stores to fit within the surrounding community and location, they do follow a set of loose standards when selecting the site for new properties.^[1] To ensure ample access to their target consumer segments, they select communities with a large number of college-educated residents with no less than 200,000 people within a 20-minute drive. In addition, the site must be large enough to accommodate a 25,000-50,000 square foot facility with abundant exclusive use parking.

Trader Joe's

Background and History

Throughout its 40+ year history, Trader Joe's has grown to "344 stores in 25 states and Washington, D.C.; and strip-mall operators and consumers alike aggressively lobby the chain, based in Monrovia, Calif., to come to their towns."²⁰ The annual sales are roughly \$8 billion, but are growing at a steady rate. Trader Joe's is careful about unplanned expansion that could put at risk its culture, value proposition, and brand affiliation. Thus, Trader Joe's only opened five new stores in 2010.²¹

Typically, successful and growing organizations are eager to emphasize successes. However, insider information about Trader Joe's is scant, and this is seemingly at odds with its image as a "neighborhood store". This is mostly a result of influence from Aldi, its privately-held parent company. Aldi has been reluctant to peel back the curtain on Trader Joe's business

²⁰ Kowitz, Beth. "Inside the Secret World of Trader Joes." Fortune Magazine. http://money.cnn.com/2010/08/20/news/companies/inside_trader_joes_full_version.fortune/, August 2010

²¹ Ibid

model, and they are highly secretive about its business operations, supplier information and internal logistics.

However, enough is known about the grocery chain to take a peek under the hood of the low-cost, yuppie-loved phenomenon. At the core of the Trader Joe's "way" is a focus on cost-control, simplicity and fun. These company objectives are woven throughout each aspect of its business that has enabled Trader Joe's to create a truly unique customer experience offering high-quality gourmet food at low cost in a fun environment that keeps customers coming back for more. To best understand this strategy, we will examine all areas of the organization – ranging from distribution networks and supply chain, to corporate social responsibility and physical store layout.

Distribution Networks

Trader Joe's manages its distribution networks by minimizing the number of hands that touch the product, thereby reducing costs and making products quickly available to their customers.

Trader Joe's orders directly from the manufacturer. The manufacturer, in turn, is responsible for bringing the product to a Trader Joe's distribution center. At the distribution center, trucks leave on daily resupply trips to local stores. Because of the average store's small size, there is little room for excess inventory, and orders from distribution centers need to be incredibly precise. This quick and efficient distribution process is directly responsible for helping the company identify where to locate new retail stores. Texas and Florida have cities with consumers that Trader Joe's covets, but insiders say the current distribution infrastructure in those states makes it difficult for the company to efficiently resupply products to stores.²² Trader Joe's strategy of implementing a low-cost and efficient distribution network has contributed to the

²² Ibid

democratization of gourmet foods by making them more readily available to customers at all income levels.²³

Supply Chain

Trader Joe's has a unique relationship with its suppliers. By most accounts, Trader Joe's is a "supplier's dream"²⁴ Trader Joe's manages its relationship with suppliers predicated on enormous levels of trust and secrecy. The company always pays on time, offers a transparent procurement process, and doesn't charge shelving fees like traditional grocers. Additionally, it will offer manufacturers detailed specifications for new products along with the price it will pay, but then leave it up to the vendors to create innovative high-quality items.²⁵ In return, Trader Joe's expects a high level of secrecy from its suppliers, even going so far as to force them to not publicly acknowledge their business relationship. Trader Joe's does this because it doesn't want other vendors, customers or competitors to know where it gets its products. In most cases vendors agree to this cloak of secrecy because they are typically producing a lower-cost version of a product for Trader Joe's than for their other customers, and they do not want to cannibalize sales of that product that are sold at other grocers.

Another important way that Trader Joe's manages its supply chain is by relying on its successful private-label brands. This strategy not only lets Trader Joe's differentiate against its competitors and reduces its marketing costs, but selling their own in-house brands reduces the number of SKUs in its stores. This collapses the number of supplier relationships and leads to a more efficient and controllable supply chain.

Staffing

²³ Lewis, Len. The Trader Joe's Adventure: Turning a Unique Approach to Business to a Retail and Cultural Phenomenon. 2005.

²⁴ Kowitz, Beth. "Inside the Secret World of Trader Joes." Fortune Magazine. <http://money.cnn.com/2010/08/20/news/companies/inside-trader-joes-full-version.fortune/> August 2010

²⁵ Lewis, Len. The Trader Joe's Adventure: Turning a Unique Approach to Business to a Retail and Cultural Phenomenon. 2005.

One of the most important ways that Trader Joe's has maintained its success is by being sure to pick the right employees. Trader Joe's generally believes that a happy work force creates happy customers, and the company does everything to foster this virtuous circle. To control costs, Trader Joe's keeps its payroll down by having a lower head count in each location per dollar sales than its competitors.²⁶ But it doesn't sacrifice cost for quality. Trader Joe's invests a significant amount into its employee relationships, making it consistently one of the most popular places to work, as evidenced by the large number of applicants for jobs there. For example, one store alone received 500 applications for just 50 openings.²⁷ Why is Trader Joe's such a great place to work? Because it offers above-average compensation and fosters a company culture that is focused on collaboration, autonomy and fun.

Compensation

Trader Joe's pays above-union wages: as of 2010 full-time crew members started at \$40-\$60,000 per year and store managers earn in the low six figures.²⁸ Trader Joe's also extends significant benefits to its employees that include health insurance, a generous employee discount and performance evaluations every six months with the potential for pay increases.

Collaboration & Autonomy

Trader Joe's has a very selective screening process and seeks talented and motivated employees who shares its passion for food and can provide a high level of customer service.²⁹ Trader Joe's has high expectations from its employees and expects them to multi-task without regard to their job description.³⁰ This collaborative work environment is valued by employees. Also Trader Joe's has a Leadership Development Program designed to empower employees to

²⁶ Lewis, Len, "Fostering a Loyal Workforce at Trader Joe's, Workforce Management," <http://www.workforce.com/section/recruiting-staffing/feature/fostering-loyal-workforce-trader-joes/> June 2005

²⁷ Ibid

²⁸ Kowitt, Beth. "Inside the Secret World of Trader Joes." Fortune Magazine. http://money.cnn.com/2010/08/20/news/companies/inside_trader_joes_full_version.fortune/ August 2010

²⁹ Ibid

³⁰ Lewis, Len, "Fostering a Loyal Workforce at Trader Joe's, Workforce Management," <http://www.workforce.com/section/recruiting-staffing/feature/fostering-loyal-workforce-trader-joes/> June 2005

make their own decisions about store operations, and a Trader Joe's University designed to train employees in areas such as marketing and communications.

Fun

Fun is a basic tenet of employee management at Trader Joe's. First, Trader Joe's labels its work staff as "captains" and "first mates" for store managers, "novitiates" for supervisors-in-training, and "crew" for the rest of the staff. Employees go to work in Aloha shirts and seem to truly enjoy what they do. Being a part of Trader Joe's is almost like being a member of a cult. As Neil Stern, vice president of McMillan/ Doolittle in Chicago says, "It's not only about the product but also an attitude and lifestyle that extends to people in the store... this makes them [Trader Joe's workers] markedly different from employees in traditional supermarkets. It's like being part of a club."³¹

Inventory

Trader Joe's primary success factor has been its inventory sourcing and pricing model. Specifically, Trader Joe's limits its stock to specialty products that it can sell at very low prices. This is done by purchasing large quantities of specialty goods (that do not interest conventional supermarkets) and thereby securing low prices. This allows customers to purchase unique products while guaranteeing value. This strategy also means that customers buy more because Trader Joe's sells twice as much per square foot when compared to other supermarkets.³²

Quantity

Trader Joe's focuses on a smaller range of products. Typically it will carry around 2,000 SKUs when compared to a typical grocery store that carries upwards of 30,000.³³ This small figure is

³¹ Lewis, Len, "Fostering a Loyal Workforce at Trader Joe's, Workforce Management," <http://www.workforce.com/section/recruiting-staffing/feature/fostering-loyal-workforce-trader-joes/> June 2005

³² Palmeri, Christopher. "Trader Joe's Recipe for Success." Business Week. http://www.businessweek.com/magazine/content/08_09/b4073058455307.htm. February 2008.

³³ Ibid

likely exacerbated by the size of the store (one-third the square footage of an average supermarket) and cramped aisles.

Quality

Trader Joe's has an innovative approach to ensuring product quality. 80% of products are private label, whereas the typical grocery store carries only 16%. While this means that many big-name brands are not sold in their stores, Trader Joe's instead focuses on developing customer loyalty to its own brand.

For example, a typical store may be copiously supplied with healthy foods, vegetables and whole grains, but there is a marked predilection towards offering a greater selection of organic produce. Additionally, Trader Joe's stays true to yuppie-but-price-conscious roots by offering products that fulfill the needs of an ever-evolving palate. Finally, Trader Joe's seeks to bring innovative spins on ethnic cuisine, naming them based on cultural affiliation (Trader Giottos for Italian food, Trader Joe-San for Japanese food). In fact, the unique selection leads to the development of new staple items (hummus) while also expanding perspectives for savvy customers. Interestingly, even wealthy customers flock to Trader Joe's to shop for food, including famous celebrities.³⁴

Customer Experience

Typically, grocery store shopping is a chore. The original founder, Joe Colombe, decided that going to the grocery store could be radically improved by offering an authentically enjoyable experience to the customer. Joe's vision of making food shopping fun was enabled by worker adjustments, process redesigns, and some physical changes to the store atmosphere.

³⁴ Kowitz, Beth. "Inside the Secret World of Trader Joes." Fortune Magazine. http://money.cnn.com/2010/08/20/news/companies/inside_trader_joes_full_version.fortune/, August 2010

Trader Joe's makes grocery shopping fun by prefacing employee's names with nautical titles (e.g. captain, first mate, etc) and wearing Aloha shirts. Product returns are welcome at all times, and the employees are actually helpful. Also, the use of a bell replaces the use of an intercom. Hand painted signs and wood-paneled walls further promote a "getaway" feeling as opposed to the typical aseptic and quotidian grocery store. Finally, to speed up the check-out process, all products are sold as units (rather than by weight), and the use of conveyor belts and individual lines is non-existent. Quite literally, it is first come: first serve.

Corporate Social Responsibility Initiatives

In the past, Trader Joe's has been criticized for trailing its competitors in terms of making strides to be more sensitive to the environmental impact of its operations. As a result, Trader Joe's has recently committed to a series of initiatives that will take effect by December 2012, at the latest. Specifically, the company will seek to address over-fishing concerns in terms of which fish species it chooses to sell, and work with scientific and environmental organizations to shape new store policies.³⁵

Retail Locations and Physical Store Layout

Generally, Trader Joe's are located in areas that are replete with the demographic known as "bourgeois bohemians". Its newest retail locations include East Village and Chelsea locations in Manhattan. Although it was questioned whether Trader Joe's could survive in these areas, the prevalence of urbanites and twenty-somethings (who care little about the limited selection of diapers and detergents at Trader Joe's) find low-cost ways to refine their palates.

³⁵ Kaiser, Chris. "Trader Joes: How Not to Approach Sustainability." <http://www.triplepundit.com/2009/07/trader-joes-how-not-to-approach-sustainability/> July 2009

Typical locations are in “out of the way spots,” where rents are cheap and value can be transferred to the consumer. Although these are not high-rent locations, the reason that rents are low is because they are spaces not specifically designed for grocery locations. Commensurate with the “so-so” retail locations, Trader Joe’s prefers to rent and/or lease space rather than purchase outright. This is likely due to the minimized store requirements that stipulate less room for fresh produce, fewer SKUs, and a claustrophobic feeling of cramped grocery lanes. ³⁶

Category	Whole Foods	Trader Joe’s
Background/History	Publicly-held, 284 stores, 1976	Privately-held, 344 stores, 1970’s
Distribution Networks	Decentralized	Centralized
Supply Chain	Quick, nimble and versatile	Private labels, extreme secrecy
Staffing	Cult-like, employees love it	Cult-like, employees love it
Inventory	Poor inventory management	Incredible inventory management
Quality	Incredible selection and quality	Incredible quality but poor selection
Customer Experience	Appeal to senses	Kitschy and campy
Corporate Social Responsibility	Leader in sustainability/ environment	Laggard
Locations and Store Layout	Large, open, beautiful	Cramped, in bad locations

In conclusion, Trader Joe’s and Whole Foods are grocery retailers who have managed to take novel ideas and scale them across the nation. However, the method in which each chain has decided to bring products to consumers has varied widely. Particularly in terms of inventory management and supply chain organization, these companies vary to a wide extent. But what has made these two chains so successful, in our opinion, is what they have the most in common: their commitment to their customers, to their employees, and to their definitions of quality. Through this commitment, as well as their unique value propositions, they have successfully managed to turn the grocery retailing industry on its head, and have forced traditional grocery stores and their customers to re-evaluate their definitions of what constitutes a positive customer experience.

³⁶ Lewis, Len. *The Trader Joe’s Adventure: Turning a Unique Approach to Business to a Retail and Cultural Phenomenon*. 2005.

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