The background of the entire page is a repeating pattern of red hibiscus flowers and leaves. The flowers are stylized with five petals and a central stamen. The leaves are large and have a prominent vein structure. The pattern is dense and covers the entire page.

LESSONS

LEARNED

from

TRADER JOE'S

Eduardo Sanchez

with the assistance of

Arnie Dahlke

2007

Prologue

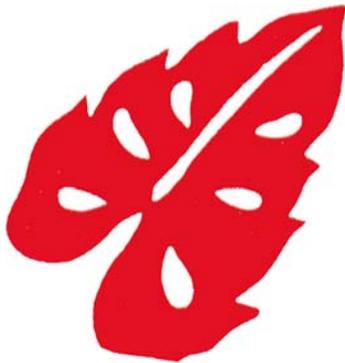
Several years ago, I was asked to coach the son of the President of International Markets, a retail grocery chain. At the time, the son, Eduardo Sanchez, was working at Trader Joe's.

As part of my coaching, I had him study Trader Joe's and, based on his experience working there, come up with some suggestions for actions his father could take to improve customer relations at International Markets.

The result was the following report.

A handwritten signature in cursive script that reads "Arnie Doherty". The signature is written in black ink and is positioned to the right of the text "The result was the following report."

**LESSONS
LEARNED**
from
TRADER JOE'S



Eduardo Sanchez

*Assisted By
Arnie Dahlke*

Page 1:

**- I -
INTRODUCTION**
Purpose of this Report

Page 2:

**- II -
MISSION AND VALUES
OF TRADER JOE'S**

Page 7:

**- III -
LESSONS I'VE LEARNED**
*How Trader Joe's
Turns Its Mission and Values
Into Performance*

Page 15:

**- IV -
RECOMMENDATIONS**
*Suggestions for
International's Consideration*

Page 22

**- V -
SOME FINAL THOUGHTS
and Attachments**

I. INTRODUCTION

I love the International Market grocery business. The business is our family. Over the years, it has kept our family together. Without it, we probably would have gone many different ways.

My purpose in writing this report is to share with my family some of the many things I've learned during the past several months, working as a part time "Crew Member" at a Trader Joe's store.

During this time, I've observed, I've been coached by the store's managers, and I've learned a great deal about how Trader Joe's does business.

I believe that much of what I have learned could be applied to help International become an even better organization than it now is.

In the next section, I will describe a little of the Trader Joe's philosophy as stated in its Mission and Values statements.

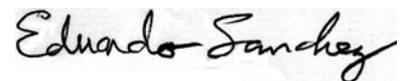
In the third section, I will share the many things I have learned, all of which are policies and actions that actively translate Trader Joe's Mission and Values into the productive performance of both the employees and the company as a whole.

In the fourth section, based on what I have learned, I will offer several suggestions for actions that I believe would improve International.

Finally, in the last section, I will offer some closing comments and observations.

Please read the following pages with an eye toward improving International.

Seeing International adapt and implement at least some of my suggestions will give me a great sense of accomplishment and excitement!

A handwritten signature in black ink that reads "Eduardo Sanchez". The signature is written in a cursive, flowing style.

II. TRADER JOE'S MISION AND VALUES

This section summarizes the Mission and Key Values of Trader Joe's. These Key Values represent what the CEO calls "the few relentless themes for our business at Trader Joe's."

We are coached and trained to live by these Values, to make decisions based on them, and to prioritize and focus our behavior based on them. Managers evaluate our individual performance according to these Values.

I am including this section because I want to demonstrate in the next section of this report how the daily performance of every employee reflects the Trader Joe's Mission and Key Values.

Eduardo Sanchez

THE MISSION OF TRADER JOE'S IS TO GIVE CUSTOMERS
THE BEST FOOD AND BEVERAGE VALUES THEY CAN FIND ANYWHERE
AND TO PROVIDE THEM WITH THE INFORMATION REQUIRED
FOR INFORMED BUYING DECISIONS.

TRADER JOE'S KEY VALUES

**It is vitally important that everyone in the Company
Understands and demonstrates these Key Values.**

Value #1:

Integrity

Trader Joe's defines integrity as treating others as you would like to be treated.

This value is regarded as a very important Key Value. It is deliberately listed as the first value to focus each of us on treating all customers, vendors or suppliers, and each other with Integrity.

Value #2:

Trader Joe's is a product driven Company

Foremost among the factors that differentiates Trader Joe's from other food retailers are the Trader Joe's products. Buying/Merchandising groups search the World over for great products that are screened for acceptance through the rigorous parameters of Trader Joe's unique "Buying Philosophy."

Buyers are constantly challenged to find amazing new products that customers love.

Value #3

Trader Joe's creates a WOW! customer experience every day

Trader Joe's is committed to make every customer shopping experience rewarding, eventful, and fun.

As a Crew Member of Trader Joe's, I am committed to treating customers as if they were honored guests in my home. I want customers to really care about shopping at Trader Joe's, to feel respected, to feel trusted, and to feel safe in the store and the in parking lot.

Trader Joe's also wants customers to enjoy their visual experiences while shopping, including great signage that passes along information, a wonderful demo program, engaging interaction with Crew Members, and other store features that entertain or inform customers.

Value #4

No Bureaucracy

At Trader Joe's there is no room for bureaucracy. Stores operate a single, very focused, and relatively simple retail format.

Each of us Crew Members supports our store to assist in the delivery of WOW! products and customer experiences to our customers. Trader Joe's has as few layers of management as possible and each of us is evaluated on our contribution to the Company's mission, not to group or departmental matters.

Value #5

Trader Joe's is a national chain of neighborhood grocery stores

Trader Joe's is committed to controlled growth within the 48 contiguous states. The growth is also fueled by a commitment to have all stores be operated as true “neighborhood” stores. The company wants the customer’s experience to be personal and intimate, like you would expect to find at a friendly, neighborhood grocery.

Each store is part of their community and is operated such that the customer thinks of the store as “*their* Trader Joe's.” This neighborhood store focus is supported at Trader Joe's by having store management truly making all major store operational decisions. At Trader Joes the Captain really does run the ship!

Value #6

KAIZEN!

At Trader Joe's, Kaizen! is a way of life. Kaizen behavior simply means that every Crew Member at Trader Joe's is focused on achieving personal goals that contribute to the increasing success of the business. Each of us strives to make continual, marginal improvements every day.

Managers listen to us and to our customers and they capitalize on our good ideas every day. Even though Trader Joe's is aware of competition, the Company recognizes that staying true to customers and the Trader Joe’s Values will make the Company successful.

Trader Joe's does not react to competition. Rather, each of us Crew Members is trained to stay true to Company Values and focus on the delivery of WOW to customers.

Value #7

The store is our Brand

The Company recognizes that that each Trader Joe's store is the personification of the Trader Joe's Brand. The brand represents far more than a label or packaging—it is the customer's emotional and personal response to the store.

The Trader Joe's brand is a promise between Trader Joe's and each customer that all of us Crew Members will diligently act on their behalf to satisfy their dreams related to our products and their experience.

The key is consistency. Every store, every day, and every Crew Member reflects the Trader Joe's brand. We continually strive to earn the customers' delight in our brand every time customers shop with us.

CONCLUSION

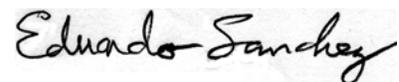
The management of Trader Joe's is proud that, over the past 43 years, Trader Joe's has enjoyed phenomenal success because of its wonderful relationship with customers. They boast that no other grocery retailer has the legion of WOW'ed customers that Trader Joe's enjoys.

CEO Dan Bane believes that with each of us Crew Members continually focusing on the Trader Joe's Values, the Company's past success will simply be the beginning of an even brighter and more rewarding future for customers and all of us at Trader Joe's.

Crew Members are initially hired as “part-time” employees. Trader Joe's is able to attract good part time people with starting salaries higher than most of their competition. I, for example, started at twelve dollars an hour. We receive periodic raises based on performance—we are evaluated every three months.

Even as a part time employee, I still am able to clock 40 hours a week. Demonstrating consistently good performance with excellent evaluations by managers is my way to earn full time status.

On the next page is a description given to all new hires that clearly reinforces the Trader Joe's Mission and Key Values.



Part-Time Crew Member

At Trader Joe's...unyielding integrity is required of all of us.

A Part-Time Crew Member plays a pivotal role in creating WOW! customer experience. A Part-Time Crew Member demonstrates commitment to the Trader Joe's Key Values while performing the following position responsibilities under the direction of Store Management:

DELIVERS A GREAT CUSTOMER EXPERIENCE

- **Creates a fun, warm and friendly shopping experience**
- **Knows and conveys the correct price, location, and availability of products**
- **Actively seeks additional product knowledge that he/she shares with customers and crew Informs Store Management of customers' requests**

KEY STORE FUNCTIONS

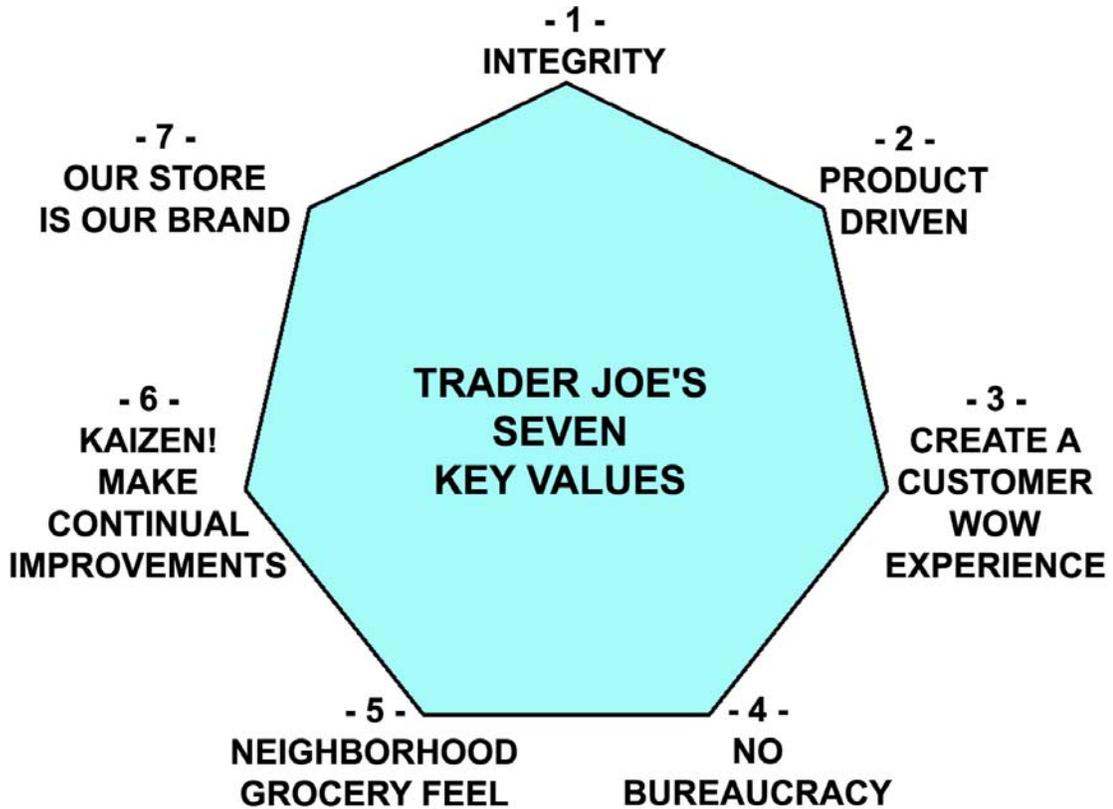
- **Operates a cash register**
- **Bags groceries and other merchandise**
- **Receives, unloads, and verifies merchandise deliveries**
- **Restocks shelves**
- **Prices merchandise**
- **Builds merchandise displays**
- **Carries out merchandise for customers**
- **Collects shopping carts**
- **Accurately records price changes, spoils, and customer returns**
- **Ensures the work environment is safe for customers and employees**
- **Cleans floors, bathrooms, break rooms, refrigerator and freezer cases**
- **Performs parking lot and store maintenance and upkeep (including snow removal) Others as assigned**

WORKS AS PART OF A TEAM

- **Creates a level of friendly, business-like relations with all Crew Members Takes responsibility for understanding and completing tasks**
- **Works with a sense of urgency**
- **Actively seeks out new assignments and responsibilities**
- **Cooperates with and promptly follows direction of Store Management**

III. LESSONS I'VE LEARNED

In this third section, I will list my observations of what I see happening at Trader Joe's that I believe are largely responsible for the company's success. I will use the Trader Joe's Seven Key Values as a framework for organizing my observations.



As I said in Section II, we are coached and trained by store Managers to live by these Values—to make decisions and to prioritize and focus our behavior based on them. Our performance is evaluated by Managers according to how we live up to these Values.

Keep these values in mind as you read through my observations. I am convinced that the company's efforts to keep all of us focused on living up to these values is critical to Trader Joe's success.

Eduardo Sanchez

Value #1: INTEGRITY

When I as a Crew Member focus on treating all customers, vendors, or suppliers as I would like to be treated, I am demonstrating my Integrity.

From the very first day I worked at Trader Joe's, I saw examples of integrity. I continue to see them every day. You can feel a very friendly ambiance in the store. You can see that customers feel welcome.

- ◆ When I asked my Captain what he saw as the most important thing, he said “morale and everyone working as a team!” The Captain and other managers constantly promote teamwork throughout the store. I often see the Captain helping Crew Members as if he were just another Crew Member. At Trader Joe's, people are moving, moving, moving. Everybody gets their hands dirty, doing everything—people have an incredible sense of urgency. Men and women do the same jobs.
- ◆ Another policy that promotes teamwork is job rotation. At Trader Joe's, they rotate you through different jobs. Every day I come to work, I get a list for the day that tells me what I will be doing in two hour rotations—for example. cash register, restocking, build merchandise displays, collect shopping carts, etc.
- ◆ My Store Director (known as “the Captain”) told me that Crew Members help each other out when asked. (For example: I might be at the cash register talking to a customer who forgot to pick up a can of coffee. I ask the nearest Crew Member I see who is not at a cash register to get the coffee for the customer.) “The most important thing,” My Captain says, “is to ask for help in a nice way, not command someone to do it—it's all in how you phrase things. This also promotes a cooperative, teamwork attitude.
- ◆ Every two weeks, the Captain has a day where he picks out a couple of people and spends time talking to them, to get to know them better. This leads to people being more willing to open up. It also helps him learn all about his “foot soldiers.”
- ◆ The Captain says anyone of the full time Crew Members can come to his house to meet his family and get to know him better. He is open to people and develops good relationships.
- ◆ Trader Joe's is very flexible with our hours as long as we do well. They want us to be comfortable and happy working in the store.
- ◆ There is very little restriction on clothing, as long as it is not provocative. Again, they want us to be comfortable and happy working in the store. They want us to be active and productive, not worried about ruining our clothing.
- ◆ The Captain and other managers model integrity to the rest of us. They interact with customers and with each other in exactly the same way they want us to do.

Integrity is emphasized to every employee right from the start, when he or she is given a job description—see page 5 of the Section II of this report that describes my job in three categories: *Delivers a Great Customer Experience*, *Key Store Functions*, and *Works as Part of a Team*.

Value #2: PRODUCT DRIVEN

Trader Joe's differentiates its business from other food retailers based on the products, the customer experience, and the overall value provided by having great products at outstanding prices.

- ◆ When it comes to products, my Captain told me that the Trader Joe's strategy is like comparing a Corvette to a Ferrari. Corvettes are much cheaper than Ferraris, but they have 80% of what Ferraris have in terms of value. Trader Joe's aims for the first 80% and leaves the extra 20% to places like Gelson's.
- ◆ Trader Joe's has far fewer products than in a regular grocery store, but the products are special—some are unique to Trader Joe's, while others are staples (such as cereals) at a far cheaper price. Food represents 83% of sales. Trader Joe's has become an outstanding retailer of cheese, frozen foods, fresh products, nuts, dried fruit, and unique grocery products.
- ◆ Trader Joe's takes old ideas and makes them better. They take products that sell big in other stores (for example, a cup of noodles), find a better than standard product and put their own name on it. Breakfast cereals are a great example—they have a variety of "Trader Joe's" cereals at far cheaper prices than you can find anywhere else.
- ◆ Buyers are constantly out looking for products—they don't wait for vendors to come to them.
- ◆ They have a special area in the store where they demo products every day. Sometimes the products are new products that they want customers to try. At other times, they demo products that they want to push. This definitely contributes to more sales.
- ◆ The perimeter of the store is very important to Trader Joe's—that's where they put the products that make money.
- ◆ Trader Joe's values freshness above quality. Because they've studied the customer's habits, they have a system of rotation to ensure freshness: since 85% of people are right-handed, the products to the right are the first to go.
- ◆ Deliveries arrive every day. And every night, two Crew Members check expiration date codes in every department with a hand-held scan called a *Spoil*. As a result, the spoilage at Trader Joe's is as low as three to four percent. This kind of thinking brings customers back.

Trader Joe's views their products as the most important differentiating factor of their company. The Trader Joe's Buying/Merchandising groups search the World over for great products. Those products are screened for acceptance through the rigorous parameters of a unique "Buying Philosophy." They boast in their promotional materials that they are "Traders on the Culinary Seas!" Trader Joe's considers this philosophy as the cornerstone of their product focus and as a guide for their Buyers in their challenge to find the amazing new products that will delight customers.

Value #3: CREATE A CUSTOMER WOW! EXPERIENCE

Everyone at Trader Joe's is committed to make every customer shopping experience rewarding, eventful, and fun. They focus on how customers "feel" about their shopping experience—do they feel cared for by Crew Members, respected, trusted, and delighted by their shopping experience? They also want customers to have great visual or behavioral experiences while shopping—great signage, attractive and tasty demo's, engaging interactions with Crew Members, and other store features that entertain or inform customers.

- ◆ Every day at work, I see a huge focus on the customer. I've been told that without them, there would be no business and I should treat them as honored guests in my home. What matters is how the customer thinks. What counts is being able to see things from the customer's point of view.
- ◆ We are totally encouraged by our managers to interact with our customers. When we are at the cash register, we are taught to give customers extra attention. For example, we ask, "Do you need any help carrying this out?" We are encouraged to make customers feel that somebody is paying caring attention to their needs.
- ◆ Trader Joe's policy is that every manager must be at the cash register at least one hour every day. The reason is to get to better know the customers and their community. It is at the cash register that the most interaction with the customer occurs.
- ◆ I'm taught to recommend a product to customers and to suggest what other products it may go with. To help us be good at this, all of us Crew Members sample products so we know what we are talking about.
- ◆ I am also trained to get continual customer feedback. I'll see a customer with a particular product and ask him how he liked it. Frequently customers will come in and tell me whether or not they liked the product. If they didn't like it I ask them why and then tell the Captain about it.
- ◆ When a customer asks for the location of a product, I'm told to take him or her to the product, *not* to simply point to where it is located.
- ◆ When a customer returns a product, it is accepted without any problem. The only question asked is why is it being returned in order to get more information about the customer's product experience.
- ◆ All of us Crew Members are asked to taste products on the Trader Joe's current ad, so we are familiar with the product when we talk to customers.
- ◆ Trader Joe's realizes that the public has become increasingly educated about foods and beverages. So, they advertise themselves in the form of a monthly publication called *The Fearless Flyer* which includes colorful descriptions of products, where they were found, and even recipes to use with them.

Starting with a handout in my employment packet, I've been encouraged to "hear voices in my head"—voices saying, "What do my customers want? How can I create a compelling environment where my customers are sure to consistently have a shopping adventure? How can I share my enthusiasm for Trader Joe's with them?"

Value #4: NO BUREAUCRACY

At Trader Joe's there is no room for bureaucracy. Stores operate a single, very focused and relatively simple retail format.

- ◆ One of the first things I noticed when I started working at Trader Joe's was that there is no manager office, just a boxed-in area, visible and open to everyone, called the "Captain's Deck." The Captain is constantly out on the floor.
- ◆ There is a bell in the boxed-in area. One ring tells all Crew Members that more cashiers are needed up front. Two rings indicates that a customer needs carry-out service. Three rings signals full timers that they are needed up front.
- ◆ The Captain pitches in doing what needs to be done, like everyone else. I've seen him going out and getting carts and sweeping the floor. He has no ego and does not hesitate to get his hands dirty.
- ◆ Decisions are not handed down by corporate. They are made at the store level under the assumption that the people in the store know best what is going on.
- ◆ Trader Joe's keeps things simple. For example: there is no maintenance department. Anyone who is near a mess takes responsibility to clean it up. This not only is efficient and visually customer friendly, it also contributes to the feeling that we are all part of a team.
- ◆ Another example of simplicity: the trash cans and bags are very cheap ones. Every hour, someone compacts the trash so they can get more in a can and not have as many cans. This teaches them to be wisely frugal.
- ◆ They order by hand instead of using new technology.
- ◆ They are awesome at cutting expenses but not skimping on wages. For example, they don't refrigerate beer or soda because they are not top sellers.
- ◆ They try to keep as little product in the store's warehouse as they can. They want to maintain the freshness of products so products are delivered daily, and they limit what they order, not ordering too much. They focus on delivering products that sell.
- ◆ One person is responsible for receiving and he checks stuff off as it is carried into the store.
- ◆ Trader Joe's doesn't waste money on scan coordinators—they have one scan coordinator who creates little hand-printed, plastic laminated signs that include product descriptions and what other products the product might go with—this makes it more personal for the customer. The signs are more detailed, less generic, and fun for the customer.

The Captain and other managers at Trader Joe's demand that all of us Crew Members support our store to help it deliver WOW! products and WOW! customer experiences to our customers. With as few layers of management as possible, everyone is evaluated on their contribution to the Company's mission, not to group or departmental matters.

Value #5: TRADER JOE'S IS A NATIONAL CHAIN OF NEIGHBORHOOD GROCERY STORES

Trader Joe's is committed to having all stores be operated as true "neighborhood" stores.

- ◆ Each store is part of their community and is operated in such a way that the customer thinks of the store as "*their* Trader Joe's."
- ◆ Trader Joe's makes each store look like the neighborhood with pictures of happenings in the city, local street signs at checkout counters, etc.
- ◆ The layout and interior of the store is deliberately set up to convey an informal, freewheeling, casual atmosphere, where shopping is an adventure and you never know what you may find around the next corner.
- ◆ The stores are deliberately kept small in size compared to other grocery chains—an average of six to twelve thousand square feet, which is about one sixth the size of a typical supermarket. This also promotes a neighborhood feel.
- ◆ With its low cost decorations, Crew Members are dressed in shirts they might wear on a summer vacation, and rock and roll music in the background, Trader Joe's has created a neighborhood-friendly atmosphere of down-home fun that makes shopping pleasurable, rather than a boring chore that must be done.
- ◆ The monthly *Fearless Flyer* publication almost looks amateurish to fit the neighborhood feel. It tells customers stories about the products mentioned in it in a lively tongue-in-cheek way, just like your friendly neighborhood grocer might talk to you.
- ◆ Trader Joe's doesn't have any formal frequent shopper program to build customer loyalty. Instead, the company builds customer loyalty by continually surprising customers with new items every week.
- ◆ Crew Members get to know their customers and their lifestyles by their customers' frequent visits to the store. The friendly relationships that Crew Members build with their customers is, again, like an old fashioned neighborhood store.

Trader Joe's works hard at making the customer's experience more personal and intimate, just like you would expect to find at a friendly, neighborhood grocery. Even though they continue to grow the company (with a goal as many as one to two thousand stores across the country), do it carefully in solid marketplaces. Their growth is fueled by their commitment to have all our stores be operated as true "neighborhood" stores, to give customers an experience that is personal and intimate, like you would expect to find at a friendly, neighborhood store.

Value #6: KAIZEN!

This another important Key Value. Kaizen behavior simply means that every Crew Member at Trader Joe's is focused on achieving personal goals that contribute to the increasing success of the business. Management is committed to listening to all Crew Members and capitalizing on their good ideas. At Trader Joe's, Kaizen! is a way of life.

- ◆ For the first two weeks, they put a full timer with me to train me on all aspects of the store so that I would have opportunities to perform well. He worked right with me, looked at the quality of my work, and taught me a lot about the products in the store. This focused me on performing quality work and gave me information that I can share with customers.
- ◆ Every day when I come to work, I'm given a list of things to do.
- ◆ Managers are constantly observing my performance. They get on me right away if they see me doing something wrong, but they do it in a positive, learning way so that I can improve my performance.
- ◆ Trader Joe's managers are strict about evaluating us but always in a constructive manner to help us improve—they rate us on punctuality, availability, teamwork, rotating products, volunteering, and *especially* customer service.
- ◆ The emphasis is continuously on improvement. We are evaluated every three months and get a raise if we do well. (In my last evaluation, I was applauded for great customer service and received a small hourly raise.)
- ◆ If I mess up on something, it's "no problem" as long as they know I am trying. If they do see a bad apple, they take them out.
- ◆ Trader Joe's uses mostly women in the Deli because they pay a lot more attention to detail and are more effective at rotating products.
- ◆ In the warehouse, signs are posted describing how things should be done. For example: how to lift a box, how to keep the department clean, etc.
- ◆ When I see something that I think could be done a better way, I'm encouraged to tell the Captain. He listens carefully and considers every suggestion he gets from me and other Crew Members.
- ◆ Managers tell us to think "How can I improve at least one percent every day?" It all adds up and makes us better persons and better workers.
- ◆ The Trader Joe's philosophy is that good performance and good customer service begins by hiring the right, good-hearted people.

Managers at Trader Joe's recognize that the best way to support a "Kaizen" environment is to listen to us Crew Members because we have the most daily contact and communication with our customers. They are committed to listening to all of us and capitalizing on our good ideas. They look for ways to help us true to the Key Values and focused on our delivery of WOW! to our customers. They believe that will keep Trader Joe's in the lead among grocery retailers in a unique and compelling way.

Value #7: THE STORE IS OUR BRAND

Trader Joe's sees its stores as the personification of the Trader Joe's brand. The Trader Joe's Brand is a promise between Trader Joe's and customers to diligently act on their behalf to satisfy their dreams about products and customer service.

- ◆ An important key to living up to this value is consistency. Every Crew Member is trained on every aspect of the store. When I restock a shelf, I do it the same way other Crew Members do it. When I interact with customers, I treat them the same positive way that other Crew Members do.
- ◆ As I have illustrated in many ways on the previous pages of this report, every day, Crew Members reflect the Trader Joe's brand by earning the customers' delight when they come to shop.
- ◆ Trader Joe's sees its own people as a way to build brand recognition for the store. The attitude of managers is that the people they hire and train are just as important as the low prices and products offered to customers. Trader Joe's has a reputation of treating its employees with respect and dignity that is unequalled in the supermarket industry. (As a result, I'm told, Trader Joe's has lower turnover rates.)
- ◆ To build its brand, Trader Joe's does everything from letting customers sample items before they buy, giving them a full refund if they don't like the product, and encouraging light-hearted communication with Crew Members (who Trader Joe's sees as "the front line.")
- ◆ Trader Joe's sees delivering quality products and customer service as a social responsibility—something it is compelled to do instead of focusing entirely on the bottom line. This is demonstration of the Trader Joe's brand.

The Trader Joe's brand represents far more than a label or packaging. It is the well being of employees and the customer's emotional and personal response to Trader Joe's stores. Trader Joe's builds a Trader Joe's brand and image that delivers on the promise of high-quality foods in a comfortable environment, served by people who make consumers feel good about their purchases.

IV. RECOMMENDATIONS TO INTERNATIONAL

In this fourth section of my report, I will present several recommendations to International based on what I have learned by working at Trader Joe's.

In several ways, the history of both companies is similar:

1. Both companies began with a small neighborhood store.
2. Both companies focus on a special segment of the marketplace. Trader Joe's customers look for convenient and unique products and a fun shopping experience. International customers are Mexican immigrants and their families who want a family, "homeland" experience.
3. Both companies have emphasized product value at reasonable prices.
4. Both companies try to offer friendly, "neighborhood" customer service.
5. Both companies have grown in a careful, measured way.

On the other hand, in my short time at Trader Joe's, I have noticed some key differences between the companies.

1. I've seen a much greater emphasis on teamwork at Trader Joe's than at International.
2. People at Trader Joe's seem to have a better grasp of their jobs than they do at International—they get to work and know what to do and are more productive.
3. A typical Trader Joe's crew member appears to me to be more energized, enthusiastic, hard-working, and customer-oriented, and takes more pride in his or her work than the typical International employee.

I'm making my recommendations because International is my family and I want International Market to be the best organization it can be. I want it to continually improve, without losing the original International culture that has made it special.

You may feel that some of my recommendations are too impractical for International or do not fit with the International philosophy. But please don't let that stop you from considering each of the recommendations.

I am convinced that at least some of what I have learned at Trader Joe's can help International continue to grow, while at the same time preserving and even building on its unique character.

I have listed my recommendations on the following pages. Please read them with an open mind and select from them whatever you think might benefit International. I'm not trying to hit home runs with these recommendations—just some good solid hits!

Eduardo Sanchez

RECOMMENDATIONS

Leadership

1. The store director is a key person in the store. He needs to keep people happy and together. His main job is his positive presence. He should be a coach to his managers and other employees. Store managers need to model teamwork and a good attitude, not walk around with a big ego.
2. The store director should visibly “get his hands dirty”—do things he asks employees to do. This will make him a role model for people in the store. I believe it is a big factor in explaining why Trader Joe’s people are so productive.
3. The store director needs to always be aware of what's going on in the store among managers and employees. I think it is important that the store director sit down every week with his managers and begins his meeting with a question and a request:
 - a. How can we improve?
 - b. Tell me three problems that occurred this week and give me ideas about how to solve them.
4. I would encourage the store director to periodically get together with his managers outside of work (at lunch, for example)—perhaps for one of the weekly manager meetings. The store director could make it a fun meeting. This would help make the management group more of a team and encourage them to promote teamwork in the store. It would also discourage lazy, egotistical behavior and make it cool to have a good, humble, enthusiastic attitude.
5. International should deliberately select managers who like to teach—who enjoy teaching—good people with a good attitude. This is a very important characteristic of good managers! Good managers teach everyone.
6. I believe it would be helpful for some of the younger, more inexperienced members of my family to work at other grocery chains for a while to give them a wider perspective. It sure has given me many ideas for how to improve International.

Relating to People

1. I think that horseplay is a little out of control at International—it's part of the International culture. We need to control it. I've noticed it brings down productivity.
2. The store director and other managers need to talk to employees about how to treat people. It is important that they be role models for treating people with respect and asking for things nicely without commanding. Make a simple "please" part of the International culture.
3. I also recommend that store directors systematically take time out with individual employees to get to know them, to get employees feeling more comfortable with them. This makes them more accessible to employees. It will also give them a better sense of what's happening in the store. Since the store director's main job is to get the best work out of every employee, everyone should feel comfortable talking to the store director.

Customer Relations

1. One huge area that I think could be improved at International is customer service. And this needs to start from the top—from the family to the store directors to store employees. I see much more quality customer service at Trader Joe's than I have seen at International. I believe the reason is that there is a greater training emphasis on the importance of customer service at Trader Joe's. Little things like:
 - a. Constantly being attentive to customers. If I see a customer looking around, I am trained to ask them if I can help.
 - b. If the customer wants a particular product, I am trained to take him to the product—walk the extra mile—instead of just pointing out where it is.
 - c. When a customer is at the cashier's station, I'm trained to ask him "Did you find what you wanted to find?"
2. Customer relations must be modeled from the top. When I see the store director or another manager taking a customer to a product this tells me I should be doing the same thing. I feel that at International they sometimes fight the customer rather than satisfy the customer. We need to do more customer relations training.
3. At Trader Joe's managers, including the captain, are required to spend at least one hour a day at the cash registers so they can keep in touch with their customers. I think this would be a very good thing to do at International.

4. I believe this is a very important recommendation: Educate employees about products. We need to spend time at training them about products so they will be informed when customers ask them questions. Put fun descriptions of products, recipes, and what the products go with on little cards at the cash registers. Do the same in the employee break room, along with product samples. This will teach all employees so much and prepare them to talk with customers.
5. Trader Joe's does not use numbers for its registers. Instead, they use local street signs. I think it would be a good idea to find similar ways to make each International store more reflective of the neighborhood to make it more of a “homeland” feel.
6. I believe the attire of the cashiers is too formal. We are not thinking like our customers—we are thinking about ourselves. Don't make them too delicate with their clothes. Dress them to blend with their customers.
7. Ambience is very important. Trader Joe's has fun music in the background. I recommend that every International store have fun Mexican music in the background.
8. I recommend that my family should spend more time with customers, listening to what customers have to say and learning from that.
9. Teach employees not to take upset customers personally. They should learn to look at customer relations as a business person and work with customers to solve their problems rather than taking it personally.
10. Good customer service begins by hiring the right people—good-hearted people. When we interview people to work at International, we should be looking for this characteristic above all else.

Improving Employee Performance, Attitudes, and Morale

1. The system of rotation at Trader Joe's is really good for employees. Employees end up knowing more about every phase of the store, and are less bored and more motivated. There are at least three areas in the store where rotation could work at International—cashiers, the Produce, Deli, and Grocery departments, and Box Boys. Analyze their down-times, during which they could be doing other things.
 - a. First talk to cashiers and ask them to brainstorm about other things they could do. For example, rotate them between cashiering and bagging. Or rotate them between cashiering and stocking shelves when there aren't many customers in the store. Standing at the cash register all day is very tiring. Rotating cashiers to do other things in during the

day, particularly during customer down-times, would help them feel less tired and more motivated.

- b. Another area in the store where rotation could work is between Produce Deli and Grocery. People (not key people like a Butchers and meat cutters) could rotate in three-hour shifts between departments, particularly when there is a need in one department that another department could fill or during customer down-times. This would make them more productive.
 - c. Box Boys could be doing other things in the back or in the store when they are not needed. Have a signal like Trader Joe's bell to call them when needed. Managers need to teach them not to wait for instructions to get things done.
2. Related to the above recommendations is making job objectives clear to employees. As I described earlier in this report, at Trader Joe's, I am given a list of things to do—managers know what I'm capable of doing in one of my rotation periods and so they give me a list. I recommend that some form of this be done at International. It doesn't have to be a long, complicated job description. It could be a manager simply saying, "Today, I would like you to..." and list three or four major objectives for the day. If International decides not to institute my rotation recommendation, employees could still be given a short list of major objectives for their overall performance, which could be reinforced by managers complementing employees when they achieve one.
 3. This recommendation is very important. I love the constant monitoring and three-month evaluations at Trader Joe's. It keeps us on our toes and emphasizes how important it is to constantly be improving at what we do. Typically, at International, people don't get evaluated for long periods of time and don't know how they're doing. I think there should be more frequent evaluations at International.
 4. You could have a contest in the store where every employee submits an improvement idea once a week. During the weekly manager meeting, the managers look at the ideas and vote for the best one—the winner receives a small prize such as the coupon for product in the store. This would encourage people to have a problem-solving mindset. When they see something going wrong in the store they could see it as an opportunity to solve a problem and improve things. This would also give them more pride in their work. Instead of just showing up for work, employees would be more likely to look for solutions to problems when they come up.

5. Similarly, monthly, the cashier with the best customer service gets a \$50 bonus.
6. I recommend that we get more of a handle on spoilage. Employees should put everything into the computer—write down the spoils instead of just throwing them away. This would teach to better take care of the products and to be frugal.
7. Put more emphasis on training the people who stock in our store to cross-merchandise—products that go together, such as stocking the cereal near the milk. This will improve sales.
8. I recommend that International have a live person taking orders at the warehouse. This would greatly help in getting products to stores sooner and more accurately.

Unique Products and International Branding

1. I know that our buyers work hard. But, I believe there are better products out there and they should be more gung ho to find them. Every day, they should be out looking for unique products. Every day should they should have in their mind: “How can I improve the quality of products and make customers happier?”
2. One example I learned from Trader Joe's is cereal. Mexicans love cereal. They eat a lot of cereal. Why couldn't we find the best quality cereal in Mexico and make a deal to put the International name on it—we could have it manufactured there and shipped to us and sell it for a far cheaper price.
3. Related to this is the wider Latin American market. For example, we have many Central Americans who many employees think are Mexicans (such as Salvadorian and Guatemalan) coming into International stores. We could identify special, every-day products that match their culture and promote these products in the store. This would bring in more Central American customers. Their currently are not that many markets out there who fill this niche.
4. I would love to spend time traveling through Central America walking into stores and looking for unique products that we could put the International brand on. Trader Joe's is very successful at doing this and many customers come in looking specifically for Trader Joe's products.
5. In the short time I have been working at Trader Joe's, I've noticed an increase in the number of Mexican customers. I believe they are becoming more and more interested in health foods, particularly the second and third

generation Mexicans—healthy tortillas, breads, and fiber and foods low in cholesterol.

6. Also, there are many two-person working families. Even though Mexicans love to cook, more and more they want convenience foods. International needs to fill this need by coming up with some staple convenience foods.
7. We need to actively demo more of our products. And along with the demos should be recipes and suggestions for other products the demo would go with. This kind of promotion at Trader Joe's is very successful.
8. I recommend that we put samples of products in the area where employees eat so that they can taste them or at least see them—especially top-selling products or new products. We should put explanations of the product next to the product along with recipes and what the product would go well with. I asked someone by the pool at my apartment complex about his experience at Trader Joe's. He says when he asks a crew member something about a product, he is delighted to see that the crew member knows.
9. At the meat counter, make a one-page flyer of the featured meat for the day and what else goes well with it, along with some recipes. Keep a stack of these flyers at the meat counter. It will interest customers and get them to buy more. I have found that customers at Trader Joe's really appreciate and enjoy such descriptions and tips.

V. SOME FINAL THOUGHTS *And Attachments*

I truly believe that implementing my recommendations will improve International stores! I believe they will improve employees' quality of work and productivity. I also believe that they will promote a culture of teamwork in the stores and a greater sensitivity to the importance of customer service.

And, I believe employees will end up enjoying their work more!

Please carefully review my observations of Trader Joe's and consider each of my recommendations.

I realize that in the time I have been away from International, some of what I have been suggesting might coincidentally already be happening as International reorganizes itself. But please don't ignore other recommendations that potentially could be very helpful!

In addition to what I have presented so far in this report, I am including two handouts from my new employee employment package that emphasize the Trader Joe's philosophy. I believe these could be helpful as models or examples for International.

First is *Customer Experience: A Trader Joe's Love Story*. This handout emphasizes what I have been stressing in this report: the critical importance of delivering the highest quality of customer service!

Second is *A Message to All Trader Joe's Employees*, which summarizes the difference between Trader Joe's and other grocery stores. It also presents the Trader Joe's mission and philosophy and inspires employees how to behave with customers.

Again, please consider what I have learned at Trader Joe's as *opportunities for improving International*.

My main reason for preparing this report is to help International Market. As I said at the beginning of this report, I love the International Market grocery business—the business is my family. I want to help my family.

Eduardo Sanchez

TRADER JOE'S¹

Customer Experience: A Trader Joe's Love Story

We admit it. We're completely smitten. We love our customers. Every day we prove our devotion through our interactions, our appearance and through our commitment to deliver an amazing shopping experience that's rewarding, eventful and fun. We're not shy—we shout it from the rooftops, as evidenced by Core Value #3: At Trader Joe's, we create WOW customer experience every day.



The Inner Ear: We encourage our Crew Members to hear voices in their head. Voices saying, “What do my customers want? How can I create a compelling environment where my customers are sure to consistently have a shopping adventure? How can I share my enthusiasm for Trader Joe's with them?” The point is, what's your role in keeping your customers happy, engaged and well fed?

Let's face it, customers sign our paychecks. Without them, we'd be lonely, bored and lovesick. Yes, we can build a beautifully elaborate cruise ship out of cases of pineapple, but if no one comes to buy any... we're sunk. Amazing customer service is a skill that can be mastered.

Unfortunately, I'm sure you can come up with tons of examples of poor customer service elsewhere. What effect did those experiences have on you?

Well, we do things a little differently here. Customers are our welcome guests. We appreciate their time, their interests and their appetites. If you find yourself thinking that this would be a great job except for all those pesky customers, then our question to you is, “Where's the love?” and further, maybe you're in the wrong line of work. Meeting and exceeding customer expectations is critical here!

There are four key areas for you to focus on providing a WOW Customer Experience. Let's get specific. (Warning: theater references up ahead)

Sensory—Setting the Stage

In order for you to deliver awesome customer service, you need to be really thoughtful about how our customer experiences us. Ask yourself some key questions to assess how Trader Joe's is performing: Is the parking lot clean, swept, and free of carts or dirty and littered with errant shopping carts? Does your entryway say, “Come on in and have a great time?” or do you have overflowing trashcans and unswept floor mats? Do your displays have eye appeal through bursts of color and beautiful product (abundant flowers, interesting plants, etc.)? Are your displays accented with accurate, WOW, informative signage? You are an integral part in determining how our audience (read: customers) perceives us. Are we getting bravos and air kisses or are we getting rotten tomatoes? Be aware of what your customers see, hear, and smell when shopping with us. But this is only the beginning of the plotline (And they said Trader Joe's was just a stage...).



¹ This piece was excerpted from the packet of materials given to new Crew Members.

Customer Interaction—”The Helm”

Customer interaction is that personal touch where you can really distinguish yourself as a real class act. After all, you are the customer's ticket to having a great shopping experience. Without you, they're just wandering around an empty set with good lighting. Here's how you can act as your store's Helmsperson. Make your customers feel welcome with a wave, a smile and a friendly nod. Make sure they have access to the information needed to make informed buying decisions. If a customer looks confused, frustrated or giddy with excitement, investigate what the fuss is all about. Maybe you can help or at least join in the excitement. Yes, groceries need to be stacked and trash needs to be emptied, but the star of the show is always the customer. Every Crew Member must view each customer interaction as an opportunity to create and build a special relationship that ensures a shopping experience that's rewarding, eventful and fun.



The Demo Program—That's Infotainment

The demo table is like the big musical number in our show. Our Mission Statement of Value, Information and Fun really comes alive. Demos are a place of “infotainment” —information and entertainment. Our demo stations are creative, accessible and well maintained. Our demo folks are energetic and dedicated to making customers feel like honored guests. They are informed about our products and philosophies, and know the value of the product(s) they are demoing. Products are chosen because they fit a holiday or theme, appeal to the community or are new or unique in some way. And, of course, products that complement each other are available at the table for purchase.

Checkout - The Grand Finale (ta da!)

After all the drama of the show: amazing opening numbers, vibrant and witty repartee in the second act and the show stopping demo-rific setup, it's time for the Big Finish. You only have one chance to make a last impression, and for us, this usually occurs at our registers. Go ahead and set the stage for a truly memorable experience. That means lots of WOW and community based decorations. Fun impulse items. A person available to fetch forgotten items or replacements for damaged products. And Crew Members who care about our customers as people. We are committed to training our Crew so that you have the information and authority you need to take care of any concerns our customers might have.



Hopefully, you'll agree that there's no business like Joe business. We think this is a great place to work—filled with excitement and energy and a true love for our customers. You play a very important role in why our customers love us, too. Thanks for making our customers' day when they're in our store—it means the world to us. In fact, we hear from our customers all the time about how incredible our Crew is. Be sure to look in our Bulletin for some weekly—yes, weekly—examples of how you have had such a wonderful effect on our customers.

Thanks in advance.

A Message to All Trader Joe's Employees²

In the eyes of our customers, you are Trader Joe's. Therefore, it is extremely important that each of you understand as much as possible about your company. Trader Joe's is a unique company. You, by representing Trader Joe's, are a vital part of our unique appeal and ability to differentiate ourselves from our competitors. It is very important for you to understand the things that distinguish us from all other food retailers.

The things that make us different:

Let me start out by telling you the things that we don't have or the things that we don't do:

- ◆ We don't have cold, mechanical employees — We want you to smile and be friendly with our customers. Operate our own warehouses—We concentrate all our energies on buying and selling the right products at the best possible price.
- ◆ We don't own or operate trucks—For the same reason.
- ◆ We don't operate full line stores—We are in the specialty food business.
- ◆ We don't have standardized stores—Each store is merchandised uniquely.
- ◆ We don't have planograms—These are standardized layouts of aisles and merchandise that chains use to make each store a cookie cutter, dull operation. We want our stores to be exciting and appealing.
- ◆ We don't have big stores—Big stores cost too much.
- ◆ We are not open 24 hours a day—That's a waste of energy.
- ◆ We don't franchise—We want to have complete control over the quality of our people, products, prices, and level of personalized service.
- ◆ We don't guarantee consistency of product offers—We search the world for unique products. Many times they are available in limited quantities only. When they are sold out, we can't replace them.
- ◆ We don't engage in cooperative vendor advertising—This means that we won't take money from our suppliers to advertise their products. We would rather get a lower cost, so that we can pass the savings on to our customers at lower prices.

² This piece was written by Dan Bane Chairman and CEO of Trader Joe's and is included in the packet of materials given to new Crew Members.

- ◆ We don't have slotting allowances—This is the blackmail that vendors pay to have their products on supermarkets' shelves. Again, we would rather get the right product at the lowest possible cost. Advertise on television—It's too expensive.
- ◆ We don't use an advertising agency—We write the Fearless Flyer and radio spots ourselves.
- ◆ We don't use a public relations firm—They are a waste of money. If you give customers great products at great prices, why do you need one?
- ◆ We don't appeal to broad consumer markets—Our customers are unique.
- ◆ In general, we don't offer national brands—We appeal to very special customers.
- ◆ We don't try to be like a convenience store – We are in no way a 7-11 or an AM-PM market.
- ◆ We don't carry anything unless we can sell it at an exceptional price – Enough said.
- ◆ We don't have loss leaders – That means that you have to charge more on other products, and that's not fair to our customers.
- ◆ We don't have a huge, fancy corporate office – That doesn't result in lower prices for the customer.
- ◆ We don't have any private offices. My desk is in a conference room that can seat a total of six people.
- ◆ We don't hire staff people – We do our own work and we work hard.
- ◆ We don't sit on committees – They are a waste of time, and we are action oriented.
- ◆ We don't have secretaries – We answer our own phones. We're not afraid to talk to customers.
- ◆ We don't borrow money – We work for our customers – not bankers.

What *do* we do?

The mission of Trader Joe's is to give our customers the best food and beverage values that they can find anywhere and to provide them with the information required for informed buying decisions.

We provide these with a dedication to the highest quality of customer satisfaction delivered with a sense of warmth, friendliness, fun, individual pride and company spirit.

We set trends. We lead our customers rather than following them.

We view ourselves as the purchasing agent of food and beverages for intelligent, educated, inquisitive individuals.

To serve our customers, we run a narrowly focused business concentrating on three things:

1. Intensive buying—Searching out unique products at rock bottom prices.
2. Providing information about our products.
3. Making our customers' shopping experience fun and adventurous.

1. Intensive buying.

I believe that our approach to buying at Trader Joe's is unique. I refer to it as intensive buying.

First, it means traveling. In any given year our buyers are traveling to England, Denmark, Sweden, Belgium, Germany, France, Italy, Spain, Argentina, Chile, Australia, New Zealand, Japan, Indonesia, and India. You can't understand what is happening in the world unless you travel.

Second, intensive buying means quick decisions. We don't take more than 24 hours to make a buying decision, even if it is over a \$1 million purchase. We don't have buying committees. We move quickly to beat our competitors.

Third, intensive buying means putting your money where your mouth is. Each week we taste over one hundred new products. We don't buy anything unless it passes our tasting panel. Ninety percent of the products fail our high standards.

Fourth, we never ask the price of anything before we have tasted it. If we like something, we establish a retail price on it that we think will produce an excellent value for our customers. Only then do we ask the cost of the product. If the cost is too high and we can't get it for less, we won't buy it. That's the real meaning of retailing.

Fifth, intensive buying means a willingness to take risks. You can't be in the fashion food and spirits business unless you are willing to take risks. Do we make mistakes? Of course we do. When a business stops taking risks, it's all over for them.

In summary, we view ourselves as the purchasing agent of first quality, value priced food for intelligent, educated, inquisitive individuals.

We view new, value added product development as a part of intensive buying. We have developed thousands of private label products. This is time-consuming and expensive, but we think that it is worth it. Let me give you a few examples of value added products:

- ◆ Granola—A special mix that qualifies as no fat added.
- ◆ Vitamins with no artificial colors, flavors, wheat or sugar.
- ◆ Latest harvest nuts and dried fruit.
- ◆ Tortillas with no lard.

2. Providing Information to our Customers.

Next, let's talk about telling the product's story in our advertising.

We believe that there is a segment of the population who wants to make their own decisions to buy based on information. These are intelligent customers. Notice, I didn't say consumers. We never use that word at Trader Joe's. A customer is an individual. A consumer crams down garbage.

We are an informative retailer. Repeat, we are an informative retailer. There aren't many of us today. The best ones are probably in the catalog business—like LL Bean. We are the retailers who truly make the effort to search out new products, to develop new, value added products, and to take the time to tell the product's story.

In our advertising we don't take ourselves too seriously, and we like to have fun. We use two media:

1. The Fearless Flyer, which is best described as a cross between Consumer Reports and Mad magazine. We write and edit it in house. It appears three time a year on the West Coast and five or more on the East Coast. We send out millions of copies each time. It is a tough labor of love to write it. It usually contains stories on about 150 products in 24 pages. A band of humorous elves create the cartoons. The process is murder!
2. We use radio spots on very selective stations—news, talk, classical, jazz, and others. Our stories probably tell customers more than they ever wanted to know about a product. We do a lot of research to make sure that they are accurate. If we don't, our intelligent customers love to put it to 'us. Believe it or not, most of them read all 24 pages of the Fearless Flyer. And God help us if we make an error in our French grammar.

In addition to the Fearless Flyer and radio spots, we strongly believe that knowledgeable employees are essential for an informative retailer. Each of our stores has a special expense account to allow our people to sample our products,

and we encourage you to try everything. We want to have people who can help customers with their questions about products. How can you recommend something to a customer unless you have tried it? Each week we send out bulletins on new products. We also offer a variety of brochures and lists. Check out your store's information center.

3. A Completely Satisfying Shopping Experience for our Customers.

From extensive surveys we know a lot about our customers and why they shop at Trader Joe's. They are not necessarily affluent or rich, but they are generally well educated. In fact, 80% of our customers either have attended college, graduated from college, or have post-graduate degrees. Remember this when you speak with them. When the TV networks bemoan the fact that their viewership is declining, they're talking about Trader Joe's customers. Our target customer is intelligent and well-educated.

These are the common denominators.

Our customers are people who are interested in new things and new ideas. They are an inquisitive lot. They read *The New Yorker*, not *People* magazine. They travel. We have to keep them interested and challenged. To do this we have to run a fashion food business.

On the other hand, our customers understand real value. They are smart shoppers.

Finally, our customers are generally health conscious. They are knowledgeable about fats, cholesterol, sugar and salt. They understand vitamins and nutritional supplements. They want to know how plants were grown and animals were raised.

To sum up our customers: They are intelligent, educated, traveled, value oriented and health conscious.

Why do they shop at Trader Joe's?

- ◆ Our people are warm and friendly.
- ◆ It's fun and an adventure.
- ◆ They find unexpected products.
- ◆ They experience cheap thrills.
- ◆ Our people are helpful and knowledgeable.
- ◆ They know that we have tested each product to ensure quality and satisfaction.
- ◆ They trust us.

When our customers walk through the door they have high expectations. You're going to have to be a special person to make sure that when every customer leaves the store they think to themselves, "That was fun, and I got a good deal." When that happens no one can touch us.

I hope that after reading this you have a real feeling for the things that make Trader Joe's unique. One last thing. Always remember to smile and to say "Thank you" to every customer. The customer is the only reason that you and I get a paycheck.

Have fun,

A handwritten signature in cursive script that reads "Dan Bane". The signature is written in black ink and has a fluid, personal style.

Dan Bane Chairman and CEO