

A Conversation with Joe Coulombe
Founder of Trader Joe's
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Tim Morris, Managing Director, Coriolis Research interviews Joe Coulombe, Founder of Trader Joe's on the history of the concept

Tell me a little about the early history of how Trader Joe's was developed?

- History First of all, I had been an employee of the old Rexall Drug company, my first job when I got out of Stanford when I was 20, in 1954. I quit and went to work in the semi-conductor business at Hughes Aerospace. I came back - they asked me to come back, in 1957 - to fire up a chain of convenience stores, because they had seen 7-11 in Texas, and there wasn't anything like that here [in Los Angeles].
- Innovation from the start However, I didn't much like 7-11 so when we opened the first store, in 1958, we innovated a lot of things, including a lot of drugstore merchandise. In those days supermarkets did not carry health and beauty products. Pronto was probably the first grocery store in the United States to sell health and beauty aids, and we were the first to sell paperback books and we were the first to promote photo finishing.
- Ice Cream We were the first to promote ice cream because, until the 1960s, ice cream was the province of drug stores. Sav-on was the largest ice cream account in the world. The Owl Drug Company, like most drug store chains, had its own ice cream plants. And the Owl Drug Company was failing because Sav-on was destroying it, and so one of the rationale for trying this experiment was to get ice cream volume back up in the plant. This is the point - the perils of vertical integration - this is A&P writ small. But also we pulled a lot of health and beauty aids out of the Owl Drug Company's warehouse and we were tied in with their photo finishing system.
- The perils of vertical integration
- Rexall was anti-union so Joe becomes the owner But they were 100% union and they didn't want to be union and so they set me up in a deal in which I was president of the corporation, I owned 49% of the common stock for \$49 and they owned 51% for \$51, but the money came from preferred stock which was to be paid out of retained earnings over time.
- Life is too short So, in starting up the first store, I was going into a violently union environment. Having seen the low quality of people in 7-11, I felt that life is too short. So I started looking at the union contract. It so happens that in staffing one of these stores in those days, you staffed it with 3 people, you opened 7 to 11, so a 48 hour week for each person made a lot of sense, then you beefed it up with some part time help.
- Fair wages set at median family income So I figured that, under the Union contract, a person would make if he worked 48 hours, and this came out to \$7,000 a year. That happened to be median family income for California, and so what I said was this: our average full time employee will make median family income for California, whatever it is. There are no labour negotiations here, we have an objective standard. And, by saying median family income, this gives me at least some access to the upper half of the labor pool. I can get better people. In those days benefits were not an issue. So that's where we started out from in the beginning, with a very high payroll cost relative to all other convenience stores in the United States.
- Women return to work Well what I did not foresee was that all these women would go to work - in the 1970's, fifteen years later - and as a result median family income rose much more quickly than median employee income, and that is why your average full-timer in California now makes about \$50,000 a year, as median family income.
- So the whole history of Pronto Markets and Trader Joe's is driven by high wages - not high wages, high incomes - because it's so important to distinguish between rate per hour and take home pay but it's driven by high take home pay.
- Secret #1: Hire good people and pay them well So this is the real secret of Trader Joe's, it's the quality of the people. Merchandising comes in close, but this is the real secret. And that came from Pronto.

Did you have any experience in retailing before you set this up?

- No retail experience I never rang a cash register until the first day we opened our first store – the first Pronto in Pacific Palisades in 1958.
- Dart exits Pronto Anyway, I opened about half a dozen of these things and they worked and then Mr Dart, the Chairman of Rexall, had bought Tupperware, and so he gave orders to sell the stores – he had 1,200 drug stores across the United States – and Pronto was a crumb in one of these. And he wanted to put all of his money into Tupperware, and so everything was sold off.
- Joe buys Pronto So I didn't have any money, but I borrowed a little bit here and a little bit there and I sold half the stock to the employees and finally on a personal note Bank of America loaned me the rest of the money. On the other hand to Rexall, this is a crumb - they wanted to get out - and so they were not real hard on their bargaining.
- So I found myself with half a dozen stores, and no capital and no central structure because Owl had been doing the bookkeeping and a lot of other mess...

Getting you your Ice Cream?

- Adohr Milk Farms That was no problem. I engineered the sale of the ice cream plant to Carnation and they gave me some. So I made a deal with Adohr Milk Farms, and we created yet another corporation and it was structured so I put in no money and all the Pronto's and they put in all the money and a nominal controlling interest. And with this money I was able to expand to 18 stores by 1966.
- Pronto was very profitable but losing it's point of difference And the original group of stores were making a lot of money and we started expanding a, but I became even less enchanted with the convenience market. For one thing, when we started in 1958 all supermarkets chains closed on holidays and many on Sundays. Then after a big recession that we had here in 1960, they all began lengthening their hours, so one of the original premises was actually blown up.
- Along about 1965, the Boeing 707 – the first narrow bodied jet - went into service, and what it meant was that the investment per employee was radically greater than with the DC6. And I asked myself: "how can I invest more per employee in the Pronto market?"
- Liquor into Pronto And the answer was liquor. Because in those days we had "Fair Trade" laws in California, which meant that all retail prices were fixed by the manufacturers. It was a felony to break price. So it took us maybe \$25,000 to set up a Pronto Market, but a liquor license cost \$25,000. So I began buying liquor licenses. And you had maybe another \$4,000 of inventory, and you shove it in there because it's a high value per cubic inch – it doesn't occupy a lot of space.
- High value per cubic inch
- Need for more differentiation... And so by 1966, I had liquor in about a third of the stores. And so I'm looking at myself and thinking that Pronto Market really isn't a terrific platform for liquor, because by this time we had Speedi Mart, we had U-Tote-Um, and we had Circle K, and they're all convenience stores, and we've got Pronto Markets and we know internally that we're differentiated, but we aren't that differentiated.
- Adohr sells to 7-11 At this point, the owner of Adohr Milk Farms takes me to a very alcoholic lunch, at the end of which he tells me he has sold Adohr to 7-11, which has just bought Speedi-Mart. 7-11, which doesn't like unions – it's out of Texas – has decided to defeat the unions with franchising – which was what Speedi was bought up.
- You see it's balance sheet, not merchandising. Because their net worth was immensely greater than ours. And the way you get a lease with a landlord to build a store is because the insurance company will lend him the money to build a shopping center. Well, we didn't have a network and that's why most of our stores where rehabs of existing structures and that continued in the early days of Trader Joe's, because we didn't have the net worth.
- An offer you can't refuse... So I found (A) that the 800 pound gorilla was coming to town and that (B) it now

owned my source of supply. So I figured I had three years before they would crush me, they'd make me an offer I could not refuse. But they did not want to crush me right away because I was the biggest customer of this creamery. Because I'd been taking Pronto Market locations on the idea that I could sell the most milk.

Buying out Adohr So, I'd been piling up cash, because I'd cut back expansion, and I had a buy-out clause and the guy who had owned Adohr had inherited Malibu, see his mother had inherited this Spanish land grant and he was cash poor and he needed money to develop Malibu. So, he felt terrible about it. And so everybody at 7-11, was very nice and so I bought out their interest.

Information point #1 - the growth of college students And then I sat down to think. And the first thing I came across, in Scientific America I found that the number of people who can go to college in 1964, of all those eligible 60% could, where as in 1932 in the pit of the depression only 2% could.

Different from the mass market And I felt that these people would want something different than their parents, who now form the mass market of the 1960's, the people who are watching television now, and drinking Minute Maid, and eating Swanson TV Dinners, and what have you.

Focus on college graduates Vietnam really hasn't happened yet. What I did see was a small but exponentially growing population of college graduates.

Convenience becomes a commodity What I realized was that in the convenience store I had stumbled into a commodity business and in a commodity business it's the guy with the most capital who wins, and that's why 7-11 finally went bankrupt in 1990, along with Circle K, and U-Tote-Um, and all the others, because the oil companies moved in - Arco went into AM-PM - and oil companies have more money than anybody. Therefore today the oil companies own the convenience store business. In fact I think Circle-K was bought out by one of them, and probably U-Tote-Um also, and 7-11 is owned by Japanese.

So what I wanted was a small opportunity but what I realized was I had stumbled into too big an opportunity, a big opportunity for a small business man and so I saw this small demographic slice.

Information point #2 - foreign travel becoming mainstream And then the other thing was that I read at the same time that the 747 would go into service in 1970 and that it would radically reduce the cost of foreign travel. And it did, and travel is a form of education, and I felt that again this would impact what people ate and drank.

Trader Joe's is born Well, this is why it's called Trader Joes, it was to evoke images of travel to the south seas. At that time Hawaii was impossibly exotic, because you mostly had to get in a four engine DC6 to get there, the 707 had barely gone into service - I mean my wife and I went to Puerto Rico at this time and it took forever, but the new planes got you there.

South Seas images So that's why we went with Trader Joe's, to evoke images of the south seas, and that is why to this day employees wear Hawaiian shirts and the managers are called captains, and the assistant managers called first mates.

Is this beach in the West Indies all true? You were there and you had the idea?

Yea, well, I began thinking in those terms.

Information point #3 - education = alcohol The problem was we didn't know what would appeal to these people. But then I came across a third piece of information and that is; the correlation between years of education and alcohol consumption is about as good as you are going to find.

World's largest assortment of alcohol And so, now I knew what we had to do, and we began running experiments in Pronto, in select demographically correct markets, like the one here at UCLA. And in 1967 opened here in Pasadena. And basically it was a Pronto Market with the worlds largest assortment of alcoholic beverages.

What sort of range would you have had in those days?

100 brands of bourbon We had 100 brands of bourbon, 70 brands of Scotch, 50 brands of Gin, and 14 brands of tequila. You see, Fair Trade, we could not compete in terms of price, therefore one competes in terms of assortment.

So, would you have had more range than anyone at that point?

Yea, and because I leased a store bigger than my pro forma, I had extra space as an afterthought.

What sort of size was the first Trader Joe's? What sort of square footage are we talking here?

The first store... It grew in two stages, but basically let's say it was about 8,000 sqft, and I had been thinking in the range of 5,000. I had to take a building – it was a 1911 water bottling plant.

What's the building now? Does it still exist?

Sure, it's right over here on Memorial Parkway, off California. Just get on California and go there. It's right there at the corner.

Pasadena writ large Overeducated and underpaid Pasadena is chock full of well educated people. And really, to a considerable extent, Trader Joe's in the mores of Pasadena writ large. And what I finally came to express is Trader Joe's is for the over-educated and underpaid. And Pasadena is the archetypal town of that sort, so I wanted to open here. But we had a dry zone around Cal Tech. There were several dry zones in California at that time, around Stanford, around Pomona, around Whittier College, and so forth.

And I could find a liquor license right there, from a liquor store a half block away – the guy was dying of emphysema – so then I had to find a building to put the liquor license into, without getting any closer to Cal Tech.

World's largest assortment of California wine With the extra space I accidentally created the world's largest assortment of Californian wine. In 1967 nobody was interested in wine, let alone Californian wines. We were the first to give shelf space to what later became known as boutique Californian wineries. And so we were the first to sell Schramsberg Champagne, and Heights Cellars and Martin Grey, and Freemark Abbey, and of all the elements, we haven't changed the food because we're grocers.

So, this is the first Trader Joe's - it's a Pronto Market with a big assortment of liquor stuck on. This is day one and you open the doors and you're there and...

Photo finishing for travellers All the dry grocery is the same, the photo finishing, even more aggressive because we're dealing with travelers. There were times where we did 2% of our volume in photo finishing, we broke the price on photo finishing in Los Angeles.

Broke the price on magazines And I broke the price on magazines. And we tried a lot of things, things which we have tried and abandoned, one way or another. Because the idea is that you only want to sell things with a high value per cubic inch.

Because it's a convenience store - you have a limited space - you don't have a 100,000 sqft monster?

Expansion begins Yea, yea. This first version worked and so what we did was I went out and I leased some more locations and we went back and we converted some of the demographically correct Pronto Markets and we began selling of the non-demographically correct Pronto Markets – some of them to 7-11, some of them to Circle-K, whatever.

And there is a transition period here - the Trader Joe's are opening and the Pronto Markets are closing?

That took a long time. The Pronto markets were cash cows. I probably took ten years. We, sometime, we just changed the name on it but...

It was probably 78 when you closed the last Pronto?

Pronto lasts until 1986 Oh no, probably 86. There was no rush, I'm not a zealot. As long as they make money. Remember now, the pay scale is the same. That's why counting the numbers of stores doesn't mean a god dam thing really.

Anyhow, this worked for three years then, this is version 1, then in 1970 we were hit by a serious recession which was very much like what we experienced from 1990 to 1994 at the end of the cold war but it was concentrated into about 18 months. One out of every 10 houses in Los Angeles county was for sale.

Because a lot of the aerospace was down?

Economic downturn Huge layoffs in aerospace. Very depressed conditions and I needed to do something different. Well one of our managers was a health food nut, and he had been leaning on me for a long time to experiment with quote "health foods".

Which in those day was a pretty primitive market - we're not talking the Whole Foods and the Wild Oats of today?

Oh, no, no. you had chains of true believers like Linburgs, but...

So there were actually stores around at the time? Small format stores, health food stores?

Yea, very small, about 800 sqft...

The hole in the wall and some hippy?

The biosphere Yea, sure, we'll come to hippies in a minute. So the real turning point came in 1970, again from Scientific American, and every year in those days Scientific American - which has gone to hell since the German's bought it - devoted it's September issue to one subject. And that year they devoted it to a word I hadn't heard before - biosphere. And I had a conversion on the road to Damascus and I became what is now called a greenie.

Introduction of health food Between my conversion and the long term urgings of this manager Bob Hansen I decided to marry the health food store to the liquor store. So my wife and I went up to Haight Ashbury, we walked the streets of Berkeley. I hired a hippy woman, in the summer of 1971, from UC Santa Cruz during the summer break to teach us the lingo.

Trader Joe's - version 2 So we made the move in January 1971, and this is version 2. Our first private label product was granola.

Just grocers... Now you must understand, I can't overstate this enough, we were grocers in 1967, ten years into the business, and grocers don't know anything about wine. We knew a lot about liquor from drinking it ourselves. And so we sat down and every afternoon we pulled 60 corks until we did know something about wine. And so by 1971 we were deeply knowledgable about wine.

..learning about wine

And so now we sat down to learn about food. And as we moved along with this, we applied some of what we learned about wine merchandising to food.

What would be an example of that?

Bring ing wine merchandising to food Well, it's no longer true in the stores, but in the old days, when I used to lecture at USC I'd say Trader Joe's is the only store with a vineyard specific, vintage dated canned corn. It came from a specific corn field in Iowa, which is isolated so you don't get cross-pollination issues - and it was the best god damned canned corn you've ever tasted in the world and our biggest problem was fighting the Japanese off for it.

Scarcity	And so the concept of scarcity. Once there is 1966 Lafite Rothschild – once it is gone there is no more and this concept discontinuity became a very important part of our retailing – and still is – but it’s become quite blurred now, because when you’re running a four billion dollar company it’s a lot harder, but we would deliberately, as part of this move into health foods. One of the first places we went was into nuts and dried fruits and there were times when 3% of total sales would be in cashews, when we had made a huge special buy. We would build a huge pile and then I would write this up in the Fearless Flier.
Food is not plastic	But this concept, this idea that food is not plastic, that it is not continuous like coca cola, was, very much emerged out of the concept of vintage dated wine or vineyard specific wine. We’d point out the difference between, say African cashews and Indian cashews and Brazilian cashews. You’re always looking to differentiate the product, you’re always trying to avoid commoditization.
Differentiate the product to avoid commoditization	
Biggest in brie	When we put in cheese departments, because the health movement at that time stupidly thought that cheese was healthy - and that’s how we became the biggest retailers of brie in the United States - the biggest retailers of Jarlsberg, the biggest retailer of English cheeses, and so forth.
	How did you get into that business? Did you just say one day we’re going to do cheese? Did you just fly to France? Where did you get the product?
	Well, you start learning about cheese, you start studying it. We opened a department out in Sherman Oaks. You learn and when you get it going you install it in all the stores.
	So for example, were you importing containers of cheese?
Working the regulations	Learning how to import cheese, that’s a whole... you read the regulations, you hire lawyers, you learn how to play the quota game in Washington DC. We set up a half dozen dummy cheese buying companies – all that’s gone now, my successors pulled out the cheese departments and I don’t blame them. But anyhow, that was a big part of our business at this stage of the game.
Fresh orange juice	We put in fresh orange juice machines, what a bitch.
Vitamins	We went into Vitamins in a big way with ‘Trader Darwins’.
Aimed at the well educated	Now that’s another thing, all the private label was aimed at the well educated, inner jokes, the Brandenburg Brownies, the Sir Issac Newtons, all this stuff, aimed at the subliminal, so that when the well educated person walks down the aisle they know, without anything shouting at them, they know that they are in an outlet aimed at the well educated person.
	In the early days can we just talk for a minute about what the private label looked like?
19th Century art	Private Labels were all based on 19 Century art, as was our publication, which I started in 1970, which for a long time was called the Insider’s Report and
	And then Dave Nicol bought it from you?
Dave Nicol buys the name	Dave Nicol paid me a \$100,000 for the name - which was fine by me - and we changed the name to the Fearless Flyer. Dave Nicol came down to see me and he modeled a lot of what he did on Loblaw and he has been very generous in giving credit for it.
Haunting the book stores	So, you see there is no copyright printed before 1906. And so I haunted the book stores and amassed a big library of boys adventure books and whatever, Punch, and such, from the 19 th Century, and so then we used this artwork and a lot of it is still being used, both for illustrations in the Fearless Flyer and for the private label thing.

Was that to control costs using those old illustrations?

Yea, yea. Of course.

How did you do the design? I've seen an article where you talked about using Macintosh, but this is 1970, so you didn't have Macintosh?

Apple Macintosh We didn't have Macintoshes until 1984, and we didn't go to PageMaker - a fantastic breakthrough in software - until 1986 - which disintermediated the printer - that was a fabulous breakthrough - that was what permitted us to go from 16 to 20 or 24 pages on the Fearless Flyer. It was a bitch before that.

We ran the whole company on Macintoshes - my son works for Microsoft, he is a certified Macintosh programmer - we set it all up. He wrote all the programs the company ran on until well after I left. We tried PC's, but they were miserable, we threw them out in 1984 and converted 100% to Macintosh. With Macintosh today it's a cinch - art is all cut and paste.

So, you'd have an idea for a product - this is 1970 here - and you would find some art in these books you'd collected and you'd come up with a name and you would pass that to the printers and say stick this on here...

The old style, the original, that's what I remember as a kid. Where as nowadays the quality of the art, the layout, has got a lot better.

Better is an aesthetic judgement Better, that's an aesthetic judgment... Whether it's as effective is another issue.

Well, what I am seeing as an observer is that the newest products look almost indistinguishable from what you would find at an Aldi.

Returning to their roots under Bain Well, that's an accident. I think that since Dan Bain took over there has been a distinct effort to go back. In other words, during John Shields era there was a duming down effect in the stores, a lack of interest in pursuing the intellectual side of the business. With Dan Bain, he has said they want to go back to what it was before. So, I'm not criticizing John, I'm just telling you what happened under the pressure of expanding nationally, why a lot of things fall by the wayside. And in some ways I think Trader Joe's East was less affected by that than Trader Joe's West, because the headquarters are here.

Take me back to the 70's. There was this health food model, and there is liquor, there's almost an incongruity there. You had a convenience store with liquor. Was this just one day gone and their was a health food store there?

No, we would have been incapable of doing that because we didn't know anything about food. It took us - I'll come to that later...

Need to build distribution But, we had to build a distribution system. But the centre of the store was all coming out of Certified Grocers, we didn't have the logistic capability, our volume wasn't great enough, we didn't have the skills.

Largest French wine retailer in Southern California However, another element now - this is version 2 - in 1970, again, reading the regulations I found a hole with the Fair Trade regulations when it came to French wine, which permitted us to break the price by finding a retailer can not import directly in California, but by finding a friendly importer we could get him to post what ever retail prices we wanted, and we drove a truck through that hole and within 3 years we were the largest retailer of French wine in Southern California.

Did anyone else follow you?

Grandfather clause Nah. And in 1971, I bought a Master Wine Growers License which had been issued in 1933 when Prohibition went off, and which had all kinds of grandfather privileges in terms of what you could do.

The state refused to give me all its privileges. I fought this in the courts but I decided to hell with it, because technically I should have been able to be my own importer, but they would never let me do that, all hell would break loose, although San Antonio Winery downtown has it – a 1933 license and they do their own importing and retailing down there.

Private label wine But with this we then began our private label Trader Joe’s program. Well now, between these two factors, you have an importer who has only a license and no distribution system and then you have all of this private label Trader Joe’s wine. We had to create our own distribution system. And for many years of the project we called it Trader Joe’s Winery, because it was done under that license. With this we began to line up warehouses where we could hold wine. And we began to line up Gippo truckers who could distribute it and we began to find out-sourced computers who could print the orders documents and the receiving documents.

You were outsourcing everything? Warehousing, distribution?

Price controls end on milk Yea, yea. And so all of this was rolling and we were coining money, when the roof fell in again, in December 1976. We had had price control on milk since the pit of the great depression, and in December 1976 the milk bureaucrats decided that they would no longer enforce minimum pricing on milk to the consumer. They continue to this day to enforce it from the cow to the creamery and to the creamery to the market – although since most market run their own creameries, this is academic. Well within two weeks our gross profit on milk went from 22% to 2%.

What percent of your mix would it have been in those days?

Milk was still very significant, and there were a whole bunch of other dairy products like cottage cheese, and sour cream and so forth, which were impacted by minimum price controls. At the same time the alcohol bureaucrats in Sacramento said “Hey, wait a minute, maybe Fair Trade is in violation of the Robinson Patman Act.

Well, things had been going so splendidly, and you must remember now remember that in the dark days in 1962 when we were on the edge of Chapter 11, and I had bought out Rexall and we had no money and I sold half the stock to the employees, we still had this employee stock ownership organization.

House prices rise... The problem came, however, in the 1970s once the real estate market recovered from that recession in 1971, housing prices began to explode because a courts ruled that a women’s income had to be counted in judging the family’s ability to make mortgage payments. Until that time it was almost impossible for a single woman to buy a house. As a result the price of houses went crazy.

And now.. so under the system that we had when one employee wanted to sell units, in this stock trust, why then they were put up for sale at book value, calculated quarterly, and then a new employee coming to work or somebody who wanted to buy more units, and so forth, would pick up those units. Well, what happened with the growing price of houses was that the wives, in particular, wanted to buy a house, and so all the discretionary capital in the household went on property and mortgage repayments.

Cash rich And so what I had to do – we were cash rich - Trader Joe’s hasn’t owed a penny since 1975 – there have been no interest bearing debts since 1975 – I’m very conservative. I kept using corporate cash – but of course I’m the majority shareholder – so of course my interest keeps getting bigger and my interest keeps getting bigger and bigger and bigger – and my dream, one of my dreams along the way had been to create an employee owned company.

Employee stock ownership So I said OK, instead what we’re going to do is create an employee stock ownership plan. We decided to create an employee stock ownership plan. And I began working on this in 1975, we spent a lot on legal fees, we had everything set, we had the appraisal, because this has to be appraised because this was not publicly traded securities, obviously, to do this. And over time, over a period of about 15

years, I would continue to hold the voting stock but all the Class B stock would be transferred to this employee stock ownership trust. This is all set to rock and roll and these two things happen.

The trade thinks we are going to go bankrupt – and I think probably half of our employees did too...

Because of the falling price of milk?

Because of the end of Fair Trade. Because alcohol was such a big part of this. Also I'd taken some controversial moves – I was the first to accept credit cards – and nobody thought we would be able to continue that. So, I on the other hand, felt that any time the government gets out of your business it's a good deal.

Trader Joe's - version 3 So what I did in 1977, in February 1977, I launched version 3, which is the final version and I said we are going to have a 5 year plan at the end of which we will not sell anything unless we can be outstanding at it. And so...

Did you have an idea where that was going to go?

Competitors fail to respond I knew what we had to do, but I wasn't sure how we were going to get there and so many things came along which I did not foresee. But what happened was actually none of my competitors responded to the change in the law. To be fair, it took a while, not on the alcohol, but on the milk, it took a while for it to get sorted out in the courts. Most grocers didn't understand that the legal underpinnings of the grocery industry that had existed in California since 1930s had been pulled out from under them. And so nobody started promoting liquor.

Massive range reduction So what we did, then, first to go were the 100 brands of bourbon or scotch – 70 brands of bourbon and 30 of scotch. There was no point. Now one could compete in terms of price. Naturally you don't want to compete in term of price if you don't make any money. But the need to compete in terms of assortment went bye-bye. And so, going into this you asked me about sku count, going into this we had about 6,000 skus available to the stores, And we slashed, we slashed, we slashed over the five year period.

Into private label bakery Among the last skus to go were all bakery products, because, and I hired a women, who is back working at Trader Joe's now, Lorie Lotta, a brilliant woman who had studied baking in Paris to set up our private label bakery program. And we had 17 different small bakeries.

So, 5 days a week, stores would call in their orders at midnight to an Apple 2 and then the Apple 2 would compile these and then someone would come in and call the bakeries at 4 o'clock in the morning and then and at 5 o'clock that afternoon the orders would be delivered to dock down here in the central manufacturing district, where we had, again, a gippo trucker who'd break down the orders and ship half the orders that night and the other orders the next morning. And we were told in no way could we get rid of Webber's Bread and all, no problem. And of course we did this with a health food twist and we became the biggest retailers of croissants in Los Angeles because then croissants were hot. Of course, later on they went bye-bye.

So, you ditched all major brands, because at that stage you knew what was coming, that you wouldn't be able to compete on these products in terms of price?

Dropping their wholesaler We, you know, you just try it. And then at this time, at the same time, we opened a store in Westchester in 1979, and the district manage came to me months later and he said "Joe, you know that opening order out of Certified", he says "it's still sitting there." He says "we don't need Certified." So we dropped Certified Grocers and all conventional wholesalers. But by this time, you see, we had learned enough in terms of logistics to create our own system.

Practical people I mean I did not build this myself, I cannot tell you that often enough, although I haven't said it so far this morning. I built this with real practical people, none of

whom had a college degree. And who figured the problems out. For example, I remember about 1981 I said, "we're going to pull out of Certified Grocers. What the hell are we going to do about frozen food? Should we pull the frozen food out of the stores?" And they persuaded me that somehow we could put together a trucking system and a wholesale refrigerated warehouse - there is an ice plant over here in Pasadena - and we used that as the cold storage area. I mean a lot of this was ad hoc. We were able to hammer together a system in which we were no longer reliant upon any conventional source of supply.

Dropping Coke and Budweiser

By 1982 we had accomplished about 80% of this. The final thing came in 1985 when I dropped Coca Cola and Budweiser. And I had... - a lot of being a CEO is being a salesman to your our employees - and I argued with our managers for years as we did not have outstanding prices on those two products because there is no way to do it without losing money. That's the other caveat, we will not sell anything unless we can be outstanding and make a profit. So finally, well, they said "People want it for convenience." Now that's true but every time you put a pimple on your image...

Nobody came in the store and went nuts?

Probably they did, but tough. We had already dropped Frito's and Laura Scudder potato chips and everything else, Twinkies. And so...

In this process you were rolling out a lot of private label?

Tertiary brands

Not necessarily... Tertiary brands and... We did a lot of this with brewers. We brought in things like Dixie Beer, which was big in New Orleans. We brought in an excellent beer from Cincinnati called Christian Moerlian, a lot of this stuff.

Elimination of DSD

And so, part of this, what I was driving to, was a system in which there were no DSDs, no direct store deliveries. And one reason I hired John Shields in 1987 was to perfect this distribution system, because John is very good on logistics. And what we created was something in which nothing comes to the stores except through the central distribution system. And that means you don't have all those soft drink trucks and all those bread drivers - they all steal or peddle dope or whatever - and so this leads to control over gross profit, control over shrink, where nothing gets delivered except through your own system.

Outsourcing

And we learned to ship different temperatures on the same trucks, all these things. That's another thing, we set up our own milk distribution system, but to this day you see Trader Joe's operated no trucks, and no distribution centers, it's all outsourced.

Shields made a big mistake, he bought mainframe computing inhouse and they have had nightmares, real problems with that. But prior to that everything was out. We created a system of product ordering on the Macintosh, but that went to an outsourced mainframe computer.

So this then is what you know as Trader Joes - it is the 1977 chassis created in response to the end of Fair Trade on milk and alcohol.

And since then they have just been running the photocopier on that, up to 230 stores, whatever it is now?

Getting rid of the cheese departments

Yea, but a lot of things have changed. They got rid of cheese departments, that's fine.

What did these cheese departments look like in the old days?

We actually had a department there, where wheels of cheese were cut on premise. And also we did a lot of other things - we bagged pistachios, we bagged dried apricots.

So it had this sort of deli feel about it?

Yes, and we made sandwiches.

Produce Where my successors have gone are areas where I could not go at the time. Starting with produce. We tried and tried produce and we could never make it work. But the year that I left, in 1989, the first packaged, chopped lettuce came on the market – this was a revolution (the last figure I saw was 60% of all lettuce is sold in that form. Well, for Trader Joe’s that was ideal, because there is no handling. They don’t have the health department approved facilities to handle produce, to rework produce on the premises. So everything has to be pre-packaged.

And we started with pre-packaged produce in Pronto Market in 1958.

What did it look like in those days?

Quality on perishables not always good It was terrible. Plastic film has evolved radically. What makes chopped lettuce is a revolution in plastic film, and so at Trader Joe’s everything is pre-packaged. The quality is not very good, I have a... but it satisfies a need.

Meat The other place they went which I could never go was in selling meat. We had sold frozen meat on occasion.

Getting into frozen fish One of our breakthroughs came in 1974, when we were the first to sell non-value added frozen fish. Until that time in supermarkets all frozen fish was value added, rolled in bread crumbs or something. One of the boys found a fish processor who said “Hey there, we’re having these odds and ends of this stuff left over and we can’t sell it to supermarkets, we’ll freeze them for you and package them for you. Huge success. And that’s how we got to be the largest retailers of black tiger shrimps in the United States. And non-value added frozen fish are still a big item in the stores today.

You couldn’t do meat because there just wasn’t the technology to do it?

Yea. But the meat you find there today are at deli temperature. It would have been total insanity 15-20 years ago. The new gasses which make it possible are injected and the new plastics which make that possible.

Tell me about sandwiches? You were making sandwiches on site?

Yea, sandwiches, that’s a terrible business. You can’t do it with that kind of high wage labour.

How did that fit in with the health food thing?

Our customer are not purists Most of our customers are not purists. I’m trying to go back to the fundamental schizophrenia of that marriage [of health and alcohol] and people who are health food conscious are very conscious of what they put in their stomachs. And people who are gourmets are also very conscious. So there is a natural interface there which has become more natural thirty years later.

I was reading an analyst presentation by Whole Foods where they said 40% of their customers are organics/natural foods type people and 60% gourmet or “like good food.”

Trader Joe’s influence at Whole Foods I don’t know if you know it but their private label program was created by a Trader Joe’s exile – Bob Johnson – Bob quit after I left. He and another guy made a deal with Whole Foods to create their whole private label line deliberately emulating Trader Joe’s but on a broader range of skus. So their 360 line is Bob Johnson and Dennis Ring – and they set up a joint venture in which they each owned half - Whole Foods and the two guys – and so about two years ago they sold out for a great deal of money and now they’re doing the same thing for H.E. Butt.

The Whole Foods range- and maybe this is coming back to your influence – it doesn’t have the personality that your stuff has and I think the interesting thing about Trader Joe’s is that you are not afraid to break the mould, to be someone to be different, to be intellectual. And I guess that leads to one of my next questions:

no one else has followed you, in contrast with, say, the warehouse club industry. There is Oakville Grocer up in Northern California trying to do it, but...

Well Bob Johnson was in that deal after he sold his company to Whole Foods, and then he bailed out. And a guy who used to be number two at Trader Joe's and was fired, Mike Parker, is running it now, but it's in trouble.

No one has ever copied Trader Joe's.

No one else is willing to pay the wages
No, and lots of people have tried and the reason they've all failed is no one is willing to pay the wages. Again, as I said, the secret of Trader Joe's is the quality of the people. In my thirty years there we had almost no turnover of full-time employees and this has continued.

The manager here at one of the local stores just celebrated his 35th anniversary with the company, I mean this is typical of the company. They are richly benefited. Every year an amount equal to 15.4% of your pay is put into the retirement fund, this vests over a period of three to seven years, so after 7 years you own 100% of your retirement fund. And when you leave you take it all with you.

Great retirement scheme
Well, this manager is probably making \$125,000 a year with bonus, he's the manager over there, and when he finally retired and he's probably 55 now, why he's probably depart with more than a half million dollars in his retirement plan, which he can roll over into an IRA [Individual Retirement Account]. Every Christmas I get a card from somebody thanking me for the retirement plan.

Income insurance
There is income continuation insurance - it's against the law but I forced the employees to pay the premium the company pays the premiums - because if they pay the premiums, all the proceeds are tax free, and it pays you 60% of what you have been making, which is what you get after taxes anyhow, so that will cover you for up to 5 years.

There is medical insurance - a choice of an HMO or a PPO, etc.

The turnover rate is zilch.

The employees seem happy...

Institutional memory
Yea, because people don't leave, you have a huge institutional memory. The president of Trader Joe's West, Robin Gwerner, I hired him in 1966, actually he was part of the original crew at the original store here in 1967. And the President of Trader Joe's East, Doug Rauch, I hired in 1977. Doug came out of the wholesale health food business, and we hired him specifically for his health food knowledge. And Doug did a great deal to create the vitamin program, the nuts and dried fruit program, many aspects of that program.

You see, we got into the contracting out of the roasting of nuts, it gets to be pretty complicated.

Rather than bagging it in store.

Breaking the price on pistachios
Everything is bagged out of store now, but when we had the cheese departments, we did a lot of on-site manufacturing. Especially pistachios, that was one we were able to break the price on pistachios by bagging it at store level.

What are the lessons from Trader Joes to other parts of retailing and to other people in retailing?

Demographic integrity
First of all, you must have demographic integrity - the fundamental problem with the supermarket is that they tried to be all things to all people and they failed notably with every ethnic group in the United States... and that's where all the population growth is...

So you're saying the Asians will go to the Asian supermarkets...

Yea, especially the Chinese. The Japanese are more flexible, but the Chinese are inflexible in my experience.

Different forms of demographic differentiation

And then people can also be segregated by things other than race – educational levels, cultural background – people can be segregated in terms of age.

I gave a lecture to the Produce Council almost a year ago – in the context of Whole Foods becoming... you get what's called Pharmafoods. And this is one reason why I've been saying for several years that Whole Foods is a winner is that once you get to be over 65 you're probably going to be on a special diet of some kind.

Special diets are the future

I'm a person who shouldn't eat anything with potassium in it – bananas are poison – I got all these orange trees and I can't eat it, strawberries are terrific. There were about a couple hundred people there representing all the fruits and vegetables in this market. And I said there are going to be all kind of special diets out there – various kinds of diabetes diets, low sodium. Where are these people going to go? Are they going to go to Ralph's to ask for advice on this? Not bloody likely. They're going to go to Wholefoods.

The decline of the supermarket

I also give a whole lecture on how the decline of the supermarket is also the decline of network television – because basically the supermarket, starting with Big Bear in 1930, that's the year Amos and Andy were hired to advertise Pepsodent toothpaste – and from then on brands destroyed A&P, National Tea and what have you, because of the power of the radio personalities of the 1930's and 40's and then television.

And that peaked in 1970, and sure as hell, I mean, John Wayne got the Oscar in 1970 for True Grit and that was the peak of network television, its never been that big since. And the supermarket business has never been as healthy since.

The fragmenting of the media?

Fragmentation of the media

You've got cable, you've got satellite, you've got VCRs, you've got DVDs and it's impossible for any advertising medium to again achieve the power that network TV could then.

So the supermarkets, to the extent the supermarkets focus, break themselves into pieces which is as near as I can tell is what Albertsons is trying to do, they've got a Mexican chain, they've got Bristol Farms, what else – to the extent that they fragment themselves and orient themselves to a specific part of the population – and it's not a declining part of the population – there is a future there. But in their current form they're moribund – and their labor problem only adds to this because all of their challengers are non-union.

What other lessons have you learned from history?

The role of the car

What distinguished the first Big Bear was the presence of a parking lot. But the supermarkets aren't the only ones which are moribund. The department stores have been moribund now for 25 years and terminal consolidation is going on now.

What other lessons? Where are we going?

Well, change is endemic to the capitalist system – creative destruction.

Schumpeter?

Capitalism is creative destruction

Yea. Capitalism is creative destruction.

Let me ask you about internet shopping, because I said it was never going to work...

Well, it's working, apparently, with Peapod in Boston.

Fresh Direct is doing well in New York. But other than in downtown metropolitan cities...

Internet grocery Well, that's a valid need, with the aging population they create a valid need for, let's not call it internet shopping, let's just say it's home delivery, that's what you're talking about, isn't it, whether it's done over telephone, or catalogue or whatever. And the problems are those of home delivery. That big failed attempt in San Francisco was bound to fail because of geography. WebVan, the hills are so steep and there are so many homeless, but Boston, which is pretty much flat, Chicago, pretty much flat, Manhattan, ditto, you have a lot of issues of crime and so forth, but there is a need, and in limited places it should work. There is a market there and it has its own peculiarities, logistical problems, like everything else.

What other lessons are there from Trader Joe's in a bigger sense? And I guess I'm still interested in why no one has copied it?

No one else is willing to absorb the payroll costs.

What about brands? The other thing to me would seem to be getting rid of brands?

Control your destiny or it will control you I don't know. Who's the guy who was at General Electric - Jack Welch - "control your destiny or it will control you." Frankly I wouldn't be P&G these days, no matter how successful, because Wal-Mart owns them.

You pick up their 10K and they have to disclose their major customers and "Wal-Mart is 30% of our turnover."

Troglodyte situations On the other hand, I don't know, maybe P&G owns Wal-Mart also. But it's - you get these vast concentrations of power and you get into these troglodyte situations and I don't know what these various answers are.

Aldi, for which I have the greatest respect, I was in Australia - I have a daughter who lives in Melbourne - and I went into the Aldi there - which is owned by Karl - it was fine and doing a great job. I really have a lot of respect for those people.

Aldi across the street from Super Wal-Mart I was in Bentonville a few years ago and right across the street from a Super Wal-Mart was an Aldi just going great guns. They have focused on a part of society - people who have no money.

Canned Food Warehouse I spent four years on the board of Canned Foods Grocery Warehouse, they have about 130 stores, they're headquartered in Berkeley. They're mostly quasi-rural. And I was on that board from 1989-1994 and that's very legitimate. I'm very interested in 99c stores - though they have a lot of problems - Dave Gold's getting very sick. And John Shields went on that board when he left Trader Joe's, but John is very sick, and has had to leave that board.

But again, the chains we are talking about - and I think it's one of the themes when you look at the wheel of retailing - are price concepts. Is it fair that in your experience that most growth chains are driven by price?

Low income seeks low prices Well, probably, I mean after all the great part of the population is very concerned by price because they don't have any money. I was reading an interview with a woman buyer at H.E. Butt who was given \$20 dollars and told feed a family for a week on this and she came back and said now I understand why we sell so many rice and beans.

What was your attitude about price at Trader Joe's? Are you the low price leader? Are you going to be the lowest price on the best products? How do you describe price?

I really don't know - I mean... First of all, when you talk about price, the first question I ask the retailer is do you have stable pricing or do you have weekend ads?

EDLP or Hi-Lo?

No weekend ads Yes, and so one of the distinguishing feature of Trader Joe's is there are no weekend ads. That's what I call constant pricing or stable pricing, this is also true of Costco. But there are no promotions – what you see is what you get.

Never, never discount And you never, never, never discount. If something doesn't work you give it to charity.

After I left they tried day old bakery tables, it was a terrible idea. While I was there anything that went out of code, the manager calls the nearest church, there take it. And if a new product doesn't work you give it to the foodbank.

So if you went to Malaysia and got a container of sliced mangos and nobody wanted them?

Give it away, don't discount it Give it to the foodbank. We had a cat food that didn't work at all and we gave it to the Humane Society.

How do you set prices, because price...

Avoid markups You have to keep your buyers from using markups – it's a very dangerous idea. Basically an offer is made by a vendor and since the buyers – and I also had the highest paid buyers in the grocery industry – not many of them, but very deeply knowledgeable – people like Bob Johnson, Doug Rauch, Bob Bernie, the wine buyer, these people knew what the hell they were doing. And so somebody come in and ok and they put it in the middle of the Ouiji Board and they put a price on it and if that doesn't work you get feedback and you learn.

No scanning We didn't have scanning. They finally had to go to scanning. In my opinion they were compelled to go to scanning by all the produce and refrigerated meat because they were having problems in the low volume stores with shrink, and they forced them to go to scanning.

Business is an art But your question is how do you set prices. Business is an art. So you get a feel for it. And sometimes you may set a price and make 60% - just because you're a low price thing, doesn't mean you need to operate on 10%.

Now Sol Price would say: "You just set a margin, a fixed markup" – he would say 14%, it doesn't matter what it is, if it's diamond.

Yea but he's relying on the dues from the members of his club. But that's not the way that Trader Joe's operates.

Dollars per transaction Conversely, I was especially concerned with how many dollars were going to take place on a ring and for that reason I was willing to take, say, 10% on champagne.

So you would take a lower margin on a higher value item?

Pay your bills with dollars not margin You pay your bills with dollars not percents. I can't say that enough. I'm on the board of Cost Plus, these are all department store people, they're always worried about their percentage gross profit, heh. You pay your bills with dollars.

How do you control your buyers from excessive rape and pillage? If they can take more margin, they will. Do you set any overall goals?

Work with them all the time You work with them all the time. Actually Bob Johnson tells me the senior buyer at H.E. Butt it just like Trader Joe's – he sits in on all the buyers meetings. He wants to taste every new product, it's an intensive interface with the buyers. There is no way to put it on automatic pilot. And you have to let the buyers make mistakes. My emphasis is always on the dollars.

Did you do competitive price checks?

Until about 1983, we had a wonderful publication in Los Angeles called the price survey, the grocer's survey and every chain sent their price list in and every grocer's survey - in those days we had a lot more chains than we do now - and everyone know what the price books were - Ralph's, Von's, Safeway. This was shut down by an anti-trust decree - but back in those days you just had to look to know if you were a little guy.

Limited range means breathing the air

By the time I left Trader Joe's I had it down to 1,100 skus. And so when you're dealing with a small population of skus, why you're breathing the air on what's going on in that particular field, in those particular fields all the time it's not like trying to master the whole gamut. And you rely on vendors, I mean I'm very big on vendor cooperation. Vendors have brought many new ideas to us.

... So Trader Joe's is not a complete shop, so your customer is always going somewhere else, always going to Ralph's or Costco, so...

Opposed to items with a low value per cubic inch

I was always opposed to anything with a low value per cubic inch and as a result we never carried toilet tissue or facial tissue, now they have a little bit of toilet tissue.

Sugar is dangerous

I never carried sugar, especially because sugar is very dangerous - it comes in 60lb bales and you can throw your back out on it. At some point in the 1980's we enforced a rule that we would never carry anything where the case weighs more than 40lbs with the exception of milk crates, because we had all these women coming to work and only men will handle the milk crates.

But you must look at price?

You know what's going on

Well I've been gone for a long time, but it still operates the same way. You know what's going on out there.

More capers than the rest of the supermarkts in the United States combined

Let me give you an example: Trader Joe's sells more capers than all the rest of the supermarkets in the United States put together - they aren't interested. Now Cost Plus, they have some on the shelf there. But Trader Joe's, no one else could possibly compete with us in terms of cost. But the twist is we have the only clientele who is interested in capers.

Largest retailer of maple syrup

Maple Syrup - because my grandmother is from Vermont I grew up on maple syrup. So back there in the 1970's all we had there were two feeble brands Keri's and MacDonald's, both grossly overpriced, because that's how Safeway makes up the gross profit they lose on Folger's coffee. So we simply started going up to Quebec and bringing in 50 gallons and bottling it here. And Trader Joe's is the largest retailer of maple syrup in the United States.

Broke the price on wild rice

We broke the price of wild rice, we cut it in half. Why? Because none of our competitors are interested in selling it because their clientele is not interested in buying it.

Would you say then that it is part of how the business is done is that you look for opportunities where price gouging is going on?

[Laughs] Sure! Of course! Of course! It's just like breaking the fair trade on French wine in 1970, everybody was taking these enormous markups and man we just, man, we had our competitors going to the Department of Alcoholic Beverage Control trying to shut us down with phony regulations and stuff like that. We blew the top off the market by simply saying the emperor wears no clothes.

Vitamins? Was that another?

Vitamins

Vitamins, same thing. My best friend is a doctor and he really got me interested in vitamins and he pointed out to me how much vitamins cost and so we moved into that, as I said, very early, 1971/1972 something like that - again, a high value per

cubic inch.

Come back to this limited range - 1,100 skus, you must have a minimum offer?

Too many skus today They're running on about 2,500 - and too many in my opinion - they have too many skus in the stores. There are too many skus and they back up in the warehouse also. But, I'm not there, that's ok. You must understand, I left Trader Joe's with no debt and a mountain of cash. The Germans have never put a penny into it, they've never taken a penny out. And so Trader Joe's biggest problem is managing cash flow, reinvesting cash flow. So they're not under the gun. And that's one reason they have to keep opening stores.

In a limited range environment, how do you manage what the range is? You can go too far in terms of limited range and too far in terms of too much range, how do you manage it?

Business is an art Business is an art. And sometimes you learn. Something you drop, you put back in stock.

What lessons have you learned about range over the time?

Profound product knowledge What I believe is necessary is profound product knowledge on the part of the buyers. And this is the true limiting factor, not what the customer wants. Sol Price said to my lawyer, down in San Diego: "Joe is the only person who tells people what they want, and they buy it."

The limiting factor is knowledge The limiting factor is the amount of knowledge in the buying department. If you expand beyond the limits of the knowledge of your buyers you're going to make bad buys - and so this is the true limit on range. What my successors have done very well, obviously, is they have been able to add a lot of buyers who can master a lot of fields, especially produce, flowers.

Flowers We tried flowers and the god dammed things died. This needed knowledge - a huge amount of knowledge - because of the shrink. But the white orchids - there's one right there that somebody bought my wife - they don't spoil, so that's a terrific product, so if I was going to create my next Trader Joe's I would stock white orchids because there's no shrink. That's another factor in deciding range.

Avoiding shrink

Avoiding kids in the store I don't want to have kids in the store - so I refuse to sell single cans of soda pop, and I don't want to - yea you sell single candy bars but you try to be upscale in candy bars - so you're using this 70% cocoa fat. But I don't want kids in the store.

Why not? They bring the mother's? This is the classic supermarket story - the family shop.

Kids are not very educated If you get kids, now you're into Cocoa Puffs and all the stuff that's on television and so forth. Kids are not very well educated.

It seems to me you would have had a limited range of organic baby foods, or something like that?

Well, to the best of my knowledge Trader Joe's has never dealt in baby food or baby formula. There's a big problem with that - because the babies grow up. Further more most babies are black or brown and their parents are not likely to be shopping at Trader Joe's.

Attracting the pink dollar On the other hand, homosexuals are wonderful, terrific, high disposable income, they are not putting kids through college. Boy's Town is terrific. And Trader Joes is aimed at this clientele.

I read a quote where you said: "In the early days we didn't know anything so we tried everything"?

Bullets? In the late days of Pronto we were doing 2% of our sales in bullets. One of our managers was a hunter and he came to me saying: "Joe, Sears is ripping the public off on bullets," and so we put in 22 shells and man, they just blew out of the store. We were coining money and then Kennedy got assassinated and so they got all these regulations so we dropped bullets. Again, a high value per cubic inch.

What else do you think you brought out of the convenience store world?

Trader Joe's is an innovator- I have a whole lecture on this - on innovation. Which is borrowing someone else's ideas, as opposed to invention. The first Pronto market innovated heavily on the drugstore, radically so.

Responding to the competition - the drive-in dairy

Then when Adohr came into the picture I had to study a serious threat which had emerged called the drive-in dairy - the population mushroomed and the number of babies mushroomed and everyone was drinking milk. And they had certain pricing advantages under the fair trade laws, and so forth. But what they were doing is they were bombing bacon, bread and eggs at the same price every day, so I put that program into Pronto markets. And that was the genesis of today's no weekend sales policy at Trader Joe's.

The origin of EDLP

So prior to that you had been doing specials?

Yea, running newspaper ads and stuff like that.

So you started with the standard convenience store model and over time you began to deviate from that until you made the leap to Trader Joe's carrying some of that architecture with you?

The egg guy

Yea. And then one of the most important things that ever happened, in 1962 an egg guy came to my office, he said: "Joe, I see you're selling a lot of large AA eggs, that's what everybody is selling. Why don't you sell Extra Large AA eggs." Well, I said, they cost more. He says: "No they don't, they cost less, nobody wants them." So, Phil Crumb was his name, God bless him. So we started selling Extra Large AA eggs at the lowest price in town in 1962 and Trader Joe's still they're right there doing it. Costco beats them.

Discontinuities of supply

But that opened my eyes. That was the first real eye opened that there are discontinuities in supply. And the reason the supermarkets never run them is Extra Large can only be laid by old hens, and in the summer time the hens die in the heat. Well, today Trader Joe's manages to find enough, but sometimes you have to switch to Jumbos, which can never be AA as they have imperfections in the shell but then have imperfections - product knowledge. That opened my eyes. There are discontinuities in supplies. There are opportunities everywhere. You just need to really get into a business and you will find something, or do it better than it is done now. Opportunity is everywhere. I learnt that on Extra Large eggs.

The lesson of deep product knowledge

Now I'm finally learning something about what I sell. This is really the genesis of Trader Joe's, it's product knowledge, it's learning why Extra Large AA eggs could be bought in the wholesale market cheaper than Large AA eggs.

It's understanding the total supply chain - these buzzwords the consultant's are selling today?

Opportunity is everywhere

Yea. When I give my lecture at the business school, they ask me "What business opportunities do you see?" And I say anywhere. The thing is you have to get into a business and get into its interstices and you will always find someplace where things can be done better than they are being done now. Opportunity is everywhere and I learned that on Extra Large Eggs. And so that's why we had such a high volume as a convenience store chain was because of program's like that, just enormously successful.

Milk in glass bottles

We were the only ones to sell milk in glass bottles. Because Adohr was the only - one of the reasons Adohr was in so much trouble was because they had been stuck in

home delivery – So they were putting milk in glass bottles, and again, competitors couldn't respond because their sources didn't have glass bottles. There is one dairy here in Los Angeles, Broguiere, which puts milk in glass bottles, that Bristol Farms carries, it's expensive, you put a dollar deposit down, but that milk tastes like milk. And I think that Whole Foods maybe carry that.

Can we talk a bit more about the invention of Trader Joe's? Trader Joe's as an innovator.

A stealer of ideas... A stealer of ideas. You know when fair trade went off I spent a number of months studying – there was a period of about close to a year.

Stew Leonard's limited range And I went back to Connecticut and studied Stew Leonard and that's where I got the low sku idea. 800 items. My brother-in-law lived in Darien, Connecticut and so we went back there and my sister-in-law took me to see Stew Leonard. And I had read he had 850 skus, and so I counted and I got 850 skus. It was only after that that I met Aldi with 650 skus. So I was already quite mentally prepared for the concept of limited skus.

Special buys and discontinuity And he makes these special buys, only the difference was the buys come into the warehouse which is integrated into the store. And he'd go down to the Boston Fish market, or whatever, and make a special buy and "Wham!" move it out. Discontinuity, you can't always rely on it. He didn't deal in alcoholic beverages – he was limited under the Connecticut law.

The five year plan So I had to decide what I was going to do. But I saw this and that was the genesis of my Five Year Plan.

Now that you say that, I can see that with Stew Leonards. Who else contributed ideas? If we have seen so far it is because we have stood on the shoulders of giants?

The Akron's interesting range Hardly a giant, but an extremely interesting company in Los Angeles fifty years ago was called The Akron. The guy came from Akron, Ohio. And he had about a 20,000 square foot shop dealing in imported goods, it would be sort of like Pier 1 or Cost Plus. And so when we came down here broke from Stanford, when we rented an apartment, why our floor covering was Korean sea grass from The Akron. And in the fireplace it was a cheap wrought iron handle from The Akron. And a lot of our tabletop came from The Akron.

Forward looking employee relations And he had – a very forward looking man – he signed right up with the retail clerks union, took his employees to the Ice Capades, and whatever. And that was one reason why at Pronto Market and then at Trader Joe's we had employee parties at my house every summer and every Christmas. And that tradition still continues. I had Robert Gwennard, the West Coast President over for dinner a couple of months ago along with some of the other real stalwards, and they said "Yea, we're up there" though now they have to do it in October, they can't do it... He and his wife are out there running employee parties up and down the West Coast. And probably my original idea for that came in 1954 from the guy who started The Akron, he was very forward thinking.

Only sophisticated, corrupt Los Angeles was ready When I started Trader Joe's, I was afraid The Akron would trim its sales and come in and be a competitor. But he stupidly went back to Ohio and expanded and it just killed him, Ohio was not ready for The Akron. Only sophisticated, corrupt Los Angeles was ready for The Akron. But he was very creative.

So he had food?

He had – there was no refrigeration. But he had wine - 99c wine.

More like a Pier 1?

Yea, but it was sort of like 99c stores in terms of imported furniture and garden

supplies and so forth. It was a very interesting outlet.

Your own description of the business reminds me of your concept of the overeducated and underpaid, you were students with no money and you went there. Was he targeting the overeducated and underpaid?

I don't think he put it those terms. Basically he was one of the originators... Cost Plus started in San Francisco at the same time in the mid-1950's. The dollar is extremely strong and we can go to Taiwan and buy silverware and wherever and bring this stuff in and it's incredibly cheap. He had Danish teak, all this stuff. Simply a phenomenon of an extremely strong dollar at a time of rapid family formation.

What other retailers do you think contributed something?

I'd steal from anyone Well, I'd steal from anybody. There was a wonderful market in Lido Isle, that's in Newport Beach, you know that very upscale yacht basin 60 miles south of here, very upscale. Richard's Lido Isle Market - Dick Richards - and in Pronto market days I would go down there and he walked me through the store. And I said: "Dick the store is so dark," and he says "Yea, I don't want to sell the ceiling".

Individual coffee mugs? He had individual coffee mugs for every customer so when they came there they got a cup of coffee. He had racks of these things. So I opened a store out in Pacific Palisades and as we collected checks we'd take the names off them and I had all these decal letters and we had cuboards above the shelving and my wife and I would spend our nights putting up the names of our customers and this worked great. About three years into this the divorces started to happen and suddenly you start having these gaps.

Joe, thank you for spending this time with us.

My pleasure.