

CASE FOR ANALYSIS How Joe Coulombe Made Trader Joe's a Success Story

Trader Joe's, an upscale specialty supermarket chain, was founded in 1967 by Joe Coulombe, who then owned a few convenience stores that were fighting an uphill battle against the growing 7-11 chain. 7-11 offered customers a wider selection of lower-priced products and Coulombe could not compete. For his small business to survive, Coulombe decided to change his strategy and supply upscale specialty products such as wine, drinks, and gourmet foods to customers. Coulombe changed the name of his stores to Trader Joe's and stocked them with every variety and brand of California wine that was then being produced. He also began to offer fine foods like bread, crackers, cheese, fruits, and vegetables to complement and encourage wine sales. His planning paid off; customers loved his new upscale supermarket concept and the premium products he chose to stock sold quickly—and they were more profitable to sell.

From the beginning Coulombe realized that finding a new niche in the supermarket business was only the first step to help his small, growing company succeed. He knew that to encourage customers to visit his stores and buy more expensive gourmet products he needed to provide them with excellent customer service. So, he had to find ways to motivate his salespeople to perform at a high level. His approach to organizing was to decentralize authority and empower salespeople to take responsibility for meeting customer needs. Rather than instructing employees to follow strict operating rules and to get the approval of their supervisor before making customer-specific decisions, employees were given autonomy to make their own decisions and provide personalized customer service. Coulombe's approach led employees to feel they "owned" their supermarkets, and he worked to develop a culture based on values and norms about providing excellent customer service and developing personalized relationships with customers, who are often on first-name terms.

Coulombe led by example and created a store environment in which employees were treated as individuals and felt valued as people. For example, the theme behind the design of his stores was to create the feeling of a Hawaiian resort: employees wear loud Hawaiian shirts, store managers are called captains, and the store décor uses lots of wood and contains tiki huts, where employees provide customers with food and drink samples and interact with them. Once again, this helped to create strong values and norms that emphasize personalized customer service.

Finally, Joe Coulombe's approach was strongly influenced by the way he went about controlling salespeople. From the outset he created a policy of promotion from within the company so that the highest-performing salespeople could rise to become store captains and beyond in the organization. And, from the beginning, he recognized the need to treat employees in a fair and equitable way to encourage them to develop the customer-oriented values and norms needed to provide personalized customer service. He decided that full-time employees should earn at least the median household income for their communities, which averaged \$7,000 a year in the 1960s and is \$48,000 today—an astonishingly high amount compared to the pay of employees of regular supermarkets such as Kroger's and Safeway. Moreover, store captains, who are vital in helping create and reinforce Trader Joe's store culture, are rewarded with salaries and bonuses that can exceed \$100,000 a year. And all salespeople know that as the store chain expands they may also be promoted to this level. In sum, Coulombe's

approach to developing the right way to organize his small business created a SOLID FOUNDATION ON which this upscale specialty supermarket has grown and prospered.³²