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## Workforce MANAGEMENT

**Feature: Fostering a Loyal Workforce at Trader Joe's**

### Fostering a Loyal Workforce at Trader Joe's

A look at the corporate culture, compensation practices and management style at the specialty grocery chain. According to this excerpt from a new book about Trader Joe's, "you've got all the ingredients of world-class labor practices that don't go unappreciated by employees or unnoticed by customers."

By **Len Lewis**

**T**rader Joe's has become a multi-billion dollar national chain partly through its ability to find cheap real estate, skip name brands and smartly manage its supply chain.

It's also due to its workforce management practices. Below, excerpts from a new book *Trader Joe's Adventure*, review the [company's management compensation](#), [encouragement of multitasking](#), [screening and wages](#), [careful use of money](#), [fun culture](#), [sense that its people are its brand](#), and [communication style](#).

*"Hi. How are you today?" asks a smiling, Hawaiian shirted stock clerk as I enter the store.*

"Fine. Just looking around," I reply.

"Great. Let me know if you need anything. We've got some great products in," he says, bouncing down the aisle and straightening out the shelves as he goes along.

At the back of the store, a perky, raven-haired woman behind a kiosk that looks like a B-movie version of a beachfront bar in the tropics is sampling a vegetable medley.

"You've got to try this one. I sautéed it with some chicken and the kids loved it," she tells a young mother with a four-year-old squirming in the back of the cart.

"You can really use anything with it. If she doesn't like it, bring it back," she adds spooning samples into little plastic cups for other customers who are starting to appear.

Twenty minutes and three more "Can I help you?" later, I reach the register, where a teenage girl is bagging groceries for an elderly woman and her husband. "Are you going to be all right, or can I get you some help with the cart?" she asks, as the woman shakily maneuvers toward the exit.

She then turns to me. "Hi. How are you today? Did you find everything you need?"

I assure her that I did. "Aren't these great?" she asks, scanning my bag of peanut butter-filled pretzels. As she hands me change from my \$20 bill, she actually looks me in the eye and says sincerely, "Have a nice day!"

Exchanges like these are more the rule than the exception at Trader Joe's, where store employees go out of their way to engage customers in conversation and, in a nice way, tout some of the store's new items. In many respects, this kind of attention is the polar opposite of what consumers have come to expect from conventional supermarkets, where turnover is high, customer service is virtually nonexistent, and employees often spend more time complaining about their jobs than doing them.

Much has been said about the quality and value of Trader Joe's unique array of products, the fun shopping environment with the retro feel of a mom-and-pop store, the company's strong relationships with suppliers, and the creativity and tenacity with which it searches out items from around the world for one of the industry's most distinctive and successful private label programs. Without question, all of these things are an essential part of what makes Trader Joe's such a thriving retailer when much larger chains are struggling to survive.

But there's a saying in retail circles that the last 100 feet are the hardest. Every effort can be made to heighten the efficiency of the supply chain and get products from the manufacturer to the retailer's back door in the most cost-effective way possible. Yet, if in-store execution is shoddy, retailers simply end up shooting themselves in the foot.

A big part of this execution--or the last 100 feet--at Trader Joe's is its employees, people who like what they do, go out of their way to help customers, and even engage in some suggestive selling. They are a major reason for the company's success. After all, few employers--particularly in retailing--can boast of having such high levels of employee loyalty, not to mention extremely low turnover.

### **Compensate workers well**

The core of this allegiance is a wage and benefits package that is typically far more competitive than that of most companies in the supermarket industry. Wages may attract high-quality employees, but wages are not necessarily the reason they remain loyal, as any human resources expert can attest. Employees stay because Trader Joe's has created a culture of success: an environment in which everyone does the same job at one time or another and a place where people's opinions are respected and talents are nurtured.

On first blush, this sounds a bit like the West Coast communes of the 1960s, where sharing everything from work to food drew a generation of young idealists. But at Trader Joe's, it's just good business. Indeed, the retailer, which also prides itself on the opportunities it offers everyone, from young workers putting in just a few hours a month to help pay for college to store managers, has been cited as one of the best places to work by *Fortune* magazine, joining the ranks of such estimable employers as Harley-Davidson, FedEx, Ford Motor Company, and Southwest Airlines.

In a world rocked by layoffs, cutbacks, corporate scandals, and labor unrest--particularly in retailing--Trader Joe's has long adhered to the philosophy that happy employees make for happy customers. Happy customers spend more and visit the store more frequently. This attitude is rare in the retail industry at large, where employees are often seen as expendable.

Because of this philosophy, Trader Joe's is one of a handful of companies responsible for what is seen as a paradigm shift in the retail industry, according to human resources expert Mel Kleiman of Humetrics, an internationally recognized authority on recruiting, selecting, and retaining hourly workers. "They've taken the approach that the employee is number one," Kleiman observes. "They feel that if they treat employees the way they want employees to treat customers, odds are stores will have a better shot at providing a unique shopping experience for people as soon as they walk through the door."

This objective makes Trader Joe's a tough place to land a job, which is also true of companies like Southwest Airlines, Whole Foods Market, and The Container Store, all of which only hire applicants who fit their strict customer service-oriented mold. But Trader Joe's takes it a step beyond the basic

recruitment process. The company firmly believes that formal training and the product knowledge that people gain on the job results in work that's more interesting than what you'll find at your usual supermarket. Interesting work keeps employee retention levels high. It's difficult for someone to give up the fostering environment at Trader Joe's to go somewhere else.

In some ways, the employee philosophy at Trader Joe's is similar to the one espoused by Aldi, its German parent company. In an effort to control labor costs, which are among the biggest expenses on any retailer's profit and loss statement, Aldi and Trader Joe's take a somewhat bare-bones approach to the amount of labor needed in stores at any given time. However, they don't scrimp on pay.

For its management-training program, Aldi makes extensive use of executive recruiters and woos applicants with a generous financial package that includes a starting salary of about \$47,000 annually plus pension benefits. To get the most motivated people into its 12-month training program, the company offers new hires a fully expensed company car-- an Audi A4. This is an attractive perk for recent college graduates, one of the key targets of the chain's recruiting efforts.

Aldi is not one to be frivolous when it comes to labor costs at any level in the company. Luxuries and status symbols are rare, and even top executives may be required to fly coach. The cars are not available to all employees, just some of those in the management training program who are being groomed to become district managers with responsibility for six to eight stores.

Because they will get a car anyway, Aldi provides them with one from the start of their training and also allows unlimited use of the vehicle for private purposes. The chain knows that, for young people starting out, the cost of having a car is sky-high, and having this expense off their backs is just as good as getting more money in their paychecks. It also fosters incredible loyalty among people who might otherwise bounce from job to job seeking a better deal.

### **Encourage multitasking**

The big difference between labor practices at Aldi and Trader Joe's seems to be operational. Both firms expect the best from their people, but Trader Joe's is a bit more informal, counting on and encouraging employees to multitask without regard to job descriptions. As such, it's not unusual for store managers to sweep the floors, stock shelves, and work the registers when the need arises.

This is all part of a collaborative working environment that is valued by employees and transparent to customers. Although a collaborative or informal working environment can look somewhat haphazard to outsiders, it is an extension of Trader Joe's accelerated employee training. As the company itself has said, "The key to our continuing growth and success is our crew. We cannot grow without providing our crew with an environment that allows them the freedom to be themselves so they have the ability to be their best."

The first step in developing the right employee environment at Trader Joe's is the Leadership Development Program. This is made up of separate modules that isolate tasks and experiences needed to oversee stores and the personnel in them. The program is designed to allow people to make their own decisions about store operations, including product mix and in-store displays. This training is particularly important because employee autonomy is so highly valued.

Trader Joe's University focuses on management, leadership, and communications skills. Trainers conduct off-site university classes, each with an average of 15 to 25 students, at every stage of an employee's professional development. But store managers and assistant managers--"captains" and "first mates" in Trader Joe's parlance--are encouraged to mentor and coach "novitiates" (supervisors in training) as well as other full-time and part time associates, referred to as the "crew."

This mentoring is essential, because managers and assistant managers for the company's growing

roster of stores are promoted from within, also an Aldi trait. In fact, most of them started as part-timers, an indication that the training program, combined with other adjunct efforts to take care of the workforce, is effective at attracting and retaining good people.

### **Screen well and set clear rules**

Aldi, whose store managers would never think of addressing another store employee as "dude," seems a bit more intense about screening potential candidates and offering prospective employees more clearly defined roles. This philosophy, according to the chain's United Kingdom Web site, creates a "positive, frictionless working environment." Job descriptions at Aldi are short and precise and are followed faithfully by individual employees. These descriptions are also part of a sophisticated control system in the form of spot checks.

For those who do enter Aldi's 12-month intensive training program, the addition of the car and other benefits brings the total compensation package up to £51,500 or approximately \$62,300.

Sometimes creating clearly defined roles and expectations can give rise to very strict labor policies that apply to both store employees and executives.

One example is rather extreme but is a good indication of what Aldi demands. The chain has a strict no-alcohol policy for employees at work. When a former country manager of Denmark was caught drinking champagne at a store reception, he was fired instantly. "It was an innocent, business related reception where champagne was being offered to other people," says Oliver Heins, an analyst for Planet Retail in London. "It didn't seem to make any difference that he was the one who turned that operation from being unprofitable to profitable within two years."

For both Aldi and Trader Joe's, creating this largely harmonious environment means keeping unions out. This is not too difficult given the generous wage and benefits packages. But in one landmark case, Trader Joe's won an injunction in 1998 against an organization called Progressive Campaigns in California. The organization began soliciting signatures outside a store in Santa Rosa, California, and harassing customers by blocking free access to the stores, according to Trader Joe's attorneys. The injunction established once and for all that California residents didn't have the right to free speech or assembly at a privately owned, freestanding store.

In addition to wages, Trader Joe's also offers respectable job opportunities in an industry that has, with few exceptions, rarely been considered a hot or even a viable career path. Certainly, one reason is that about 65 percent of the overall supermarket industry's workforce is made up of part-time employees. The workforce is heavily skewed to teenagers, for whom stocking shelves, slicing cold cuts, or ringing a register is hardly glamorous nor the stuff from which career paths are made.

However, if money is the prime motivator, Trader Joe's may jump-start more than its share of careers in the food industry and will most likely never be a union shop. The company pays employees an average of \$21 per hour, compared with an average of \$17.90 at union operations. Add to that health insurance and retirement benefits, and you've got all the ingredients of world-class labor practices that don't go unappreciated by employees or unnoticed by customers. Consider last year's four-month strike by grocery clerks in Southern California. When picket lines went up around stores operated by Kroger, Albertsons, and Safeway, customers flocked to Trader Joe's, and sales soared an estimated 30 percent.

Even first-year novitiates or managers in training, can have a very lucrative financial package. According to the latest available figures from the company, the total compensation for first year personnel at this level comes to \$47,429. This includes an average salary of about \$40,150, plus an average bonus of \$950.

As a sweetener, the company contributes about \$6,329 to the employee's retirement fund at this salary

level. Other features of the compensation package at Trader Joe's include medical, dental, and vision insurance; life and accident insurance; and paid time off. Additionally, the company conducts quarterly performance reviews, usually an annual affair at most chains. But what really sets the chain apart is the company-paid retirement plan under which the company contributes 15.4 percent of an employee's annual gross income to a tax-free income retirement account.

Looking at other wage rates, a first mate--an assistant store manager--pulls down an average salary of \$67,930, an average bonus of \$14,000, and a retirement contribution of \$12,617, bringing the total compensation package to \$94,547.

The captain or store manager--a position that, as noted, entails everything from management duties to sweeping up-- has an average base salary of \$79,455. But average bonuses based on performance come to \$35,000, and a retirement contribution of more than \$17,000 at that level brings the entire compensation package to more than \$132,000--among the highest in the entire supermarket industry.

Small wonder that when a Trader Joe's store opened in Los Altos, California, in the fall of 2003, the company received more than 500 applications for just 50 available jobs.

A liberal wage and benefits package may be the optimal way to recruit people, but it doesn't necessarily get them to stay, notes Blake Frank of the University of Dallas's Graduate School of Management. "Trader Joe's is not typical of most retail establishments," Frank says. "A liberal benefits package does give them a competitive edge from a recruiting perspective. People looking for a new job look for money. But pay is not why employees generally remain with an organization."

### **Run a tight ship**

Despite these liberal benefits, Trader Joe's is not about to throw around money carelessly. To control labor costs, overall store payrolls are kept down by having a lower head count in each location per dollar of sales. There are exceptions, however, according to Alex Lintner of The Boston Consulting Group. Lintner explains that at a cash-rich time like Saturday afternoon, when the store is wall-to-wall customers, as many as 18 people may be working in the back room and in the front of the store, compared to a maximum of 10 people at other times. Some industry insiders would argue that labor rates at Trader Joe's are excessive given the state of the industry and the size of its stores.

This forward-thinking chain is buying more than just warm bodies. It pays more because its standards are higher than those of the average grocery store. Rather than seeking the disengaged worker who is simply looking to make an extra buck, so prevalent in retailing these days, Trader Joe's focuses on finding highly motivated people with a talent for customer service. A willingness to relocate is also an advantage, because the company is continually expanding into new markets and still prefers to promote from within.

Most important to the company are employees who share its values, have a passion for food, and can provide a level of customer service that makes every shopping experience fun.

Perhaps the best description of what the company looks for in its captain, novitiates, specialists, and crew comes from the company itself. "Our captains are customer satisfaction experts, ambassadors, food tasters, personnel specialists, merchandisers, problem solvers, and community volunteers, and they know their way around a luau. Upbeat, outgoing personalities blossom in this flexible environment, and a good sense of humor never hurts."

### **Make it fun**

As one recent article on the company noted, the qualifications for employees at Trader Joe's might be more often associated with the *gentil organisateurs*, or GOs, at Club Med than a grocery clerk. (In French, *gentil organisateur* translates to "congenial organizer" or "gracious/friendly host"--like social

directors in charge of making sure that people staying at the facility are taken care of and have a good time.) Supermarket industry observers underscore this point time and again. "I think it's probably fun to work there because they don't take themselves too seriously," says Dan Raftery, a Chicago-based retail consultant and regular Trader Joe's shopper. "It's a very positive environment, not oppressive, stale, or negative."

Contrary to employee attitudes you run across in many conventional supermarkets, everyone at Trader Joe's, from the captain on down, truly appears to enjoy what they do. "They don't seem to feel bad about being there," notes one retail consultant, adding that he's observed the same attitude at Trader Joe's stores across the country and doubts it's a coincidence.

"You get paid well, go to work in a Hawaiian shirt, eat good food, and talk to people. This is all part of that unique culture that the chain has cultivated," says Sandy Skrovan, vice president of Retail Forward, a retail consultant based in Columbus, Ohio.

It's also part of what Neil Stern, vice president of McMillan/Doolittle in Chicago, calls the Trader Joe's gestalt. "It's not only about product but also an attitude and lifestyle that extends to people in the store," Stern says. "This makes them [Trader Joe's workers] markedly different from employees in traditional supermarkets. It's like being part of a club. Personally, the fact I shop there means I'm educated and won't get sucked in by big brands and paying a lot of money for packaging. So I describe myself in very complimentary ways when I tell you I'm a Trader Joe's customer. It's the same thing for people who work there. It's complimentary. It's a cool place to work--fun, informal--and they sell great stuff. Frankly, the labor turmoil in the rest of the industry has worked to the advantage of Trader Joe's."

Stern is alluding to a four-month retail clerks' strike in Southern California in 2004, which boosted business for Trader Joe's, along with the cloud that continues to hang over labor negotiations in other parts of the country.

"Look at places like Whole Foods, Stew Leonard's, and Wegmans," Stern continues. "It's no coincidence that great stores to shop at are also great places to work--and all of them nonunion. You can create a great marketing campaign, a billion-dollar ad campaign with glitzy flyers, but you can't fake store morale. You want to know about Kmart? Walk into a store and talk to employees. Trader Joe's is just the opposite."

### **Your people are your brand**

Clearly, the chain sees its own people as a way to build brand recognition for the store. The attitude within the corporate office is that the people it hires, trains, and promotes are just as important as the low prices and products it carries.

As such, Trader Joe's is known for treating employees with a measure of respect and dignity that is virtually unequalled in the supermarket industry. Everyone from vice presidents to clerks are encouraged to come up with new ideas, all of which are taken very seriously and often acted upon. "In an environment where the hierarchy is leveled and you're appreciated for your contributions --how could you fail?" asks consultant Gretchen Gogesch, who notes that employees personally test a lot of the new products that eventually make it to the shelves. "It creates rabid employee loyalty and, in turn, genuine caring for customers."

While Trader Joe's stores have very clear spending and behavioral guidelines, they have few execution guidelines--meaning the corporate office may tell workers what to do but not how to do it. Basically, the company believes that people--given the opportunity--usually make good decisions about things like signage and merchandising.

But Trader Joe's is not just about the individual. Part of the chain's allure to prospective employees is

the opportunity to be part of a collaborative working environment.

Along these lines, the chain has established a peer network in which managers talk to and work with each other on developing and implementing best practices at work. "They operate six or eight 'mother' stores across the country where they try a lot of new ideas. If an idea works, they have what they call a show-and-tell visit," observes The Boston Consulting Group's Lintner. "They pick up mother store managers and take them to mother stores so everyone can see what's being done." All retail chains have certain "test stores." But, as observers point out, the trick is allowing people in the field to share information on successes and failures. "Everyone talks about teamwork and the team approach to store development," says one retail executive. "Trader Joe's has taken it from lip service to reality."

There is little, if anything, that Trader Joe's doesn't do right when it comes to recruiting and retaining what is generally considered to be one of the retail industry's best staffs. One reason is that virtually everything it does runs counter to conventional industry wisdom.

Most companies typically think that what an individual brings to an organization dictates job performance and how long they stay with an organization. Industry experts don't dispute the importance of job performance on its own. However, says Blake Frank of the University of Dallas, research shows that what an organization does for its employees once they get there has a huge impact on retention and performance. Frank learned this firsthand while co-authoring a recent report from the Coca-Cola Retailing Research Council entitled "New Ideas for Retaining Store Level Employees."

For hourly workers, there are three classes of characteristics related to employee retention: providing directions, equipment and supplies, and immediate supervision. Using either formal classroom training or on-the-job experience, Trader Joe's clearly fills the bill on all three.

Providing directions is simple, but many retailers fail in this area. It simply means that workers need to know what to do to be able to do it. "If employees don't know what to do, they become frustrated. This leads to job dissatisfaction and employee turnover. It's important that a company provide written guidance for a job, but [it must] also focus on the results and not just the task itself," says Frank, adding that Trader Joe's focus on training and the importance of simply treating customers well is one reason for its significantly lower turnover rates.

### **Offer immediate feedback**

This point ties directly into the area of immediate supervision. "This is an important but broad area," says Frank. He emphasizes that it covers such areas as recognizing employees for doing a good job and how supervisors communicate the goals of the organization. For hourly workers, like those at Trader Joe's, immediate feedback from managers and assistant store managers is essential because of the high levels of customer service required. "When supervision falls down, it impacts the whole organization, and there's lots of research showing that when people leave an organization, it is because of their immediate supervisor," Frank observes.

The average retention rate in a Coca-Cola study was 97 days, meaning that 50 percent of new hires left within that time. Moreover, when half of a company's workforce is turning over every 97 days, that turnover gets expensive. In a nonunion environment like Trader Joe's, it costs approximately \$2,286 to replace a cashier. When you factor in the customers who might be lost due to longer waiting time at the checkout and other factors, the cost of replacing an employee jumps to \$4,200. And just because an employee is a part-timer doesn't mean he or she is inexpensive.

Frank and other observers believe that companies like Trader Joe's are doing things that make a difference. For instance, managers help out at the checkout and sweep up when needed, which workers down the chain see. Crew members also get the supervision and feedback they need, which helps to boost morale. More important, actions like this help to create good long-term employees who, like many of

those who start on a part-time basis at Trader Joe's, are looking for a career path and a company that will help them to grow.

Fostering that career path, however, means leveling with prospective employees on the nature of the retail business. Trader Joe's makes it quite clear that there is a downside to being in such a fun and rewarding environment. The company states up front to potential hires that hours can be long and weekend work is common, especially for entry-level positions. But, as David Arnold, a workforce consultant with Pearson Reid London, House, notes, "Some grocers are going out of their way to give people a realistic definition and expectation of the job. Telling people who walk in the door what they need to be successful in that environment helps turnover. It's when you don't tell people what they're getting into that there's a problem."

Another area in which Trader Joe's excels is in showing people what some call the "rainbow" or "light at the end of the tunnel." Demonstrating that there is a career path, or at least opportunities for advancement, helps bring higher-quality people into the organization from the outset. "It's good that [Trader Joe's has] been able to show how people move up in the organization and that it's not necessarily going to take six or seven years of scanning products to get there," Arnold says. "You have to show them they can move up in one or two years, or else you start to lose good people."

A strong upward and downward communication chain underscores the management and organizational style adopted by Trader Joe's. This means fostering a belief that the store group operates as a team and that individual opinions are valued, rather than an environment where people speak out and are either not heard or have their opinions suppressed.

Consumer activist, corporate gadfly, and sometime politician Ralph Nader has often said that large organizations today act like lords and masters and that most employees have been sufficiently desensitized to act like serfs. Whether this is true is up for debate. But employers usually get the employees they deserve. That being the case, Trader Joe's gets some of the best.

*Excerpted from [Trader Joe's Adventure](#), by Len Lewis, Copyright 2005 by Dearborn Trade Publishing.*

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