

TRADER JOE'S AND THE SPECULOOS COOKIE BUTTER JAR¹

The weather was awful. Again. Two weeks raining, non-stop. Phillip (Phil) West, Captain (Manager) at the Trader Joe's store located in the Chelsea district of NYC (on 675, 6th Ave), was staring through his office window with a rather sad look on his face. The music stopped and the voice on WQXR-FM radio brought Phil back to reality by saying *"If you guys look up, all you will see is dark clouds; but do not be depressed, we may just have a passing shower or sprinkle, giving way to increasing amounts of sunshine by afternoon. It'll be breezy. Highs in the lower 50's. Northwest winds increasing to 10-20 miles per hour, with higher gusts to near 30. Chance of rain this morning is 20%. It seems the spring is finally here."*

TRADER JOE'S

The company headquartered in Monrovia, California, was founded in 1958 by Joe Coulombe under the name of Pronto Markets and changed its name to Trader Joe's in 1967, with the opening of the first store in Pasadena. Its adventurer's club atmosphere, cedar walls and staff dressed up in Hawaiian shirts, soon became well known all over the country.

¹ Case published by the Research Division of Instituto Internacional San Telmo, Spain. Prepared by professor Manuel García-Ayuso, for strict use in the classroom and not as an example of correct or incorrect management of a specific situation.

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This case has been written based on information obtained from the public website of the company, except the situation arising between the two protagonists and information on costs, corresponding to a simulation carried out by the author exclusively for educational purposes.

In 1979, the chain was purchased by the Albrecht family, and is now a subsidiary of Aldi Einkauf GmbH & Co. This notwithstanding, Coulombe remained the CEO of the company until 1987, when he was succeeded by John Shields. In the 14 years Shields served as the CEO, Trader Joe's expanded significantly, opening stores along the Pacific Coast as well as on the East Coast and boosted its total revenues.

With Dan T. Bane as the CEO, Trader Joe's became one of the largest and highly ranked supermarket chains in the US. In 2013, the company had over 400 stores in more than 30 states, around 20.000 employees, total revenues well beyond \$12 billion and profits of nearly 360 million.

Trader Joe's sells 80% of its products under its own private labels, at a significant discount to brand-name equivalents, requiring their suppliers not to disclose any information on their business relationship.

Among the most salient features of the company is the extreme attention paid to image and corporate social responsibility. Their marketing efforts have been directed towards making customers aware that their private-label products contain no artificial colors, flavors, preservatives, MSG or transgenic fats, that they are made with non-genetically modified ingredients and, in the case of dairy products, are made from milk from cows not given artificial hormones.

THE SPECULOOS COOKIE BUTTER

Speculoos is a type of short crust biscuit, traditionally baked for consumption around St Nicholas' feast (December 6th) in Belgium, the Netherlands and the north of France.

Speculoos Cookie Butter is just ground up Speculoos cookies mixed with sugar and oil (see Exhibit I). The paste has the same consistency as peanut butter or *nutella*, although it does not contain any kind of nut. All it has instead is crushed Speculoos biscuits (Belgian cookies flavored with cardamom, cinnamon, ginger, nutmeg and white pepper).

The spread was first introduced into the US market in 2011 and soon became an astonishingly successful product. Its demand has grown to such a high level that at some point Trader Joe's even had to limit the number of units per customer to just one.

THE DEAL

In April 2012, soon after the introduction of the Speculoos Cookie Butter by Trader Joe's, Phil was trying to decide whether or not he should purchase around 4.000 units of that butter the youngsters (and not so youngsters) seemed to be going crazy about. He thought it could be a good idea to sell the product between May 1st and September

30th, launching a campaign to promote the combination of both, the plain and the crunchy Speculoos Cookie Butter with vanilla ice cream or, alternatively, to sell crackers on which the spread could be tasted.

Phil was planning to purchase 3.800 units of the Speculoos Cookie (plain and crunchy) Butter 14-ounce jar, at a cost of 3,24 cents, as he had foreseen that his store could sell roughly 25 units per day. In a recent meeting, Dough Wilson, manager of an LA store, told him that some Trader Joe's stores on the west coast had introduced the product at a unit price of \$3,69 and were having a "way good turnover".

In order to ensure visibility of the product and to attract customers, Phil thought it would be wise to order a large wooden display (with an estimated cost of \$120) and place it at the end of the central aisle, close to the cashiers' line.

THE MEETING WITH THE REGIONAL CONTROLLER

Phil thought it was better to have a talk with Bryan Johnson, the regional controller, before making his decision. Therefore, he sent him an email with a brief description of his project (Exhibit 2). Bryan replied a few days later (Exhibit 3).

As soon as he read the response, Phil asked Bryan for a meeting. The morning after they met at Bryan's office. "Hi, Bryan", Phil said, "just got your email and had to rush to talk to you. Man, I thought this Speculoos Cookie Butter was big business, but you seem to believe I will lose money if I sell it in my store, don't you? I just don't seem to be able to understand how on earth your numbers suggest I would incur losses when it is clear in my mind that the Cookie Butter is a good business. Are all the managers who sell the product in their stores a bunch of jerks willing to lose their bonus? To me this is awfully simple. Listen: I buy the jar at \$3.24 and sell it for \$3.69, so I make ¢45 per unit. I need to pay \$120 for my fancy display, so if I sell 25 units per day in 11 weeks I will be making profit with the spread. Piece of cake, don't you think?"

"Well, Phil, I am afraid it is not that simple", Bryan replied. "All I want is to make sure you are aware of all the costs you need to cover with the products sold in your store. Look, you have to pay the rent, insurance, electricity, water, salaries and also cover a load of other costs, such as depreciation, city taxes, and so on. And after that, all the stores must also contribute to cover the costs incurred by the headquarters (what we call overhead costs). I have just provided you with a consistent basis, very scientific and rigorous by the way, to determine the real profit of the Cookie Butter jar."

"Let me clarify my point, Phil. You see, if I am not wrong, your total revenues were \$3.058.445. Since the Cost of Goods Sold (COGS) amounted to \$1.808.680, your gross margin was \$1.249.765. Your operating expenses in 2011 were \$982.900. Therefore, your total contribution was \$266.865. Deducting the \$152.922 overhead costs (5% of total revenues) from that figure, the net profit of your store was \$113.943."