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# E-Briefings

## What if Trader Joe's Ran Hospitals?

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In 2018, *Freakonomics* coauthor Stephen Dubner posed the question: “Should America be run by Trader Joe’s?” He suggested that “the quirky little grocery chain with California roots and German ownership has a lot to teach all of us about choice architecture, efficiency, frugality, collaboration, and team spirit.”<sup>1</sup>

Mention efficiency in the context of a health system and one’s mind immediately jumps to cost savings. For years, people have espoused the benefits of scale to lower supply costs, bolster liquidity, improve access to capital, raise credit ratings, and the like. While all true, those miss the point. Hospitals rarely enter partnerships based on raw efficiency and the ability to cut costs. Instead, the priorities are most often improving the consumer experience,

servicing more of the community, positioning the organization as a community cornerstone, and prioritizing quality—the same values for which Trader Joe’s is known.

When we talk to our investment banking colleagues in other industries, they express surprise that only about a third of our clients select partners with the richest financial offers. Hospital partnerships are unusual in the world of corporate mergers and acquisitions for the prominence of non-financial terms in partnership negotiations. The identity of the buyer, their perceived culture, and the buyer’s proven ability to improve quality and expand local service offerings nearly always trump superior financial offers.

### Trader Joe's: The Successful Exception

With that background, we wanted to explore Dubner’s premise—that an alternative approach and attention to detail can lead organizations to outperform larger, but lumbering, competitors. We particularly appreciate Trader Joe’s for its eccentricities—this folksy, funky culture where each store is unique. Yet, the company has achieved exceptional operational rigor and produced Germany’s richest person, owner Theo Albrecht. Products reflect regional quirks and cuisine preferences. The company’s mission statement, according to its crew handbook, is to deliver service “with a sense of warmth, friendliness, fun, individual pride, and company

### Key Board Takeaways

Trader Joe’s has found great success while eschewing many traditional grocery store practices. Applying their values can also help a hospital stand out as a leader in care delivery.

- **You can’t—and likely shouldn’t—be all things for all people.** Focus on in-demand services and superior customer experience to differentiate your hospital and earn patient loyalty.
- **Be deliberate in creating culture.** Trader Joe’s has a reputation as a top employer, offering above-market compensation, career opportunities, and a non-traditional environment. A positive culture begins and ends with employees.
- **Get creative.** Scale is important, but it should not be the sole objective. Investment in patient and employee initiatives can pay dividends in meaningful ways. Encourage frontline leaders to reimagine workflows and patient interfaces. Be open to new partnerships and new programs.

1 Stephen J. Dubner, “Should America Be Run by...Trader Joe’s?” (podcast), *Freakonomics*, November 28, 2018.



spirit.”<sup>2</sup> Instead of the short-sleeved button down, khakis, and white apron uniform that America’s grocery chains have followed for 100 years, Trader Joe’s has its “crew” wear gaudy Hawaiian shirts and they are free to come to work in shorts.

### *Knowing Customers Better Than They Know Themselves*

Trader Joe’s is contrarian. It does not advertise and is not active on social media. The company does not run sales, there are no coupons or loyalty programs. There’s no self-checkout; the aisles are narrow and parking lots small. With 80 percent of their products under private label, they do not carry the brands and other household supplies that Americans love so dearly and demand of most other grocers. Each store also dedicates space and staff to hand out free samples. This is not a Saturday morning sample or two, but near-ubiquitous assortment of freshly-prepared, ever-rotating Trader Joe’s branded products.

### *Efficient Operations Does Not Always Mean Cost Cutting*

The typical Trader Joe’s stocks approximately 3,000 product SKUs, versus a typical grocery store’s 30,000. On the other hand, Trader Joe’s staffs three to four times the number of employees per shift compared to competitors based on a belief that customer service and shopping experience more than offset that cost. Those extra employees are also all paid above market wages with robust healthcare and retirement benefits, which makes it unsurprising that the chain consistently ranks as one of Forbes top 100 places to work and most admired companies.

At the same time, the chain remains nimble. Management is known for radical experimentation and regularly rotating products based on local demand. Local managers are empowered to make swift operational decisions on site. As a closely held company, Albrecht has demonstrated a willingness to allow for experimentation and patiently wait for results. Where his publicly traded competitors face investor pressure to cut losses and pursue consistent corporate strategies.

### *Outsized Financial Performance*

Besides, or more accurately because of, cult-like allegiance from its customers and a happy, loyal workforce, Trader Joe’s is known for its exceptional performance. The average store footprint is one-third the size of competitors and yet still outperforms competitors in terms of total revenue and margin. Amazon-backed Whole Foods is known for its high prices and similarly loyal customers. Its revenues are strong for the industry, bringing in about \$1,200 per square foot of retail space. Trader Joe’s blows Whole Foods out of the water with \$2,000 per square foot.

### *Applications to the Hospital Industry*

What can the hospital industry learn from a German company whose hipster employees don Hawaiian shirts to hawk off-brand bagels? Quite a lot, actually.

### *Customers Are Key*

As the industry moves ever more rapidly towards population health and treatment at the lowest-cost site of care, consumer choice is evolving. National price transparency initiatives are becoming a reality. Albrecht did not ask his future customers what they wanted. If he had, Trader Joe’s would have aisles of comfort brands like Pepsi and Fritos. Instead, Albrecht identified what customers desired: an exceptional shopping experience and food they liked at an affordable price. Very few shoppers would seek out Hawaiian shirt-wearing staff, but they immediately recognize what those shirts signify: happy employees ready to help.

Hospitals can learn from the Trader Joe’s approach and culture. Whether in their grocery stores or healthcare providers, consumers are increasingly valuing convenience and innovation over brand loyalty. Look for opportunities to simplify consumers’ interactions with the hospital. Invest in patient experience training for all staff, from environmental services to the C-suite. Pay wages that attract and retain employees who provide exceptional service. Be bold in exploring new consumer-centric initiatives. Facilities should be efficient for staff, but in a customer-focused business, that will come second to patient comfort.

### *All Things for All People Is a Race to the Bottom*

Trader Joe’s loses customers because they do not sell Tide laundry detergent and Fruit Loops. There

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As hospital systems consider their identities and how they can best meet the needs of their communities, they should look to industry disruptors like Trader Joe’s for ideas.

<sup>2</sup> Mary Pilon, [“Trader Joe’s Employees Say Virus Response Was Haphazard and Chaotic,”](#) *Bloomberg Business Week*, April 8, 2020.

are potential customers living right next door to a Trader Joe's who drive across town to the big supermarket to buy high margin staples. But Trader Joe's makes up for that revenue by staying within the lines it drew for itself and executing perfectly. Being able to provide a service and make a positive margin does not necessarily mean that a facility should provide the service. The organization should ask itself a range of questions when deciding which services to add or forgo. These include very basic questions, like is the quality provided here at least as good or better than what patients can get across town? If not, invest to make it better, possibly no longer making it profitable, or cut the service outright. This can be for high end services where a community hospital can't attract enough volume to meet quality thresholds, but it can also be for big medical centers where patients may find worse outcomes for low acuity pneumonia care than they can get at

a community health center. Providing care close to home is a worthy goal, but if that care is lower quality, higher cost, or at the expense of the patient experience, organizations should reevaluate their priorities.

### *Culture Beats Scale*

Standalone hospitals that seek the benefits of scale and care coordination have options in choosing system partners. Identifying the best partner and optimal structure requires a carefully designed process. Basing the choice solely on scale, relative cost savings or near-term financial investment often leads to disappointment. While these are all factors, organizations should focus on finding partners that share their vision for patient care. Like Trader Joe's, that might mean investing in above-market nursing salaries or adding physicians to eliminate wait times. The process needs to focus on revealing the partner's identity as a

system, not whether they have the most scale, highest financial offer, best payer contracts, or even the most highly-regarded reputation. The processes that Juniper Advisory designs for our clients take organizations right to the sample counter to experience the partner's culture firsthand.

### *Final Thoughts*

Trader Joe's has disrupted the historically conservative grocery business that has trended towards greater and greater homogeneity. As hospital systems consider their identities and how they can best meet the needs of their communities, they should look to industry disruptors like Trader Joe's for ideas. While scale brings a variety of clinical and financial benefits, mission, vision, and culture are ultimately more important in driving the results that matter most—a happy and healthy community.

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