

American Way:
Stretching A Buck
Karen M. Kroll

With soaring revenues and more expansion on the horizon, dollar stores will continue to ring up profits.

If it seems like you've been seeing more dollar stores lately, there's a reason. These treasure-hunters' havens are popping up everywhere. As of last August, the four larger chains, 99¢ Only Stores, Dollar General, Dollar Tree Stores, and Family Dollar, had about 15,000 stores between them. That's nearly double the 7,900 they operated about five years ago. Revenue has shot up, as well, although the pace of growth slowed during 2004. During the five years ending in fiscal 2003, total sales for the group of four jumped 83 percent, to about \$15.3 billion.

In fact, opening new stores has become business as usual for these retailers. During their most recent fiscal years, Dollar General and Family Dollar cut the ribbons on more than 700 and 500 stores, respectively. The stores, which range in size from 8,000 to about 25,000 square feet and usually are tucked into strip malls, are stocked with everything from food to household cleaners to sunglasses, greeting cards, and toys, among other items. Of course, not all sell every item at a buck. Dollar General and Family Dollar, for instance, stock items priced at more than one dollar, although the majority go for less than \$10 dollars.

One reason dollar stores have fared so well is shoppers' growing insistence on getting more bang for their buck. "The trend to value retailing, including Wal-Mart and dollar stores, has been significant in the U.S.," says George Whalin, President and CEO of Retail Management Consultants, based in San Marcos, California.

In fact, consumers at all income levels are heading to dollar stores. Nearly half of U.S. households with annual incomes above \$70,000 patronized dollar stores in 2003, reports research firm AC Nielsen U.S. "The penetration among upper-income households is a wow," says Candace Corlett, principal with WSL Strategic Retail.

At the same time, the teams behind the dollar stores take seriously their mission of helping lower-income consumers get more for their money. "The bulk of our customers are low-income to lower-middle income families who need to stretch their disposable income," says George Mahoney, executive vice president with Charlotte, North Carolina-based Family Dollar. "We meet that need." As a result, lower income consumers are the most frequent shoppers. More than three-quarters of households with income levels of less than \$20,000 visited dollar stores in 2003, making an average of 18 trips per year.

Even though consumers search for bargains, they don't want to feel like they're shopping a garage sale. Today's dollar stores are cleaner, brighter and better-organized than those of a few years ago. "They're dressing them up a bit, but not so much that you feel that it's not the lowest price in town," says Corlett.

The stores also are stocking more big-name brands, such as Hershey candy bars, Tide detergent and Pepsi-Cola soda. In fact, national brands now make up about 30 percent of the inventory at many dollar stores. And it's this growing presence of national brands that gives the stores credibility.

Greeting cards, typically priced at fifty cents apiece, are another big draw. "The price point resonates with the consumer," says Adam Bergman, spokesperson with Dollar Tree, Chesapeake, Virginia. Gift bags and wrapping paper also are popular. Convenience is another attribute that resonates with dollar store shoppers. Customers can park near the door, pick up a few items, and be on their way in thirty minutes.

Because overhead is low – the chains do little advertising, and the stores are low-frill operations – dollar stores thrive in smaller markets. Dollar Tree, for instance, looks for a population of 20,000 within five miles of a potential location, says Bergman. That opens up many rural areas. At the same time, however, the stores also succeed in crowded urban areas. About two-thirds of the Family Dollar stores that opened in 2004 were in urban areas; that compares with one-third of Family Dollar stores overall, says Mahoney.

To build on their current success, the dollar store chains are continually updating their stores and supply-chain infrastructures. "They operate like robots," says Whalin. "Merchandise comes in one end and goes right out the other." For instance, Family Dollar's paperless supply chain systems, which electronically routes orders from the stores to the company's eight distribution centers, means that merchandise is on store shelves in just under a week after it's ordered. Dollar General is adding coolers so that it can offer perishable food items at its stores. Already, 90 percent of its locations have been "cooled." And, while shoppers previously had to pay with either cash or checks, many chains now take debit cards.

The larger chains have been capturing much of the attention, but several independent dollar store operators have been succeeding, as well. Their strategy differs a bit from the big guys, however. Chris Terranova, chief operating officer with Dollar Zone, a two-store chain based in Longmont, Colorado, says his firm's tag line is "You'd be surprised by what's inside." Terranova seeks out overstocks and discontinued items that aren't typically found in dollar stores. Among the bargains he's snared are one-pound packets of premium coffee, Mylar balloons, and scented candles.

This is a tactic independent store owners may be able to use more effectively than their larger competitors. "If you have 7,000 stores like Dollar General, it's harder to deal with close-outs and over-runs," says Kevin Regan, senior managing director with FTI Consulting in Saddle Brook, NJ.

While the dollar stores' future looks robust, challenges lie ahead. For starters, "their success is attracting more competition," says David Yamamoto, retail analyst with WR Hambrecht + Co, San Francisco. A number of discount and grocery chains are setting aside sections of their stores for dollar-priced merchandise.

Dollar stores' management teams are tasked with growing sales at existing stores, as many of the chains reported flatter sales during 2004 than in previous years. Although all retailers face this challenge, the job can be more difficult for dollar stores, given that their average sales receipt totals less than \$10. To boost sales, the chains will have to drive substantial increases in the number of times people shop the stores, says Todd Hale, vice president of consumer insights with AC Nielsen. That's one reason they're offering more consumables, such as household cleaners and paper products that customers need to regularly replenish.

The larger question, of course, is whether consumers' current interest in dollar stores is an enduring shift in shopping habits, or a fad. Most industry observers say it's a shift. "We've been taught the notion of value shopping, and it's here to stay," says Hale.

What's more, dollar stores still have a way to go before they've covered the U.S. market. Regan of FTI Consulting estimates that the total market size could be \$40 to \$50 billion – or more than double the \$15 billion combined revenue of the big four dollar store chains. "It's certainly not saturated," says Regan.

Clearly, selling goods for a dollar can produce top-dollar results.

Sidebar: Getting What You Pay For:

Caveat emptor, from the Latin phrase meaning let the buyer beware, applies in all purchases, of course. When it comes to shopping at dollar stores, should this warning carry even more weight?

A recent trip to a dollar store revealed both name-brand products at reasonable prices, as well as some great bargains. Among the name brands were Bic pens, Pringles potato chips, Bounty paper towels and Alpo dog food. "If it's name brand, it's consistent with the brand quality you would find elsewhere," says Todd Hale, senior vice president, consumer insights with AC Nielsen U.S., Las Vegas.

Other products, such as gift bags and boxes, kids' scissors, plastic hangers and books on home improvement, while not carrying name brands, were decent quality.

However, consumers should be careful when purchasing deeply discounted electrical products, says Eric Criss, director of public affairs for the U.S. Consumer Products Safety Commission in Washington, D.C. "These products can be extremely dangerous if they do not meet safety standards." Criss recommends looking for some indication, such as the Underwriters Laboratories label, showing that the products meet safety standards.

The U.S. Consumer Products Safety Commission, Washington D.C. tracks recalls by the manufacturer and importer, and not by retailer, says Criss. As a result, nobody at the agency can say that there are a greater number of recalls from dollar stores than from traditional mass merchandisers. "A number of the chain dollar stores are quite safety-conscious, and do have some testing and quality control programs in place," Criss added. Bottom line: If you're searching for a bargain, at a dollar store, the price is always right.