

Good Cents

To stay competitive, dollar stores are investing in own brands that appeal to millennials

By Carolyn Schierhorn



In a seemingly contradictory marketplace increasingly influenced by millennials — where consumers prioritize health and wellness yet regularly indulge and where shoppers willingly pay more for premium items but still look for bargains — dollar store chains are at a crossroads. Traditionally serving lower income and price-conscious middle-class customers, with a strong presence in small towns and urban neighborhoods, these chains fared well during the recession. But in a more robust economy, they've found the need to modernize their images and private brands to better meet the demands and tastes of today's customers.

The two biggest national chains in this sector — Chesapeake, Va.-based Dollar Tree Inc., which owns both the Dollar Tree and Family Dollar banners, and Goodlettsville, Tenn.-based Dollar General Corp. — face increasing competition from mass merchants

and discount grocery retailers. To thrive in this climate, the dollar store chains are starting to test new concepts and embrace key trends.

Growing focus on wellness

After years of paring down hundreds of items in its private brand lines to enhance SKU productivity, Dollar General is launching new brands and expanding existing lines, in part to appeal to millennials. An article on Fortune.com last year noted that young adult shoppers account for 12 percent of the retailer's customers but 24 percent of its sales.

"We unveiled a new line called Heartland Harvest in early 2016, aimed at providing better-for-you food items, that is really resonating with our millennial customer base," says Mary Winn Pilkington, Dollar General's vice president of investor relations.

Although caring about health and wellness, Dollar General's millennial shoppers also appreciate

the chain's low prices and additional opportunities to save such as with digital coupons, Pilkington adds.

"Understanding the emergence of millennials as core consumers, we continue to provide value throughout our private brand portfolio, from options available through our Comfort Bay and Trueliving brands for home items to DG Baby and DG Kids for millennial parents," she says.

The interest in wellness also crosses all generations, according to Pilkington, who points to the strength of Dollar General's Rexall Naturalist brand, which includes supplements and minerals.

Dollar General has also reinforced its beauty-related brands, helping cash-strapped consumers gain access to quality products at affordable prices, Pilkington stresses.

"We recently expanded our private brand offerings in our health and beauty care lines, including DG Body, DG Beauty, DG Health and Rexall, to further deliver value to our customers," Pilkington says. "These offerings, coupled with a satisfaction guarantee, give our customers an opportunity to purchase items or categories they may not otherwise purchase."

Dollar Tree Inc., in turn, has indicated that it might concentrate more of its private brand SKUs on healthful items with the hiring of Duncan MacNaughton as president and chief operating officer of Family Dollar. Besides being a former chief merchandising and marketing officer for Walmart, MacNaughton previously headed Supervalu's Health and Wellness Division.

"Mr. MacNaughton's previous category focus could come in handy as health and wellness is a universal focus in retail these days," says Carol Spieckerman, founder of Spieckerman Retail in Bentonville, Ark.

Family Dollar's current store brand lineup includes Family Gourmet (food products such as frozen potato puffs and pizza rolls), Family Chef (kitchen utensils, storage containers and more), Family Dollar (various household products) and Kidgits (baby diapers, wipes and lotion).

The Dollar Tree banner, meanwhile, has dozens of private brands such as Home Collection (pot holders, kitchen towels, etc.), Garden Collection (gardening supplies) and The Home Store (cleaning supplies).

Dollar for dollar

Despite everything being priced at \$1, Dollar Tree stores are often found in fairly affluent communities and attract a higher-income demographic than Family Dollar and Dollar General stores do, says Thomas Vierhile, innovation insights director of Fairport, N.Y.-based GlobalData.

The Dollar Tree banner seems to be pursuing "the suburban consumer who is bored and is looking at shopping as entertainment versus the Dollar

General and Family Dollar consumer, who is looking for a way to stretch either their paycheck or their public assistance," he suggests.

Many people shop at Dollar Tree to save money on party supplies and kitschy seasonal items, for example, so that they have more discretionary income for desired luxuries.

Family Dollar and Dollar General, moreover, have a lower-income customer base than Walmart, according to a study conducted by Kantar Retail a few years ago. Nearly 40 percent of Family Dollar's customers and roughly 35 percent of Dollar General's



The Dollar Tree banner has dozens of private brands, from household cleaning and paper goods to personal care lines.

Top 10 priorities for dollar stores

To prosper in a highly competitive market, dollar store chains must embrace the following strategies and goals, say retailing experts:

- 1 Increase same-store sales.
- 2 Develop own brands that resonate with millennials.
- 3 Focus more on better-for-you food items.
- 4 Use social media to engage with younger consumers.
- 5 Improve in-store ambiance to lure image-conscious younger shoppers.
- 6 Align stores with social causes specific to the local area or region.
- 7 With the potential risk of new tariffs on imported goods under the Trump administration, explore alternative sourcing possibilities.
- 8 Talk to existing customers, as well as employees, in a number of stores to find out what is working, what isn't, and what should be done.
- 9 Keep abreast of research on consumer behavior, and conduct own market research in key communities.
- 10 Based on these findings, test new concepts in a sampling of stores and roll out the most promising ones chainwide.

Cover Story

Debuting in 2016, Dollar General's Heartland Harvest line offers better-for-you products, including snack foods.

had household incomes of less than \$25,000 a year compared to 27 percent of Walmart shoppers.

A recent study by Kantar Retail shows leading discount chains, including Dollar General, Family Dollar, Walmart, Aldi and Save-A-Lot, competing fiercely on price.

Dollar General and Walmart tied for the least expensive overall basket at \$27 each. Family Dollar has the lowest health and beauty aid sub-basket at \$5

but the most expensive edible sub-basket at \$16.81 (54 percent higher than the Save-A-Lot basket).

"Private label products had a significant impact on overall basket pricing, with private label items comprising an average of two-thirds of any retailer's basket," states a summary of the study. "Family Dollar was the lowest at 52 percent, while Aldi was the highest at 96 percent."

A key advantage of dollar store chains, especially Dollar General, is their small store footprint, which enables them to be situated in rural towns and urban strip malls, Vierhile says. The 7,300-square-foot Dollar General store may be the only place in town to buy food and household goods.

Dollar General is also experimenting with an even smaller convenience-store format in two cities, Nashville, Tenn., and Raleigh, N.C. The 3,400-square-foot DGX concept stores feature grab-and-go sandwiches, fresh coffee, a soda fountain and a more contemporary design to entice young adult city dwellers.

The concept stores carry "a carefully assorted selection of private brand items tailored to the targeted demographics the stores serve," Pilkington notes. "Items include products from a focused



Cover Story

The leading dollar store chains need to address declining growth in enterprise same-store sales, emphasizes GlobalData's Tom Vierhile.



selection of consumable food and grocery brands, including Heartland Harvest and Clover Valley, paper products from DG Home and Smart & Simple, and an expanded health and beauty section with products from Rexall and DG Health.”

To Spieckerman, the concept sounds promising. “DGX is a more modern take on the traditional small-format general store, one that veers into convenience store territory,” she explains. “The DGX concept may be more millennial-friendly and allow Dollar General to reach out to a new generation of shoppers.

“If nothing else, it will be a great learning lab.”

Squaring off

With \$20.7 billion in net sales in fiscal 2016, an increase of 33.7 percent over fiscal 2015, Dollar Tree Inc. operates 14,334 stores across 48 states and five Canadian provinces. Dollar General, which netted \$22 billion in sales during that period — an increase of 7.9 percent over fiscal 2015 — operates 13,320 stores in 46 states.

Both chains are expanding rapidly. Dollar Tree, which beat out Dollar General to acquire Family Dollar in mid-2015, added a net new 483 stores over the past

year, Vierhile notes. Dollar General grew even faster, opening 900 new stores and remodeling or relocating 906 stores, according to the chain’s fiscal 2016 financial results. (At press time, Dollar General revealed that it is acquiring the 323-store Dollar Express chain.)

But Dollar General’s same-store growth increased only 0.9 percent in fiscal 2016 over the previous year, down from 2.8 percent in fiscal 2015 and 4.9 percent in 2014, according to the company’s financial reports. Dollar Tree’s enterprise same-store growth has also declined over the past two years, from a 4.3 percent increase in 2014 to a 1.8 percent increase in 2016.

A strong fourth quarter in fiscal 2016, however, could bode well for Dollar Tree. Struggling before and right after its acquisition, Family Dollar saw earnings rise by 40.5 percent in the fourth quarter, and the banner posted a 0.2 percent comp gain instead of a loss in the period, reported the company on Feb. 25.

“Our in-stocks, what our customer sees on the shelf, are certainly better than where we started 18 months ago,” said Dollar Tree CEO Bob Sasser during a conference call to discuss the financial results. “And our efforts to catch up on some of the deferred maintenance and cleaning and the basics that we need to run a full, clean, recovered store are in place.”

Nevertheless, the market is only going to get more competitive, with Aldi planning to more than triple its U.S. store count by next year, from 650 to 2,000, Vierhile says. “Aldi has quietly been in expansion mode,” he observes. Lidl, meanwhile, is planning to open its first U.S. stores this summer, earlier than expected.

“It’s going to be a free-for-all,” Vierhile predicts.

“Dollar stores have a lot to be concerned about as Aldi, and now Lidl, get serious about the U.S. market,” echoes Spieckerman. “Aldi’s continued ramp-up of its organic offerings and Lidl’s testing of click-and-collect (in Germany with potential to migrate to the U.S.) should be of particular concern.”

The proverbial elephant in the room is uncertainty over tariffs that could be imposed under President Donald Trump’s administration. A potential trade war could greatly harm the dollar store sector as “these stores tend to be heavily reliant on sourcing

product from other countries,” Vierhile notes. “They tend to be less reliant on local product. So dollar stores may have more exposure than a regular supermarket chain would have.”

In such an environment, dollar store chains need to be especially creative and relentless in their pursuit of market share and younger consumers. **SB**

The Family Dollar banner includes several private brands such as Family Gourmet for food and Family Dollar for household products.

