

# Dollar general analysis

Business



Re: Competitive strategy Confidential Over the last several years Dollar General has seen great success with the strategies currently in place. With potential changes in the economy and some situations presently in the company Dollar General must plan for the future. This memo was put together to identify our strengths and weakness, analysis the external factors of the company, and find options for the future. The options of where to invest our time and effort are; Geographic expansion within the U. S, Improve Merchandising Productivity, and Expand into Services.

The recommendation chosen for the Dollar General was to pull back slightly on the current plan of expanding through building new stores. Instead, a recommendation for the company would be focusing on the current stores and concentrating on the customer's image of Dollar General. With this memo you will be able to see a summary of what is going on in the company and should be able to solve the problem of where to invest Dollar Generals time, energy, and money. “ Ironically, small-box retailers like Dollar General owe their growth to the success of our big-box rivals. The dominance of big-box retail fuels the demand for a convenient alternative. -David Perdue, Chairman and CEO, Dollar General Introduction The quote above can be seen as a paraphrase of the backbone of your company.

Dollar General has is gone into the very competitive and ruthless market of retail and carved out a very attractive niche. Your strong efforts over the past decade have given this company a great reputation. Dollar General has become the pioneers of the dollar store industry as a result of their innovative ideas and well executed plans. By combining the “ Knick Knack” items of the old stores with highly consumable items of today's mass retail

stores, the company has transformed the image of dollar stores. Dollar General is currently ranked sixth among the top mass merchandisers in the U. S.

and ranks fourth in top discount stores. The problem they face as a company is where they should go next. We want to figure out where the best place is to invest Dollar General's money, time, and energy to take this company to the next level. The following is an analytical breakdown of the company, options of what the company could potential set their eyes on in the future, followed by recommendations on how to complete these options. Internal Analysis Strengths Over the last several years the company has seen a steady increase of its success. From a financial point of view the total sales have increased from \$6.

1B in 2002 to \$9. 169B in 2006. Within these years the average total sales growth was 9%. During this period they were one of only three companies to have outperformed Wal-Mart in both sales and profit growth. Also from 2002 to 2006 the number of stores increased from 6113 to 8260, and they have now have spread their operations to 35 different states.

Within these states the stores have been strategically located in areas with similar demographics that will be drawn to the marked down prices.

Statistics show that 41% of our customers have a yearly income of \$30, 000 or less, and an estimated 24% have a yearly income of less than \$20, 000.

Due the size of the stores and staff they are able to go into the smaller communities and produce good revenue. Dollar General has the ability to go into communities with a population of 20, 000 or less whereas Wal-Mart

wouldn't want to touch any area with a population of 50, 000 or less. Dollar General is often the only retailer in rural communities, and if there isn't one, they usually have a request for one from a customer.

Dollar General stores are also located in specific areas not only for convenience, but to also intercept traffic from the bigger retail stores like Wal-Mart and Target. Instead of traveling 30-40 miles to Wal-Mart, customers can drive a much shorter distant of an average 5 miles to get the same product at Dollar General. This enables the customers to make trips for necessity items at any time rather having to plan trips and waste gas to the much farther mass retailers. Another strength of Dollar General is rooted down in our mission statement. To serve others: to provide customers a better life, shareholders a chance for a superior return, and employees respect and opportunity” The respect and care Dollar General gives to the customers and employees comes back to benefit them in their revenue. Dollar General gives the customer a cheap reliable product and distributes it through stores that are local and convenient; convenience and price is where they win.

At Dollar General they research and battle daily to provide the cheapest prices in the business at our stores. Not only are the prices cheap, but they are made easy for the customers when shopping. Customers can find the prices of all the products in even increments. This makes it easy for the customers when adding up totals and figuring out taxes. Another convenient aspect of our stores is the size.

On average a Dollar General store will be about 6, 900 square feet. This allows the customer to get in and out of the store as quickly possible and get on with their day. In fact the average shopper at Dollar General will have completed their shopping, paid, and out the store within 10-20 minutes. This can be compared to a customer going into Wal-Mart shopping for the same goods would spend around 55 minutes in the store. Our last strength would be the products.

Dollar General is designed to be a cheap convenient way to get the products that fulfill a person's daily needs. They focus their inventory on the fastest turning SKU's in the top categories. To their most recent stores they have added coolers. This raised store traffic and also enabled them to carry the necessary items like milk, eggs, and meat to become an EBT-qualified retailer. Dollar General became the first extreme-value retailer to accept EBT across nearly all of its stores in 2005.

Weakness's With their strengths comes their weakness just like any other company. At Dollar General they are fortunate to have kept their weaknesses to a minimum. However, there are still some issues that are not only causing them problems now, but may also have significant affects long-term. One of these problems would be misplacing some of their stores in low potential areas. If the store is located an area that will not produce business it will have to be closed costing the company money. In 2006 " Project Alpha" took shape and over 200 stores were closed or relocated putting a major hit on the net income that was estimated at about \$212 million dollars.

Another weakness of Dollar General is the staff in the stores. Dollar General's problem has nothing to do with the quality of their employees, but instead the number of people who run a store that is averaging a million dollars in profit per year. Currently, a typical store will have one store manager, two assistant managers, and two or three sales clerks. On a slow day this would be an alright staff but on truck delivery days they face challenges and it becomes very unorganized in stores. The management faces other problems on delivery days with their very small backrooms.

These rooms give the store very little space to store extra products. Their significant old inventory turnover is causing them some problems as well. Dollar General faces another weakness with its recently low same-store sales growth. Same-store sales growth hit a low of 2.0% in 2005 after being around 8% in the late 90's.

This could be directly related to their problems with operations and management within their stores, or a problem with their product mix within the store. Either way they have hit a bump in the road and they are not progressing the way the company should. External Analysis Industry Analysis The discount retail industry is a very competitive industry that is constantly changing. The unique thing about the discount retail business is the different sub categories it can be broken down into. Dollar General is considered a small-box extreme value retailer who competes directly with companies like Family Dollar and Fred's.

The leaders of the discount retail are companies like Wal-Mart and Target. Wal-Mart and Target are also members of the extreme value retailer and are

the main reason why smaller companies like Dollar General have had to carve out a niche for themselves. In extreme-value retail there is a constant battle for producing the cheapest inventory, and due to this companies need to bring something else to the table to increase sales. The difference is while larger companies focus on large amount of cheap goods Dollar General focuses on convenience and price. One of the hardest things about the discount retail business is that you are not only competing directly with other discount companies but you are also competing indirectly with other retail stores. To make matters worse a majority of the business is out of the companies hands.

These companies are directly affected by the well being of their customers. The Consumer Confidence Index and the Bureau of Economic Analysis are two sources that are consistently used by retail companies to see what is going on with the consumer population. An advantage for the discount retail industry is the rise in profit when times are bad in the economy. There are two main drivers of why this happens. The first is the bargain-based mentality of the consumers. Shoppers will buy low number of expensive products and increase the amount of bargain shopping.

The second is the rising percentage of U. S. households in the lower-income bracket and/or on fixed incomes. When forecasting it is safe to save that we are on the verge of a serious economic plunge. With this decrease in the economy there will be an increased demand for discount retail stores in the U.

S Competitor Analysis Dollar General competes directly with companies like Family Dollar and Freds. Currently they are ranked first in our small-box extreme-value industry. In 2006 they had 2.9B more profit than our next competitor and 1988 more stores. Family Dollar, like other small-box extreme-value retailers are trying to sell the same small discount retail store to the public.

What puts them ahead is their low budgeting theory and constant fight for the best prices. Indirectly Dollar General also competes with all the other retailers and discount retailers in the nation. Other discount retailers include Wal-Mart, Target, and Kmart. Porters Five Forces Threat of New Entrants One trend that started over a decade ago has been a decreasing number of independent retailers. This is evident when walking through an mall and seeing that a majority of the stores are chain retailers. While the barriers to start up a store are not impossible to overcome, the ability to establish favorable supply contracts, leases and be competitive is becoming virtually impossible.

Their vertical structure and centralized buying gives chain stores a competitive advantage over independent retailers. Power of Suppliers Historically, retailers have tried to exploit relationships with suppliers. There are many cases of big name retailers upgrading their standards of products and putting pressure on suppliers. In the retail business, it is mostly the supplier looking to land the contract with the retailer. As a result of this the supplies of the retail industry hold little to no power. Power of Buyers Individually, customers have very little bargaining power with retail stores.



As a customer you are not going to be able to go into a Dollar General and bargain with the sales clerk about the price of laundry detergent. However, as a whole, customers coming together and demanding high-quality products at bargain prices it helps keep retailers honest. Availability of Substitutes The tendency in retail is not to specialize in one good or service, but to deal in a wide range of products and services. This means that what one store offers you will likely find at another store. Retailers offering products that are unique have a distinct or absolute advantage over their competitors. Competitive Rivalry Retailers always face stiff competition.

The slow market growth for the retail market means that firms must fight each other for market share. More recently, they have tried to reduce the cutthroat pricing competition by offering frequent flier points, memberships and other special services to try and gain the customer's loyalty.

Options/Opportunities Geographic expansion within the U. S. Over the last several years the expansion engine of choice of Dollar General has been expanding within the U. S.

with stores openings. This plan was great for several years sending sales sky rocking and kept Wall Street happy. However, the problem with this was seen in 2006. Prior to " Project Alpha" we realized that we were starting to have a problem. We discovered that our excessive expansion through opening new stores was landing some new Dollar General's in low potential areas.

This situation is a perfect example of how expansion through opening new stores may come back to bite us if we continue in the long run. Instead of this

we could stick to post “ Project Alpha” plan of being more strategic. We would revive the image of Dollar General by pulling the reins back on the company and fixing problems within. Improve Merchandising Productivity Keeping the thought of “ strategic not opportunistic” in our heads as another option for Dollar General is focusing their time and efforts into making sure we have the right products in our stores. When looking at our recent same-store sales growth data we can see that there is some sort of problem going on in our stores. A great option to examine if we have the right products in the store is to simply ask our customers.

Simple surveys or extracting data from our cash registers will give us the information we are looking for. The pet section in our stores is a great example of this. Several years ago pet products were not in our stores and now they produce significant revenue. We would invest our time and money into putting the products in our stores that produce the greatest sales. This would fix problems of storage space, inventory turnover, and our dilemma with selecting non-core items versus highly consumable items.

Expand into Services Recently our senior management at Dollar General has come up with the option of expanding into services like cash checking and wire transfer. These options would open new opportunities for Dollar General. In 2004 nearly one third of the U. S. population 15 and older did not have a bank account.

The added service would give customers a new reason to come into the store. Not only would Dollar General be a convenient place to shop, but it would also be a convenient place to get money. The major drawback would

be the pressure this would put on the already busy staff. The worst case scenario would be someone trying to do a wire transfer on a truck delivery day. The company may not be able to put that amount of pressure on the staff, or may have to add another person to the stores.

Recommendations After researching the company and the options they have, I believe the best bet for Dollar General is to pull back on the business and really focus on the image of the company. To take the company to the next level I propose that Dollar General pull back on expansion through opening new stores and find out what is the right product mix. To accomplish this I would first start by continuing “ Project Alpha. ” Dollar General needs to find the stores that they mistakenly put in low potential areas, relocate and continue to place stores in strategic rural areas and in paths of mass retailers. Keep in mind that the strongest attraction to the customer that Dollar General provides is its convenience.

Along with this, continuing to really focus on the stores that are successful would be beneficial. They need to find out what is going on in these stores and to the buildings. To solve the product mix problem we need to look at our customers’ needs. Surveys need to be administered to examine what customers want from their discount stores. Research should be done to double check that there aren’t products missing. With these recommendations Dollar General will start to really build an image for themselves.

Spreading too fast and not having a good word of mouth reputation will only hurt the company. Anytime a new company moves into the area people are

weary of changing their habits and may continue to drive farther for the mass retailers. To prevent this Dollar General will need to build a great reputation and customers will be begging for the company to put a store near them. Endnotes Shih, Kaufman, Mckillican, Willy, Stephan, Rebecca. “Dollar General (A).

” Global Business Policies Course Packet. Philadelphia : Temple University, 2009. “ The Industry Handbook: The Retailing Industry. ” n. pag.

Web. 5 Nov 2010. [http://www.investopedia.](http://www.investopedia.com)

com