

# [Dollar general vs. wal-mart](https://assignbuster.com/dollar-general-vs-wal-mart/)

Executive Summary With only 30% of its sales coming from dollar items, Dollar General is competing on a larger scale with more known product brands. Educating the consumer in order to change their perception of dollar stores will increase sales and generate larger average dollars spent by a customer. Increasing advertising about Dollar General’s brand-named products will help educate consumers and change their perceptions.

Datamonitor reported consumer’s worry that Wal-Mart threatens local businesses by under cutting prices and making them unable to compete. Dollar General can capitalize on this thought and put consumer’s worries at ease by partnering with local farmers and distributing local produce. This will increase customer loyalty while eliminating that negative perception (datamonitor). Situation Analysis Dollar General Situation Analysis Market Demographics Median Household Income – Less than $75, 000 Trade Area Population – At least 4, 500 Dollar General targets customers in the low, medium, and fixed income segments.

Dollar Generals’ core base of customers has an annual income of $30, 000 or less. The company prefers to operate its stores in small towns rather than large cities in an attempt to draw customers in from the surrounding area based on the convenience and location of its stores. Households in rural areas account for 27% of dollar store sales (Hale, 2002). Examples of other key demographics for Dollar General are lower educated females, African-American households, large and blue-collar households, and low-income (Chart 3). The dollar store is over-developed in rural areas; however, recently dollar stores have experienced a significant increase in household penetration across all income groups with higher income shoppers being the fastest growing consumer segment (Berry, 2007). Appealing to the moderate and upper-income shoppers is the treasure hunt atmosphere of the stores.

Dollar stores have been able to “ expand their customer base to the higher-income consumers who enjoy the convenience of their locations and the thrill of the hunt” (O’Donnell, 2007). Another key demographic are consumers in the 55 or older age group who account for a hird of dollar store sales (DSN Retailing Today, 2004). These charts and figures may not accurately portray the Hispanic market due to the fact that the surveys are written in English. MONTHLY SHOPPERS OF THE VALUE RETAILING SEGMENT: Retail Forward’s ShopperScape survey of 4, 000 households divided respondents into groups that said they shopped monthly at either dollar stores, one-price stores or closeout stores. Dollar stores included Family Dollar, Dollar General and Fred’s; one-price stores included 99 Cents Only and Dollar Tree; and closeout stores included Big Lots and Tuesday Morning.

Dollar StoresOne-Price StoresCloseout Stores Gender: Male13%11%14% Female878986 Age: 18-24665 25-34161915 35-44232421 45-54222223 55-64151417 65+181620 Household Income: <$20, 00028%24%21% $20, 000 – $29, 999211817 $30, 000 – $39, 999131314 $40, 000 – $49, 999101111 $50, 000 – $74, 999151717 $75, 000 – $99, 9997910 $100, 000+6911 Children under 19 in the household: Yes37%40%34% No636066 Geography: Large Market/MSA Pop > 2 million28%45%42% MSA \* Pop of 500, 000 – 2 million252327 Non-MSA\*/small mkts under 500, 000 pop473232 \* Metropolitan Statistic AreaEthnicity: White Non-Hispanic84%81%85% African American12139 Latino233 Product Offering Product categories offered by Dollar General include: apparel, laundry care, home cleaning, paper products, healthcare, beauty care, food, candy, snacks, pet care, trash bags & storage, baby care, hardware & automotive, house wares & home decor, toys & games, electronics, DVDs, CDs, & books and seasonal. Brands carried include: Clorox, Market Needs Increase average customer spending and increase number of times a shopper frequents the store. Market TrendsAs a result of difficult financial times, people are beginning to re-evaluate their shopping trips, basket selections, and store destinations. These trends benefit dollar stores and Dollar General.

Dollar General offers low-price and convenience that has become very appealing to the hectic lifestyle and value-conscious consumer. As food prices increase, according to a CitiGroup Global Markets Survey, “ 24% of consumer respondents said they’d shop for groceries at a cheaper store if food prices continue to rise, and 12% had already begun to do so within the past year” (Heller, 2008). Shopping habits have shifted from department stores to discount stores and mass merchandisers. Dollar stores are always looking for new ways to increase the dollar basket size of the average shopping trip and the number of shopping trips made by dollar store shoppers. The two major trends present within the dollar store industry continue to be the increasing incorporation of food and beverages into the merchandise mix and the growth of upper-income shoppers and it is predicted by 2011 that non-grocery retailers (dollar stores)will have gained 20% of the market share away from traditional grocery retailers(Berry, 2007).

Market Growth The largest growth factor for dollar stores is food and beverage channels. Prior to adding food to their stores, the average transaction size was $9. 50. By adding food to their product mix, they have been able to double it. SWOT Analysis Strengths •Strong market position •Strong distribution network •Niche market positioningWeaknesses •Weak operating performance •Low revenue per employee •Low inventory turnover Opportunities •New stores •Growth in dollar store industry •Demographic trendsThreats •Increasing competition •Increase in energy prices •Increasing retail rentals Wal-Mart Situation AnalysisHolding command of over 20% of the supermarket industry, Wal-Mart is the largest supermarket operator in the U. S.

, with FY 08 sales of about $138 billion within super-market related categories (grocery, health and beauty aids, and health and wellness). Having over 138 million people walk into a Wal-Mart store every week, the company is able to dominate in most of the markets it competes in. Wal-Mart also carries other product categories: entertainment, electronics & toys ($34 billion in estimated sales in FY 08), seasonal & hardlines ($29 billion), apparel, shoes & jewelry ($29 billion), and home ($14 billion). Wal-Mart also own Sam’s Club, which is the second largest warehouse club in the U. S. reaching sales of $44.

4 billion. Industry Environment The current environment in the market is one of concern and competition. The economy is that of inflation, rising prices and higher unemployment levels which is causing consumer spending to decrease. “ Consumer spending grew only 2.

9% in 2007, and as of June 2008, Standard & Poor’s was projecting a rise of only 1. 3% in 2008. In the first five months of 2008, record gas prices, a weak housing market, and increased job concerns led to historically low consumer confidence levels. Rising food costs put an additional strain on consumers.

Following a rise of 3. 7% in 2007, Standard & Poor’s projects food prices will rise another 5. 0% in 2008. ” In a response to these numbers, retailers are increasing their prepared food options and private-label products. They are also tailoring to consumers’ rising demand of organic and natural foods. The recent trend for consumers is moving more towards at home meals.

“ Food-at-home sales increased 5. 4% through May 1, 2008, compared with a 4. 0% increase in food-away-from-home sales. Standard & Poor’s believes this reflects two trends: consumers are stocking up at the grocery store that is close to home, thus reducing gasoline usage, and are making efforts to save money by trading down from restaurants to food retailers.

” Consumers are also responding to higher grocery prices by buying lower prices alternatives, like buying ground beef instead of steak. Retailers are reacting by cutting cost and offering low price products. Industry Trends Supercenters – a combination food and drugstore in a single unit, and devote as much as 40% of their shelf space to grocery items – dominate market share by holding 26. % of the market with $141. 7 billion in sales. Wal-Mart is the major contributor in this field, accounting for a majority of supercenter industry sales, followed by Target Corp.

and Kmart Corp. (part of Sears Holding Corp. ). With grocery sales of about $113 billion in 2007, Wal-Mart can proudly call itself the largest seller of supermarket goods in the United States. Wal-Mart is also the largest threat to traditional chain food and drug retail industries. Wal-Mart continues to increase its market share by centering on its everyday low prices and square footage growth.

Although, it is planning to slow US square footage growth from its historical rate of 8% annually to a range of 4-5% in the future. Wal-Mart is able to provide the lowest price by using their size as leverage with food manufacturers. In the fight against competition and low prices, supermarkets are setting themselves apart from others by catering to their consumer’s interests. In the 1990s, the number of Hispanics and Asians grew four times as fast as the population as a whole, while the African American population expanded about 20% as fast. Overall, the minority population in the US reached 102. million in 2007, or 34% of the total population.

(standard and poor’s). In May 2008 Wal-Mart opened it’s first store intended to target Hispanics. This store carries more ethnic foods such as fresh tortillas and corn chips, Hispanic-oriented fresh fruits and vegetables, and ice cream and juices popular among Latinos. In one more attempt to accommodate it’s consumers, Wal-Mart hires bi-lingual employees in areas with a high number of Hispanic shoppers. SWOT Analysis Strenghts •Strong market position in the US •Balanced brand mix •Strong marketing capabilitiesWeaknesses •Exit from South-Korea and German markets •Product recall Numerous legal issues Opportunities •Expanding brand portfolio •Rising US healthcare spending •Increasing online sales •Increasing store networkThreats •Intense competition •Opposition and resistance from communities •Affect of the sub prime crisis Marketing Strategy Dollar General has traditionally competed with other “ dollar” or one price discount stores.

However, in recent years the company has grown to carrying more name brand goods and now only about 30 percent of their merchandise is priced at 1 dollar. Also, the company now sells a limited selection of groceries, over-the-counter medicines, and prescriptions. As a result of these shifts, Dollar General has begun drawing customers from Wal-Mart and other larger one stop stores. Consumers who have discovered Dollar General’s increased product offering have begun using the stores as an alternative to the hassle of shopping at a big box retailer. Consumers discovering this convenience have done so either through word-of-mouth or by chance.

Dollar General has done very little to promote its stores as well as its wide product offering. In fact, in 1998 Dollar General cut their advertising budget from 3. 8 percent of sales to . 2 percent where it remains (Plan for Prosperity).

As a result of very little advertising over the last eight years, we believe it is important for the company to reconnect with their customer and build brand awareness. Therefore, we believe there is a large group of consumers who remain uneducated about Dollar General and still adhere to the misconception that their stores are still traditional dollar stores and they are filled with cheap trinkets. We are recommending that the Dollar General chain increase its advertising budget in order to better educate customers about their product line and convenience in order to optimize sales and profit using the existing stores and inventory. We believe the increased sales volume and demand for additional goods can be accommodated with the highly efficient, technology driven supply chain network that is already in place.

With this move, Dollar General will begin competing head-to-head with the big box retailers such as Wal-Mart, Target, and K-Mart whereas before they competed indirectly. Therefore, we believe it would be important to differentiate Dollar General stores by improving on the weaknesses of the big retailers. One of the biggest complaints consumers have against Wal-Mart is the local merchants they believe the stores put out of business. Since Dollar General stores are predominantly placed in rural markets, we believe it would be wise to partner with local farmers and provide a selection of fresh, locally grown produce in addition to their grocery foods.

This could be done without much modification to the existing store space by placing the produce outside the front door under a canopy, creating the look and feel of a local market. Works CitedACNielsen – Consumer Insight Spring 2004 – “ Dollar Store, No Frills: The New Retail Landscape” by Todd Hale http://www2. acnielsen. com/pubs/2004\_q1\_ci\_landscape. shtml Dollar General – About Us, Store Growth & Real Estate – 2008 http://www. dollargeneral.

com/OurStores/Pages/StoreGrowthRealEstate. aspx DSN Retailing Today – Vol. 43 Issue 21, p20-21 – “ Core Demographics Expand Beyond Traditional Blue Collar Shopper” Business Source Complete – November 8, 2004 FoodProcessing. com – “ Forget Wal-Mart.

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