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## Dollar General Makes Bet on Opening More Stores

By ANN ZIMMERMAN

Dollar-store chains, which benefited from the economic downturn as shoppers searched for bigger bargains, are continuing their expansion, making a risky bet as the economy begins to perk up.

**Dollar General Corp.**, the largest with more than 8,800 outlets in 35 states, plans to add 600 stores this year. Rivals **Family Dollar Stores Corp.** and **Dollar Tree Inc.** are also adding stores.

Dollar General Chief Executive Rick Dreiling said the combination of value and convenience—dollar stores are on average three to five miles from customers' homes—will keep shoppers coming.

"Value means more today than it did two years ago, and no retail CEO thinks it is going to be like it was. We're in a new spending norm," he said.

The small retailers, which sell frequently purchased foodstuffs, paper goods and cleaning supplies at rock-bottom prices, picked up sales during the recession as shoppers moved down to bare-bones merchants from **Wal-Mart Stores Inc.** and **Target Corp.** in a search to save money.

Now that the economy is slowly recovering, the dollar-store chains are expected to face pressure to hang on to their new customers as shoppers begin gravitating back to the stores they used to favor.

Dollar General posted a 9.5% increase in sales at stores open at least a year, for its fiscal year that ended Jan. 29, up from 9% the previous year, the best performance in the dollar-store sector.

Mr. Dreiling acknowledged the recession drove a lot of the sales increase at Dollar General, as people came in looking for bargains. Sales have begun to slow, albeit not drastically. The company's same-store sales for its fiscal fourth quarter rose 7.5% versus 9% a year ago.

Family Dollar also saw its sales start to soften in the most recently reported quarter, rising 3.6%, compared with 6.4% a year earlier, while Dollar Tree, which stocks more party goods and crafts and less food, saw same-store sales rise 6.6%, compared with 2.2% in the year-earlier period.

The risks Dollar General runs with its expansion plans is that shoppers may start trading up to stores with a broader array of products. Dollar General carries about 10,000 individual goods, less than 10% of what a Target store carries, for instance.

There's also the risk of saturation. Family Dollar, which has more than 6,600 locations, is opening 200 this year. And Dollar Tree, which has 3,800 locations, is opening more than 200.

Dollar General's expansion plans come as the discount chain is upgrading its nonconsumable-product offerings by bringing in more brands like L'Oréal cosmetics and Hanes underwear. And it has repackaged, reformulated and expanded its private-label products in food, paper goods and over-the-counter medicines. It is presently doing the same for its basic apparel and home-goods merchandise.

The immediate expansion goal will center on the 35 states it already has stores in. However, the company said it believes there are opportunities for 12,000 more dollar stores in general around the U.S., both in Dollar General's current markets and in other states.

Dollar General hasn't disclosed the number of new stores it has opened so far this year.

Wall Street analysts believe that the dollar stores have grabbed market share from Wal-Mart , whose U.S. same-store sales were down 0.8% last year.

Three years ago, Dollar General was taken private in a leveraged buyout by private-equity firm Kohlberg Kravis Roberts & Co. In November, the company went public again.

Since then, it has developed a more scientific approach to picking its store locations, which average 7,100 square feet, that includes a more detailed analysis of neighborhood demographics. The tough economic climate gave the company access to higher-quality strip centers at reasonable prices, said Mr. Dreiling, who was brought in by investors about 2 ½ years ago to turn the company around.

But the most important change came from carefully culling products, going to 40 types of crackers from 56, for example. Dollar General's narrower selection spotlighted best-selling brands and sizes, but then added cheaper private-label alternatives that sold for higher profit margins.

The changes at Dollar General have turned D.K. George, a 53-year-old Dallas employment lawyer, into a loyal shopper. Shopping for his household necessities Angel Soft toilet paper, Pedigree dog food and cleaning supplies,—Mr. George said, "The prices are as cheap or cheaper than anyplace else, there is no noticeable difference in the store brands, and there are 10 kinds of something like cereal, instead of an entire aisle."

Mr. Dreiling said store prices are within 1% to 2% of Wal-Mart's, though in a recent study by market-research firm WSL Strategic Retail, 75% of consumers surveyed believe dollar-store prices are lower than Wal-Mart's.

Charles Grom, a retail analyst at J.P. Morgan, worries that as Dollar General begins adding new stores in existing markets, it risks cannibalizing sales from its existing store base.

"Whether dollar-store sales continue to increase or will decline is the million-dollar question," says Mr. Grom.

**Write to** Ann Zimmerman at [ann.zimmerman@wsj.com](mailto:ann.zimmerman@wsj.com)

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