FAMILY DOLLAR STORES, INC.

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The years following the Great Recession of 2009 were tough times for millions of Americans and for the retailers at which they shopped. During the recession, unemployment levels reached Great Depression levels, home mortgage defaults reached unprecedented numbers and more jobs were lost than ever before, while companies such as AIG lost $99+ billion, Fannie Mae and Freddie Mac together lost $109 billion, General Motors $31 billion, Citigroup $28 billion, Ford Motors $15 billion, and CBS $12 billion, three discount store chains were having banner years.

The three largest players in the discount store chain industry, Dollar General, Family Dollar, and Dollar Tree saw their market valuations increase by 143%, 114%, and 140%, respectively, during the fiscal year following 2009. Compare that to the 476 firms in the Fortune 500 that saw their stock prices drop including Wal-Mart whose shares were down 3% over the same two year stretch. In addition to rewarding their stockholders, Family Dollar's yearly revenues grew at approximately 6-7% annually, while Dollar General's and Dollar Tree's grew at almost twice that rate (See Table 1).

Table 1: Dollar Store – Revenue Comparison (2009-2010) (in thousands)

	2009 Revenue	2010 Revenue	2009 Net Income	2010 Net Income
Family Dollar	7,400,606	7,866,971	291,266	358,135
Dollar General	10,457,668	11,796,380	101,182	339,442
Dollar Tree	4,644,900	5,231,200	229,500	320,500

Source: Family Dollar Annual Reports, Dollar General Annual Reports and Dollar Tree Annual Reports, 2009 and 2010

Dollar General's revenues placed it as the 188th company on the Fortune 500 2011 list of Top Companies in the United States. Family Dollar's 2010 revenues of almost $8 billion placed it at 302 in the rankings, followed by Dollar Tree at 390.[1] This was truly amazing considering who and what they were: dollar stores where the customer buys small dollar items with an average total purchase of $10. Together, Family Dollar, Dollar General and Dollar Tree had over 20,000 stores in most of the United States.

Of the three discounters, Family Dollar had slipped under the radar, attracting little press until the recent meltdown in the United States economy. In the years before the downturn, Family Dollar, one of the fastest growing retail discounters in America, opened over 2000 stores between 2001 and 2006. During 2007 through 2011, they slowed their growth of new stores and focused instead on improving their existing stores and supply chain processes. By 2011, Family Dollar had over 7000 stores and nine distribution centers in a contiguous 44 state area ranging from Maine to Florida and as far west as Idaho and southwest to Arizona (See Tables 2 and 3).

Table 2: Location of Family Dollar Properties

Texas	900	Arkansas	100
Ohio	459	Missouri	103
Florida	432	Maryland	97
North Carolina	384	New Mexico	95
Michigan	376	New Jersey	90
Georgia	337	Minnesota	69
New York	296	Utah	61
Pennsylvania	284	Connecticut	54
Illinois	256	Maine	54
Louisiana	231	Kansas	41
Virginia	224	Iowa	34
Tennessee	214	Nebraska	33
South Carolina	208	Idaho	32
Indiana	200	Nevada	28
Kentucky	195	New Hampshire	28
Alabama	148	South Dakota	25
Wisconsin	139	Delaware	25
Arizona	132	Rhode Island	24
Oklahoma	132	Wyoming	22
Mississippi	129	Vermont	15
West Virginia	118	North Dakota	10
Colorado	111	District of Columbia	3
Massachusetts	106		

Source: Family Dollar Stores, Inc., 2011 Annual Report

Table 3: Family Dollar Distribution Centers

Distribution Center	Number of Stores Served
Matthews, NC	724
West Memphis, AR	606
Front Royal, VA	852
Duncan, OK	748
Morehead, KY	946
Maquoketa, IA	720
Odessa, TX	677
Marianna, FL	878
Rome, NY	872
Total	7,023

Source: Family Dollar Stores, Inc., 2011 Annual Report

Family Dollar's $8.5 billion in 2011 sales was even more remarkable given the fact that most of their merchandise was priced under $10 and their customers only spend an average $10 per visit. Their stores were fairly small, ranging in size from 7500 to 9500 square feet. How did they do it? What was their secret? Were they simply beneficiaries of the American consumers' new frugality? If the U. S. economy turned around, would this prove just to be a hot trend that cools or could the company retain its new customers as well as keep their old regulars? These and many other strategic questions were facing Family Dollar in 2012 and beyond.

Company History

Leon Levine, the founder of Family Dollar, had worked in retail since the age of 12 in his family's store. He opened his first Family Dollar in Charlotte, NC, in 1959, and in 1970, took Family Dollar public, with 100 stores in five southern states. Family Dollar continued to expand and posted record sales with 24% average earnings growth throughout the early 1970's. However, by the mid 1970's, profits had dropped by 50% as the recession took its toll on Family Dollar's customers. About the same time, the rise of large discounters like Wal-Mart Stores started undercutting Family Dollar's prices and hurt the company's performance. Family Dollar responded by improving inventory controls, store margins and expanding geographically. Their merchandise assortment consisted of manufacturer overruns, and overbought merchandise from suppliers and vendors. During this time they dropped their $3 and under pricing policy. While it had appealed to their shoppers, it was destroying store margins. Revenues improved with record sales of $100 million in 1977, $151 million in 1979, and a growth rate of over 30%. In 1979, Family Dollar purchased the Top Dollar chain with its 40 stores, plus added 36 more stores.[2]

In 1980, with 400 stores in eight southern states, Family Dollar continued to focus on expansion. Levine's son, Howard, joined the firm in 1981. By 1984, sales growth had slowed to 9%, then to 2% in 1985. Along with opening new stores, they tried unsuccessfully to introduce upscale products and reduced manufacturer's overruns and closeouts. By 1986, sales were flat; and in 1987, sales dropped 10%. In 1987, Family Dollar spent $2 million dollars renovating their 1272 stores and began moving into smaller urban and suburban markets that were too small to support large discounters such as Wal-Mart.

Following four consecutive quarters of lowered earning, in September of 1987, there was a management shakeup. Lewis Levine, President and COO, and Leon's first cousin, left the company in a dispute over salary, strategy and control. Howard, Leon's son, also left the company. Ralph Dillon, the former head of Coast America, became President. Under his leadership, the company's strategy again focused on aggressive pricing and improved merchandise assortment. They instituted a everyday low price strategy, mandated that any item costing more than $15 needed top management's approval, and increased their stock of private-label products, irregular brand-name goods, seasonal candy, costume jewelry, manufacturers' overruns and closeouts.

In the 90's, Family Dollar opened more new stores, increased their distribution centers, and closed underperforming stores. They positioned themselves as the neighborhood convenience store with low prices. By 1992, Family Dollar had a 26% share of the discount store market. By that time apparel made up 45% of their merchandise. They began phasing out low margin goods such as tools, paint, motor oils and increased popular items such as toys and portable stereos. In 1998, Family Dollar opened their 3000^{th} store.

Howard Levine returned in 1996 and was named CEO in 1998. He would preside over the most rapid period of growth for the company yet. They opened their 4000^{th} store in 2001 and their 5000^{th} store in 2003. By 2011, Family Dollar operated over 7000 stores.

By 2011, the company's strengths were convenient locations (the average trip to a dollar store was six miles compared to 30 miles for a typical Wal-Mart trip), good merchandise assortment, and low prices. They were focused on attaining more brand-name products and reducing their apparel segment to 10% of its total merchandise mix as shown in Table 4.

Table 4: Family Dollar 2011 Segment Information

	Years Ended		
(in thousands)	2011	2010	2009
Classes of similar products			
Consumables	66.5 %	65.10%	64.4%
Home Products	12.7%	13.2%	13.4%
Apparel and Accessories	10.0%	10.7%	11.2%
Seasonal and Electronics	10.8%	11.0%	11.0%

Consumables	Household chemicals
	Paper products
	Food
	Health and beauty aids
	Hardware and automotive supplies
	Pet food and supplies
Home Products	Domestics, including blankets, sheets, and towels
	Housewares
	Giftware
	Home décor
Apparel and Accessories	Men's clothing
	Women's clothing
	Boys' and girls' clothing
	Infants' clothing
	Shoes
	Fashion accessories
Seasonal and Electronics	Toys
	Stationery and school supplies
	Seasonal goods
	Personal electronics

Source: Family Dollar Stores, Inc., 2011 Annual Report

Family Dollar's 2011 Mission and Strategies

By 2011, Family Dollar's stated vision was to be "the best small-format convenience and value retailer serving the needs of families in our neighborhoods". The company's mission statement was:

> Our mission is to provide customers with a compelling place to shop, our team members with a compelling place to work, and investors with a compelling place to invest. Our vision is to be the best small-format convenience and value retailer serving the needs of families in our neighborhoods. [3]

Family Dollar carried many name brand consumer products, but their bread and butter were those second and third tier brands. These often rivaled the name brands in quality while offering the retailer better profit margins. Family Dollar's store brands included: Family Dollar, Family Pantry, Highland Outfitters, Little Lindsey, Distinctly Basics, Kidgets, and Rachael Rose to name just a few. They carried an assortment of consumables, such as: snacks, food, household chemicals, paper products, health and beauty aids, pet food/supplies, home products, apparel, electronics, and various seasonal products.[4]

The size and location of Family Dollar stores also provided them with competitive advantages. Averaging around 8,500 square feet, they were in many cases one half to one fifth the size of many retailers who were competing for the same consumers' dollar. Their stores were often located in less than stellar surroundings. Because of this location strategy, they benefitted from cheaper lease rates. One analyst observed that "at $2 a square foot, their occupancy rates were one tenth what a typical supermarket or drug store pays and 1/50th what a mainline department store might pay".[5] This ultra-low overhead combined with fewer employees per store, and low marketing expenses, allowed them to compete with much larger rivals. Stores were typically staffed by a manager and two or three other people with part-time employees for support.

Family Dollar stores carried about 6-7000 items. This relatively small number kept space needs low, inventory costs down, and turnover up. Some consumers, however, found it frustrating when they could not find the item or the variety they were seeking. These small stores, typically standing alone, allowed for front door parking. This advantage gave Family Dollar a convenience edge over the supercenters. Shoppers found parking in a massive parking lot and navigating through a store's massive square footage was annoying when all you wanted was milk and bread.

In 2009, Family Dollar began a store layout revamping to provide more space and an easier shop for consumables. These areas were providing double-digit comparable-store sales gains.

In 2011 (See Table 5), net sales increased 8.7% and Operating Income increased by 10.9%. The company also opened 206 new stores, renovated 680, and purchased 27 stores. They accelerated their renovation program, with a cost of $100,000 to $130,000 for each renovation (See Table 6).

As part of the renovation package, they were refreshing the building façade, erecting new exterior signage and implementing higher maintenance standards.

Because most financially strapped consumers were adjusting out of discretionary categories into more basics and consumables, the company was making that adjustment also. CEO Levine, in a 3rd Quarter 2011 Earnings Call said, "We're fighting with the best of them for these consumables."[6] A downside of increased consumables at the expense of discretionary products was a lower margin, however.

Table 5: Family Dollar Stores, Inc., and Subsidiaries
Consolidated Statements of Income

(in thousands, except per share amounts	Years Ended 2011	2010	2009
Net Sales	$ 8,547,835	$ 7,866,971	$ 7,400,606
Cost and expenses			
Cost of sales	5,515,540	5,058,971	4,822,401
Selling, general and administrative	2,394,223	2,232,402	2,120,936
Cost of sales and operating expenses	7,909,763	7,291,373	6,943,337
Operating profit	$ 638,072	575,598	457,269
Interest income	1,532	1,597	6,595
Interest expense	22,446	13,337	12,939
Income before income taxes	617,158	563,858	450,925
Income taxes	228,713	205,723	159,659
Net income	$ 388,445	358,135	291,266
Basic net income per share	$ 3.15	2.64	2.08
Basic weighted average shares	123,360	135,745	139,894

Source: Family Dollar Stores, Inc, 2011 Annual Report

Table 6: Family Dollar Stores, Inc., and Subsidiaries
Consolidated Balance Sheets

(in thousands, expect per share and share amounts)	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 141,405	382,754
Investment securities	96,006	120,325
Merchandise inventories	1,154660	1,028,022
Deferred income taxes	60,011	52,190
Income tax refund receivable	10,326	----
Prepayment and other current assets	71,436	63,005
Total Current Assets	1,533,844	1,646,296
Property and equipment, net	1,533,844	1,111,966
Investment securities	107,458	147,108
Other assets	74314	62,775

Total assets	$ 2,996,205	$ 2,968,145
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable	$ 685,063	676,975
Accrued liabilities	310,818	309,347
Income Taxes	4,974	18,447
Total current liabilities	1,017,055	1,004,769
Long-term debt	532.370	250,000
Other liabilities	270,466	253,576
Deferred income taxes	89,240	38,246

Source: Family Dollar Stores, Inc., 2011 Annual Report

In 2012, they planned to open 450 stores, renovate over 1000 stores and open two distribution centers.[7] They did not have a presence in the west coast states of California, Oregon, or Washington, but in that 3rd Quarter earnings call the company announced plans to open their first store in California before Christmas 2011. It appeared that they would beat Dollar General to that market.[8]

Industry Characteristics and Trends

Prior to the 1980s, the dollar store retail niche was fairly small. Operating standards were inconsistent; product quality was poor; and most suffered from a poor public image. The upgrades achieved by retailers like Family Dollar and Dollar General, combined with national and regional economic downturns, helped fuel their growth. While these stores already attracted the low-income consumer, these tough economic times brought the value-driven middle-income shoppers into their stores. On the other hand, their core low and lower-middle income customers had to cut back on their buying and the number of trips they made to the retail store due to higher gasoline and food costs. Higher levels of unemployment also ate into the amount they have to spend. The typical Family Dollar store shopper in 2011 earned under $40,000 a year.[9]

Industry analysts have referred to the dollar stores as "small-box discounters" as opposed to the 'big-box discounters" like Wal-Mart and Target. Many of Family Dollar's, Dollar General, and Fred's customers find Wal-Mart too inconvenient, too pricey, and even too fancy. It seemed in the recent economic downturn, the fancier the retail store, the uglier the financial results. Dollar stores were among the few companies that benefited from the recession.

Most dollar stores sold their items at even dollar amounts ($1, 2, 3 etc.), such as a 2-liter bottle of Coca-Cola or a bag of chips for $1. In some cases, vendors created special sizes to accommodate the industry, such as a 5-ounce bag of chips for a $1 that wouldn't be sold at the typical supermarket. Proctor and Gamble was an example of a company that produced special smaller sizes for this segment. Branded names were becoming increasingly common and heavily promoted. These branded names helped bring in new customers. However, there was still resistance on the part of some vendors to place their products in dollar stores at deeply discounted prices.

Whereas many retailers were reluctant to enter inner-city markets with strong ethic representation, stores like Family Dollar, Dollar General, and Big Lots saw these markets as an opportunity. Often the inner city was underserved by the retail market; consisting mostly of mom and pop stores with accordingly high prices.

Most of the dollar store shoppers cared little about appearance and more about convenience and price. For the truly hard-hit consumers, one could argue that dollar stores were absolutely necessary to their survival. However, some were put off by the limited selections, and found the stores to be under-stocked and what stock there was to be disheveled. Despite recent improvements, dollar stores still carried a stigma for some customers. A contributing factor in that stigma was a lack of national brands. A Dollar General's VP at that time had remarked "national brands give us legitimacy with our trade-down customer." Both Dollar General and Family Dollar recently increased their percentage of national brands, particularly in the consumable category.

By 2010, the stores and revenues of Family Dollar, Dollar General, Big Lots, Fred's, Dollar Tree, and 99 Cents Only were over 22,000 stores and the total dollars generated were over $35 billion. Those figures didn't even include Wal-Mart or Target stores or their revenues**.** Big-name retailers had begun experimenting with their own versions of dollar sections within their normal stores. Examples included Albertson's, Kroger's, Target, Brookshire's, and Save-A-Lot. Even Wal-Mart increased the number of their smaller "Neighborhood Stores".[10]

Competitors

Family Dollar operated in the variety store category (SIC 5331) or All Other General Merchandise Stores (NAICS – 452990). This category included large department discount stores such as Wal-Mart, Target and Sears/Kmart and regional dollar stores such as Dollar General, Family Dollar, Dollar Tree, Fred's, 99c Only, and Big Lots. Although there were differences in store size and merchandise assortment, they all focused on offering the consumer low prices. Table 7 lists the Top 10 Fortune 500 General Merchandisers of 2010.

Table 7: Top Fortune 500 General Merchandisers, 2010
(In millions of dollars)

1. Wal-Mart Stores Inc. (WMT)	$421,849
2. Target Corp. (TGT)	67,390
3. Sears Holdings Corp. (SHLD)	43,326
4. Macy's Inc. (M)	25,003
5. Kohl's Corp. (KSS)	18,391
6. J .C. Penney Co., Inc. (JCP)	17,759
7. Dollar General Corp. (DG)	13,035
8. Nordstrom Inc. (JWN)	8,627
9. Family Dollar Stores Inc. (FDO)	7,867
10. Dillard's Inc. (DDS)	6,253

Source: *Fortune 500 2010*

The variety store category was dominated by Wal-Mart, Target, and Sears/Kmart with 2010 sales of $422 billion, $67 billion and $43 billion, respectively. Although smaller, the regional “dollar” stores, Dollar General, Family Dollar and Dollar Tree were winning the battle of increased earnings and new store openings with sales of $13 billion, $7.9 billion, and $5.9 billion, respectively. Their earnings growth in 2009 was in the double-digits as higher and middle-income consumers traded down. In 2010, Dollar General opened 600 stores, Family Dollar opened 200 and Dollar Tree opened 300.

Dollar General: Save time - Save money. Every day! (DG)

Dollar General was often recognized as one of the stronger players in the dollar store sector. Dollar General was founded in 1939, by J. L. Turner and his son Cal, who opened their first store in Scottsville, Kentucky. In 1968, they took the company public. Focused on growth through store acquisition, by 1990, they had 1400 stores. In the 90’s, Dollar General focused on internal expansion and grew to over 5000 stores by 2001. In 2007, Dollar General was acquired by private equity firm Kohlberg Kravis Roberts and Company, LP.[11] That year they closed 400 unprofitable stores and posted a loss of $12.8 million due to $102.6 million in pretax costs that were related to the acquisition. In 2008, they were able to reverse the loss and posted a gain of $108.2 million**.**

Dollar General was Family Dollar’s most direct competitor. As recently as 2011, the company was mentioned as a possible bidder for Family Dollar. It was somewhat surprising that two such similar retailers had competed successfully for over fifty years. In approximately half of the towns where there was a Family Dollar store, there was a Dollar General store.

With 9,372 stores in 35 states as of January, 2011, Dollar General had more retail locations than any other retailer in America. In 2010, the company opened 600 new stores and remodeled or relocated another 504. In 2011, they planned on opening 625 new stores and expanding into three new states: Connecticut, New Hampshire and Nevada. The stores ranged in size from 6000 to 8000 square feet and were located in the eastern, mid-western, southern, and southwestern United States offering an assortment of products at everyday low prices. The majority of their stores (70%) were located in small towns that were not serviced by the larger discounters and in lower-income neighborhoods in urban areas. Their target market consisted of low to middle-income and fixed-income consumers, and their merchandise assortment consisted of highly consumable, seasonal, home product and basic clothing.[12]

Table 8: **Dollar General 2010 Segment Information**

	2010	2009	2008
Consumables	71.6%	70.8%	69.3%
Seasonal	14.5%	14.5%	14.6%
Home products	7.0%	7.4%	8.2%
Apparel	6.9%	7.3%	7.9%

Source: Dollar General, 2010 Annual Report

Kohlberg Kravis Roberts and Company (KKR) took the company public again in November of 2009. In 2010, store sales were $13 billion with a sales growth of over 10%. CEO Rick Dreiling believed that there was room to go from its current number of stores to 12000.[13]

Fred's: Hometown Discount Store, The Low Price Leader (FRED)

Fred's was founded in 1947, and as of August, 2011, operated 677 discount, general merchandise stores in 15 southeastern states. Mississippi led the list with 125 stores, Georgia had 111, Alabama had 96, Tennessee had 89, and the rest were scattered throughout the remaining eleven states. Fred's net sales in 2010 were $1.8 billion. Fred's stores stocked more than 12,000 frequently purchased items that addressed the everyday needs of its customers, including nationally recognized brand products, proprietary FRED'S label products, and lower-priced, off-brand products.[14]

Fred's was very similar to Family Dollar and Dollar General with the exception that most of their stores had a pharmacy. Fred's pharmacy sales represented almost 32% of total sales in 2008, and the company had a goal of refreshing 75% of their stores by 2011. In 2007 and 2008, as a result of the economic times and heightened competition, Fred's pursued a leaner strategy by focusing on their stronger stores. They closed 74 underperforming stores and 23 underperforming pharmacies. Their goal was one of increasing operating margins. While sales growth from 2008 compared to 2009 were flat, sales grew 3 percent in 2010 over 2009. [15]

Big Lots: Think Extreme Value, Think Big Lots! (BIG)

Big Lots was the largest broadline closeout retailer in the U. S. This company was somewhat unique from the other dollar stores in this category in that one could purchase big-ticket items like furniture for cheap. By 2010, Big Lots had been in business for more than three decades. As of early 2011, they had 1,361stores in 47 states. Their stores averaged slightly over 20,000 square foot.

Big Lots did not have refrigerated facilities. Therefore, they didn't sell milk, neither did they sell bread. They typically stocked only a limited food line, with most of those being closeouts.

Since implementing their WIN (What's Important Now) strategy in 2006, they concentrated on improving their margins. While open to new store growth, they become much more discerning. In fact, their number of stores had declined slightly since 2006 from 1,375 to 1,361 in 2011. While their shares were up 75% in 2009, and gross margins hovered around 40% for 2006-2008, the company's big problem was the almost non-existent revenue growth for those years. Big Lot's sales were stuck at just below $5 billion for the past three years.[16]

Dollar Tree: Everything's a $1 (DLTR)

As of 2010, Dollar Tree operated 3806 stores in 48 states. They were typically located in small towns, malls and suburban strip malls anchored by mass merchandisers. Stores ranged in size from 10,000 to 12,000 square feet with the majority of their products selling for $1 or less. Over

40% of their products were imported from overseas. Sales in 2010 were $5.9 billion with sales growth of over 12% over the previous year. [17]

Founded in 1986, Dollar Tree went public in 1995. With a strategy of offering a wide range of products, not just closeouts, all for the price of just one dollar, they grew their number of stores from 1,729 stores in 1995, to 2,735 stores in 2004, to 4,101 stores at the end of 2010.[18] [19] Dollar Tree's expansion was not limited to just new stores. They expanded their product mix, store size, and types of payment. They moved from a product mix of discretionary items to highly consumable "needs based" products. The stores increased in size to accommodate the expanding product mix with new stores averaging 10,310 square ft. By 2010, 1844 stores had coolers and freezers, 2,200 stores accepted Food Stamps and all stores accepted debit cards and Visa credit cards.[20] They experimented with multipoint pricing in their dollar stores, but the program was dropped when customers didn't respond to products priced over $1. Dollar Tree offers multipoint pricing in their Deal$ store for price points above $1 and at the end of 2010 had 169 Deal$ stores in 19 states and planned to open 35 more in 2011. They also entered the e-commerce market in 2009 and Dollar Tree Direct offered over 2,000 products online.[21]

99 Cents Only: "Save More Shop Us First…For Everything" (NDN)

By 2010, 99 Cents Only operated 285 stores located primarily in the southwest offering consumable products for 99 cents or less. They sold the same merchandise to other distributors and exporters through their wholesale distribution company, Bargain Wholesaler. The average store was 21,300 sq. ft. and sales in 2010 were $1.4 billion[22]. Over 50% of their merchandise assortment was food and grocery items with name brands like Hershey's, Dole, Kellogg, Heinz, and Unilever.

The first 99 Cents Only store was opened in Los Angeles in 1982. Popular with large families and middle-income consumers, by 1999, they had grown to 73 stores. In 2000, frozen and refrigerated items were added and in 2003 the company expanded into Texas. The Texas expansion was difficult and in October 2008, the company announced they would close their 44 stores in Texas. They rescinded that decision in August 2009, when sales jumped 20% in early 2009. They did close one-third of their stores in Texas, but the others remained open. By the fall of 2010, they operated 211 stores in California, 35 in Texas, 27 in Arizona and 12 in Nevada.[23] [24]

Table 9: Selected Competitor Information (2010)

Name of Company	2010 Sales	#of Stores	# of States	# of F/T Employees	Date Opened	Square Feet
Family Dollar	$ 7.9B	6785	44	30,000	1959	7500-9000
Dollar General	$ 13.0B	9500	35	85,900	1939	6000-8000
Fred's	$ 1.8B	673	15	4,873	1947	14000- 15000

Big Lots	$ 5.0B	1361	47	13,000	1967	20000
99 Cents	$ 1.4B	285	4	12,000	1982	22000
Dollar Tree	$ 5.9B	3806	48	13,000	1986	10000- 12000

Source: Annual Reports, 2010

The Wal-Mart Factor: Save Money. Live Better (WMT)

While not necessarily the direct competitor that Dollar General was, Wal-Mart made all other retailers nervous. "Wal-Mart always worries me," says Levine, the Family Dollar CEO. "You can't out-Wal-Mart Wal-Mart." [25] Family Dollar and Dollar General sales in 2010 represented just five percent of Wal-Mart's $400+ billion. But together the two dollar stores had thousands more stores than Wal-Mart.

The typical Wal-Mart supercenter averaged about 184,000 square feet, and stocked some 100,000 items; their ever expanding Wal-Mart Market store formats occupied only 40,000 square feet.

During the summer of 2011, Wal-Mart unveiled an even smaller format store called the Wal-Mart Express. This appeared to be their answer to the growing threat of dollar stores. These stores were about 15,000 square feet and stocked some 11-13,000 items. They planned to open 20 more stores in the last half of 2011 and had the potential to build 350 a year. Most of the Wal-Mart Express stores had gasoline stations and pharmacies.[26]

The Future Environment for Family Dollar

Despite, and because of, the 2009-11 economic hard times, Family Dollar had several strengths as it faced the future. They were in a market niche that was growing. Their financial health was excellent. They felt like they had put together an excellent management team which wasn't sitting on its laurels, but was constantly weighing and implementing changes.

Another factor adding to the company's successes was the fact that they had become less dependent on discretionary spending on clothing. According to a 2011 consumer research report, the first thing that consumers cut back on in tough economic times was clothing.[27]

Growth plans entailed adding 450 to 500 locations each year. To sustain this growth, the company had in the last five years implemented four main strategies: growing in more urban markets less populated by other retailers; expanding its assortment in food categories, including more fresh product and meal solutions; and focusing on improving the in-store shopping experience through better store arrangement and appearance. Recent efforts had also included increasing the percentage of consumables that customers needed the most, and reducing its exposure in such discretionary categories as apparel and home. Those efforts combined with outfitting all stores with refrigerated coolers and upgrading stores' technology so they could accept credit cards and food stamp benefits furthered their growth goals.

Dorlisa Flur, the Executive Vice-President of Strategy and Marketing at Family Dollar, remarked in 2009, "we want to be the place people go to for their 'ran-out-of-trip' (milk, eggs, frozen pizza and other food)." [28] Their plan was that this strategy would attract the ran-out-of customer and while he/she was in the store they would find something else to buy. While food was a drawing card, on the other hand, it was a low-margin product.[29] They hoped to leverage these trips into increased impulse purchases.

For several decades, many retailers were forced to feed on the crumbs left behind by Wal-Mart or go out of business. As of 2011, one of the fastest growing segments of the retail market was these dollar stores. They were attracting shoppers who found Wal-Mart too pricey, too big, or just too inconvenient to shop. This segment had grown so much that Harvard University professor John Stilgoe had suggested in 2004 "that they are such a threat that eventually Wal-Mart will have to buy one of these chains or start one".[30]

The 2008-2010 recession made the American consumer more frugal. The CEO of Dollar Tree even referred to this movement as being the "cool" thing to do. Some analysts expected this frugality to remain even when economic times improved. [31]

Dollar stores had always attracted the lower income shopper, but the middle and upper ones were reluctant to even give them a try. With record setting unemployment and the search for value, these two groups were giving these retailers a first look. Many affluent shoppers were economizing by switching. Some examples would include: Starbucks to McDonald's coffee; Whole Foods to Albertson's, etc.

In 2009, a U. S. Circuit Court of Appeals found that Family Dollar willfully violated the Fair Labor Standards Act by classifying employees as retail store managers in an effort to deny them overtime pay. The class action suit of 1400+ store managers was awarded almost $33 million dollars. The jury found that the managers made few managerial decisions and 80 percent of their time was spent performing nonexempt manual labor, such as stocking shelves, running the cash registers, unloading trucks, and cleaning the parking lots, floors and bathrooms. The U. S. Supreme Court, in the fall of 2009, decided not to hear the company's appeal.

In the next two years, Family Dollar responded by expanding their training and development programs for employees to increase team member engagement and improved internal promotions to approximately 80%.

While Harold Levine called their current ongoing initiative its "concept renewal strategy", he also emphasized that it was not a new concept. It was, according to him, a renewal effort to improve the shopping experience, product placement, clean up some of the clutter, and an attempt to make their stores more of a store within a store. Another objective was to improve the consistency between the stores.[32]

Family Dollar ended the 2011 fiscal year with a strong balance sheet. It had almost $142 million in cash, and only $532 million in long-term debt. This compared very favorably to Dollar General's $3.3 billion in long-term debt.

Could Family Dollar hold on to the middle-income and more affluent demographic segment once the economy improved? This was perhaps the most pressing question for all the dollar stores: could they keep these customers from trading back up to higher-priced outlets if the economy rebounded? Some would say: the longer the recession, the better the company's odds. Others would question the economy's ability to ever recover.[33]

While the recession brought good times to the dollar store segment, the economy in 2011 may be getting so bad that even their sales and profitability will suffer going forward. With gas prices in America the highest they had ever been, and Wal-Mart expanding their Express stores and aggressively reinstating their "low prices everyday" strategy, the dollar store's competitive edge may become thinner. With all the dollars stores aggressively expanding the number of their stores, retail space will become even more hyper-competitive and crowded. With gas prices encroaching on margins, "it will be hard to raise prices when you operate the dollar store model," Wall Street analyst Brian Sozzi observed in a 2011 article.[34]

While the long-term benefit of these stores seemed to be well established, the future was not guaranteed. Could Family Dollar, and this industry niche, maintain their differentiation when others were attempting some of the same? Would the country shortly become saturated with dollar stores? Should they "upgrade" their facilities and product mix? Could they continue to keep their shareholders happy? These and many more strategic questions faced Family Dollar in the coming years.

End Notes

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