Dollar store strategies for national brands
The evolving dollar channel and implications for CPG companies
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Executive summary

The retail landscape for food, beverage, personal goods, and household goods is evolving rapidly as the range of retail formats expands and consumer preferences change. In the United States, consumers have a vast array of retail choices to purchase their preferred brands and products. For example, some brands are so ubiquitous that the identical product stock-keeping unit (SKU) is available at grocery stores, mass merchandisers, club stores, drug stores, and convenience stores, all within walking distance of each other. Each consumer has a distinct set of stores they shop at, a cadence with which they visit, and a unique selection of products they tend to purchase. Some consumers actively shop across channels comparing prices and offerings. Other consumers primarily shop at a small set of stores, or a single store. Furthermore, each retailer, and often store location, has a specific set of consumer segments they target.

The recent recession and post-recessionary shopping habits have made dollar stores a frequent channel for more consumers—of all incomes. Dollar stores appeal to primarily low- and fixed-income consumers; however, a growing segment of shoppers are high-income consumers as the stigma of dollar stores seems to be waning. Across consumer segments, dollar-store shopping trips appear to be expanding from merely a fill-in or occasional targeted purchase to a grocery or mass merchandise substitute. To some extent, the growth of dollar stores—in particular multi-price-point dollar stores, where the price of most products exceeds one dollar—is at the expense of mass merchandisers and grocery channels. This growth is faster than traditional channels particularly in the sales of personal goods, household goods, food, and beverages, as dollar stores offer more variety in food and beverage (including national brands) and the consumer perception of store brand quality improves.

Even after two decades of growth, the leading dollar retailers have aggressive growth strategies to realize greater revenue from new stores in both existing and new geographies—the top three dollar retailers operate over 21,000 stores in the United States1—and also from same-store sales. Not surprisingly, cross-channel conflict between grocery, mass merchandisers, and dollar stores appears to be on the rise. Mass merchandisers and grocery stores are responding to the dollar store threat with dollar-store-within-store concepts, expanded low-price assortments, and new smaller formats in both urban and rural areas.
The perspective presented here on consumer product strategies for dollar stores is based on research that includes in-depth interviews with consumer product and dollar retail executives, mystery shopping trips across the dollar banners and formats, a large-scale consumer survey, and an executive survey across retailers and CPG manufacturers. The dollar channel, in particular multi-price-point dollar stores, is an important and profitable channel for those CPG companies that have tailored their business toward this discount channel. In other words, some CPG companies have cracked the code of the unique characteristics of the dollar channel in five distinct areas:

1. Successful consumer product companies begin with a channel- and often retailer-specific approach to brand, product strategy, and innovation.
2. They pursue unique merchandising and assortment strategies for the channel, and at the store level.
3. Their pricing and trade promotion strategy acknowledges potential channel conflict by providing unique product-price value propositions across channels.
4. They partner with the dollar retailers to tailor their supply chain, distribution, and operations to the unique channel logistics and warehousing environment.
5. Finally, those consumer product companies serious about succeeding in the dollar channel create channel focus and resourcing through strong account and support teams with marketing, insights, product packaging, pricing, and supply chain expertise.

Channel and retailer-specific considerations for success in the dollar store channel

**Brand, Product strategy, and Innovation**
- Develop retailer-specific product and pack offering
- Seize “new” shelf space in the dollar stores
- Align product launches with retailer shelf refresh cadence

**Merchandising and Assortment**
- Create granular store-specific assortments based on consumer demographics
- Take control of the in-store product presentation with cross-product merchandising
- Pricing and Trade Promotions
- View dollar store pricing and promotions as a cross-channel “satisficing” challenge

**Supply Chain, Distribution, and Operations**
- Partner with dollar stores to improve in-store inventory management
- Drive ongoing value initiatives to maintain current price points
- Enhance shrinkage prevention strategies for at-risk products

**Account team structure, Staffing, and Capabilities**
Provide retailers with strong channel-specific consumer, merchandising, and supply chain expertise.
An ever-evolving retail landscape

All retailers begin with one store in one location—whether it is Woolworth’s Great Five Cent Store, which opened its doors in Lancaster, Pennsylvania, in 1879, or Five Below, a discount variety retailer targeted at teens that opened its first store 50 miles away and over 120 years later. Successful formats scale up and roll out across new geographies, incrementally taking share from other stores and formats. The history of retail in the United States—and today’s dynamic landscape—can be viewed as a story of many different store formats seeking growth from targeted or niche consumer segments. Just as stores and formats evolve, so should consumer product companies.

Recent retail dynamics for food, beverage, personal, and household goods reveal what may appear as only a slight shift. The market share of the grocery, mass merchandise, and supercenter channels, while dominant in CPG, has eroded to 72.6 percent in 2011 from 74.6 percent in 2008 as market shares of club, dollar, and convenience stores increased (see figure 1). E-commerce, while nascent today in terms of food, beverage, personal care, and household goods, is playing an increasing role. A closer look at the retail conditions shows that the dollar and drug formats—while relatively small players in the overall landscape today—are growing rapidly and increasingly embedded in routine shopping trips. Understandably, CPG companies have optimized their products and distribution capabilities to align with the much larger grocery and mass channel.

Figure 1. Changing consumer preferences result in a shift in channel preferences (CPG market share by channel)

<table>
<thead>
<tr>
<th>Channel</th>
<th>2008</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dollar</td>
<td>1.5%</td>
<td>1.8%</td>
</tr>
<tr>
<td>Grocery</td>
<td>49.4%</td>
<td>48.5%</td>
</tr>
<tr>
<td>Mass merchandise &amp; supercenter</td>
<td>9.5%</td>
<td>9.8%</td>
</tr>
<tr>
<td>Club</td>
<td>10.0%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Convenience/Other</td>
<td>25.2%</td>
<td>24.1%</td>
</tr>
<tr>
<td>Drug</td>
<td>5.0%</td>
<td>1.8%</td>
</tr>
</tbody>
</table>

Source: SymphonyIRI Consumer NetworkTM, 52 weeks ended January 1, 2012 and same period 2008. Note: Supercenters are large discount retailers with both mass merchandise and grocery products.

Dollar market share has increased from 1.5% to 1.8%
Will these channel preference shifts continue?
The lingering effects of the recession, higher food prices, and pain at the pump have impacted consumer behavior and impacted where consumers shop. In a recent Deloitte consumer study, 93 percent of consumer respondents plan to remain cautious and keep their spending at its current level even if the economy improves. Furthermore, 88 percent of respondents believe that food prices in stores have recently been increasing. As a result of higher food and gas prices, consumer respondents are pursuing a number of shopping tactics: purchasing more low-priced products, making fewer trips to food stores, purchasing fewer food products overall, purchasing more private-label products, going to discount stores more often, and purchasing more smaller-size products. Many of these shopping tactics reveal factors for the channel shift and make the case for dollar stores playing a more important role for many consumers (see figure 2).

Figure 2. In the words of CPG shoppers

The recession, higher food prices, and fuel prices: "It is getting more and more difficult to stretch my food dollars."
"Food prices are going up but not wages."

More low-priced products: "I have also started buying lower-priced cuts of meat."

Fewer trips to food stores: "I used to shop for food more frequently, but with [higher] gas prices I only go to one or two stores."

Fewer food product purchases overall: "I am buying less and shopping less, also eating out less at cheaper restaurants when I do eat out."

More private label products: "I have bought more store brands due to the rising price of food."

Purchasing more smaller-size products: "Smaller packaging makes it easier for us to purchase."

Shopping closer to home: "The nearest large supermarket is 30 miles from my home, so I have been shopping at the [local grocer] that is down the street from our home, with the [high] price of gas."

Consumer quotes from May 2011

The dollar channel is a $55.6 billion industry in the United States that is somewhat consolidated, with the top three dollar-store retailers accounting for a large (52.3 percent in 2011) and increasing share of the channel. Furthermore, sales at the top three dollar-store retailers have grown at an average rate of 10 percent annually over the past decade, and store count has increased from 13,403 to over 21,000 stores today (see figure 3).

For relatively affluent consumers—like the typical reader of this research—it likely has been years since they last shopped at a multi-price-point dollar store. For those readers unaccustomed to today’s dollar stores, the category as a whole may exceed their expectations: many multi-price-point dollar stores have improved their offerings and customer experience in recent years. While dollar retailers began more as general merchandise stores with a significant mix of obsolete or discontinued merchandise, the multi-price-point retailers have matured...
to offer a regular assortment of national brands typically within a relatively small 10,000-square-foot area. One mystery shopper, who had not stepped in a dollar store for several years and had low expectations, said, “I was amazed at the number of national brands that were available, and prominently displayed, on the shelf.” Additionally, store product offerings and merchandising also seemed similar to traditional retailers: “The store was very well organized, and displays were neat. Products were well organized on shelves with very few items off the shelf or on the floor.”

Snapshots of dollar stores between 2005 and today reveal a stark contrast in shopping experience. Changes include wider aisles, brighter lighting, improved customer experience, and a wider assortment of SKUs, including national brands (see figure 4).

Figure 4. Multi-price-point dollar stores improved their customer experience in recent years

<table>
<thead>
<tr>
<th>2005</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Narrow, cluttered, and difficult</td>
<td>• Wide, less cluttered, and cleaner</td>
</tr>
<tr>
<td>to-navigate aisles</td>
<td>aisles</td>
</tr>
<tr>
<td>• Limited lighting inside stores</td>
<td>• Bright and vibrant lighting</td>
</tr>
<tr>
<td>• Small in-store signage for</td>
<td>inside stores</td>
</tr>
<tr>
<td>product categories</td>
<td>• Large and clear in-store</td>
</tr>
<tr>
<td>• Cluttered check out</td>
<td>signage for product categories</td>
</tr>
<tr>
<td>• Limited personal attention to</td>
<td>• Wide and convenient check out</td>
</tr>
<tr>
<td>customers</td>
<td>• More personal attention to customers</td>
</tr>
<tr>
<td>• Limited assortment of SKUs</td>
<td>• Wider assortment of SKUs</td>
</tr>
<tr>
<td>including secondary brands and</td>
<td>including national brands and</td>
</tr>
<tr>
<td>lower-quality store brands</td>
<td>improved store brands</td>
</tr>
<tr>
<td></td>
<td>• More product categories, including</td>
</tr>
<tr>
<td></td>
<td>refrigerated/frozen</td>
</tr>
</tbody>
</table>


The three leading dollar retailers are continuing to pursue aggressive growth strategies. First, they are accelerating new store openings in both new and established regions of the country, as well as renovating existing stores. Second, they are adding national-brand and private-label SKUs in consumable product categories such as food, beverage, and personal care, seeking to drive more visits and increase basket size. Third, they are increasing inventory in-stock rates through enhanced coordination between in-store operations and the supply chain. Fourth, they are increasingly turning to more sophisticated market research techniques to analyze their patrons’ shopping behavior and to tailor store assortments to buyer preferences. Fifth, two of the three leading dollar retailers are targeting consumers at a range of price points above one dollar, while the third is experimenting with the multi-price-point format. And finally, the dollar retailers increasingly mention sales via e-commerce as a growth area.

The growth and popularity of dollar stores in the United States has not gone unnoticed by other retailers, who have observed consumers shifting purchases due to convenience and pricing. For example, Walmart began opening smaller-format Walmart Express stores in 2011. These stores are much smaller at 10,000 to 15,000 sq. ft. compared to 108,000 sq. ft. for the average full-format store; they target consumers in a six-mile radius in both urban and rural areas compared to a 30-mile radius for the full-format stores. Consumer product suppliers have also worked with Walmart to provide lower-entry price-point products through more affordable package sizes to better serve traditional dollar-store consumers. Many grocery stores and mass merchandisers have experimented with dedicated dollar sections or aisles and targeted promotions. For example, Target established “Dollar Spot” sections in prominent locations within the store with a range of products priced at one dollar or less. Additionally, some grocery stores are using “10 for $10” advertising programs to promote and hit the dollar price point.
In serving the dollar channel, it is important for CPG companies to understand the differences between today’s core dollar store and non-dollar store shoppers, and tomorrow’s new dollar store shopper. Core dollar-store consumers, broadly speaking, have lower incomes and self-report lower economic status than non-dollar-store shoppers. In a recent consumer survey, 53 percent of dollar-store shoppers identified themselves as poor or lower middle class, compared to only 38 percent of non-dollar-store shoppers (see the appendix for more information on consumer survey findings). Moreover, 64 percent of dollar-store shopper respondents reported an annual household income less than $50,000 annually, compared to 48 percent of non-dollar-store shoppers. The surveyed dollar-store shoppers visited dollar stores on average 2.6 times and spent $29 per month, the equivalent of an $11 basket size per trip.

The average monthly spend at dollar stores per dollar store consumer ($29 per month) is much less than the average monthly spend of a grocery consumer at the top 10 grocery retailers ($96–128 per month). Also, the frequency of dollar-store shopping trips (2.6) is less than the frequency of trips to the top 10 grocery retailers (3.1–3.9 trips per month). Cross-channel shopping is the norm for most consumers in the United States, and dollar-store shoppers are no different; dollar-store shoppers spend 31 percent less at the top 10 grocery retailers per month than non-dollar-store shoppers.

There is more to know about dollar consumers than their level of affluence, frequency of trips, and basket size. Today’s core dollar consumer differs from tomorrow’s new dollar consumer as demonstrated by three representative consumer personas (see figure 5). While these three consumer segments in no way cover the entire spectrum of dollar consumers, they bring to life the shoppers for whom dollar stores play an important role. The first two personas are indicative of today’s core dollar consumers—urban and rural low- or fixed-income consumers—who drive rising dollar store purchases before payday, and a sales spike after payday. The increase in dollar store purchases before payday may be due to consumers stretching their limited remaining dollars on essential products for their families to make it to payday. However, more consumers of all incomes are shopping the dollar channel as many of the post-recessionary frugal shopping habits endure. Not only did the recent recession increase the appeal of dollar stores...
to financially stretched shoppers, the broader assortments, expanded and enhanced food offerings, and improved in-store experience have resonated with consumers who are more affluent. For tomorrow’s dollar consumer, “the stigma of being seen in the dollar store parking lot is gone,” according to Paco Underhill, author of Why We Buy: The Science of Shopping.16

The first consumer persona (“Three days until payday”) we identified is Olivia, who is trying to stretch the $14 in her pocket until payday. She lives in the city within walking distance to the dollar store, a neighborhood convenience store, and a drug store. Olivia appreciates the lower-priced smaller products that are easier on her budget and require less space at home (see the appendix for more information).

The second consumer persona (“Managing to a fixed income in a small town”) is Sophia, who lives in a small town where the dollar store plays a central role in her shopping routine. The nearest large supermarket and big-box retailers are 25 miles away and, with high gas prices, are shopped at less frequently. The availability of milk and other food, combined with the acceptance of foods stamps via Electronic Benefit Transfer (EBT) cards, is important to Sophia’s family.

The third consumer persona (“Born-again dollar store shopper”) is Mason, who is indicative of the new dollar consumer. Mason noticed the new dollar store in the strip mall next to the grocery store. Trying to save himself a trip across town to the mass merchandiser, he stopped by the dollar store with his daughter. To his delight, he found many of the national brands he planned to purchase at the mass merchandiser. Dollar stores are now a regular part of his shopping routine.
Making dollar a strategic channel for CPG companies

In light of the evolving retail landscape, including the growing dollar channel and increased appeal of dollar stores to more affluent consumers, one would think that the dollar channel should be an important and strategic channel for national brands. Yet only 58 percent of the consumer product executives surveyed, and an even smaller portion (40 percent) of the retail executives (primarily working in grocery and mass merchandise), viewed dollar stores as a strategic channel (see figure 6). Retail executives from non-dollar channels – like mass merchandise, grocery, and drug – provide an important competitor perspective.

Yet most of the executives we surveyed expect dollar-store sales to continue to grow and further appeal to consumers. Sixty-two percent of the CPG executive respondents forecast sales at their company’s dollar channel to increase in the next three years; these executives also expect dollar stores to offer more SKUs and product choice (85 percent), expand geographic presence (75 percent), allocate more shelf space to private labels (58 percent), and improve the in-store presentation of products including lighting and in-store displays (57 percent) over the next three years (see Figure 7).17

The executives interviewed also acknowledge that consumer behavior has changed with respect to dollar stores during the past three years. Consumers are shopping at dollar stores more often, spending more, and finding the stores more appealing.18

One surveyed executive recognized the importance of the dollar channel but admitted, “We are not actively marketing to this channel, but [have] benefited from the macro trend of consumers seeking out dollar stores due to the poor economy.”
Challenges in working with dollar stores

One reason for the consumer product companies’ reluctance to acknowledge the growing importance of dollar stores could be the challenges related to working with this channel—the biggest being marketing and operational difficulties, according to our CPG executive survey respondents.

In terms of marketing challenges, CPG executive respondents identified developing dollar-channel-specific products and packaging, managing pricing and margins, managing channel conflict, competing against store brands, and gaining shelf space (see the appendix for more information on executive survey findings). For example, prominent challenges from the survey respondents include: “size and value,” “pricing to enable both of us [CPG manufacturer and retailer] to make margins,” “pack, price, and promotion alignment,” “store brands” (see appendix), and “balancing product/pricing across channels/customers.”

In terms of operational challenges, the areas respondents identified were supply chain, distribution, and in-store operations; responses to the survey and executives interviews were indicative of the large gap between CPG companies thriving in the dollar channel and those struggling. Some large CPG companies have closely partnered with dollar retailers so that their inbound shipments to the dollar retailer warehouses are very efficient. These companies tended to provide a narrow assortment for multiple product categories resulting in relatively consistent and predictable demand met by full truck load shipments to the dollar retailer’s large central warehouses. For those CPG companies without the breadth of product categories and volume to efficiently keep shelves stocked at dollar retailers, the relatively “small orders” compared to the Grocery or Mass Merchandise channels can be a challenge. Similarly, for some CPG companies providing direct store delivery, the large number of stores in both rural and urban regions combined with “volume fluctuations” and a “lack of sophisticated [inventory] tracking” are a challenge.

Executive respondents identified capabilities that address the challenges listed above and are required for success in the dollar channel (see appendix). These capabilities include building a deep understanding of dollar consumer attitudes and shopper behavior; developing and launching channel-specific products, packaging, and marketing; keeping pricing, product costs, and margins in tune with the channel characteristics and operational costs; and finally aligning distribution, supply chain, and operation capabilities with the dollar-channel physical footprint.
We also asked respondents to rate the effectiveness of nine key strategies identified during the executive interviews (see figure 8). CPG and retail executives were included to attain the perspective of both CPG companies serving the dollar channel and also retailers competing against dollar stores. The dollar-channel strategies companies have adopted so far have had varying degrees of success. The most effective strategy was “reduce costs through innovations in operations and supply chain for existing national brands” (rated effective or somewhat effective by 74 percent of respondents). “Point-of-sale promotions” (67 percent) and “offer unique package sizes of products sold through the dollar channel” (64 percent) rounded out the top three strategies. Highlighting the difficulty of succeeding in the dollar channel is the small percentage of executives who rated strategies “effective” compared to the greater proportion who responded “somewhat effective.”

Figure 8. Strategies to succeed in the dollar channel

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Effective</th>
<th>Somewhat effective</th>
<th>Neither effective or ineffective</th>
<th>Somewhat ineffective</th>
<th>Ineffective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce costs through innovations in operations and supply chain for existing national brands</td>
<td>33</td>
<td>41</td>
<td>17</td>
<td>7</td>
<td>2</td>
</tr>
<tr>
<td>Point of sale promotions</td>
<td>16</td>
<td>51</td>
<td>23</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>Offer unique package sizes of products sold through the dollar channel</td>
<td>21</td>
<td>43</td>
<td>20</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Revamp logistics and distribution strategies</td>
<td>15</td>
<td>41</td>
<td>30</td>
<td>13</td>
<td>1</td>
</tr>
<tr>
<td>Invest in new product innovations targeted at the dollar channels</td>
<td>11</td>
<td>47</td>
<td>26</td>
<td>13</td>
<td>3</td>
</tr>
<tr>
<td>Provide stocking and inventory management expertise</td>
<td>19</td>
<td>36</td>
<td>29</td>
<td>15</td>
<td>2</td>
</tr>
<tr>
<td>Offer unique brand (or sub-brand) for the dollar channel</td>
<td>16</td>
<td>35</td>
<td>27</td>
<td>16</td>
<td>5</td>
</tr>
<tr>
<td>Provide direct store delivery</td>
<td>14</td>
<td>32</td>
<td>38</td>
<td>12</td>
<td>4</td>
</tr>
<tr>
<td>Offer unique formulations/ingredients for the dollar channel</td>
<td>10</td>
<td>29</td>
<td>39</td>
<td>15</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: Deloitte Dollar Store Strategies Executive Survey, April 2012, n=125, Excluded “Don’t knows” and respondents who have not attempted these strategies.
Implications for CPG companies

CPG companies face many challenges in selling through dollar stores: dollar-channel-specific product and packaging development, pricing and margin management, and distribution and in-store operations. These companies should consider the following strategies to address these challenges and succeed in the dollar channel.

I. Brand, product strategy, and innovation

Develop retailer-specific product and pack offerings. CPG companies and dollar retailers both benefit from products tailored for consumers like Sophia, Olivia, and Mason. Retailer-specific variants can address the unique needs of the multi-price-point, single-price-point, and close-out retailers while avoiding channel conflict. CPG companies can help dollar stores with an assortment strategy that builds upon their knowledge of consumer attitudes and behaviors of core dollar-shoppers and shoppers that are more affluent. Dollar retailers can help with this differentiation: several of the dollar executives we spoke with emphasized that dollar retailers are more heterogeneous (e.g., multi-price-point, single-price-point, close-out retailers) than many CPG companies acknowledge. Too often, these unique consumer and channel insights enter the CPG product innovation process as an afterthought resulting in negative consequences like inadequate product tailoring and cross-channel differentiation. The application of dollar-specific consumer and channel knowledge at the inception of the product development process mitigates some of the quality and cost-related risks with post-launch product modifications.

Seize “new” shelf space in the dollar stores. CPG companies should suggest new product categories as dollar stores strive to increase shopping trip frequency and basket size. As some dollar stores increase their store footprint, add refrigeration, and increase shelf height, there are additional opportunities in new categories. Some CPG companies should consider managing the entire assortment of new product categories including private-label goods (see appendix on store brands).

Align product launches with retailer shelf-refresh cadence. Launching new products in the dollar channel should not be an afterthought to mainstream launches at grocery stores and mass merchandisers. Introducing new products in the dollar channel—with thousands of small stores across the country being supported by relatively few central warehouses and direct store delivery—can present greater coordination challenges than supplying to traditional retailers. CPG companies should develop a deliberate sequencing and coordination of new product launches across channels, accounting for not only the shelf-refresh cadence at dollar stores, but also the difficulty of achieving common product availability dates. For example, some CPG companies allow for additional time for an updated product assortment to appear on the shelves across the country prior to launching national campaigns.

II. Merchandising and assortment

Develop granular store-specific assortments based on consumer demographics. Some CPG companies actively recommend unique product mixes based on surrounding consumer demographics (e.g., income level, ethnicity, gender) and store location (e.g., urban vs. rural, proximity to other retailers). One dollar executive interviewed said, “CPG companies align assortment with store demand forecasts by product category and consumer segment, including expectations of pre- and post-payday surges.”

Take control of the in-store product presentation with cross-product merchandising. While multi-price-point dollar-store layouts are easier to navigate and less cluttered than they have been historically, CPG companies can continue to improve their in-store product presentation. As mentioned earlier, point-of-sale promotions proved effective for most (77 percent) of the executives surveyed. Some CPG companies and dollar retailers have found mutual success with cross-product merchandising (e.g., back-to-school displays) to increase basket size and alert consumers to new product offerings. Similarly, CPG companies have improved merchandising with vendor-managed endcaps promoting their products.
III. Pricing and trade promotions
View dollar-store pricing and promotions as a cross-channel “satisficing” challenge. Nobel Prize–winning economist Herbert Simon introduced the concept of “satisficing” to describe “good enough” solutions for very difficult optimization problems, like cross-channel pricing.¹⁹ Time and time again, the consumer product and dollar executives interviewed emphasized the importance of delivering value commensurate with the dollar-store price points. At the same time, they were conflicted by the cross-channel conflict that seemed increasingly prevalent as dollar stores add new stores. Fifty-four percent of the executives we surveyed believed that dollar-store pricing increased channel conflict.²⁰ One executive said, “We never seem to get pricing perfect across channels, but we are quick to recognize conflict and adjust the product offering, pricing, or promotions.” In that vein, CPG companies should view dollar-store pricing and promotions as a cross-channel “satisficing” challenge among mass merchandisers, grocery, club, dollar stores, and others. CPG companies should aim to develop a product pack strategy and corresponding price points – within the dollar channel and across channels – that articulate value, while not inciting channel conflict. Granular segment-specific analytics of consumer and channel behavioral and attitudinal data should serve as the foundation to collaborate with retailers to better define the price-performance-value tradeoffs for each channel.

IV. Supply chain, distribution, and operations
Partner with dollar stores to improve in-store inventory management. One CPG company recognized that their low on-shelf and in-stock rates at many dollar-store locations were significantly hurting sales. Consumers could not find the product, possibly because it was on an unloaded pallet or the wrong shelf. The CPG manufacturer partnered with the dollar retailer to enhance in-store stocking strategies and improve product placement. Tactics included customizing color-coded pallet labels and splittable cases, for the retailer’s unique inventory velocity and dollar-store employee skill level. As the dollar retailer added new product categories, the CPG manufacturer was positioned favorably for the new business. Another CPG company was organized to serve traditional retailers with large pack sizes. The large pack sizes were manually divided into smaller packs prior to shipment to the dollar retailers. The company developed smaller pack sizes for dollar retailers to improve efficiency. Additionally, some CPG companies have considered shifting products from central-warehouse delivery to direct store delivery to improve in-stock rates.

Drive ongoing value initiatives to maintain current price points. The combination of inflationary pressures and frugal consumers makes ongoing value initiatives, including cost-reduction efforts to maintain value at current price points, paramount. These actions should include not only packaging, product size, and alternative formulations, but also structural operational costs. Some consumer product companies prepare for multiple inflationary scenarios so that their pipeline has ready-to-launch product offerings that maintain price points at an acceptable margin. For companies with products significantly impacted by inflationary commodity prices, the ongoing identification of cost reduction opportunity is a never-ending process to serve the dollar channel.

Develop shrinkage prevention strategies for at-risk products. Consumer product companies can use shrinkage prevention strategies to help dollar retailers make their products more profitable. The small package sizes and low associate headcount at dollar stores contribute to shrinkage: Dollar stores typically have limited staff on hand, with the same associates often stocking shelves and working as cashiers, increasing the opportunities for theft. Shrinkage prevention strategies (such as packaging and tracking) for at-risk products take into account unique dollar-retailer characteristics (e.g., very few clerks, high turnover, small package sizes).
V. Account team structure, staffing, and capabilities

Provide retailers with strong channel-specific consumer, merchandising, and supply-chain expertise. Many of the dollar executives we interviewed used words like “misunderstood,” “neglected,” and “not a priority” when describing their interactions with CPG companies. One executive said, “We know dollar is not a huge part of their business, but it is just too difficult and bureaucratic to tap into their consumer and operations expertise.” Another dollar executive said, “When CPG companies work closely with us to modify the assortment or change pack sizes, the uptick in sales and improved efficiency benefits both of us.” Consumer product companies should enhance the capabilities of dedicated account teams with deeper consumer, merchandising, and supply-chain expertise to develop retailer-specific approaches. Some CPG companies have developed a center of expertise for emerging channels like dollar where consumer, packaging, and supply chain expertise reside. The dollar and emerging channel account teams use these shared expert resources to quickly respond to retailer requests and leverage channel expertise across the account teams more efficiently. Still, many CPG companies have not increased their dollar-channel-related investment in sales, supply chain, operation, and product development capabilities. While about half of all CPG executives we surveyed believe their companies have increased investment in sales, most believe that their companies’ investment in supply chain, operations, and product development, aimed at the dollar channel, has not changed in the last three years (see figure 9).

Figure 9. Investment changes

Survey question: How has your company’s investment in serving the dollar channel changed during the past three years: sales, marketing, supply chain, operations, and product development?
The retail landscape and consumer preferences appear to be shifting, possibly for good. CPG companies looking to stay on top of these shifts should not ignore the dollar channel, in particular multi-price-point dollar stores. The consumer product executives we surveyed and interviewed seem to be realizing this, albeit gradually. The increasing consumer affinity toward new and improved dollar stores has caught the attention of both retailers and CPG companies. The shift in executives’ views on the importance of different channels over the last three years (see appendix) is testimony to the significance of this trend. The core dollar-store consumers with low incomes like Olivia and Sophia have been well served by the dollar product offerings, prices, and convenience. However, the new dollar consumers like Mason—surprised and appreciative of the national brand offerings and the dramatically improved in-store experience—are harbingers of increasing channel conflict with mass merchandisers and grocery stores. Thirty-eight percent of the executives surveyed consider dollar revenue growth as primarily or completely a shift from other channels like grocery; only 14 percent of the executives view the growth of dollar stores as primarily incremental. Consequently, it is important for CPG companies to make the dollar channel a strategic channel.

Some consumer product companies have figured out the unique characteristics of the dollar channel, and have responded to the challenges of dealing with this growing channel in five distinct areas: brand, product strategy, and innovation; merchandising and assortment; pricing and trade promotion strategy; supply chain, distribution, and operations; and account team structure, staffing, and capabilities.

As the dollar channel is growing up, are you keeping pace?
Appendix: More on the evolution of dollar retail store brands

Store brands in the dollar channel
The consumer perception of dollar store brands has improved. Dollar retailers have increased their investment in private labels – including hiring talent from traditional CPG companies to improve product offerings and instituting corresponding quality processes. According to Chris Durham, founder of My Private Brand (www.mypbrand.com), dollar retailers have “Done a great job to raise the quality perception and to reaffirm the [consumers] choice of store brands in recent years. The dollar retailers have loyal customers, and many consumers trust the store brands.”

Store brands admittedly benefit from uncertain economic conditions and cash-strapped shoppers trying to save on household consumables. Although large national brands account for a growing portion of dollar stores’ sales at multi-price-point dollar stores, private-label brands are steadily gaining share at the expense of secondary and tertiary brands. Fifty-eight percent of the consumer product executives we surveyed expect more shelf space at dollar stores allocated to private label in the next three years. For national brands the limited store size can be an impediment, however, dollar stores tend not to offer premium private label products to directly compete with premium CPG products which can be an advantage.

Store brands at dollar stores were an evocative topic for several of the CPG executives we interviewed and surveyed. On one hand, some executives encouraged CPG companies to manufacture private label products for dollar stores since they experienced “better margins for everyone.” On the other hand, some executives were concerned about the narrowing quality gap between the store brand and core national brand offerings.
Dollar store shoppers are typically less affluent than non-dollar store shoppers

**Shoppers self-reported economic status**

<table>
<thead>
<tr>
<th></th>
<th>Non-Dollar store shopper</th>
<th>Data store shopper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poor</td>
<td>11</td>
<td>19</td>
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<tr>
<td>Lower middle class</td>
<td>27</td>
<td>34</td>
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<td>Middle class</td>
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<td>Upper middle class/affluent</td>
<td>10</td>
<td>6</td>
</tr>
<tr>
<td>Upper class/wealthy</td>
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<td>1</td>
</tr>
</tbody>
</table>

Source: Deloitte 2011 American Pantry Study, n = 4,086 size, survey conducted in November 2011

**Shoppers’ household annual income**

<table>
<thead>
<tr>
<th></th>
<th>Non-Dollar store shopper</th>
<th>Data store shopper</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under $25,000</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>$25,000 to $49,999</td>
<td>28</td>
<td>34</td>
</tr>
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<td>$50,000 to $74,999</td>
<td>21</td>
<td>17</td>
</tr>
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<td>$75,000 to $99,999</td>
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<td>$100,000 to $124,999</td>
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<td>$125,000 to $149,999</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>$150,000 and above</td>
<td>8</td>
<td>3</td>
</tr>
</tbody>
</table>

Source: Deloitte 2011 American Pantry Study, n = 4,086 size, survey conducted in November 2011

**Number of trips and spend per month for the dollar store shopper**

<table>
<thead>
<tr>
<th></th>
<th>Once a month</th>
<th>Two or three times a month</th>
<th>Four + times a month</th>
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<tbody>
<tr>
<td>Less than $10 per month</td>
<td>8%</td>
<td>3%</td>
<td>1%</td>
</tr>
<tr>
<td>$10 to $20</td>
<td>15%</td>
<td>7%</td>
<td>3%</td>
</tr>
<tr>
<td>$20 to $30</td>
<td>12%</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>$30+</td>
<td>6%</td>
<td>13%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Deloitte 2011 American Pantry Study, n = 4,086 size, survey conducted in November 2011
Appendix: Consumer Personas

“Three days until payday”

Urban lower income
Olivia’s payday is three days away and all she has is 14 dollars and some loose change in her purse. Her financial situation is better than a few years ago but she likes sticking to a budget; spending the next paycheck until the money is in her pocket is a big “no”. Olivia carefully selects a few food products, a much-needed dish soap, and a toothpaste adding their prices together in her mind. In her basket were primarily store brands combined with a couple of national brands. These few purchases, mostly for her two children, would be just enough to last the next few days. She appreciated the low-priced smaller products that are easier on the budget and require less space at home. Olivia has also noticed that the smaller product and food portions seem to result in more awareness of consumption by her family and less waste. The needed mascara and cute shirt she liked will have to wait until after payday. Olivia leaves the store with a small bag in hand, and a few dollars left in her purse. On the short walk home, Olivia passes the neighborhood convenience store and the national chain drug store knowing that she had just saved a few dollars.

“Managing to a fixed income in a small town”

Rural fixed income
Sophia loves living in a small rural town. There are lifelong friendships within the community, activities like the annual festivals each season, and the stunning beauty of the natural surroundings, which Sophia valued. On the flip side, the nearest large supermarket and big box retailers were 25 miles away, and travel time and higher gas prices for each trip felt increasingly onerous. The ten dollars in gas for each trip caused her once weekly supermarket trips to be less frequent, and Sophia had come to rely more on the in-town independent grocery store and the dollar store. It seemed like each trip to the dollar store she added more and more products to her shopping cart, and she noticed that the shelves were higher so the store now was able to offer more variety. Her recent additions were hair care products, cosmetics, and over-the-counter medicine, on top of the household cleaners and packaged foods she had regularly bought for quite some time. The refrigerated food staples also came in handy. The quality of the store brands seemed on par with many of the national brands. And then there were always those unplanned purchases like a take-home manicure kit and a few greeting cards. Many on fixed incomes in the community – like her retired mother – filled in with purchases from the dollar store between trips to the supermarket. The addition of milk and other food a few years prior and the acceptance of food stamps via EBT cards, allowed her mom to complete more of her shopping in town. By providing an affordable assortment of household goods, personal care products, and food, the dollar store played a long-standing important role for her community. For Sophia, the dollar store was where you would run in to neighbors and she had known the store manager and other employees since they were in elementary school.
Suburban middle class
Mason walked out of the grocery store with Emma, his seven-year-old daughter, and a full shopping cart. He glanced at his watch and considered the time it would take to purchase the personal care and household products at the large mass merchandiser across town. As Mason loaded the groceries into his minivan, he noticed the new dollar store in the strip mall next to the grocery store. He wondered if he could save himself a trip until next week and a gallon of gas by buying a few essentials at the dollar store. It had been several years since he entered a dollar store, and he hoped he could find some acceptable products among the clutter and low-quality products he expected. Emma led the way into the dollar store, and was immediately enticed by a sign promoting inexpensive hair headbands. As Mason entered the store, he was surprised by the wide aisles, the bright lights, and to his delight, many of the national brands he planned to buy at the mass merchandiser several miles away. He also found products at multiple price points— from $1 on up to $10. The per ounce or per unit prices for some national brands were less than the grocery store, and seemed similar or less to the mass merchandisers product pricing. Mason ended up spending $20 for an array of national brands for products such as shampoo, laundry detergent, and paper towels, and a few store brands. A quick glance at the refrigerated and frozen food section reminded Mason to purchase the frozen waffles he forgot to buy at the grocery store. At the end of the trip, the receipt came with a $5 off $25 promotion for his next trip. Mason was definitely returning next week. And Emma left with the stylish and inexpensive headband in her hair, and a smile.
Appendix: Executive interview and survey methodology

Executive interview methodology
• Interviewed CPG and dollar retail executives in February and March 2012
• The duration of interviews ranged from 30 to 60 minutes covering:
  – Expectations of dollar channel growth
  – Challenges and opportunities in serving the dollar channel
  – Strategies to serve the dollar channel
  – Dollar consumer characteristics, attitudes, and behaviors.

Executive and manager survey methodology
• Executive and manager web-based survey conducted April 17-20, 2012
• 125 survey respondents across CPG and retail
  – CPG (64 percent), primarily food and beverage
  – Retail (36 percent), primarily grocery and mass merchandisers
• Respondent roles and titles reflect a broad range of expertise
  – Primarily supply chain/operations and brand/marketing/product roles
  – Also, merchandisers/buyers and region/store managers
• A majority of respondents work for large companies
  – Revenue from $1 billion to less than $10 billion (32 percent)
  – $10 billion to less than $50 billion (29 percent)
  – $50 billion or more (39 percent)
• Respondents tend to consider their employer as higher performing than primary competitors over the past three years in terms of:
  – Total revenue growth (65 percent, higher or significantly higher)
  – Customer loyalty/retention (62 percent)
  – Profitability (62 percent)
• CPG respondent company sales from dollar (see below). Median sales from the dollar channel were 5 percent of total revenue.

Percentage of sales from the dollar channel

<table>
<thead>
<tr>
<th>Frequency</th>
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<tbody>
<tr>
<td>0-3%</td>
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<td>3-6%</td>
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<tr>
<td>6-9%</td>
</tr>
<tr>
<td>9-12%</td>
</tr>
<tr>
<td>12-15%</td>
</tr>
<tr>
<td>15+%</td>
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</tbody>
</table>
Executive survey question: How do you expect sales through these channels to change for your company during the next three years? (increase significantly, increase, no change, decrease, decrease significantly, don’t know)

Source: Deloitte Dollar Store Strategies Executive Survey, April 2012, n=64 to 76 (Only CPG Executives), Scaled after elimination of “Don’t Know” responses

Executive survey question: How has consumer behavior changed with respect to dollar stores during the past three years? (increase significantly, increase, no change, decrease, decrease significantly, don’t know)

Source: Deloitte Dollar Store Strategies Executive Survey, April 2012, n=125
**Executive survey question** How do products in dollar stores compare to those in mass merchandisers and grocery stores? (differ significantly, differ somewhat, no difference, don’t know)

Source: Deloitte Dollar Store Executive Survey, April 2012, n=80 (Only CPG Executives)
Executive survey question: What is the biggest challenge your company faces while dealing with the dollar channel?

Open text responses.

Channel-specific products, packaging, and marketing

Deep understanding of dollar consumers and shopper behavior
“Consumer insights - how shopper behavior differs vs. other channels”, “Consumer research and understanding to develop products/packaging for this consumer”, “Consumer/customer understanding”, “Shopper insights and shopper marketing”, and “Understanding of occasions/trips and consumer”

Pricing, costs, and margin aligned with channel
“Cost”, “How to make the most margin”, “Keep operational costs as low as possible while providing reliable service”, “Low cost!”, “Product and packaging development to hit price points profitably”, and “Revenue management”

Distribution, supply chain, and operations aligned with channel

Quality product offering
“Quality”, “Quality products not cheaper versions”, and “Maintaining consumer perceived quality and price”

Other
“Communicate role of channel across enterprise”, “Having dollar channel customers invest more heavily in store-brands - better margins for everyone”, and “In-store service”

Executive survey question: What internal capabilities should consumer product companies be building/refining to be successful in the dollar channel?

Open text responses.

Channel-specific products, packaging, and marketing

Deep understanding of dollar consumers and shopper behavior
“Consumer insights - how shopper behavior differs vs. other channels”, “Consumer research and understanding to develop products/packaging for this consumer”, “Consumer/customer understanding”, “Shopper insights and shopper marketing”, and “Understanding of occasions/trips and consumer”

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Other
“Communicate role of channel across enterprise”, “Having dollar channel customers invest more heavily in store-brands - better margins for everyone”, and “In-store service”
Endnotes

1. Company 10-Ks, 2003 - 2012
2. The 2011 American Pantry Study: The new rules of the shopping game, October 2011, n=4,086
4. ibid
6. Deloitte dollar store mystery shopping trips, March 2012
7. ibid
11. Leslie Earnest, Dollar Stores Extend Shelf Life By Bucking Retail Woes: Sales Climb As Chains Such As 99 Cents Only Attract New Customers With Gourmet Treats And Brand Items, Los Angeles Times, April 4, 2004
12. Debbie Howell, Dollar channel too rich for mass retailers, DSN Retailing Today, November 21, 2005
13. Deloitte 2011 American Pantry Study: The new rules of the shopping game, survey conducted October 2011, n = 4,086. Note: Forty-five percent of respondents identified as dollar store shoppers. Observations based on this consumer survey data have limitations. First, web-based surveys tend to under-represent very low-income consumers that dollar stores hold a particular appeal to. Second, English-only surveys do not sample Spanish-only speaking shoppers – an important segment of the population for dollar stores
15. Executive interviews with dollar and CPG executives, February – March 2012
16. Interview with Paco Underhill, May 7, 2012
17. Deloitte Dollar Store Strategies Executive Survey, April 2012, n=80 (CPG Executives) and n=40 (Retail executives). Respondents selected 'Increase significantly' or 'Increase'
18. Deloitte Dollar Store Strategies Executive Survey, April 2012, n=125
20. Deloitte Dollar Store Strategies Executive Survey, April 2012, n=125. Respondents selected ‘Increase significantly’ or ‘Increase’ for number of trips (78 percent), dollars spent (75 percent), and overall appeal (63 percent)
21. Deloitte Dollar Store Strategies Executive Survey, April 2012, n=125
22. Interview with Chris Durham on March 29, 2012