

D Marketing by the Numbers Mark Up

Consumers typically buy products such as toiletries, food, and clothing from retailers rather than directly from the manufacturer. Likewise, retailers buy from wholesalers. Resellers perform functions for the manufacturer and the consumer and mark up the price to reflect that value. Refer to Appendix 2: Marketing by the Numbers to answer the following questions.

1. If a manufacturer sells its laundry detergent to a wholesaler for \$2.50, for how much will the wholesaler sell it to a retailer if the

wholesaler wants a 15 percent margin based on the selling price? (AACSB: Communication; Analytical Reasoning)

2. If a retailer wants a 20 percent margin based on the selling price, at what price will the retailer sell the product to the consumers? (AACSB: Communication; Analytical Reasoning)

D Video Case Home Shopping Network

Shopping on television has been around almost as long as television itself. But the Home Shopping Network (HSN) made it a full-time endeavor in 1982, giving birth to a new retail outlet. Since then, HSN has been a pioneer in products, presentation, and order taking. The company has sold millions of products and has been known for giving an outlet to legitimate products that otherwise would not reach customers.

But what does a company do when the very retail channel that it depends upon starts to fizzle out? This video illustrates

how HSN has met the challenges of a changing marketplace to continue its innovative methods for reaching its customer base.

After viewing the video featuring HSN, answer the following questions:

1. How has HSN differentiated itself from other retailers through each element of the retail marketing mix?
2. Discuss the concept of the retail life cycle as it relates to HSN.
3. Do you think HSN has a bright future? Why or why not?

D Company Case Dollar General: Today's Hottest Retailing Format

"Save time. Save money. Every day." Given today's economics, that sounds like a winning proposition. In fact, it's the slogan of discount retailer Dollar General—and it *is* a winning proposition. Dollar stores and other hard discounters are today's hottest retailing format, and Dollar General is the nation's leading dollar store.

Whereas the Walmarts, Costcos, and Targets of the world are big-box discounters, Dollar General and the other dollar stores are small-box discounters. They remain a relatively small threat to their bigger rivals. For example, the combined annual sales of all dollar stores amount to only about 15 percent of Walmart's annual sales. But they are one of the fastest-growing threats. Throughout the Great Recession, as the big-box discounters struggled, the dollar stores spurted, rapidly adding new stores, customers, and sales. In the post-recession economy, big-box stores have lumbered along at a lukewarm pace while the dollar stores have continued to thrive.

How is Dollar General doing it? A famous ad person once wrote, "A company can become incredibly successful if it can find a way to own a word. Not a complicated word. Not an invented one. The simple words are best, words taken right out of the dictionary." In this case, the word "dollar." Not only have Dollar General and the others seized this critically differentiating word from Walmart and Target, they've also seized it from grocery stores, drug stores, and any other types of retailers that ever laid claim to low prices.

If you haven't been in a dollar store lately, you might be surprised at what you'll find. Back in the day, dollar stores sold mostly odd lot assortments of novelties, factory overruns, close-outs, and outdated merchandise. Not anymore. "Dollar stores have come a long way, baby," says a retail analyst. "The Great

Recession accelerated the iconic American chains' transformation from purveyors of kitschy \$1 trinkets to discounters in a position to lure shoppers from the likes of supermarkets, drugstore and Walmart stores." Dollar General now sells a carefully selected assortment of mostly brand-name items. More than two-thirds of its sales come from groceries and household goods.

A Retail Concept Is Born

In the late 1800s, the Woolworth brothers invented the concept of five-and-dime stores. By the mid-1900s, it was apparent to J. L. Turner that although the original concept was a winner, inflation had watered it down to the point that the "five-and-dime" price point was no longer relevant. In 1955, Turner opened the first Dollar General store in Springfield, Kentucky. Following the lead of the Woolworth brothers, he priced no item in the store at more than one dollar. Word spread quickly, and the store won such a huge success that Turner and his son, Cal, quickly converted other stores they owned to Dollar Generals. Within a few years, they were operating 29 Dollar General stores generating \$5 million a year in sales.

After his father's death in 1964, Cal Turner Jr. led Dollar General until 2002. By that time, the template was set and the momentum irreversible. Today, there are more than 10,000 Dollar General stores in 40 states. And today more than ever, Dollar General's cash registers are ringing. Last year, the company reported revenues of \$14.8 billion. That's an average annual growth rate of 14 percent per year since the company went public in 1968. Even more significant, Dollar General's revenues are three times what they were just five years ago. In the next few years, Dollar General

plans to grow to more than 12,000 stores (about the same as the number of McDonald's restaurants nationwide and more than 20 times the number of Target stores).

Saving Customers Money—and Time

Dollar General's "Save time. Save money. Every day." slogan isn't just for show. It's a carefully crafted statement of the store's value promise. In addition to low prices, the company emphasizes convenience and quality brands in its positioning statement: "Our goal is to provide our customers a better life. And we think our customers are best served when we keep it real and keep it simple. Dollar General stands for convenience, quality brands, and low prices. Dollar General's successful prototype makes shopping a truly hassle-free experience. We design small neighborhood stores with carefully edited merchandise assortments to make shopping simpler."

Saving money is clearly at the heart of Dollar General's positioning, demonstrating that the Turners were able to accomplish what the Woolworths could not. As the old five-and-dime format gave way to the dollar positioning, the Turners kept an eye on the marketing environment to ensure that their chain remained relevant. The result is that today's Dollar General is no longer a pure "dollar store" (about a third of its merchandise is priced at a dollar or less). Still, Dollar General has retained its positioning of having the lowest price point in retail.

Dollar General's prices on the brand-name products it carries are an estimated 20 to 40 percent lower than grocery store prices and are roughly in line with those of the big-name discount stores. There are also plenty of savings to be had on dollar items and the increasing selection of Dollar General private-label merchandise. Finally, Dollar General gets a boost from customer perceptions of its dollar-store format. The \$1 price point not only draws customers in but also lets them shop a little more freely than they would elsewhere. Almost anything in the store can be had for less than \$10.

When it comes to saving customers time, Dollar General's "hassle-free" and "keep it simple" model kicks in. Its carefully edited product assortment includes only about 12,000 core items (compared with 47,000 items in an average supermarket or 142,000 items in a Walmart supercenter), making things easier to find. But that doesn't mean that customers have to do without. As Dollar General points out, "We don't carry every brand and size, just the most popular ones." The focus is on life's simple necessities, such as laundry detergent, toilet paper, soap, shampoo, and food items, with quality brands such as Gain, Clorox, Charmin, Dove, Pantene, Palmolive, Kraft, Betty Crocker, and Coca-Cola. Dollar General has even added brands such as Hanes underwear, L'Oréal cosmetics, and Rexall vitamins and herbal supplements.

Keeping it simple also means smaller stores—more than 25 Dollar General stores could fit inside the average Walmart supercenter. In addition, most stores are located in convenient strip malls, which usually allow customers to park right in front of a store. Once inside, customers encounter fewer aisles to navigate, fewer goods to consider, and smaller crowds to outwangle than in big-box stores. All that adds up to a quick trip. The average Dollar General customer is in and out of the store in less than 10 minutes. Try that at a Walmart. And although Dollar General is experimenting with larger-format stores that carry produce, meat, and baked goods, those Super Dollar Generals are still much, much smaller and more manageable than a Walmart supercenter.

A Winning Combination

Keeping things simple for consumers also benefits the company's bottom line. Smaller stores are less expensive to operate, and locating them in smaller markets and less glamorous neighborhoods keeps real estate costs down as well. Dollar General's cost per square foot is as low as one-tenth that of supermarkets. By constructing its stores more cheaply, Dollar General is able to build more of them. In fact, Dollar General now has more stores in the United States than any other discounter.

Dollar General's product mix strategy also contributes to its financial performance. Although it carries top brands, it leans toward brands that are not market leaders. For example, customers are more likely to encounter Gain than Tide. Furthermore, stores don't stock products in all sizes, just the ones that sell the best. Finally, Dollar General's merchandise buyers focus on getting the best deals possible at any given time. This opportunistic buying might mean that the chain stocks Heinz ketchup one month and Hunts the next. Such practices contribute to lower costs and higher margins.

The post-recessionary trend toward more sensible consumer spending has given Dollar General and other dollar stores a real boost. Not only is Dollar General attracting more sales from existing customers, it's also attracting new higher-income customers. A recent survey showed that 65 percent of consumers with incomes under \$50,000 had shopped at a dollar store in the past three months. However, 47 percent of households with incomes over \$100,000 had done so as well. Although its core customers are still those who make less than \$40,000 a year, Dollar General's fastest-growth segment is those earning more than \$75,000 a year.

Put it all together, and things are sizzling right now at the nation's largest small-box discount retailer. Dollar General has the right value proposition for the times. But what will happen to Dollar General and its fellow dollar stores as economic conditions continue to improve? Will newly acquired customers abandon them and return to their previous shopping haunts?

Dollar General doesn't think so. Dollar stores seem to do as well in good times as in bad. The format had already been growing at a healthy rate before the Great Recession hit. And customers who switched over show no signs of relapsing into their old, free-spending ways. We "see signs of a new consumerism," says Dollar General's CEO, as people shift where they shop, switch to lower-cost brands, and stay generally more frugal. Company research shows that 97 percent of new customers plan to continue shopping at Dollar General even as the economy improves, the same percentage as old customers. Low prices and convenience, it seems, will not soon go out of style.

Questions for Discussion

1. Describe Dollar General according to the different types of retailers discussed in the chapter.
2. As a retail brand, assess the Dollar General strategy with respect to segmentation, targeting, differentiation, and positioning.
3. List all the reasons why Dollar General has been so successful over the past 40 years.
4. In competing against other brick-and-mortar retailers, will Dollar General succeed or fail in the long term? Support your answer.
5. Against online retailers, will Dollar General succeed or fail in the long term? Support your answer.