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Dollar stores and their current impact on rural c-stores. By Mark Radosevich

My firm has recently been engaged in several projects requiring extensive driving through rural areas of the southeast. Nestled within the bucolic scenery is a growing number of new dollar stores popping up around seemingly remote intersections. I wondered how these stores could be economically justified given the lack of houses or people nearby. Yet their prevalence was unmistakable and I doubt that managements' strategic plans included money wasting growth tactics. As such, a renewed assessment of dollar stores and their impact on the convenience store industry seems appropriate.

There has been much debate recently about the vulnerability of existing convenience store operations when a sophisticated unbranded c-store chain enters a market. Central Florida and upstate South Carolina are good examples of the devastating effects that this can have on existing older style store operations. It has been generally agreed that stores located in very rural communities are typically insulated from this type of business disruption. However, the increasing prevalence of dollar stores may represent a threat that has not been fully appreciated. After some investigation, following are some findings and recommendations that may prompt greater industry or store level consideration:

Across the country, there are two primary dollar store competitors: Dollar General and Dollar Tree, which acquired the Family Dollar chain back a couple of years ago. Each company salary operates their stores, which number around 14,000 each. Store sizes typically run around 7,500 square feet but can go as high as 10,000. In 2016, Dollar General logged around $22 billion in sales, with around 120,000 stock keeping units (SKU's). Last year alone, the company added nearly 1,000 new units and it has been documented that they have a total store count target of 20,000 stores.

To get a better sense as to how the two companies target their customers, I signed up for their weekly emailed offerings that include sales, coupons and door buster offers. Both companies do not directly target c-stores but rather position themselves as "fill-in shopping" for items generally found in supermarkets or discounters like Walmart. Dollar General features household or packaged food items typically priced at or below $5.00. Dollar Tree works from a model whereby everything in the store is a dollar. However, they are launching another division with stores that will compete more closely to Dollar General. Over the past years, both chains have added beer and cigarettes, which begins to crossover into traditional c-store territory. Research shows that the addition of cigarettes definitively increased customer counts and it was noted that only 26% of all cigarette customers did not purchase another items during a visit.

Both companies typically target rural unincorporated areas on well-travelled roads or in underserved small towns. Dollar General reports that 70% of their stores are located in towns with fewer than 20,000 people. It was noted that each new store results in employment opportunities for around thirteen people. Construction management is so streamlined that the in-house teams can simultaneously work on up to fifty new stores, with construction time being ninety days from ground breaking to the grand opening. Pre-construction due diligence activities can take up to nine months depending upon the location. By putting an emphasis on unincorporated areas, where governmental regulations are reduced, overall developmental time is shortened and growth targets are enhanced.

Rural c-stores and nearby dollar stores run in parallel with a commonality of both customer demographics and select products including candy, snacks, cigarettes, soft drinks and beer. The notion of “convenience” is also an important point of commonality with the words “Save Time” being part of Dollar General’s official company theme. The weekly promotional emails generally take a blanket approach where offers are valid at all stores, versus a targeted approach toward stores in a specific trade area. In the future, select rural c-stores could be vulnerable in the event that dollar store marketing decides to refine and expand their loyalty and email programs to enable store-specific or trade area offerings.

Considering the various points of commonality, the key distinctions between the two businesses is Food and Fuel. Although previously tested in some parts of the country, dollar stores have yet to pivot to fuel and as such, it remains the primary point of differentiation and driver for c-stores to maintain customer engagement. Being publicly traded and the related imperative for same-store sales growth, it may be only a matter of time before they embrace fuel. The timing could be exacerbated as dollar stores reach their targeted national saturation points. Given new store growth rates, the “big two” may be only five or six years before fuel becomes a viable addition.

This highlights the number one point of current differentiation: “Food,” and stresses the importance of having a successful QSR as a key part of any rural c-store operation. I believe that it will be easier for dollar stores to expand into fuel due to the fixed nature of their store layouts, operational model and the significant disruption that food service would cause.

When assessing a rural c-store chain acquisition or one’s own stores, following are a few important considerations to make beyond traditional industry metrics:

- Do the c-stores have QSR’s and if so, are they profitable and popular in the community? Remember that c-stores without QSR’s are more vulnerable.
- Is there a dollar store in town and is it of a modern size and configuration? C-stores that have demonstrated the ability to compete with an established dollar store are a better bet for long term viability versus a c-store in a town where a dollar store has yet to arrive. Given their growth targets, it’s probably only a matter of time until one or more does.

In summary, dollar stores do not currently represent as significant a threat to disrupt the status quo as do sophisticated unbranded c-store chains. For rural store operators however, they are not something that should be ignored and should be factored into all retail business plans and assessments.

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