

The best way to
predict the future
is to invent it.

Ten things you may not know about the Dollar Channel

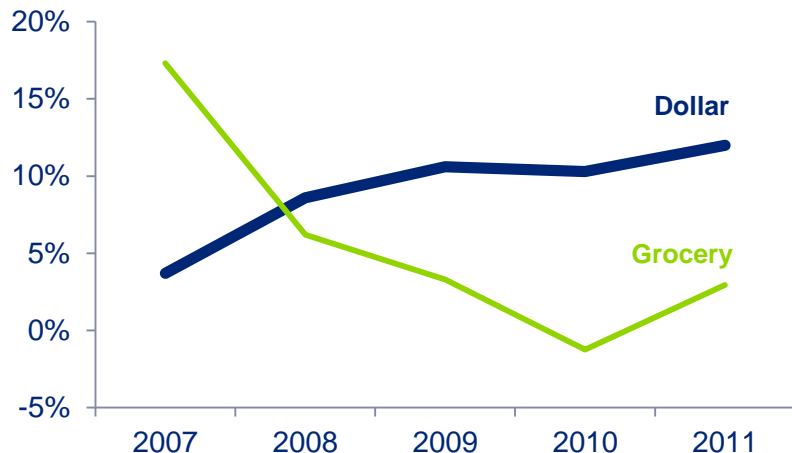
The evolving dollar channel
and implications for retailers
and manufacturers



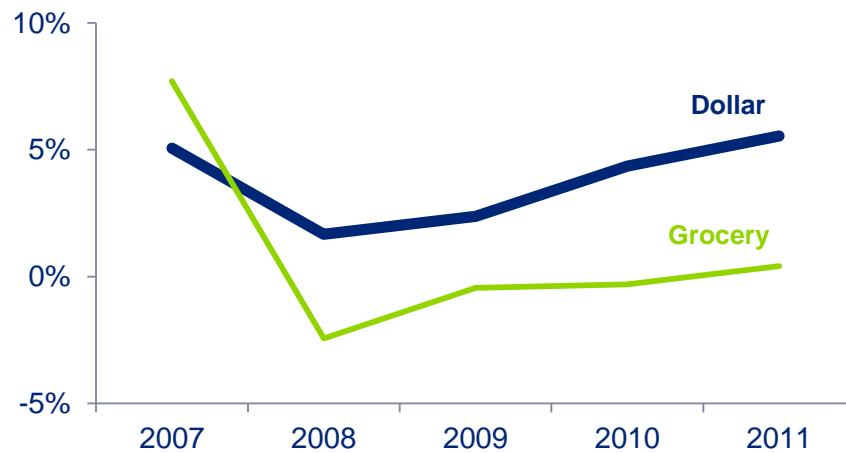
January 22, 2013

Dollar channel attracts strong sales growth at the expense of traditional channels

Annual Sales Growth



Annual Store Growth



U.S.: Revenue Growth (%)

Channels*	2006-2011 CAGR (%)
Dollar	9.0
Grocery	5.6

Store Growth (%)

Channels*	2006-2011 CAGR (%)
Dollar	3.8
Grocery	0.9

Source: 2007-2011 Company 10-K Reports
Source: CapitalIQ

Ten things you may not know about the Dollar Channel

1 The Dollar Channel has mass appeal to the “new normal” consumer

Several underlying consumer trends are dramatically increasing the appeal of dollar store formats

Purchasing More Low-Priced Products	Making Fewer Trips to Food Stores	Saving is a Badge of Honor	Purchasing Smaller-size Products
75% of adults are looking to purchase more low-priced products	73% of adults are making fewer trips to food stores	86% of adults are looking carefully at every spending category to see where they can save	21% of adults are purchasing smaller sized products
“I have also started buying lower-priced cuts of meat.”	“I used to shop for food more frequently, but with [higher] gas prices I only go to one or two stores.”	“I watch my money more carefully and I am much more aware of ways to save.”	“With just two in our family, I look for small size so I don't have much waste.”

Consumer Quotes

Source: Deloitte 2011 Consumer Food and Product Insights Survey (May 2011, n = 1,087, based on reaction to higher gas prices)

Source: Deloitte “The American Pantry Study” (2012)

2 Across the existing shopper segments, dollar store “evangelists” are emerging across all incomes

Dollar consumers extend beyond low and fixed income consumers, with an emerging population of affluent consumers placing increased importance on this channel

“Three days until payday”



“Managing to a fixed or low income”



“Born-again dollar store shopper”



Dollar consumers making <\$50k annual household income

62%

Increased Dollar Channel Importance

- More affordable price points than other retail channels
- Improved store brand quality
- Accepts EBT (food stamps)
- National brand offerings
- Located within walking distance and/or much closer than the nearest supermarket
- Lower prices and more choices than bodega/convenience store

Dollar consumers making >\$100k

54%

Increased Dollar Channel Importance

- National brand offerings
- Convenience for quick trips compared to supermarkets
- Smaller packages for less waste
- Competitive price points

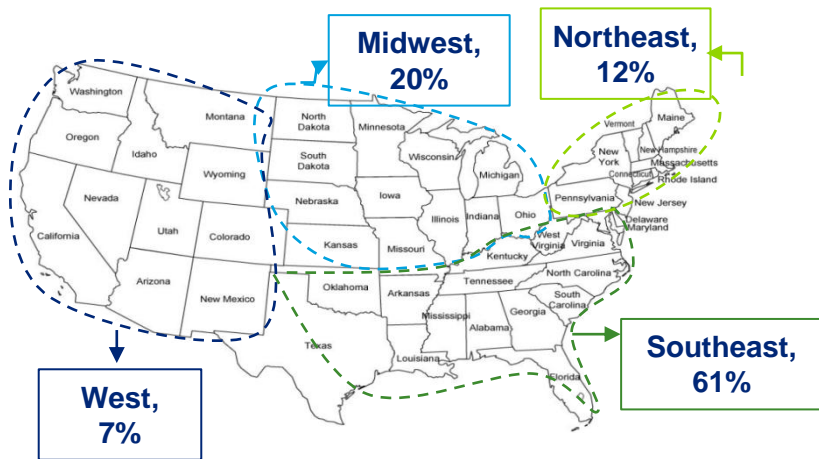
Source: Executive Interviews conducted in February and March 2012 with CPG and dollar executives, 30 to 60 minutes in duration

Source: Deloitte dollar store mystery shopping trips, March 2012, 2011 American Pantry Study

3 Dollar stores are doubling down to grow (Part 1 — Stores)

Leading dollar stores have aggressive growth strategies including new store expansion in underpenetrated geographies

Room in cities and the West to expand...



...the strategic intent to grow...

- Dollar retailers are planning to open approximately 1,500 new stores in the next year, and remodel many existing stores
- 85 percent of CPG executives surveyed expect geographic expansion in the next three years

...and the resources to do it



Source: Company10-Ks, 2003 – 2011; CapitalIQ
Deloitte Dollar Store Strategies Executive Survey, April 2012, n=80

4 Dollar stores are doubling down to grow (Part 2 — Customer experience)

Multi-price dollar stores have dramatically improved customer experience in recent years with less cluttered store layouts, brighter lighting, and wider assortments of national & store brands

	2012	Consumer Reaction
Aisles, Lighting, and Signage	<ul style="list-style-type: none">• Wide, less cluttered, and cleaner• Bright and vibrant• Large and clear	<ul style="list-style-type: none">• “Dollar stores have become more pleasant to shop in since the products are easier to find and stores are easier to navigate”• “I spend more time at dollar stores shopping even though I am able get in and out quickly when in a hurry”• “The stigma of the dollar store is waning”
Check Out and Customer Service	<ul style="list-style-type: none">• Wide and convenient• Proactive	<ul style="list-style-type: none">• “I am shopping at the dollar store more often because of the convenience compared to the hassle of shopping at large supermarket across town”
Product Assortment	<ul style="list-style-type: none">• Expanded (e.g., national brands, high quality store brands, more categories)	<ul style="list-style-type: none">• “I am buying more national brands at the dollar store in new categories like fresh/frozen food and cosmetics”• “I have been buying more store brands. The quality of store brands has improved significantly”
<div><ul style="list-style-type: none">• More time in store• More trips• Bigger spend</div>		

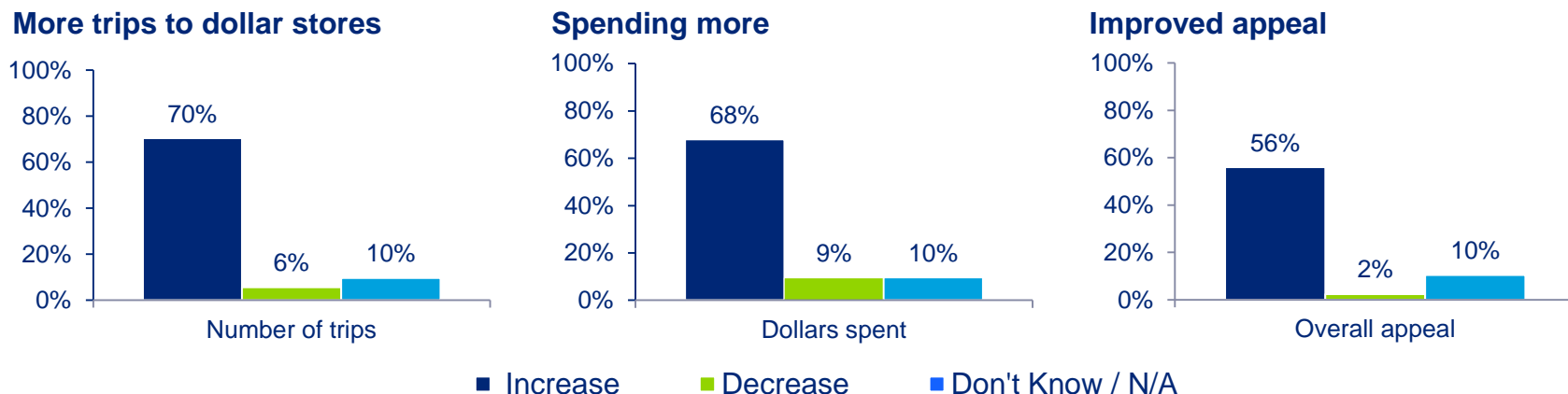
Source: Deloitte dollar store mystery shopping trips, March 2012

4 Dollar stores are doubling down to grow (Part 2 — Customer experience continued)

Most executive respondents believe that dollar stores are more attractive to consumers

Consumer behavior towards Dollar Stores during last three years

Survey question: How has consumer behavior changed with respect to dollar stores during the past three years?



Source: Deloitte Dollar Store Strategies Executive Survey, April 2012, n=125

5 Dollar stores are doubling down to grow (Part 3 — Categories)

Leading dollar retailers are expanding assortments and adding whole new categories to the store — such as frozen food and personal care products

Frozen food



Personal care



Examples

Implications

- Expectations of more trips (*2.6 trips per month*)
- Expectations of larger average basket size (*\$11 per trip*)
- Need for thoughtful category expansion by CPG companies to manage channel conflict
- Mystery shoppers pleasantly surprised to find products like “frozen waffles” and “beauty products”

**Dollar Stores are moving into more lucrative and higher margin categories.
CPG company participation in new product categories requires risk/reward tradeoff**

Source: Deloitte dollar store mystery shopping trips, March 2012

Source: 2011 American Pantry Study

6 A majority of respondents expect dollar stores to grow across multiple areas over the next three years

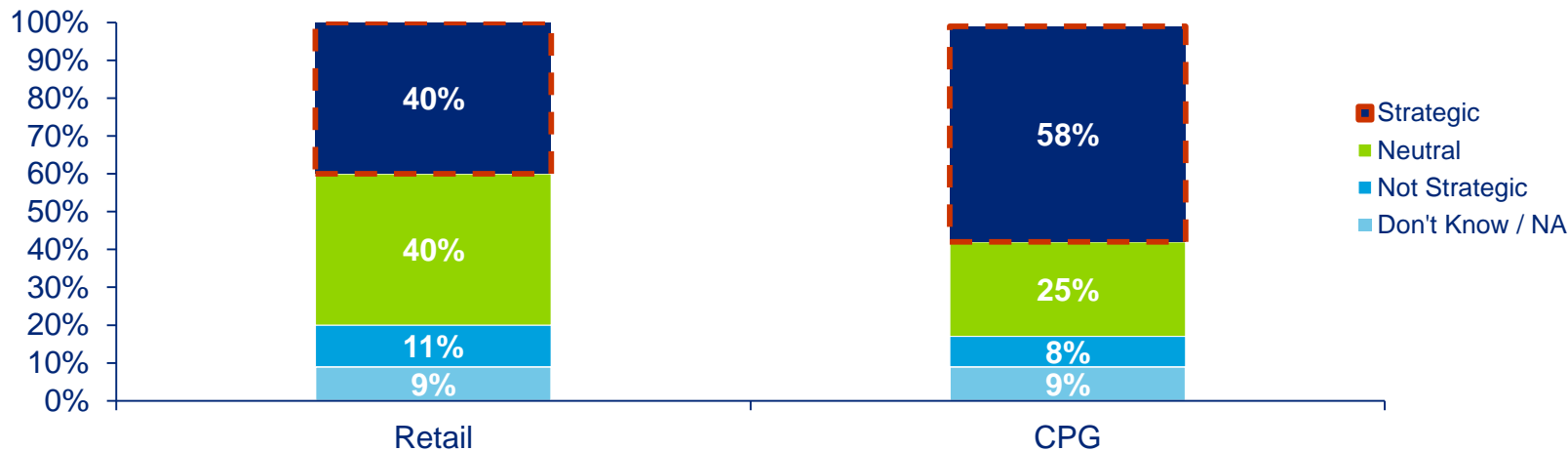
Survey question: During the next three years, how do you think dollar stores will develop?



Source: Deloitte Dollar Store Strategies Executive Survey, April 2012, n=80 (CPG Executives) and n=40 (Retailer executives). Respondents selected 'Increase significantly' or 'Increase'

7 Despite consumer trends and store actions, some remain uncertain of the channel's strategic influence

Dollar Channel as a strategic sales channel

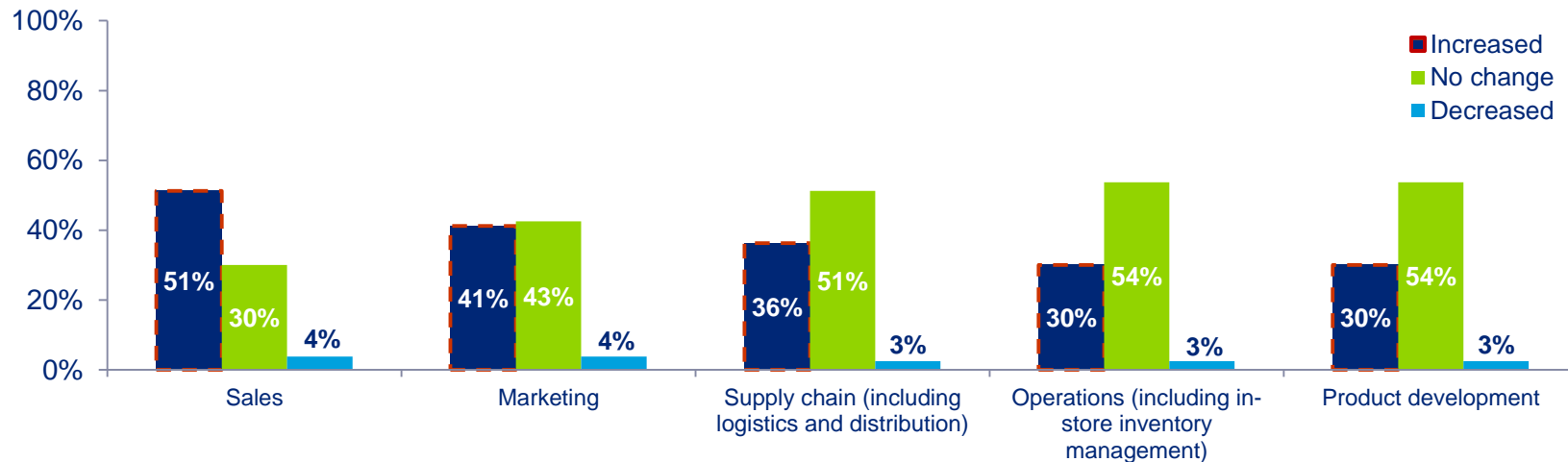


Retail executives are much less likely than CPG executives to view the Dollar channel as strategic (40% vs. 58%)

Source: Executive Interviews conducted in February and March 2012 with CPG and dollar executives, 30 to 60 minutes in duration
Deloitte Dollar Store Strategies Executive Survey, April 2012, n=80 (CPG Executives) and n=45 (Retailer executives).

8 CPG suppliers are increasing investment in the dollar channel and consumer

Dollar Channel investment over the past three years

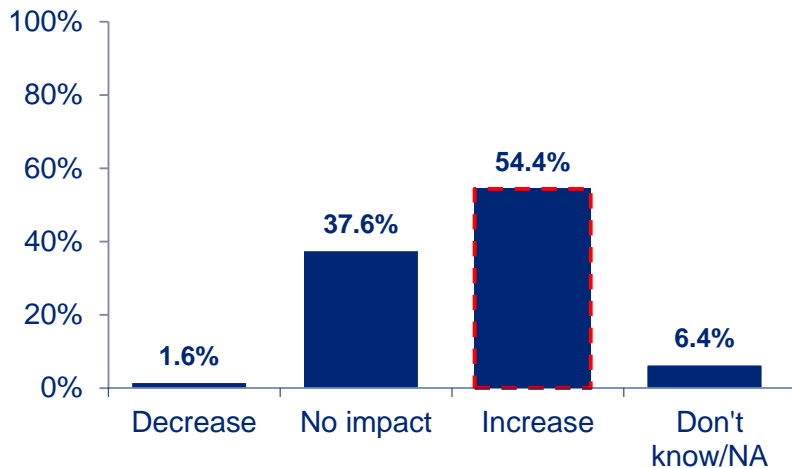


Half of CPG companies have increased their investment in sales and over 35% have increased investments in marketing and supply chain for the dollar channel

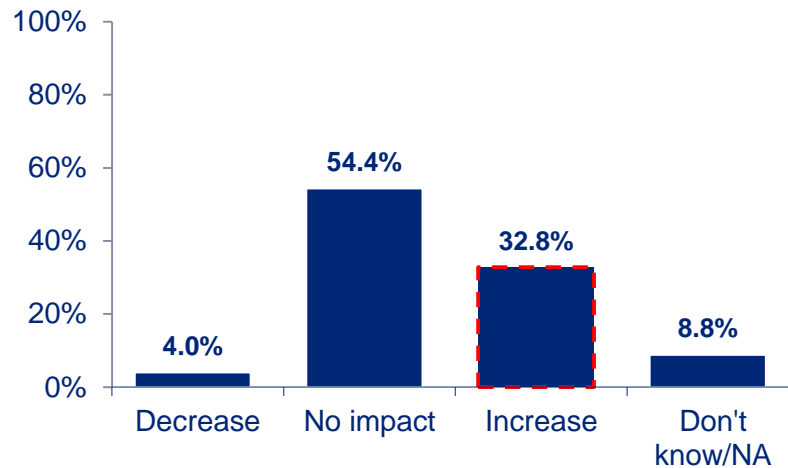
Source: Executive Interviews conducted in February and March 2012 with CPG and dollar executives, 30 to 60 minutes in duration
Deloitte Dollar Store Strategies Executive Survey, April 2012, n=80 (CPG Executives)

9 However, CPG suppliers continue to struggle with channel conflict

Impact of pricing differences on channel conflict



Impact of product offerings on channel conflict

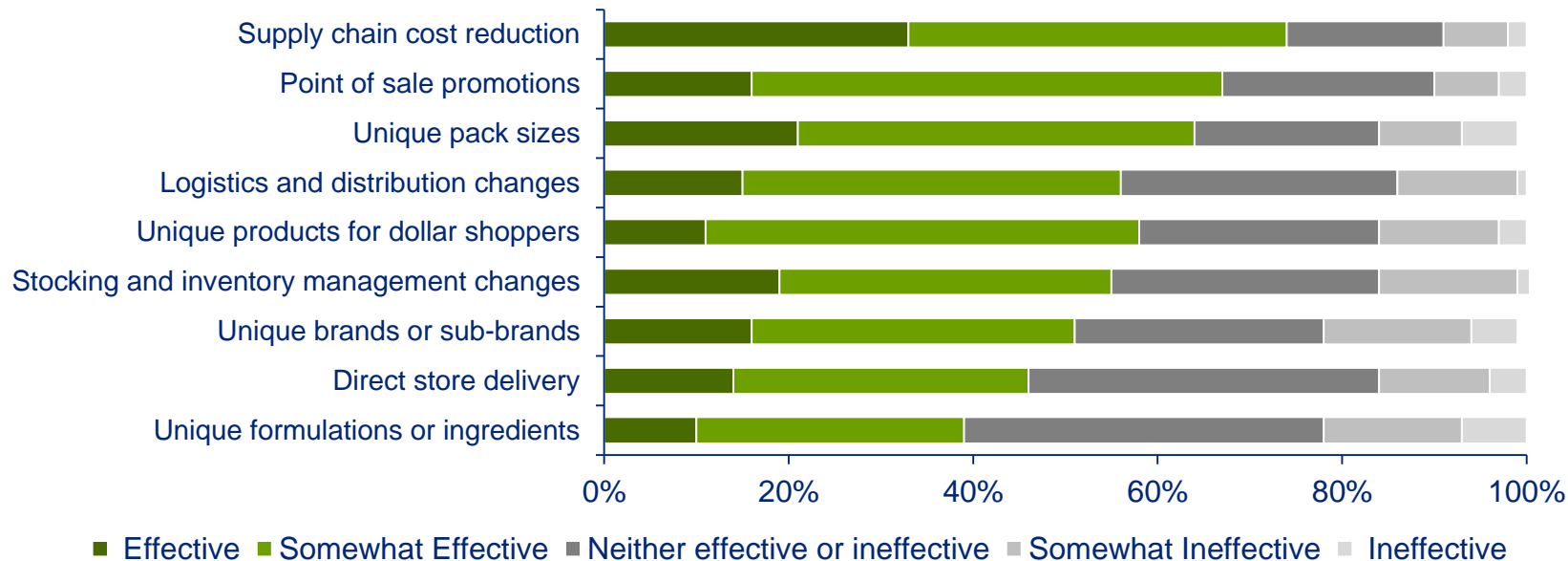


A significant number of executives surveyed expect channel conflict to increase due to pricing and insufficient product offering differences between dollar stores and other retail channels

Source: Executive Interviews conducted in February and March 2012 with CPG and dollar executives, 30 to 60 minutes in duration
Deloitte Dollar Store Strategies Executive Survey, April 2012, n=80 (CPG Executives)

10 CPG strategies to win dollar channel consumers have had mixed results

Effectiveness of Dollar Channel oriented strategies



Source: Executive Interviews conducted in February and March 2012 with CPG and dollar executives, 30 to 60 minutes in duration

Source: Deloitte Dollar Store Strategies Executive Survey, April 2012, n=108-113

Case studies and implications for CPG manufacturers and retailers

Examples and opportunity areas



**Brand, product
strategy, and innovation**



**Merchandising and
assortment**



**Pricing and
promotions**



**Supply chain and
distribution**



**Sales
organization**

Deloitte.