

# Discount stores have no plans to slow their breakneck expansion pace

Article

**The news:** Dollar General, Dollar Tree, and Five Below all plan to open more stores this year than in 2022, defying the **cautious outlook** from most other retailers.

- **Dollar General plans to open 1,050 new stores across the US in 2023** and remodel 2,000 others. That's an acceleration from the 1,039 openings and 1,795 remodels the company completed last year.
- **Five Below sees an opportunity to expand to 3,500 locations worldwide** (up from 1,340 stores currently). The retailer plans to add 200 stores to its fleet this year alone, more than the 150 it opened in 2022.
- **Dollar Tree expects to add roughly 650 locations this year** and complete around 1,000 store renovations.

**The opportunity:** Discount stores benefit from the inflationary environment in two ways; first, by growing their share of wallet from their core consumer base, and second, by picking up more sales from higher-income consumers looking to save money.

- Both Dollar Tree and Dollar General reported increased sales from consumers in higher income brackets in Q4, a state of affairs likely to remain as long as gas and grocery prices stay elevated.
- And as consumers' appetites for discretionary purchases diminish, Dollar General, Dollar Tree, and Five Below are adding more consumables to their stores to broaden their appeal.
- That approach has worked well from a sales perspective. Dollar General's net sales in Q4 grew 17.9% year-over-year (YoY), helped by 22.7% sales growth for consumables.
- "Consumables drive transactions" and basket growth, Dollar Tree CEO **Rick Dreiling** noted on the company's latest earnings call.

**The drawbacks:** On the flip side, the shift in spending from high-margin discretionary categories like apparel and home decor to low-margin groceries has hurt gross profits, leading discount retailers to invest in private labels and higher-priced store concepts, and in some cases temporarily stop stocking certain items.

- Dollar General plans to beef up its private label candy, snack, pet food, perishable, and healthcare offerings to offer shoppers more value (and lift margins). The retailer will also double the number of **pOpshelf** stores this year in a bid to attract wealthier shoppers.
- Five Below said it would convert 400 stores into its higher-priced **Five Beyond** concept this year.

- On the cost-cutting side, Dollar Tree has temporarily stopped stocking eggs after prices rose to record highs, although sister banner **Family Dollar** continues to sell them. The company will also introduce hundreds of private label products starting in the second half of the year.

**Looking ahead:** Discount stores have good reason to be bullish. In addition to the existing cost pressures weighing on consumers, the expiration of **emergency SNAP benefits** will likely increase many shoppers' reliance on lower-cost retailers.

- That said, while discount stores have benefited from economic uncertainty, it's less certain whether those gains will translate into long-term loyalty once inflation normalizes.

### Actions Taken by US Adults to Save Money, Aug 2022

% of respondents



Note: in the past month

Source: Morning Consult as cited in company blog, Sep 1, 2022

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