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Price, Promotion Optimization Feeding Family Dollar Growth Boom

By Adam Blair

Family Dollar chairman and CEO Howard Levine sees price optimization as a "substantial opportunity ahead of us," with particular benefits in the areas of promotions, everyday pricing, and potentially in markdown pricing for clearances. **Levine believes price optimization is a crucial tool for creating the right price perception among customers in today's highly competitive, highly promotional environment.**

Levine spoke during a recent conference call discussing Family Dollar's strong financial results for the quarter ending November 27, 2010, which is the retailer's first quarter of fiscal 2011. Net sales of \$1.997 billion were 9.5% higher than the same quarter the previous year, and net income climbed 9.9% to \$74.3 million. **The chain's comp store sales increase of 6.9% is "the best first quarter result we've delivered in more than 12 years,"** said Levine. In addition, Family Dollar is in a growth mode, with plans to add 300 new stores and renovate 600 more in 2011.

During the call, Levine gave an update on the chain's price optimization efforts so far. "What we've done primarily thus far is to refine the zoning process to make sure that we have the right stores in the right zones," said Levine. "We continue to learn about that and continue to make tweaks there, but that's been in place and I think is a big part of what we've done thus far." He added that Family Dollar has enlarged its analyst group and improved communication between the retailer's merchants and its pricing group.

"Ahead of us is still an optimization opportunity in the promotional area, also still some opportunities with everyday pricing, perhaps there's even some clearance optimization out there that we will see some benefits from in our future," Levine said.

Asked whether price optimization was an important initiative for 2011, Levine agreed and said **"We do view the pricing opportunity as a margin play as well as ensuring, and this is probably the most important part of it, that we maintain our strong price perception in this highly promotional competitive environment that we're in.** So when you look out in the future, I know everybody knows about all the inflationary pressures that we're seeing. We feel confident that we have the right process and systems in place to evaluate and work through any of those challenges that will probably be ahead of us."

300 New Stores Planned for 2011

Family Dollar, which currently operates 6,800 stores, is "building the pipeline to return to square footage growth of 5% to 7%," said Levine as he announced plans to open approximately 300 new stores in fiscal 2011. In addition, Family Dollar has completed 200 of a total of 800 store renovations planned for this year. The renovations include more intuitive merchandise adjacencies and improved navigational signage; an expanded assortment of key consumable categories including food and health aids; new fixtures that enhance customer sightlines, increase merchandise capacity and simplify restocking and recovery; and a more customer-friendly checkout area that encourages greater customer interaction while also supporting Family Dollar's shrink control efforts.

In addition, "We're adapting our point of sale to give us a lot more flexibility to manage promotional programs," said Jim Kelly, president and COO of Family Dollar.

To ensure customer service improves along with the physical upgrades, "we continue to enhance our employee training with an increased focus on customer service and recovery, and we are investing in new labor scheduling and workflow management tools," said Levine.

In-Stock Improvements

Family Dollar is also beginning to see positive results from its inventory management efforts. "Average inventory per store at the end of the quarter was about 8% higher than last year," said Ken Smith, senior vice president and CFO. "This increase reflects our ongoing efforts to improve in-stocks, as well as our investments to support the expansion of key consumables categories. I would note that we continue to manage inventory levels and more discretionary categories well."

While he did not provide specifics, Levine noted that the company is using handheld devices to manage inventory more appropriately and improve productivity.

Family Dollar is committed to measuring the impact of its full range of investments. "The entire area of optimization, whether it be a building, an assortment, or whether it be an inventory optimization from a supply chain perspective, are all areas that we have defined improvement objectives from a technology perspective going into next year," said Kelly.