Dollars General uses Control to grow Profits

How much profits can be made from selling a product priced at one dollars? For discount stores such as the Dollar General retail chain, the total can add up to billions of dollars-if management keeps a tight rein on operations. Dollars General’s CEO, David A. Perdue, Jr., heads a retail empire of 7,000 stores that earned a gross profit of $2 billion on sales of $ 7 billion during one recent year. To keep up a gross profit margin of more than 28 % and a net profit margin topping 4 %, Perdue puts great emphasis on control.

Headquartered in Goodlettsville, Tenn., Dollar General retails household basics like paper towels, detergent, milk, and T-shirts, priced low for customers who want to stretch their budgets further. Most of its stores are smaller than 8,000 square feet so shoppers can stop in, find what they want quickly, and be on their way. Week in and week out, Dollar general serves nearly 10 million customers, the chain is geared toward “the-value-conscious, low-income consumer who depends upon us for everyday low prices on quality, basic consumables, “ says Angela Martin director of communication.

Dollar General is the largest of the largest of the dollar-store chains. Family Dollar, the second-largest chain, has more than 5,300 stores; Dollar General, the third-largest, has more than 2,500 stores. Wal-Mart and Costco also appeal to bargain-hunting customers with special selections of one-dollar merchandise, which means that Perdue must boost efficiency to keep Dollar General completive. One decision he made is to install an automatic replenishment system aimed at preventing the store from running out of popular products. First managers determine how many of each item should be in each store, then the system tracks sales and automatically reorders when the inventory level of a particular item falls below a preset level. Simply keeping the shelves full(but not overstocked) has helped Dollar General increases sales.

In addition, the CEO is testing different store layouts and merchandise assortments to see which yield the best sales and profit performance. During a recent economic recession analysis showed that Dollar General’s customers were buying fewer nonessential item. In response Perdue expanded the self space devoted to food and other frequently purchased products. By adding larger coolers stocked with milk, juice, fruit, and other foods in selected stores, he is making the most of what he sees as “a big opportunity to drive customer traffic and improve over all store sales.

Traditionally, Dollar General’s merchandising mix has been geared toward stores smaller than 7,000 square feet. However, notes Perdue, “we have many stores that are larger. As a group, they underperform on a per-foot basis. We believe we can significantly improve per-square-foot productivity”. The CEO is doing this by enhancing the variety of items within existing product categories stocked in these larger stores. Then he will compare sales square foot against expected performance standards to find out whether he has succeeded in increasing revenues and expected performance standards to find out whether he has succeeded in increasing revenues and profits by using store space more efficiently. At the local level, Perdue is providing regional mangers with new systems for monitoring and fine-tuning the operations of the stores they supervise. He has also hired experts to examine and reorganize the internal flow of work with an eye toward saving time.

Moreover , Perdue is tightening control to clamp down on the theft of merchandise, know as shrinkage in the retail industry which hurts the bottom line. The CEO has set a target of cutting shrinkage to less than 3% annually by revamping the support functions serving the 250 stores with the highest shrinkage figures. And, despite the need to keep prices low, Perdue sees some room to raise prices and recoup slightly higher profits on items that Dollar General has priced lower than competitors. Low prices bring customers in and low costs help grow profits, which is why “we are still constantly working to take cost out of products, he stresses.

Questions

1. What activities should Perdue apply to make the control process more effective when raising prices of items previously priced lower than competitors?
2. Should the CEO consider lower sales per square foot at larger stores a problem or a symptom? Explain.
3. Would you recommend that a discount retailer such as Dollar General use precontrol, concurrent control, or feedback control to manage shrinkage?