

Stores Scramble to Accommodate Budget Shoppers

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The country's continued economic doldrums have stores scrambling for the once-ignored low-end customer, as people make fewer costly shopping trips to stock their pantries, and increasingly, can only afford inexpensive items in small quantities like those sold at dollar stores.

Dollar stores have shown the biggest gain in shopper visits over the last year out of all the retailers that sell basic consumer goods, according to market research data. Manufacturers are racing to package more affordable versions of products common at those stores, and other budget retailers, feeling the loss of customers, are trying to duplicate their success.

Wal-Mart, the world's largest retailer, is adding thousands of items to its shelves, including inexpensive ones, and is asking dollar-store suppliers to create small, under-a-dollar packages for its stores, too. In areas with high unemployment, Wal-Mart is grouping together its less than \$1 items in a clear challenge to the dollar stores.

The impetus for the downmarket trend is the continued tightening of household budgets, retailers and analysts said.

Some customers at Wal-Mart and the major dollar chains — Dollar General, Family Dollar and Dollar Tree — have such modest budgets that the retailers report upticks in spending at the beginning of the month, when government benefit checks and many paychecks come through. Late in the month, sales drop as even multiroll packs of paper towels are ditched for a single roll.

"People are literally running out of cash on hand as the month goes on and they're looking for smaller package sizes," said Craig Johnson, president of the retail consulting and research firm Customer Growth Partners. "They may have \$10, \$20, \$30 to spend getting toward the end of the month, and they have to be able to still feed the family and get diapers and so forth."

At about a quarter of Wal-Mart's stores, the company is beginning to offer items for under \$1, like a four-pack of toilet paper, boxes containing just a few garbage bags and single rolls of paper towels.

But the dollar stores have best been able to capitalize on the downmarket trend because of strategies they embraced during the recession, when the stores kept things cheap and expanded their merchandise, analysts said.

Realizing that their shoppers often could not afford regular-size detergent, for example, the stores worked with manufacturers to create smaller packages that cost less.

"Just because of their cash flow, they're buying the smaller packs," said Sam Paul, chief executive of Nextep, which makes trash bags.

To keep up with the demand for smaller quantities Wal-Mart began stocking the company's five-pack of outdoor garbage bags a couple of months ago and Nextep recently opened a factory that specializes in small packaging.

In the last year, dollar stores "have not only shown growth among their heaviest shoppers, but also that they are stealing heavy shoppers" from stores like Wal-Mart, said Susan Viamari, editor of Times and Trends, a publication from the market research and consulting firm SymphonyIRI Group, in an e-mail. SymphonyIRI tracks what consumers are buying.

According to the company, the number of visits to dollar stores increased 2.6 percent from June 2009 to June 2010 compared with the same period a year earlier, the most recent figures available. Over the same period, visits to large stores like Wal-Mart declined 7 percent.

The dollar stores are pulling in shoppers like Mellissa Hayden. A pizza deliverer, she is the kind of price-sensitive shopper who knows that a bottle of ibuprofen from the Dollar General near her home in Rockford, Tenn., costs just \$2.50 and has 100 pills, but at Wal-Mart, she will get fewer pills for about \$5.

So lately, she has been heading to dollar stores instead of Wal-Mart. "You don't have the big crowds and it's cheaper," she said.

Same-store sales, which measure revenue at stores open at least a year, at the three major dollar chains have increased for at least 10 consecutive quarters. At Wal-Mart, same-store sales in the United States have declined for the last five quarters.

During the recession, Wal-Mart pulled back on very inexpensive products, suppliers said, to make the stores look less cluttered and to appeal to shoppers who might be testing out that retailer instead of, say, Target. That decision has it now playing catch-up.

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