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APPAREL

Family Dollar bets on face-lift

Company hopes new look boosts customer spending

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When Shakera Miller heads to Family Dollar to buy a carton of eggs or baby clothes, she doesn't stop at the West Boulevard store located just a few blocks from her home.

Instead, she drives about a mile out of her way to shop the Family Dollar on Tyvola Road.

Why?

Quite simply, it looks nicer.

"It's pretty and more presentable compared to the other stores. I like the way they've decorated," said Miller, 21. "It's also more organized and it seems like they've got more variety of stuff compared to other stores. I come in here to spend \$5 and end up spending \$70 or \$80."

Matthews-based Family Dollar Stores is pinning its future on customers like Miller as it uses the store at 4611 W. Tyvola Road -- and two others in Charlotte -- to test a more upscale design and layout aimed at improving the shopping experience. The goal: get current shoppers who spend about 1 to 2 percent of their income at Family Dollar to visit more often, stay longer and spend more.

The changes will be rolled out to new stores starting next year. Eventually, some layout and design changes may be retrofitted into the chain's other 6,200 stores across the country, Family Dollar spokeswoman Kiley Rawlins said.

Family Dollar is competing in a fiercer retail environment in which superstores such as Wal-Mart and Target have captured a larger share of shopper wallets. Family Dollar also received a wake-up call in 2004 when its customers, suffering from a weak economy, stopped spending as much at its stores.

Comparable store sales -- an important industry indicator of sales at stores open at least a year -- were essentially flat for the four-week period ending August 28, 2004. During that quarter, the company reported its first earnings decline in more than eight years.

Company officials feared the trend wouldn't reverse itself without doing more intense research to better understand its customers, Rawlins said.

Since that time, the company has worked to increase margins by selling groceries and beefing up sales of electronics. So far, the strategy seems to be working. Family Dollar isn't seeing more customers, but its profits are going up because its shoppers are spending more per trip.

The company's same-store sales in the fourth-quarter of 2006 saw a 4.9 percent increase compared with the same period in 2005. Earnings rose 33 percent to \$38.8 million.

Changing the layout and design of stores is the next step, Rawlins said.

The Tyvola store is organized into distinct departments and features soft lighting, color-coded displays and shelving that prevents products from being knocked over. Overall, shoppers said the store exudes a department-store quality that reminds them of Target stores.

It's a far cry from the existing Family Dollar stores, where shoppers complain they find merchandise on the floor, toppled on shelves or piled in unsightly heaps around the store.

Merchandise in the Tyvola store is also grouped more intuitively, with paper plates and foil located by the food instead of, say, feminine hygiene products.

"I would definitely come back here," said James Louris, 48, who stopped in on Thursday to buy antifreeze. "They seem to have a better selection here. I'd definitely be more likely to come to this store than others."

For Family Dollar's efforts to succeed, the company must be careful not to alienate its core consumer, said Doug Fleener, president of Dynamic Experiences Group, a retail consulting firm based in Lexington, Mass.

Fleener said some shoppers like the disorganized feel of some discount stores because they view the store as a bargain hunt,

Fleener said. A nicer store, he said, sometimes implies higher prices.

"I say hats off to them because that market deserves as much of a pleasant shopping experience as anyone else," Fleener said.

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