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TOUGH CUSTOMER JANUARY 20, 2012, 10:01 A.M. ET

What's the Allure of Dollar Stores?

Kadet: Dollar stores are booming, but what's really driving their popularity? Hint: It's not the prices.

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By ANNE KADET



While your mind was elsewhere -- fretting over the lousy economy, perhaps -- chances are a Family Dollar store opened in your neighborhood. Or a Dollar General. Or a Dollar Tree. And it's probably packed with folks stocking up on value-brand paper towels, discount greeting cards and dollar portions of frozen fried chicken. As economic indicators go, this is not a good sign.

It's been a rough sled for retail, but the dollar-store business is growing like crazy. The national chains are drawing higher-income shoppers, reporting record profits and opening new stores on a daily basis. Dollar General, with more than 9,800 locations, is now the nation's largest retailer by store count. Middle-class shopping centers used to shun the discounters, says John Tomlinson, an analyst at ITG Investment Research. Today they're courted as one of the few options for filling vacancies.

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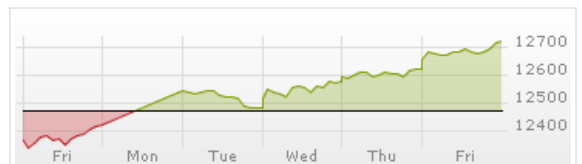
Oddly, their success isn't due to mind-blowing prices. Dollar General says 75 percent of its merchandise costs more than a dollar. Family Dollar cites a similar stat and admits it can't always undercut Wal-Mart. "There's some things we can beat them on and some things we can't," says spokesperson Josh Braverman. Even Dollar Tree, which miraculously sells everything for a dollar or less (including, on a recent visit, feather boas and home pregnancy tests), can't claim low-price leadership. The store's elfin containers of Palmolive, Clorox and Duncan Hines brownie mix cost far more on a per-ounce basis than the larger

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versions sold at Wal-Mart.

Nor are dollar stores popular for incredible closeout deals. Back when they specialized in overstock and manufacturer's seconds, the shops were a great source for unintentionally interesting finds (quirky figurines designed by, one imagined, the criminally insane) and impossible bargains (5 pounds of peanuts for a buck). Now, giants like Procter & Gamble make products in small sizes just for dollar-store shelves.

And while the strange names on the labels may intrigue newbies (who, exactly, is Chef Karlin?), value brands are typically the product of a sophisticated merchandising strategy. Stuart Straus, CEO of Personal Care Products, the nation's largest purveyor of "extreme value" packaged goods, says his sourcing team travels the globe to find equivalents of \$5 items that dollar stores can sell for \$1, under his company's Personal Care and PowerHouse brands. The latest: a feminine-hygiene spray and a WD-40 knockoff. "There are hundreds of companies like us vying to supply them," he says of the dollar stores.

These products aren't designed to wow -- just to satisfy. I made a lunch out of dollar-store beef jerky; the best I can say is that I lived to write about it. Packs of disposable razors and boxes of garbage bags got the job done. Dollar-store chocolate mints I offered at the office elicited responses such as "Not half bad!"

So what's the real allure of dollar stores? Tomlinson thinks he has the answer: Folks are so broke and so busy that they can't afford the gas and time required to shop big-box discounters on the edge of town. Your typical dollar store, meanwhile, is close to home and a tenth the size of your average Wal-Mart. Most shoppers spend just 10 minutes and 10 bucks in the store. In 2012, this is how we prefer to shop.

In coming years? The dollar stores plan to double their store count, a sign that economic recovery is far, far away. So go ahead and cry. There's surely a dollar box of single-ply tissues selling at a convenient location near you.

FINANCIAL GLOSSARY

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Words used in this article: [leadership](#), [CEO](#), [analyst](#)

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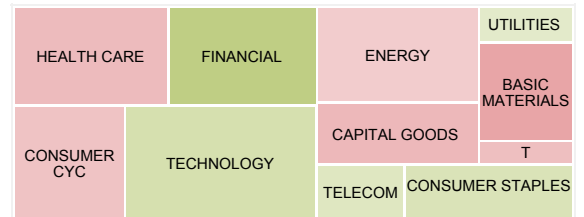
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