Dollar General Corp. - Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

Interview conducted on September 07, 2023

Topics
Dollar Tree, Inc., Retail Industry, Store Location, Competition, Sales Strategy, Growth, Store Construction, Fresh Food Offerings

Summary
The former Director of Construction Analysis & Administration at Dollar Tree, Inc. discussed the factors considered when opening a new Dollar General store, including avoiding cannibalization, demographics, foot traffic, competition, and impact on competitors. The decision-making process involves a group decision starting with the leasing team and approvals from various levels of management. New stores now ramp up faster, especially for Family Dollar, due to improvements in technology and data. Construction costs have increased due to inflation and materials prices, and rents have also gone up. Remodeling strong stores can result in a comp boost of around 20%, while underperforming stores may be considered for closure. The introduction of fresh produce in stores poses challenges, and the supply chain is being adjusted. Both Dollar General and Family Dollar are expanding their offerings. More labor generally leads to better sales, and both retailers are expanding and overlapping geographically. The low-cost retail model is expected to continue thriving due to convenience and the inability of online retailers to compete on price. Dollar General has faced execution issues, potentially due to rapid expansion. Mitigating cost increases without raising prices can be achieved through negotiations with vendors, improving logistics efficiency, and renegotiating rents. The average rental contract length is typically 10 to 15 years.

Expert Details
Former Director Of Construction Analysis & Administration at Dollar Tree, Inc., leaving in April 2021.

Vice President Of Global Supply Chain at Compass Datacenters.

Prior to Compass Datacenters, expert was Director Of Construction Analysis & Administration at Dollar Tree, Inc., leaving in April 2021. Expert provided analysis and reporting of financial and statistical data related to construction projects, while providing a leadership role in organization and management regarding all administrative responsibilities of the Store Design & Construction Department.

Tegus Client
Thank you for taking the time to chat about Dollar General and that retail space. To kick it off, for new stores, when you were deciding where to open a new store location, what factors did you consider and what were the most important ones?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
There's a lot of factors that go into it. First, they look to make sure I'm not cannibalizing owned stores to a negative point. So you look at your preference there. There's key demographics for wages and if it fits our demographic of what our typical customer is. And then the next thing there also is foot traffic.

As you're probably aware, Dollar Tree does not do a lot of marketing, it's more word of mouth and signage. That's how they kind of get it about. It's not advertised on TV, and it's mostly flyers. Family Dollar does a little bit about radio and flyers and such, but it's not a lot of marketing. So they want to make sure it's in a high visible or good foot traffic. So a lot of times, you'll see them anchored near a big-box store.

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And then you look at the traffic flow, sometimes you can modify that a little bit if you're in a smaller town, but make sure you have that. And then competition, what's around? And do you think you can make an impact to your competitor or not? So they won't shy away from it, but they'll want to know, obviously, who's there because a grand opening often will take a large percentage. And then how much can you make it sticky?

Tegus Client

And who is responsible for making that decision?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

That is a group decision. It starts out in the leasing group. I'll say it's been a couple of years since I've been there, but they will start out with us. The leasing team will bring that. It will go up usually through an agent to Release Coordinator than our manager and then that will get reviewed and pulled. They'll look at some of the construction rates and some numbers that, that's one of the jobs I used to do in the past was provided average costs in different regions and how much cost to build.

So they'll pull that information, they'll put together a portfolio and then that will get reviewed by the Director and then off to an analytical sales group to see based on some factors of those demographics and modeling, which is proprietary that they will say, well, here's what the estimated sales would be based on the factors that we're assuming on there. And that's just a key point. That's not necessarily gospel. This is what the data splits out.

That will go before the Directors. The Director will then review it, kind of give it a go, no-go or sharpen it or what can we do? And then with a little bit with the merch group, just to make sure there is anything special, but usually it's the same merch across the country. Then it goes before the committee and essentially, you do a sales presentation, you put up on the screen, you show its location. It's a standard layout template, location, competitors, your other stores are in the area.

What percentage you think you'll take from them? What percentage do you think you'll take from there? What your lease terms look like? And then that's put in front of operations Vice President, Chief of Real Estate and get reviewed and then final say goes all the way up to CEO and Chief Operations level to do final approvals.

It sounds like a long process that they meet weekly on it and present probably 50 to 100 stores and those constantly I crank those out just because it doesn't make it through the first pass, it may get filed, just got away, you need to renegotiate. So in the back down, we do the lease terms or some of that nature. But that's kind of a high-level summary of it.

There's negotiating, there will be the leasing quote is like, "I know this area is growing. I know it does show up in the model, but they're building a new subdivision nearby, and I think there'll be another X percent jump." And they'll take that into account and sometimes we'll take a risk is to get into a new market or whatever, that's important too, to get a foothold or just like now, this deal doesn't work and it's okay, then you move on.

Tegus Client

What's the approval rate on first pass generally?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

When you mean first pass, that's all the way to the committee I believe. That's actually a good question because I never really track that because so many go through. I could give you a number, but it would be pure speculation. That wasn't just something we like tracked in that sense because you just went through so many and you're doing so many all the time. It's a bit of a volume game, not a percentage game because if you're doing that many per week and you really only opening a 1,000 you could see it's probably 20%, 30% or something like that.

But they would come back around because they would get pushed back in and go look at your merch mix,

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can we tweak it? What's the chances that will come to me like, what if we could put alcohol and tobacco in there? Does that allow? That would be trying to be done upfront, but sometimes that's too controlled substances so it might have something, or we could push back to a landlord to reduce the rates or the local, can we move it down the street? Or is there another property of that nature? So I just don't have a good answer on that one.

Tegus Client

And then on a cohort basis of, say, new stores open today versus new stores opened two, three, four, five years ago, just generally, do you think new stores now are ramping up faster than those in the past?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

Yes, especially for the Family Dollar side. Dollar Tree you're always in a constant improvement status, and it's really a lot to do with your vendors and your general contractors and how we're communicating and putting new systems in. So that is something we did measure. And while I would say there was significant improvement over a 10-year period of weeks in those weeks equal sales because the faster you open, the faster you get sales.

I'm not starting that. So yes, it's definitely improved. There were some big jumps at first as to the technology and increasing information, and we got more analytical with the data and then signing GCs in certain areas and doing what type you do. Now I'm talking the box type. What I mean is, I don’t know if you know the difference of what's called vanilla box, a shell and as is in like greenfield, like new sticks, new build?

Why I bring that up, it's like a vanilla box is kind of like what it sounds like. It is already fitted out, drywall, lights, paint it, kind of clean. You're really just kind of essentially paint signage and doors and gondola, the shelving and everything. So it's pretty quick. It's like ready to move in, pretty good, ready to go. So you can do that in a few weeks.

So those have super-fast turnaround that used to be eight weeks, like months and now they do them in just weeks. And the reason it's only weeks, it even takes that long is just to physically stock it and get higher staff. So they get it done really quick. A shell is, again, kind of like what it sounds like. It's next level up of a vanilla box, where it has the walls and the framing and maybe some general like a hollow shell but you have to fit it out.

You've got to do the electrical, do the plumbing, finish that out. That takes a little bit longer, and that also has improved significantly. But that usually has a pretty defined time the two, the shell and vanilla box because they have set criteria what that means. But those times have improved.

These are the same for Family Dollar and Dollar Tree. And then as is, which often can be really quick, if it's a clean, right box, ready to go, you just got to paint it and go. Sometimes just like this whole house, it needs to be gutted and redone. So it could have really long timeframes like a couple of months or it could be as short as vanilla box.

So those are huge variable, but those have come down because they've decided like, hey, it isn't worth unless it's really good property, it's not worth doing all that work. It's just a lot of work. There's often a better property somebody nearby. But that often is the way it comes in.

And then the fast is a ground up sticks up. And those take the longest because you've got to develop the land, get it plotted, go through city councils. So those have a long term, but then you get to build your prototype and it's exactly how you want it. So those have advantages, too, because you own the property. Those terms suffer pretty much the same for most dollar stores.

Family Dollar does more as stick built because they're usually more rural. There's often places for them to move in now because they're flipping trying to move out. They've already gone to a lot of the suburbs and Dollar Tree is in suburbs and they usually do a lot of as is and just kind of ebbs and flows with the real estate and Dollar General is primarily prototype build. That's why you see their buildings all over the place because they're building a little more remote.

They are moving into cities. That's why Family Dollar and Dollar General are crossing to each other's

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territories. And there's a new type of store a couple of years now is the Dollar Tree, Family Dollar store. It's essentially one building with both signage and you can go into both, and those are primarily ground up like buildings.

Tegus Client

Do you have an idea of the average payback period on a new Family Dollar store? Like how long does it take to recoup all costs?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

The thumb rule usually had to be, it can't be over five. It's usually around three.

Tegus Client

So have the unit economics of new stores changed over time as they've just generally become more complex and larger?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

The footprint, they have become a little more complex. There was a big change in around the early 2000s with refrigeration, but now it's kind of standard now, the freezer cooler doors, door count, usually almost double like one side or two sides, sometimes it's three, all freezer doors around the side to back. And so that adds some complexity, but that's sort of the standard now.

But in general, neopentane, the stores for Family Dollar, Dollar Tree haven't changed that much complex because you're doing a dollar store. So it's purposely kept simple and clean for your customers. And by clean easy to navigate, straight gondola, shelving, layout. They're starting to do some self-checkout to deal with labor as all vendors from restaurants, retailers doing. So that's a little bit, but that model hasn't added a significant complexity.

Just make sure you got your HVAC tied out to how many refrigeration you got because they do pump heat back into the building. They're not remote, they're self-contained units. So that means their compressors just like your refrigerator, but bigger is flowing the air back into the space. So that's the really only significant complexity. Switching to LED lights, which has been going on for years and years already, isn't really complex. It's just a swap.

So these are discounts sources, they're not like dealing with as much technology issues or signage hasn't really changed over the years. That's pretty laid out. A shelf can carry this design to be carry anything from key holder to feather dusters. So it's continued the same. They try to keep it simple so you can reproduce.

The more complex item is what I mentioned, that Dollar Tree, Family Dollar store. That, on the other hand, is complex just because you have a single price point side, it's literally like split down the middle. So at Dollar Tree side, single price point, $1.25. There is the $5 good deal zone and all that. And then you have a multi-price point Family Dollar.

I know they'll actually have separate registers and point of sales just to keep that separate for the model because trying to get the computer systems to differentiate between the two and try to get all those SKUs because you have a Family Dollar, you have Dollar Tree SKU.

That merger has been worked on for a while and they just started building, I think, maybe a year ago or so of warehouses that can handle both SKUs in the same warehouse. So a lot of time before it was a Dollar Tree warehouse or a Family Dollar warehouse, you couldn't mix them because the systems couldn't differentiate. So that's with them.

And there is another complexity that all of them are working on that has become more complex, and that's the whole essentially fresh food. That requires a whole another level of training and understanding and cleanliness and handling Family Dollar concentrating on shelf-stable foods. It still allows them to be SNAP or the programs because they change those keeping in mind so people can get access to fresh food anyway.

So that is a significant complexity that's facing all of those stores as they're usually the ones that move into

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food deserts, but they're not full groceries or even not a lot of fresh food in that sense, but they are working on shelf-stable items, everything from packaged apple slices to potatoes, onions, those type of things. So that's what I mean by shelf stable. So that is a level of complexity of spoilage, which is a little bit different.

So all of them are work on that way. The Dollar General, Family Dollar, Dollar Tree, where Dollar General is a little bit ahead of that model as they started the DGXs in the dollar markets years ago, kind of stopped for a while. And now they're pushing, you'll probably see more of those out because it kind of gone a little bit more, so they have a better model just because of the experience. So they're pushing those out. So those are more complex.

They have a Dollar General GO, the DGX type of thing, where you can shop with cameras, not quite the Amazon model, but they're testing that to reduce labor, but they found a smaller, more market ones. And then they have the pOpShelf that are there to appeal to different geographical shoppers, sort of the Five Below.

Five Below is having, in my opinion only, a significant overweight impact for how much was talked about compared to the store count that you're talking between Dollar General and Dollar Tree and Family Dollar. I mean 30,000 stores or so compared to, I think, I don't know, a Five maybe has 1,000 stores. So they're growing very rapidly. But my point is they are putting some pressure on the market, but their footprint isn't quite as big, but they're growing quickly.

The percentages look huge because fewer stores. But they all took a simple model and expanding on it. So Dollar General has a little more complexity they're bringing in name brands. They'll have Starbucks refrigerator in there, cooler and they're trying to do more with the fresh foods. So their complexity is a little bit level up.

Tegus Client

And then as far as like total cost like upfront cost of constructions go, how has that trended since the pandemic has ended? I assume like a lot of that is coming from rent increases. Do you think that's sticky? We'd love to hear your thoughts there.

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

It has gone up significantly, all products have inflation-wise. They are starting to come back a little bit. But as you're probably aware is a thing, a lot of the economies really didn't make sense in a normal way. And what I mean by that is costs went up, materials went up, but construction didn't slow down. People are still pressing to go, which has put another pressure on it. Usually, when prices go up, supply drops a little bit. It's kind of the definition.

But they both kept tracking just like jobs, unemployment is still going down and it did make sense, like it did fit the traditional models. And they're turning in weeks, not months or years like it used to, but we can talk about that until another philosophical conversation.

Anyway, costs are up, rents are up, there was a slowdown by landlords, which just may have Dollar General and Family Dollar, Dollar Tree, end up building more of their own land and property. So they'll just move the capital that way. That is something that if they can do it, that's a good way to put their capital because then they own the land and then they can go out as long as they want and sell it and then it's kind of an investment.

But of course, it costs a lot more to do it that way than a rent. And also, if you make a bad decision, you bought the farm as opposed to like, well, I can get out in five years or whatever. So costs are having it, I think there is now some small drops in prices now with a lot of those things, your commodities that affected but steel has a huge one because of the shelving some major costs and then your refrigeration and HVAC or also two most expensive equipment.

LED lighting, electrical has gone up significantly, but that's starting to drop back as well as foreign markets come back online and can build those and get those chips and everything, everyone knows about the chips.

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Tegus Client
Why do you think rents have gone up so quickly for these retailers?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
I think landlords are getting a lot smarter. They're doing more analytics, and there's more competitors. And the market isn't saturated yet. I know Dollar General and Family Dollar, Dollar Tree both announced, there's still plenty of room to grow and to go into places.

Like with this many stores, all that means is you're probably those ones we talked at the beginning, like, hey, you primate a first pass and all that in the room was this. Well, now you're circling back, like, yes, well, sort of the low-hanging medium-hanging fruit isn't there as much. So either you got to wait for new malls or areas to be built, which stalls are not going up as quickly because consumers don't like them as much. Big boxes aren't building as much.

As I said, Dollar Tree used to be really like going next to big box stores. But Walmart, Target aren't building as many new stores as they are as refurbing. So they aren't making new places for that. So that's why there's going into space as maybe they wouldn't have looked at the first time around because they've been something less expensive. There are still opportunities on there, but that just a lot of those are kind of taken up.

Tegus Client
Are you seeing any opportunity like real estate opportunities from bankruptcies of other retailers or abandoned strip malls?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
So that's a double-edged sword. I know I'm in Tier one and those are good because they're close to the same footprint in the size. But I guess, since you rely on foot traffic, it doesn't help if you go into an abandoned strip mall. There's no one else in there. You can get for lower price, but if there's not a foot traffic or a good anchor store, it's a high risk. Now sometimes a Family Dollar might move in there into sometimes underserved area, and people can get a lot of their goods from there and Family Dollar typically could move into those type of areas. That's where you would see some Family Dollar or Dollar General, but not typically Dollar Tree.

Tegus Client
Moving to like store remodels and conversions, what generally drives the decision to remodel any particular store? And is there a focus on remodeling bad stores first? Or is it just like general like practice over time?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
So it falls into a couple of different areas. There's a wish list from the operations group of trying to do a remodel. Like the store is older tired and they kind of do the same thing like the leasing group did. And there is a group that does remodels as part of leasing.

So you look at the terms that's left on the rent of the lease, is it worth doing it? You look at, will refresh like the refrigeration if it's fully depreciated, like so it makes sense to replace it. Does it make sense to stay in that space or move it? So is it a really strong store? If it's a strong store, yes, and you got a good rent, you don't want to do it, yes, that makes sense because you're going to get some percentage of boots for a small amount of investment.

It gets riskier when it's on the cusp, like should we close the store or should we refer where we get enough bump to make it worth its while. So that's a hard thing for Dollar Tree. For Family Dollar on the other hand, since 2016 acquisition by Dollar Tree, if you go back there is significant or closings for underperforming or stores that were just not good shape. We're in areas just underperforming. So there's a lot of closings.

And now it is a focus on trying to get those stores cleaned up, refurbished, put in maybe some more dollar deals, Dollar Tree's material in there, new refrigeration networks, HVAC. So those take a lot of capital to redo, but you don't want to lose the store. So there have been some crossover in the years past where they

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took an old Dollar Tree made a Family Dollar and a Family Dollar a Dollar Tree, and a couple of combo stores.

But it isn't a simple aging like every kind of store is seven years old, it's in the mix. Some stores can get a remodel even after a couple of years because it's overperforming so much or maybe they got the land, the adjacent space where they can expand it because it's doing so well. So that might come to the top of the list.

Tegus Client

What is the average comp boost following a remodel like a success?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

Success is 20%. Usually, it's like, I think, 10% to 15% or 20%. You get a large boost right at the beginning to do another kind of grand opening and refresh. It really depends on how bad the store was and when it was performing, especially if they had a lot of refrigeration down. So now you got fresh refrigerators that can stock more, and that's what people want in the market. So you can see around 20%. I've seen all doubled, especially in the first three, four months.

But after a year, six months or three quarters, even a 10%, 15%. Yes. I don't do all the studies on that sales group. I just know the initial one to kind of tell the construction real estate, hey, you got this done because it's kind of stronger. I didn't go through the analytics like long term, it usually falls under the merchants' group and operations' group because there's a lot of factors. But I know we celebrated 20%, 30%.

Tegus Client

Are the cost of remodeling increasing faster than the cost of new construction? Or are they similar or different?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

They're a little different. It's sometimes not apples to apples, you have a totally different group going in doing it. But in general, the remodeling costs go up because it's harder to, for example, get rid of the old refrigerators, has to go under a special process. You got all you can take into a note. So those are incremental costs.

You're not getting money back much for steel recycling. They recycle it, but it's almost cost neutral or may still cost you a little bit, but still cheaper and taking to a note. And the work is very compressed. So it's expensive because since you're going to remodel you what the store close as long. So you're going to work maybe build the shifts or weekends and those have higher costs and labor costs have gone up.

You're often in those markets as lower quicker timeframes that it's coming up. So you get these stores approved and like, here we can go. So you might have a longer runway, like you could plan it out, do some bids for a new store, maybe looking a little bit but for a refurbished store. That one, you try to do is set cost. But often, they come on over just because of all those factors.

Tegus Client

And then what are your thoughts on the whole produce and fresh initiatives in general? I think the idea is there might be lower-margin merchandise, but you get more foot traffic through the door and then hopefully, customers buy a higher margin non-consumable items as well. Do you believe that?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

Yes. That is the belief, but I'm going to say politics, but it's what I mean we call it just like city halls and such. There was a lot of referendums about no more dollar stores. And you've heard grocery deserts or food deserts and inverters are pull out in the Dollar General, Family Dollar would move in, but they didn't have all the same foods.

So that aspect has been a big push that they're saying you can't build it here unless you carry x amount of fresh food. And also, with a lot of assistance programs become a little more stringent on you have to have more fresh foods, produce, vegetables, fruits and stuff of that nature. So there's a couple of factors working

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on that to do that. But it is complex.

It's a whole different type of refrigeration. Groceries run different. You got to do without spoil it. You have to have more labor dealing with that food to clean it up and to stock it and shorter shelf life. It gets exponentially more complex. But that's why they've both been trying. And I think Dollar General is a little more successful with the Dollar General markets and DGXs. But even Walmart struggled with their never ended markets, and even they abandoning that for a while.

Tegus Client
To what extent has fresh and produce complicated the supply chains and distribution centers for these retailers? Do you think that once DG, Dollar Tree, Family Dollar, when they announced produce in a new store, they have the capacity set up? Or is that something they're playing catch up on?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
They're establishing with their distribution. A lot of their warehouses aren't set up to handle fresh food, it's either frozen or of that nature. So they're partnering with a third one like a McLane or someone to pull that out. So that's the sort of the plug-and-play solution. So they're negotiating around that.

I'm not in the meetings with DG, but I know when I was at Dollar Tree, you would not put something out unless you already had the distribution network that could support it. That's one of the first things because that would kill a store, if it's not stock and everything like it immediately runs out. That's always something that's a concern after the initial brand opening if it's a huge one, and their replenishment wasn't ordered great.

So you'll lose a lot of people don't want to come back after that experience. So that's a big risk for to do that. So that's why it's a slow-ish rollout. It's aggressive for most retailers to what they're doing. But for them, it's clear the source, they want to make sure they have that network and support, and they are working with a lot of creative suppliers and vendors that are helping them to do that regionally.

Tegus Client
How sensitive are customers in foot traffic to poor store conditions? Like, will they come back if they have a bad experience?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
The short answer is yes, but just like anything, if there's competition and they're having a bad experience, they're probably not going to go back there. But if you're in a food desert or you have limited choices, you're kind of forced to do the go back on.

So sadly, it's a fact if you go to where these food deserts are in some of these urban settings or even like a super remote, there's not other competition, and so they kind of have to come back there. They complain a lot. Now it's not an evil thing for them does not clean up and do that store, often from those same conditions, also mean there's labor shortages, and it's hard to hire people or key people where we feel has the highest turnover. So trying to do that.

But customers, if they can find another place to go, yes, they will, if they can even moderate convenience. So that cleanliness factor and on stock will drive customers away. So sometimes even a grand opening like a refer, we talked about that. That would be one of the big promises.

And that's why repeatedly for years now, the different CEOs and Chief Operating Officers had promised the customers of Family Dollar that we're going to invest heavily in the existing stores to clean and kind of get them to what standard to the corporate what’s to the point where they've actually has a there's always so much capital. So they slow new stores to deal with existing stores.

Tegus Client
Assuming like a store is 100% clean and in stock, would a customer notice any difference between the layouts of a Family Dollar and a Dollar General? And would that change how they behave?

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Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
Knowing merchants, they will say absolutely. Though to maybe like average adult that shop them, they're very similar in what they provide. They're both working on that Family Dollar and Dollar General are pushing hard to get more alcohol and tobacco and propane and now ICE. And then we cover the fresh products. They really have featured coolers.

Family Dollar tried for a bit with name brands. Now they're going to private labels. Dollar General has done private label a long time with a few name brands. So that was like 2016 that were $15, $14 for Family Dollar when they were bringing that in. So there's a lot of similarity and overlap. But both of them will say they offer better same prices or whatever, but they're pretty similar.

The differentiation is often who can get some of those licenses. Sometimes there's limited on those alcohol, tobacco or ICE or the propane as well because those are all controlled by other people, the propane ones. So if there's already a propane on one side of the street, why would they want another set up another propane and maintain across the quite next door.

So sometimes that comes into play. So if you're a customer, you can go here and they have alcohol, tobacco, propane. The other one only has tobacco, which one you're going to go to probably assuming you want those products. Same thing with ICE distribution to the point that I think both groups have looked and figure out a way to make their own ICE.

Tegus Client
Our understanding is that Dollar General has fewer employees per store than a Family Dollar. To what extent do you believe that labor and just having employees in-store affects sales, just general business day-to-day?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
From a customer point of view, the more labor, the better because the sales are going to be stocked. There's more people to deal with cleanliness. There are people to check you out. There's people to help you. You start pulling that labor out, then some of those things are going to get impacted. It's either going to be harder to keep its stocked. It's going to be harder to keep it clean.

And there might be longer lines of the checkout, which is frustrating and want to make you go next door. But the first thing usually gets impacted is cleanliness. But as we talk about the self-checkouts or to allow you to deal because the customer isn't going to restock or clean for you, but now they will check out for themselves. But so you can have one person watching four or six, whatever self-checkout kiosks. But they could do four point-of-sale units.

So that's where they're trying to be creative on how to keep up with those other items. So dirty, just like you if you walk into a dirty store, especially if they're selling fresh food, that is a huge turn off. You're not going to want to shop there again. So labor, that's always a hard balance. It's the easiest thing to control because you can control it, but it has some diminishing returns.

Tegus Client
And how would you characterize the competition or geographic overlap between Family Dollar and Dollar General? Is that something they come across more often than they think?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
It's definitely now way more frequent. Again, Dollar General was kind of considered the rule, you've seen the means in the jokes you be driving a mill nowhere in this Dollar General. But if your downtown or urban areas, there was Family Dollars. Or those type of areas. It's been years and we talked about how they will say they can grow, but the only way they can grow is flip the script and so they're going into retailers' market. I wouldn't say there's an easy thumb rule. You wouldn't just say like, all Family Dollar is going to move into downtown urban areas and Dollar General is only looking for deals. They're moving into them. They're both going out there.

I think they're 80% like overlap now. So definitely. They know their core things because that's also where

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their existing stores are as far as new stores, they're looking at whatever areas they can. I think the Family Dollar, Dollar Tree model though is, those combo stores, we feel is a big win because it's bringing the image of Dollar Tree that has a different demographic and the high profitability that a Family Dollar doesn't.

But it also people that want to get things at a Family Dollar, you can get at Dollar Tree just because of the cost because it's $5. So those have really been a big push and have had a lot of success because people recognize the Dollar Tree brand clean, deals and price point, and that brings demand and then they can walk over to the Family Dollar. So that's helped out. It's a little clunky name, but name recognition is a big part of it.

Tegus Client

And as both of these retailers continue to grow, new stores are a huge part of that algorithm. Do you think the runway is there for them and keep opening a ton of stores every year? Or at what point will there be like saturation or cannibalization issues?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

By definition, there's going to have to be a saturation point, right. But I understand from both you've read the papers or whether both of them think they can continue to grow for at least the next five, 10 years. And then now you're going to start to circle back around and maybe now you got to have stores to maintain. Who's to say like if new cities grow and expand out suburban, they have a flow of people that can have a big impact.

But at some point, I think that astronomical growth is going to start to slow some, just they both can't keep doing 1,000 stores each. It's just going to be hard to find as many properties that fit the model. But they've proven everybody wrong for a long time with how long Dollar Tree went for selling everything for $1 and just went to $1.25 finally since '86 when they were $1 went up just a couple of years ago, now they went up $0.25 are so, still producing single price point, the only single price point store. But my answer is yes, it's maybe five, 10 years.

Tegus Client

Do you think the low-cost retail operating model is sustainable in this post-pandemic world?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

Yes. I think that's actually one of the safest areas. It's just really hard to touch for convenience. In that question is like Amazon proved. It's just a little bit sort of Amazon proved in the sense that you can't ship those items that inexpensively to compete or you got to package it with other stuff. And that is not going to happen yet.

So that's why the convenience, low cost is just outside of it, just like luxury goods, people are still going to want to go out and buy it in touch them and see them. It's part of the experience. So we're not necessarily going to do that middle. That middle area by Target, Walmart and Amazon, that one has a hyper competitive cutting margins and everything. But the low cost, I think that will always sort of be there just for the convenience and the demographic.

Tegus Client

And then Dollar General recently past couple of quarters, they've been facing a lot of execution issues, having a ton of inventory left over labor issues. Do you have any general thoughts on Dollar General as a corporate entity as a business in your management team?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.

I think there's going to be some shake up just because there's a changing of the guard. So you're going to lose the intellectual capital, just people aging out and the passing out of those lines and everything. There's going to be some struggle, but they've been executing really strongly since 2016, outperforming and building a lot of stores, but it was also by building so many and going so hard to try to keep Dollar Tree, Family Dollar out.

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Sometimes they're maybe taking a bigger risk. So sometimes that comes back and gets you. So I'll be curious to see if they will because they were pressing so hard and so fast because as you point, the biggest thing is the store count, that's the first thing to report. When you're doing it that heavy, that means your capital is going to that, and that means you're taking capital away from refurbishment product, preventive maintenance and other things.

So eventually, that stuff catches up. It just might be a few years down the road. So that's going to start getting and put a huge strain on your logistics network. General thumb rule, I think, for those types of things, their warehouses cover about 1,000 stores. So you've got to build a warehouse every time. Then those don't just pop up. So you got to set up and everything else.

So yes, there's a logistics strain that I think doesn't get talked about enough. And it looks at the front end, the front door and the building, but how logistics keeping up, fuel prices aren't going down. It's harder and harder to ship items. Drivers are coming fewer and fewer because of the way that market is controlled. So that's becoming more and more difficult.

Tegus Client
Is there anything else you want to add?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
The thing about the logistics and warehousing, I think doesn't get asked about enough. Labor is a arm that you can control, just like any other supply and demand, but that also means can you pass that cost off onto your customer, and it's hard when you have a low price point to do that. You can't just raise prices because you have a set price point or you have a very low point. So that's a big concern.

Tegus Client
If not labor or if not by increasing prices, how are some ways that these retailers can mitigate cost increases?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
They press their vendors for lower costs, everything from the building materials, trying to negotiate volume to get those costs down and trying to address those logistic networks like how do we get more efficient, we do fewer deliveries with bigger, but the stores don't have so much space. So how do you deal with that? And you're talking about some tight windows of trying to get that. So I said labor is a little ease of growth, just tell them not to come in, but that has rolling effects very quickly and the store cleanliness and in stock.

So right, if you don't have any labor there, you can't stock it, so therefore, you can't sell anything. So that doesn't work. So the biggest thing is just trying to work different to keep the costs down and try to deal with this inflation and bring it backwards, so they can raise that problem. Last thing is renegotiating rents, is the other thing they go back and do.

Tegus Client
What's the average length of a rental contract?

Former Director Of Construction Analysis & Administration at Dollar Tree, Inc.
Usually, they're five, five, 5s now. Sometimes just 2 5s, so like 10 years, 15 years.

Tegus Client
Great. Well, thanks for your time and insight. Have a wonderful rest of your day.

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