



Are Dollar Stores the Future of Retail?

Description

As interest rates rise, so do expenses in a growing economy, and for many people, that means tighter wallets and less disposable income, making dollar stores more appealing to consumers that have trouble making ends meet. Dollar stores stock a lot of household items and also carry clothing and food to a limited extent. As these types of stores continue to offer more selection, there will be more consumers that will come looking for cheaper alternatives to what the big-box retailers offer.

Dollar stores are on the rise in North America

A study by an advisory firm IHL Group recently reported that "large U.S. retailers will open 4,080 more locations than they close this year," and that "46% of the expansion among the top 16 fastest-growing brands was driven by just two U.S. chains — Dollar General and Dollar Tree." In Canada, **Dollarama Inc. (TSX:DOL)** continues to see incredible growth. In the company's latest earnings report, it said that it planned to open as many as 70 additional stores this year, which is a little less than the 74 it opened last year.

This is a trend that is not going away, and dollar stores are here to stay as long as consumers continue to flock to them. However, there are some challenges that could prevent these types of stores from truly dominating retail.

Stores would have to expand to accommodate increased inventory offerings

Dollarama's business model is based on low operating costs and overhead, but if the company were to offer a greater selection of food products and clothing, these costs would rise. The company would need to expand the size of its stores, which generally are not very big and are much smaller than department stores that offer a wider array of products. Without additional space, there would be a very limited selection, and that would only appeal to consumers with very specific tastes and needs.

Minimum wage hikes will make dollar stores less competitive in Canada

While dollar stores might continue to grow south of the border, one big challenge for stores in Canada will come from rising minimum wages in Ontario, Alberta, and British Columbia that are going to

increase costs in the coming years. This will have a significant impact on companies like Dollarama, and the store may need to hike prices, which it has already done. Although minimum wage hikes will impact all retailers, Dollarama will have more pressure to get its prices lower than big-box retailers that don't try to price every product below \$5.

Dollar stores can fill some needs, but not all

Dollarama can be a good alternative to big-box stores like **Canadian Tire Corporation Limited** or **Loblaw Companies Ltd.** for household items, but beyond that, people will still need conventional retail stores. Although dollar stores continue to expand, you need to look no further than Dollarama's stock, which has risen over 38% this calendar year, to see that there is a lot of hype around the company, and hype can create bubbles.

CATEGORY

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