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Case Study: Should a Dollar Store Raise Prices to Keep Up with Inflation?

by Jill Avery and Marco Bertini

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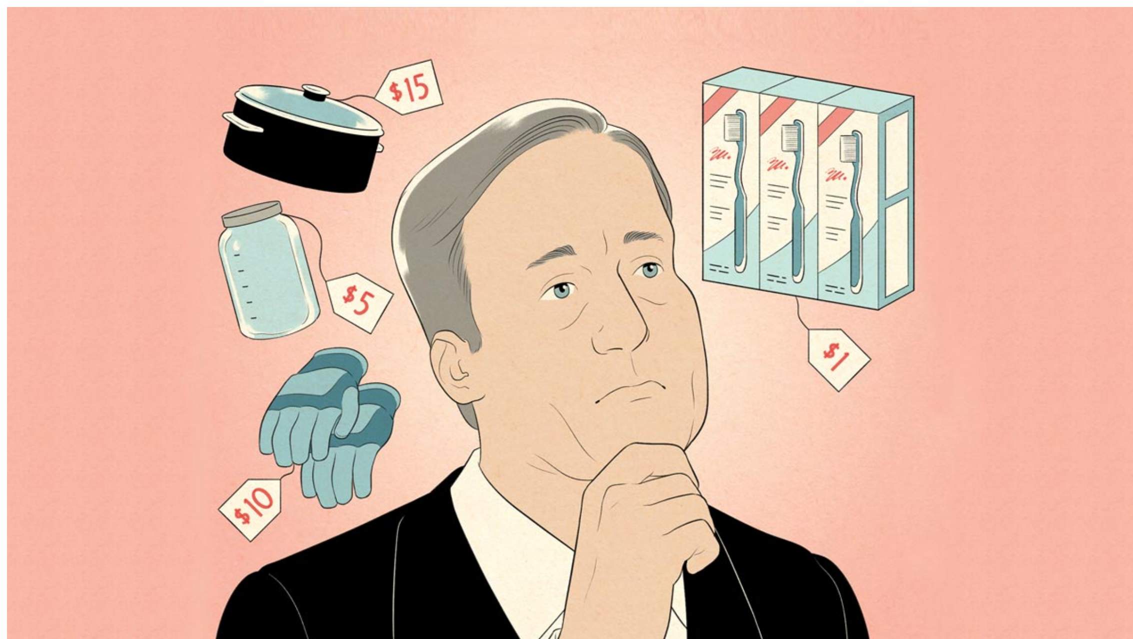

Anuj Shrestha

Summary. Discount retailer Dollar Bill's has been struggling to maintain its margins over the past two years because of inflationary pressures, delays on imported goods, and decreased foot traffic. Now the board has asked CEO William Fisher Jr. to develop a strategy for raising... **more**

William Fisher Jr. opened the door to his office and pointed to the metal folding table in the corner. It was the one his father had bought in 1957, the year he founded Dollar Bill's, and staffers now

jokingly—but lovingly—referred to it as “the executive conference table.” Today it was covered with packs of candy, stationery items, bottles of water, tiny action figures, and countless other knickknacks.

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“What’s all this, William?” whispered Dollar Bill’s chief marketing officer, Robin Mitchell. She had an earbud in her left ear and was listening in on a conference call with a limited partner from China.

“Looks like a yard sale,” said Bobby Cabrera, the company’s chief product officer.

“It’s more of a sorting exercise,” William said. “I’d like you to guess how much each of these items cost me and make two piles: one for things I bought for a dollar, and the other for things I bought for more than five dollars.”

Robin and Bobby gamely began to divide the items. In five minutes there were 10 in the dollar pile and roughly 30 in the five-dollar pile.

“This is the problem,” William said. “I bought them all for a dollar!”

“That’s good, isn’t it?” asked Robin. “That means we can do what the board wants and charge more for everything in the second pile, and customers won’t think twice about it.”

“No,” William said. “Our customers expect us to give them good deals. If we want to sell things at higher prices, the quality or quantity needs to be higher too. I’m not going to start selling

merchandise for five bucks, or even two, if it's not any better than what we're already offering for one. That goes against everything Dollar Bill's has ever stood for."

The Pricing Debate

Throughout its 66-year history, Dollar Bill's, a discount retailer of general merchandise including books, gifts, toys, household staples, consumables, and clothing, had priced everything in its inventory at one dollar. One of several "dollar store"[1] chains that emerged in the U.S. retail landscape starting in the 1950s, it was the only one that still stuck to the promise rooted in its name. In 2010, after seeing his company through the Great Recession, William changed the tagline to "One Dollar: Yesterday, Today, and Always."

By 2023 Dollar Bill's had more than 15,000 stores in the United States and Canada and was generating $25.5 billion in net sales. Although customer traffic was down 13% year over year, the average customer expenditure had increased by 18%, to approximately $10 a visit. But Dollar Bill's was still underperforming against competitors: Margins were shrinking, and shareholders had begun pushing for changes in strategy. William fought them at almost every meeting.

"For nearly 70 years, Dollar Bill's has succeeded at something the retail industry thought impossible—selling goods of surprising quality for a dollar and still earning a decent profit in the process," he typically argued. "The magic of our business model is leaving customers with no doubt that they are getting a bargain. When everything is a dollar, nothing seems overpriced, even if we're keeping healthy—not obscene, but healthy—gross margins."[2]

Unfortunately, inflationary pressures had caused those margins to drop from 35% to 25% over the past two years, mainly owing to cost increases and delays on products imported from China. The board had asked William to research price increases, arguing that

they would allow the company to mitigate further inflation risk and return to its historical gross margin rate. He said he would investigate, but he never did.

After a rough fourth quarter the board's chair, Elizabeth McGee, asked William to come to her office. "We've got to start appealing to new consumer segments," she said. "A quarter of our customers are from households earning less than $25,000, and close to 60% are from households earning less than $50,000. They shop at Dollar Bill's to stretch their budgets. One dollar isn't an impulse-buy price point to them; it's a get-through-the-month price point. We need a new group of shoppers."

"Well, I'd argue that a recession is just going to expand the segment you're talking about," William countered. "And even wealthier households[3] are going to be more price-conscious. Why would we move away from our dollar promise[4] at a time when everyone is trimming budgets and looking for bargains? Isn't it better to be the one store that fights for customers, the one that wants to beat inflation rather than the one indiscriminately jacking up prices?

"I know margins have thinned," he continued. "But Bobby has suggested another solution: repackaging the merchandise so that we're taking a bit more margin while giving customers almost as much as they had before.[5] I'm not completely sold on the idea, because I still worry that our customers will notice the change and view it as a betrayal. But it's something to consider."

William explained the strategy: If chewing gum comes five packs to a bag, Dollar Bill's could sell four packs for a dollar instead. Ditto party favors, thank-you cards, paper towels, and a host of other products. They could maintain the magical dollar price point while also recouping some of their profits.

Elizabeth crossed her arms. "But why not just sell the five-packs for two dollars instead?"

“Because we’re *Dollar* Bill’s,” William said.

“I understand where you’re coming from,” Elizabeth said. “But our brand promise is that customers will get great value for what they spend, whether it’s one dollar for an item or 10. We need to start capturing more value than pennies.”

She paused and then spoke with finality. “The board has asked me to relay a message to you. It’s time to raise prices. Please have a proposal on our desks as soon as possible.”

The Planning Meeting

The next day Mark Alvarez, William’s best friend and a longtime consultant, walked the aisles of the local Dollar Bill’s store. Bobby and Robin were trailing him.

“I don’t like the idea of reducing quantity—or even quality for that matter—to maintain the ‘Dollar’ brand name,” Mark said. “Your customers will know that the four-pack of soda they bought for a buck today was a six-pack yesterday.”

“That’s my concern,” William said. “We need them to trust us, and shrinking our packages feels like a bait and switch. What do you think, Robin?”

“What if we were transparent about the process?” Robin asked. “We could run a campaign, send out a press release, put signage up in the stores.” [6]

“We’ll do all that no matter what we decide,” William said, “but the single dad who works two jobs isn’t reading our press releases. He’s shopping at our stores with his toddlers in tow, in a rush, and he’s praying that his debit card doesn’t get declined. Having one price just makes things easier. He doesn’t have to worry about how much he’s spending—he can tell exactly how much by counting the items in his basket.”

“There are a couple ways to approach it,” Mark said. “You can raise the price of everything, or you can raise the price of some things. In either case you run the risk of alienating customers who are lured to your stores by the dollar price point, or customers who simply can’t afford to pay more.

“That said,” he continued, “new inventory attracts new customers and intrigues returning ones. Higher-priced goods will improve shopping cart totals.[7] And let’s be honest: A dollar 40 or so years ago is certainly not worth one dollar today. Counting inflation, it’s probably closer to $2.50. So, if you keep everything under $2.50, you’re essentially keeping your dad’s original promise.”

“I trust you more than anyone,” William said. “But I’ve spoken to several other analysts, and they see bigger risks in that strategy.”

He asked Robin to brief Mark, and she read from her notes: “One predicted significant consumer pushback. He estimated that about a third of Dollar Bill’s customers would shop at the chain less often if prices crept above one dollar, and that 5% would stop altogether.”

Mark picked up a rubber basketball from a shelf and tossed it in the air. “Start slowly,” he said to William. “You’ve got big stores. Maybe dedicate a small area to higher-priced items—the ‘luxury section’ of the store. Then see what happens.”

Weighing the Options

The following week, Mark sent a proposal to William for Dollar Bill’s Max, a special section of goods with three tiers of prices: two dollars, five dollars, and 10 dollars. The new section, which would occupy the front 10% of each store, would be dedicated to nonessential seasonal products that Dollar Bill’s had always sold, such as graduation gifts and Fourth of July decorations. Those items would cost more than they had in the past but, as Mark

wrote, “If you have to raise prices, raise them on things that people don’t absolutely need.” [8] The more expensive items would include toys and household consumables such as candles.

Case Study Classroom Notes

In 2021 more than 34,000 dollar stores were operating in the United States—more than all Walmart, Starbucks, and ...

William forwarded Mark’s proposal to Bobby and Robin for their views.

Bobby replied immediately: “Sticking to one price point no matter what’s going on in the economy has always been our hallmark. In my view, if we’re offering goods at a range of prices, then we’re no different from any other discount store.”

Robin chimed in soon after: “Bobby’s suggestion to cut package sizes but maintain the dollar price point will be tricky to communicate, but the more I think about it, the more I worry it will be even harder to explain that Dollar Bill’s is no longer a true dollar store. I know other companies have done it, but I don’t think they’ve done it well. If we’re suddenly charging double or more for some of our existing merchandise, I think shoppers are going to be puzzled. And I know Dollar Mania has had some success with higher prices on newly introduced products, but frankly, I don’t think our customer base is going to be interested in five-dollar coloring books and 10-dollar candles in a recession.”

William moved from the chair behind his desk to the one at the folding table and stared at the two proposals he’d printed out. He still didn’t know whether to go with Bobby’s initial plan or to raise

prices on some nonessential items, as Mark had suggested.

The Experts Respond: Should William proceed with Bobby's or Mark's plan?

Greg Besner is a cofounder and the CEO of Sunflow and an adjunct assistant professor at NYU Stern School of Business.

The only certainties in life are death, taxes, and inflation. One 1957 dollar is the equivalent of $10.61 today. (That's 960% cumulative inflation compounding.) William will eventually trigger a crisis at Dollar Bill's if he sticks to his dollar prices forever. So he needs to make a change.

He should start by evaluating every product—or SKU in industry parlance—that Dollar Bill's retails to see which can still be sold for one dollar while achieving a sustainable margin. He can keep those items on the shelves.

Products that don't meet that standard must be repackaged or alternatively sourced in a way that allows the company to deliver value for a dollar. Of course, any reduction in quantity or quality must be made in a way that will feel acceptable to the consumer. For example: A 12-ounce bottle of juice can be sold at 11 ounces without upsetting people if it's a brand they trust and enjoy. And they won't think twice about a shirt made of the same cotton but acquired from a less-expensive factory. However, this strategy is a short-term solution, because you can't keep cutting back on quantity or quality forever. One ounce of juice won't quench anyone's thirst, and no one wants a scratchy, misshapen shirt.

Eventually the cost of goods will well exceed the purchasing power of a dollar, leaving Dollar Bill's without a sustainable business model. This is a question not of if but when. So William must act now to test higher-priced merchandise.

He might find that certain customers shop less often in revolt, but others will no doubt treat themselves to some of these products, and he might attract the new wave of bargain hunters that Elizabeth and the board anticipate.

I understand William's attachment to the name Dollar Bill's. But if that needs to change to reflect the new brand proposition, it can. After all, if you drop the possessive apostrophe, you have Dollar Bills, plural.

Barrie Carmel is the vice president of pricing at Michaels Stores and a former senior vice president of commercial strategy for Bed Bath & Beyond.

Dollar stores have found ubiquity and success in the United States by catering to the huge portion of the population that is low-income. This customer segment is meaningful and underserved. And Dollar Bill's has a very clear value proposition for these consumers. Changing it is too much of a gamble.

Dollar Bill's needs to evolve, sure, but an abrupt revolution could be incredibly dangerous: Loyal customers might feel abandoned when they need the company the most.

Elizabeth suggests that the board wants to raise prices and sell higher-priced inventory to attract new, higher-income customers. But pulling those people into dollar stores might be impossible. Even if they're willing to try discount retail in a recession, they're highly unlikely to continue shopping there when times improve. Most think, "It's all junk." They're just not going.

If William is backed into a corner, however, which he seems to be, I suggest putting a small "special buys" section of higher-priced items in selected stores where the demographics are the most favorable. That will demonstrate whether customers are willing to tolerate more-expensive purchases. If Dollar Bill's continues to

deliver incredible value at reasonable price points ($2, $5, and $7), its customers may expand their share of wallet. I wouldn't touch the price of items that are weekly purchases or necessities, but impulse-buy items or those bought less frequently might fit.

"Shrinkflation," or package downsizing, can work, and some retailers do it. But customers aren't stupid. I think William is right to think that, when a six-pack of razors is suddenly a four-pack for the same price, they will notice and resent it.

William should challenge Elizabeth to consider whether the current board actually cares about Dollar Bill's long-term health. As he fights passionately for his company's values and core customers, the board is saying, "We don't care. Make more money." That's a really good way to destroy a business.

No matter what, William must maintain his focus on providing value to lower-income customers. They are the shoppers he will always need to appeal to. He just needs them to spend a little more money.

HBR's fictionalized case studies present problems faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "Dollar Tree: Breaking the Buck" (case no. 522091-PDF-ENG), by Jill Avery and Marco Bertini.

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Jill Avery is a senior lecturer of business administration and the C. Roland Christensen Distinguished Management Educator in the marketing unit at Harvard Business School.

Marco Bertini is a professor of marketing at Esade—Universitat Ramon Llull, in Barcelona, and a senior adviser to the marketing, sales, and pricing practice at Boston Consulting Group.