



Strategic Insights And Competitive Advantage: A Porter's Five Forces Analysis Of Dollarama, Canada

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Abstract

Larry Rossy, a third-generation retailer, founded Dollarama in 1992 with a single store in Matane, Quebec. Over two decades, Dollarama rapidly expanded into a prominent Canadian discount store chain, boasting over 1,000 locations nationwide. Neil Rossy, a fourth-generation retailer, currently leads the company, continuing its mission to provide diverse merchandise at defined low prices, appealing to a broad consumer base. Dollarama's stores, corporately owned and strategically located in urban and rural areas, offer a consistent shopping experience. The company's robust financial performance, ethical business practices, and dedication to shareholder value have solidified its market position. Despite challenges such as supply chain disruptions and the impact of COVID-19, Dollarama has demonstrated resilience, benefiting from being classified as an essential service. The company's growth strategy aims for 1,700 stores by 2027, leveraging its scale to negotiate favorable terms with suppliers and landlords. Dollarama's strategic advantages include strong brand awareness, efficient operations, and diversified price points, enabling it to navigate market challenges effectively. The analysis of Dollarama's market environment reveals its competitive strengths and areas of vulnerability, highlighting the importance of innovation and customer loyalty in maintaining its leading position in the Canadian discount retail sector. This study employs a mixed-methods approach, combining qualitative analysis of corporate reports and

industry publications with quantitative data from financial statements and market performance metrics, to provide a comprehensive understanding of Dollarama's strategic positioning and growth trajectory.

Keywords: Dollarama, Canadian retail, discount store, market expansion, consumer value.

Introduction

Canadian businessman and third-generation retailer Larry Rossy launched Dollarama. It all began in 1992 with a single store in Matane, Quebec, and expanded fast over the following 20 years to become a well-known brand and a popular shopping destination for Canadians from all over the country. With well over 1,000 locations, Dollarama is a renowned Canadian discount store today. Neil Rossy, a fourth-generation retailer, and member of Dollarama's founding management team is the company's current leader. Offering a wide range of general merchandise, consumables, and seasonal items, Dollarama strives to provide consumers with a consistent shopping experience and enticing value. Each of the stores are corporately owned and run, and they are all in prime locations in big cities, medium-sized cities, and small villages. Products come with low, defined price points and may be purchased individually or in bulk (Dollarama Inc., 2022). Members of Dollarama are dedicated to acting in their shareholders' best interests. They aim to increase shareholder value through responsible and effective communication in addition to strong financial performance and ethical business practises. To assist put Dollarama's performance in context, the Investor Relations section offers the most recent corporate information (Dollarama, 2022). Dollarama takes pleasure in coming up with creative ways to close sales as it pursues fast growth, including both new construction and repurposed facilities. Since the beginning of the century, they have been opening retail locations and operating dollar stores. They have locations in all 10 provinces and all of their stores are corporately owned and run (Dollarama, 2022).

There are four (4) independent directors that make up the Audit Committee. There are four (4) independent directors that make up the Human Resources and Compensation Committee. There are three (3) independent directors on the Nominating and Governance Committee (Dollarama, 2022).

Dollarama currently employs 8406 people. The company's Net Worth rose from 2021 to 2022 by 17.5%. The corporation has 3.5 billion in revenue for the current year (GlobalData, 2022). Dollarama is one of the few businesses that was permitted to continue operating since it was considered an essential service,

whereas most other businesses were required to cease in order to prevent the spread of COVID-19 (Samy, 2020). Its bottom line benefited significantly as a result. In the most recent quarter, revenues increased by 2.0% (Samy, 2020). Although its net earnings had decreased by 15.2%, this was due to new COVID-19 measures the retailer had implemented:

1. a temporary 10% pay increase for each of its employees.
2. 450,000 more employee hours in stores to execute safety procedures, maintain cleanliness, and uphold social distance.
3. Install distance markers all over the stores, fresh in-store signs, and glass shields.

Relatively speaking to the majority of other businesses who had to close their doors, Dollarama performed rather well overall (Samy, 2020).

The largest operator of dollar stores in Canada is Dollarama. Dollar Tree (DLTR), the next biggest, is a distant second. The combined efforts of Dollar Tree, Dollar Store with More, Great Canadian Dollar Store, and Buck or Two (also known as the Competition) (Samy, 2020). Dollarama has been expanding its network of outlets more quickly than its competitors in recent years. As of February 2020, there was only 1 store from the Competition for every 2.5 Dollarama locations in Canada (Samy, 2020). The ratio in February 2016 was 2.1 to 1 (Samy, 2020). There are benefits to running the largest dollar store chain in Canada. It gives the business greater leverage when negotiating discounted rates with suppliers and reduced rents with landlords (Samy, 2020).

By 2027, Dollarama aims to have 1,700 locations instead of its current 1,200. This goal will force its growth plans to accelerate soon (Samy, 2020). Here are some of the reasons why stores have filed for bankruptcy or are discussing rent relief. Because it decreases their cash flow, this puts a lot of financial strain on landlords of retail properties (Samy, 2020). This offers Dollarama the ideal chance to bargain for lower rentals and select and choose which areas to expand to (Samy, 2020).

Porter's 5 Force Analysis

The largest chain of dollar stores in Canada is operated by Dollarama. After a 2004 leveraged takeover, the company fared very well, and it just completed a highly successful initial public offering (IPO) (Executive MBA Pro Resources, 2022). The majority of the company's products come from Asia. It enjoys competitive advantages in operations, buying, and merchandising as well as high-quality brand awareness (Executive MBA Pro Resources, 2022). Dollarama recently made the hazardous choice to go from a single one-dollar pricing point to multiple price points in response to margin constraints. Although the extra price points provide some flexibility, it is yet unknown how willing consumers are to pay more than \$1 for goods (Executive MBA Pro Resources, 2022). Although Dollarama is seeing rapid development, its sensitivity to supply interruptions and to rises in goods costs due to rising input prices continues to worry investors (Executive MBA Pro Resources, 2022). Based on a multiples analysis, the company looks to be significantly overvalued, but a discounted cash flow analysis places it much lower (Executive MBA Pro Resources, 2022).

Threat of Substitute Products: If there is a significant risk of alternative items, Dollarama must continually engage in R&D to avoid losing market share to competitors (Course Hero, 2022). When a product is easily available on the market that is comparatively less expensive, the threat of replacements grows. However, when moving to a substitute product is expensive, the threat posed by it is minimal (Course Hero, 2022).

Increasingly, the threat of substitute goods or services is present when:

1. A more affordable alternative is accessible from a different industry (Henry, 2018).
2. Changing from one industry to a substitute product has no psychological impact.
3. The substitute product provides the same, if not better, quality and performance as that of Dollarama Inc (Henry, 2018).

However, Dollarama Inc. is significantly low to this threat when:

- Using a substitute product has a high switching cost (Henry, 2018).
- Customers cannot obtain the same utility from a substitute product as they can from a Dollarama Inc. product (Henry, 2018).

How can Dollarama Inc. tackle the threat of substitute goods or services?

- By highlighting how it's given product or service is superior to the alternatives, Dollarama Inc. can lessen the threat of substitute products or services (Henry, 2018).
- It should provide clients with better experience and excellent value for their money to persuade them to buy (Henry, 2018).
- Finally, it may enhance quality, improve value for money, and establish a solid basis for difference to prevent buyers from using a competitive product (Henry, 2018).

Bargaining Power of Suppliers: If the suppliers have significant bargaining power, Dollarama will be required to pay more for the goods. Suppliers will demand higher prices from Dollarama if they have a strong negotiating position. It will affect Dollarama's ability to continue generating above-average earnings in the retail sector (Executive MBA Pro Resources, 2022).

For Dollarama Inc., suppliers' bargaining power will be high if:

1. Suppliers have a high proportion of businesses in one area than do purchasers (Henry, 2018).
2. This influence is more effective when it is expensive for customers to move suppliers.
3. The suppliers' position against Dollarama Inc. is enhanced when there are few suppliers and great demand for the goods they are offering (Henry, 2018).
4. Forward integration of suppliers affects Dollarama Inc.'s position since they also enter the market as competitors.

If Dollarama Inc's bargaining power with suppliers will be low:

- There is no concentration of suppliers (Henry, 2018).
- Low switching costs.
- The product is not differentiated (Henry, 2018).

How can Dollarama Inc. deal with the supplier's bargaining strength?

By reducing its dependence on a single or small number of suppliers, Dollarama Inc. may better defend itself against suppliers (Henry, 2018). It will become more sensitive to pricing. Long-term contracts with suppliers from various locations help Dollarama Inc. increase the effectiveness of its supply chain while simultaneously reducing the bargaining power of those suppliers (Henry, 2018).

Bargaining Power of Buyers: Buyers with strong negotiating skills will frequently reduce the price, which limits Dollarama's ability to make long-term profits. Low switching costs also help buyers have more negotiating leverage (Executive MBA Pro Resources, 2022).

There are a few things that give buyers more power to bargain:

1. A stronger client base gives them greater bargaining leverage over Dollarama Inc.
2. If there are few sellers, the buyer power will likewise be great, whereas there are too many sellers (Henry, 2018).
3. Low switching costs also provide consumers with more bargaining leverage (Henry, 2018).

How can Dollarama Inc. cope with the buying power of buyers?

By expanding and broadening their consumer base, Dollarama Inc. may control the bargaining power of purchasers. This may be accomplished through launching new goods, focusing on new specific markets, and using product diversification techniques. In this sense, marketing and promotion methods might be useful (Henry, 2018).

Threat of New Entrant: If there is intense competition in the industry, it will be challenging for established companies like Dollarama to generate long-term profitability. If there are few competitors or if the market is expanding quickly, there won't be much competition amongst the current businesses (Course Hero, 2022).

The following are some elements that reduce the threat of new competitors for Dollarama Inc.:

1. Significant financial and material resources must be invested to enter the market (Henry, 2018).
2. If product differentiation is great and clients place a high value on the unique experience, this force likewise loses power.
3. If the current legislative framework places certain obstacles in the way of new businesses looking to enter the market, Dollarama Inc. will not be as threatened by new competitors. In this scenario, entry-level firms may be prevented from joining the market by the need to satisfy demanding, time-consuming regulatory standards (Henry, 2018).

4. If customers have a strong psychological barrier to switching brands and are already devoted to established companies, the danger will be low.
5. If access to the distribution channels is restricted, new competitors will be prevented (Henry, 2018).

If new competitors enter the market, Dollarama Inc.

- Current laws encourage the admission of new participants (Henry, 2018).
- Because there is little or no brand loyalty, consumers may readily switch brands.
- The initial capital outlay is substantial (Henry, 2018).
- For new participants, creating a distribution network is simple.
- The current market participants' retaliation is not a barrier (Henry, 2018).

How can Dollarama Inc. combat the threat of new competitors?

- By focusing on customer relationship management, Dollarama Inc. may increase brand loyalty. The psychological switching costs will increase (Henry, 2018).
- To increase access to the target market, it might establish long-term contractual partnerships with distributors (Henry, 2018).
- Dollarama Inc. can also engage in R&D projects, gather useful consumer information, and launch trying to cut goods and services to create a solid platform for difference (Henry, 2018).

Rivalry Amongst Existing Players: It becomes more challenging for established firms like Dollarama to generate sustained earnings when there is intense competition (Executive MBA Pro Resources, 2022). The rivalry amongst already-established businesses reveals the number of rivals who actively compete with Dollarama Inc.

For Dollarama Inc., there won't be much competition from other companies if:

1. The number of market participants is rather limited (Henry, 2018).
2. Each market participant targets a separate sub-segment, and the products are extremely different.
3. Because the hurdles to exit are minimal, businesses can readily quit the sector without suffering significant losses (Henry, 2018).

How can Dollarama Inc. combat competition amongst established businesses?

To improve the basis for difference, Dollarama Inc. should concentrate on the implicit demands and expectations of its clients. By establishing long-lasting client ties, it ought to increase switching costs (Henry, 2018). To find new consumer categories, the organisation also needs to spend on research and development operations. Sometimes working together with competitors may be advantageous for both parties. The company may investigate this choice as well (Henry, 2018).

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