



ASIA INC September, 2004

BUSINESS ASIA-PACIFIC

By Derek Moscato

When country crooners sing of the "ole five and dime" shops in the small towns of the American heartland, they probably don't give much thought to the Japanese discount retailer known in North American circles as simply Daiso. But they should.

Over the years, the five-and-dime discount stores, referring to the retailers that used to sell items for 5 and 10 cents, have evolved into 99-cent or one-dollar stores. The concept has thrived for the better part of a decade in North America, and the industry continues to evolve out of its down-and-out reputation into something more respectable. But most of these stores have nothing on Daiso.

Born of Japan's sunken economy during the 1990s, Daiso Industries, along with a handful of Japanese competitors, exceeded most consumers' expectations by retailing an assortment of household and office items for roughly the dollar equivalent, 100 yen, in a modern, clean environment. While many higher-end Japanese retailers fell by the wayside in a volatile economic climate, Daiso (which means "big warehouse" in Japanese) continued to prosper, and today it's a *bona fide* leader in the Asian discount retail sweepstakes.

Founded by Hirotake Yano in Hiroshima, the store has managed to woo previously brand-conscious shoppers coming to grips with new economic realities. As one observer puts it: "Bargain-hunting has come out of the closet in Japan."

What started as a business run out of the back of a truck more than 20 years ago has evolved into a billion-dollar empire. The store has established a reputation for itself because of its bargain-priced items, everything from French wine glasses to cosmetics to bamboo baskets. In the well-stocked aisles of Daiso outlets in Japan (most stores carry as many as 40,000 different items), consumers have opened their wallets and hearts to Daiso's value-loaded business model.

Daiso-Sangyo, which generates annual sales of roughly US\$4 billion from over 2,500 stores in Asia, now opens between one and two new stores a day in Asia. And like its indirect competitor on the North American landscape, Wal-Mart, Daiso reaps the benefits of enormous buying power. The company orders at least 10 million units of any given inventory item, giving it considerable leverage with manufacturers.

Bargain-hunter's PARADISE

Having made its mark in Asia, Japanese discount-chain Daiso takes its value-for-money business model to North America — starting with Vancouver, Canada

With this much momentum on its side, it's not a huge surprise that the company has crossed the Pacific Ocean, launching its first store in the Canadian city of Richmond, British Columbia, a fast-growing suburb of Vancouver, and one that is known across Canada as a magnet for immigrants from Asia.

In December, the 2,500 sq m store, a joint venture with Fairchild Group, a Vancouver-based real estate and media conglomerate, opened its doors, reportedly selling more than 40,000 items for C\$2 each. And the Daiso rollout will continue across Canada during the next 12 months: An additional five stores are scheduled to open in Toronto, Montreal, Edmonton and Calgary by next June.

Opening day at the Richmond store, not surprisingly, saw a crush of shoppers show up to witness the Daiso revolution in retailing but, more importantly, that euphoria was followed by weeks of frenetic shopping from dollar-and-discount store enthusiasts from across the Greater Vancouver area.

A combination of strong word-on-the-street and media coverage has parlayed itself into an explosion of interest outside of the Asian-Canadian demographic. Daiso shoppers at the Richmond store are now decidedly a multicultural lot. The store is a revelation for Canadians, who have long suffered the somewhat stale offerings from some of the current dollar-store retailers, let alone the rest of the retail lot.

As one Vancouver customer put it: "It's the most interesting and colourful dollar store that I have ever been to. I actually like the stuff they sell there. When I think of a dollar-store, it's usually a place where they sell tacky things, where the products

are all over the place. This place proved me wrong."

The question is, will the Daiso concept fly outside of Vancouver, and in the more traditional North American markets of the American Midwest or East Coast? Healthy immigration patterns in Canadian and American cities are on Daiso's side. Individuals originally from Asia are more familiar with the Daiso brand, and are an easier target market to reach out to in the early going for new stores. It's not hard to imagine Daiso thriving in places like Toronto, Chicago or Los Angeles.

Fairchild chairman and CEO Thomas Fung cites the word-of-mouth brand appeal in Japan that could give Daiso a head start in many of its new markets in North America. "A public survey in Japan showed Daiso-Sangyo as being the second most recognizable brand-name retailer after Disney World in Tokyo," said Fung at the store's opening. "They ranked ahead of famous brands such as Coca-Cola, McDonald's, Sony, Toyota and Starbucks."

The dollar-store genre, not including Daiso, is already enjoying heady growth in the US. Numbers from market-research firm ACNielsen show that in 59% of American households, someone is a regular dollar-store shopper. Talk about greasing the wheels for the retailer's arrival. Impressively, sales in dollar stores have grown at an annual 22% over the last half-decade.

According to Thomson First Call, five of the biggest dollar-store retailers in the US — Family Dollar Stores, Dollar Tree, Dollar General, Fred's and 99 Cents Only — are expected to enjoy earnings growth of 17.4% annually over the next half-decade.



Daiso's North American venture brings a new flavour to the traditional shopping mall scene there

But Daiso will be looking beyond the dollar-store competition in North America. As retail analysts point out, dollar-store operations account for only a fraction of the business done by the blue-chip retailers. Wal-Mart's US\$16 billion increase in revenue last year, for example, dwarfs the total annual sales of US\$12 billion for the entire US dollar-store industry. In other words, dollar stores are still a niche player in North America.

Daiso will be drawing from a larger pool of customers outside of the dollar-store arena if it's going to enjoy the retail-industry heavyweight status that it does in Asia. That pool of customers will include the folks who shop at the big-box chains. The North American heavyweights, in turn, may already be bracing themselves for the competition ahead.

A June market report from Wall Street publication TheStreet.com mused that "the staying power of the dollar stores is so intense that even retail giants Wal-Mart and Target have gotten in on the action", in the light of both stores' testing the deep discount waters with dollar-store concepts of their own.

Still, Daiso's arrival on Canadian shores is, for the most part, being embraced by industry players in the West. David Gray,

a Vancouver-based retail consultant specialising in strategic information and intelligence, says traditional shopping malls in North America are under pressure from newer retail configurations — everything from boutique shops to massive retailers like Ikea. And because of the proliferation of the so-called big-box retailers in North America, like Walmart and Home Depot, traditional shopping malls are looking for something new and fresh to ensure their relevance in the coming years. Gray says: "The challenge is to drive traffic and create an exciting space that retail tenants want to be part of — and pay for. These efforts today are to stem the drop in shopper visits." Daiso could emerge as a key player in this re-invigoration of the North American shopping mall.

Gray adds that Richmond's Aberdeen Center, where Daiso is anchor tenant, "is building on the region's rich diversity to create a cross-cultural shopping destination. While taking some time to realise, Fairchild Developments' vision is to fuse East and West. Brand-name retail, products and foods from both will be prominent".

Gray's enthusiasm is tempered somewhat, however, by the fact that Daiso is still a mostly untested concept in the West.

"The idea of retail becoming a point of fusion for different cultures is very compelling, at least in a society that promotes integration," he says. "However, it works both ways. Just like the arrogance of success leads Caucasian retailers to assume all segments or ethnicities will buy from them, so too do foreign retailers [including American] assume all Canadians will buy the same way their domestic market does. Research, homework and placing the customer truly first are the prerequisites."

Daiso's timing, then, may be near-perfect. Unlike the rest of the dollar-store pack, Daiso is counting on its fresh-and-foreign flavour to win over customers to the Japanese variety of deep-discount retailing. Their experience on Canada's West Coast suggests that the chain of stores may not only survive the wars with fellow dollar stores and the big-box retailers, but also set itself apart from the pack because of its smart product line-up and distinctly Asian shopping experience.

And just as the "five-and-dime" shops became ubiquitous in small-town America, Daiso outlets could become the *de facto* dollar-store experience in urban and suburban North America. Retailers of the discount- and dollar-store variety should consider themselves warned. ■