Innovation of DAISO - Focused in Economies of Scale, Economies of Scope, Diversification -

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***Abstract*—**In May 1997, a 10-pyeong sized "1000 won sop" was opened in Cheonho-dong in Gangdong-gu, Seoul. It was the first store of DAISO. At the time, a range of prices had four kinds: 500 won, 1000 won, 1500 won, and 2000 won. Many people were first aware that DAISO dealt with low-cost goods only. However, since the opening of the 1st store, 1,060 stores are being run nationwide. Now, DAISO does not sell cheap goods only. It has not only changed into a shopping space where a total of 30,000 kinds of various and cheap products are sold but also serves as a meeting place of people. How it has achieved this development? The present paper tried to evaluate how DAISO succeeded by looking at its success in aspects of economies of scope, economies of scale, and diversification.

***Keywords*—**DAISO; Economies of Scale; Economies of Scope; Diversification.

I. INTRODUCTION

1.1. Background

THE society is getting into a low-wage era. Although wage growth does not meet the expectations of the populace, the Inflation is higher than the expected one, which thus causes the populace to feel a pain. As the public opinion prevails that the global bushiness enters an era of a low growth, China, the only country which has continued to grow over 10%, now records 6-7 percent of economic growth and is thus making changes in its growth - centered economic policy. Korea also recently records 2~3% of low economic growth, so policies are being discussed for economic growth day after day; however the effectiveness is not sure. In this economic situation, those who suffer from it are ordinary people. In particular, for people below the middle income class, even their survival is threatened in the high prices and low wages era.

Thus, people are paying a lot of attention to consumption. It means that they are making lots of efforts to purchase cheap and good quality goods. That's why DIASO is attracting attention as an uniformed price household goods store. The price ranges from 500 to 5000 won. This makes ordinary people use this shop more often. In addition, DAISO is selling the goods that are difficult to purchase around us, which are necessary for our life. For the reason, DAISO reminds us of an image that it is a store where we easily buy everyday items when needed.

1.2. Research Question

The society is getting into a low-wage era. Although wage growth does not meet the expectations of the populace, the Inflation is higher than the expected one, which thus causes the populace to feel a pain. As the public opinion prevails that the global bushiness enters an era of a low growth, China, the only country which has continued to grow over 10%, now records 6-7 percent of economic growth and is thus making changes in its growth - centered economic policy. Korea also recently records 2~3% of low economic growth, so policies are being discussed for economic growth day after day; however the effectiveness is not sure. In this economic situation, those who suffer from it are ordinary people. In particular, for people below the middle income class, even their survival is threatened in the high prices and low wages era.

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II. INTRODUCTION OF DAISO

The official name of DAISO is DAISO A-sung Corp. It is Korea's first uniformed price household goods store, now selling household goods through over 1,060 stores nationwide as of December in 2015. For DAISO, its recognition is dominant in Korea, and as a household goods company of Korea, stores are also evenly distributed and annual sales are steadily rising.

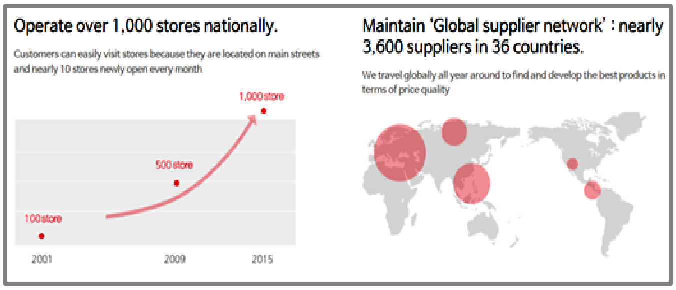

Figure 1: Stores Situation & Global Supplier Network

Table 1: Cost of DAISO

500 won	1,000 won	1,500 won	2,000 won	3,000 won	5,000 won
3%	50%	9%	28%	7%	3%

III. METHOD

3.1. *Approach*

The present study adopted DAISO with the largest number of stores as a case organization, compared to uniformed price household goods brands in Korea. It is because it was thought this case can be a model of uniformed price stores brands in the same industry or other industries.

3.2. *Case Organization*

The present study proceeded in the order of case organizational decisions, literature study, data collection and setting of research methods, analysis of success factors, and description of conclusions.

3.3. *Data Collection and Analysis*

Data were collected from research reports, periodicals, newspaper articles, and corporate websites. The present study was conducted from December 2015 to January 2016. In the present study, efforts were made to secure the reliability of validity of data with reference to the following methods. First, enough time was investigated for the researcher to reduce errors in terms of research purposes, research methods, research truthfulness, etc. Second, the source of the study was reliably presented, based on the materials taken from the correct source material. Third, a method was used that checks out the aspects that the research has not recognized by explaining those aspects to the researcher with detailed knowledge.

IV. RESULTS

The present study made an analysis by dividing the success factors of DAISO largely into economies of scope, economies of scale, and diversification.

4.1. *Economies of Scope*

The greatest strength of DAISO is the typical small profits and quick returns of releasing a variety of goods at cheaper prices. The method of the small profits and quick returns is to display many goods if possible and to sell them at cheaper prices. In DIASO, the effect of the economies of scope is confirmed in that a variety of products belong to the same classification are displayed at the same space for customers to take a look at those products at a first glance. At first, the range of choice was diversely provided to use the space more efficiently and to purchase the family of the product displayed.

With respect to this, a scientific principle was introduced, which was for the customer to secure a visual field by not allowing only the goods not to be seen after piled at random but instead making the height of the shelf lower than his height. In addition, the products sold were displayed for the customer to figure out them with ease; for this, DAISO classifies the products to be sold. For hygiene products outdoor or party supplies, they were marked separatedly, This strategy was to extend the time for customers to stay at a shop and thus to lead to purchasing goods by showing them the goods that they might need not right away but soon.

To extend the scope of the products, DAISO has opened large shops over 100 pyong, larger than the traditional pyong of shop. This strategy of DAISO gave customers a pleasure of shopping and provided a variety of attractions, making a contribution to sales growth. This made customers visit a shop more often, not once, and the affordable price made customers open their wallet. Because of this strategy of DAISO, DAISO in Japan had an interest and benchmarked that strategy.

In addition, DAISO make efforts to display the goods that reflect the current trends. For example, in the past. people made a present after simply purchasing good quality chocolate, for example, However, nowadays, many give a present with the chocolate made personally. DAISO has reflected the customers' trends and is selling the goods by allowing those consumers to contain a message in the chocolate that they want. In the end, It is a strategy to display products reflecting trends.

DAISO has focused on figuring out the age, taste, and consumption pattern of the customer who wants to purchase the product and has thus developed the package suitable for the trends; for example, DAISO makes a hole in the package of the product that the customer has to touch himself. In addition, DAISO has minimized packing a product used the material that can be recycled.

4.2. Economies of Scale

Economies of scale refers to the decrease of costs per unit with an increase in production in the position or manufacturer of the supplier producing the goods [Rothaermel, 7]. Besanko et al., [1] mentions the importance of the administration of the purchaser such as DAISO purchasing goods in bulk in the position of a supplier.

Strictly speaking, DAISO is not a manufacturer of mass-produced goods but has achieved economies of scale by reducing the prices, keeping the goods, and selling them to the consumer. In the present study, economies of scale are explained with the learning curve and fixed costs.

In DAISO, about 30 designers plan and supply new products every month through market research and products analysis. Most of product developments proceed by making efforts such as attending various exhibitions as well as taking business trips. It is a rare case that development proceeds as the partner takes the product. The samples collected in this way are reviewed one by one. Additionally, all the methods to strive to lower the price are all introduced. After the designers make efforts with the learning curve, ordering is then done.

The small profits and quick returns of selling a variety of goods at lower prices do not leave a lot of profits. Especially for DAISO that has the expansion policy focused on off-line stores, the fixed costs of rents are an inevitable challenge. That’s why DAISO might have a difficultly in the advancement to territories such as Gangnam and Myeongdong where rents are expensive. In addition, 100 bil. won, the amount of the investment in the new logistics center completed in 2012, was a great amount to DAISO. Because of this, there was also a deficit in 2013 year. However, to an unformed price stores company, its own logistics center is essential. DAISO has well managed the risks resulting from fixed costs through the efficient operation of distribution centers. Currently, the logistic center is effectively operating, which is explained by more than 90% in the utilization rate.

4.3. Diversification of Strategy

DAISO has taken a typical “product diversification” strategy. With a total of 30,000 product items, DAISO has focused on the strategy. It has now a strong brand image, so that consumers remind DAISO if they need an article in their daily life. In addition, not staying within Korea, DAISO attempts to enter the Chinese market under the name of Hasco. Judging from this, DAISO seems to seek for a “market diversification strategy” aimed to advance to the South-East Asia centered around the Chinese market as the Chinese peoples’ income levels have risen to some extent.

V. CONCLUSION

DAISO’s sales in 2014 exceeded 1 trillion. The organization can maintain continued growth through the chances for the environment, and thus the process of selecting appropriate strategies and setting the internal factors of the organization are very important for continued growth [Pettigrew et al., 5]. Steady growth of shops, and exhibition and sale of various products have led to a steady rise. In addition to that, the advancement to the Chinese market and the future expectation of online malls are enough to conceive that DAISO would have a higher market value. As the recognition of DAISO among consumers changes gradually, it is encouraging that they think that DAISO is a shopping space, not a brand of selling products at lower prices. Also, many researchers have argued that the organization needs an ability to respond to significant changes in the environment [Child, 2; Preffer & Salancik, 3; Tushman et al., 6]. If the advancement to other overseas markets than China is well made, the brand value of DAISO will be higher.

However, there is not no risk at all. In a situation when it becomes difficult to produce the goods at lower prices, continuing to freeze sailing prices would even jeopardize a company's existence. Someday, the rise in product prices will not be stopped.

It is also expected to be difficult to enter the online market. The flow of the current distribution shows a trend of shifting to online. Daiso has had an offline store-oriented policy.

In the process, DAISO has ensured loyal customers through its know-how accumulated so far; however, it is difficult to ignore the potential of the online channel in terms of efficiency. The success in a new business requires the entrepreneur’s aggressiveness in pursuing opportunities, commitment and concentration, determination and perseverance, risk assessment and response capability, and challenges and pursuit of excellence [Jeong-Hwa Han, 3]. Therefore, the online channel utilization should be included as part of the growth strategy of DAISO.

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