

A Dollar Store's Rich Allure in India

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MUMBAI, India - Corporate Lawyer Archana Singh travels to Europe every year and returns laden with fine Italian cheeses, French wines and single-malt Scottish whiskeys. At home in Mumbai, she likes shopping at the neighborhood "dollar store", which sells exotic products like the newest flavor of Pringles in red-white-and-blue decked aisles that make her feel she's on vacation in the U.S.

As Wal-Mart Stores Inc. and other retail giants prepare to enter India, an unexpected American Rival -- California's My Dollarstore Inc. -- is already here and attracting the affluent middle-class customers Wal-Mart and others covet.

In the U.S., most of the so-called dollar stores that sell discounted products at a single price are in low-rent strip malls. In India, My Dollarstores target big spenders, setting up in prime ground-floor spaces at the newest malls. Even the prices are higher end. While everything costs \$1 at My Dollarstores in the U.S., in India the same products sell for 99 rupees, or about \$2, thanks to transportation costs and import tariffs.

Since opening its first store in Mumbai in 2004, India's My Dollarstore franchise has been a testing ground for what works -- and what doesn't -- for a new entrant to the subcontinent's nearly \$300 billion retail industry spanning food to footwear.

Ajoy Krishnamurti, chief executive of Sankalp Retail Value Stores, which was created to manage the My Dollarstore franchise in India, walks the aisle of a My Dollarstore in Mumbai's Center One mall, pointing out products. "Hershey's chocolate syrup really rocks, salad dressing is hot," he says. "Papaya-and-carrot juice: not particularly hot."

Though the average annual salary in India is still less than \$1,000, My Dollarstore's track record suggests "Made in America" is a good formula for attracting India's well-to-do and free-spending middle class. The governments of India and the U.S. have not always seen eye-to-eye on political issues, but goods associated with the American way of life -- Doritos chips, Kellogg's Pop-Tarts, Alberto VO5 hair conditioner -- have long been carried home by Indians living in and visiting the U.S. That helps explain why a store chain associated with bargain basements in the U.S. is attracting the cream of India's shoppers in an economy whose gross domestic product is growing more than 8 percent a year recently.

Singh, 32, says a trip to My Dollarstore reminds her of traveling abroad. She enjoys trying new products and likes the wide aisles -- a contrast to the mom-and-pop shops that dominate food, cosmetics and clothing retailing in India. She spends \$30 in a typical trip. "Before you realize it, you've picked up so much," she says. International chains are scarce in India, where the government generally doesn't allow direct foreign ownership in the retail industry. It restricts foreign investment to single-brand retailers, such as Chanel or Nike, or those that come through franchise agreements -- international brands provide the products, retail technology and marketing, but the stores are owned by Indians. Guess Inc., Tommy Hilfiger Corp. and My Dollarstore are among those that have entered the market through franchises.

Yet the government has hinted it's ready to open the sector to more foreign investment, and Indians are at last shopping enough to make large retail investments worthwhile. In November, Wal-Mart announced plans to enter India through a joint venture. Its Indian partner Bharti Enterprises Ltd. will own the outlets, while Wal-Mart controls the supply chain and wholesaling operations. Last week U.S. office supply retailers Staples Inc. announced it would also enter India through a joint venture. France's Carrefour SA and Tesco PLC of the U.K. are scouting for partners, too, and expected to follow with their own India plans.

Certainly just setting up shop will not be enough. Wal-Mart last year had to pull out of both the German and South Korean markets after years of disappointing results there. In India, these behemoths will likely be learning some of the same lessons the tiny My Dollarstore chain has already absorbed. Dollar stores have been around for decades in the U.S., but My

Dollarstore is relatively new. In 1996, Indian immigrant and former leather importer Rex Mehta started Dollarstore Inc. as a Web portal to help independent shops buy and sell goods. In 1999, it moved into the brick-and-mortar business of running a chain of My Dollarstores, and the next year it took the franchise abroad. Now, the privately held company has annual sales of close to \$30 million from franchise fees, wholesaling and consulting. It typically charges \$15,000 upfront to anyone who wants to open a My Dollarstore, provides the layout of the stores, the products and the technology needed and charges the stores around 4 percent of sales.

It's been expanding faster internationally than at home, and now has around 200 store franchises abroad, from Eastern Europe to Central America to Southeast Asia. In the U.S., where it has about 50 My Dollarstore franchises and provides 100 other independent stores with products and services, its major competitors are the listed giants of the industry, including Family Dollar Stores Inc. and Dollar Tree Stores Inc. Abroad, Mehta says, he has little competition.

"We are very excited about India," says Mehta, who heads the entire operation and is chief executive officer of Dollarstore International Inc., the company that runs the group's international franchising. In India, My Dollarstore plays heavily on the American Dream theme. The store in Mumbai's Center One mall features the same red-white-and-blue decorating scheme and employee uniforms as the U.S. stores, and takes it a step further with posters of the Statue of Liberty on the walls.

So far the formula is working. Last year, 4.5 million customers shopped in My Dollarstores in India, up from 370,000 two years earlier. Most of the 42 My Dollarstore outlets, mainly in India's larger cities, attract more than 600 customers a day, three times the average in the U.S. Mr. Krishnamurti estimates the My Dollarstores in India brought in more than \$10 million in sales last year, almost twice the previous year's revenues.

He plans to expand to more than 400 stores across the subcontinent in the next three years. My Dollarstore learned other lessons on the way to its current success. Its first shops offered exactly the same products sold in U.S. stores: container-loads of goods from the franchise's long list of products, from baby clothes to health-and-beauty products, snacks and stationary. While Indians rushed to buy super-size bottles of shampoo and cartons of apple juice, they were also wary of the discounted products, fearing the goods might be shoddy, or locally made imitations of international brands. My Dollarstore solved this problem by hiring more staff to answer questions. The stores in India have around 20 employees per 1,000 square feet -- more than 10 times that of the U.S. stores. It's possible because labor is cheap in India: the average shop helper makes less than \$150 a month.

"Is this really Old Spice?" a customer asks Krishnamurti at the Center One store. Customers are confused about newly arrived cans of hair mousse, the store's manager says. "They keep calling it mouse." To encourage consumers to try unfamiliar products like blueberry syrup and dog shampoo, My Dollarstore offers something unusual in India: a money-back guarantee, no questions asked. One customer returned a partially eaten jar of peanut butter.

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