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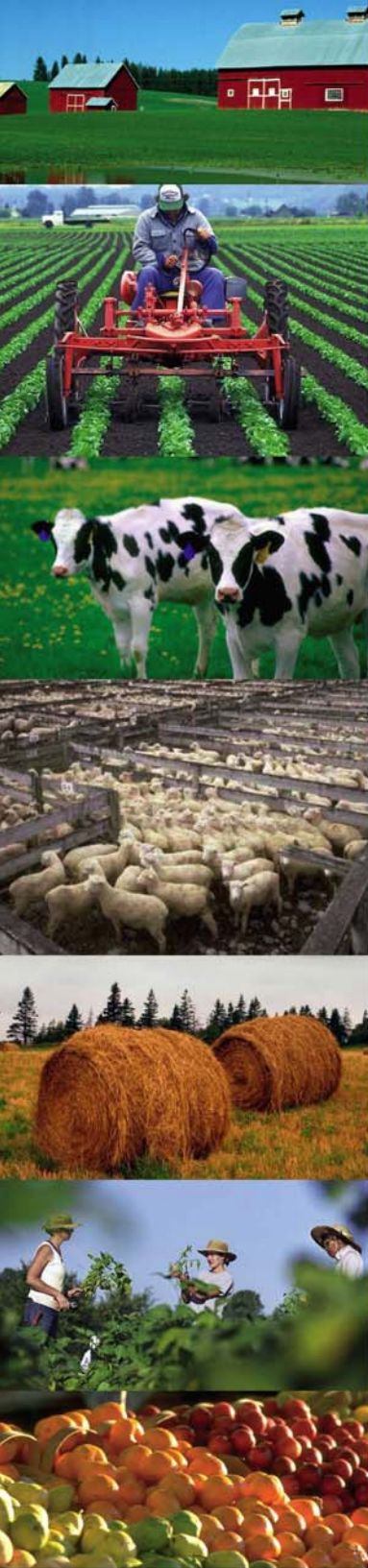
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FSRG Publication



Structural Changes in Food Retailing:

Six Country Case Studies

edited by

Kyle W. Stiegert

and

Dong Hwan Kim



**Food System
Research Group**



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Chapter 5: The Case of Korea

Dong Hwan Kim

1. INTRODUCTION

Historically a large number of small-scale food retailers have dominated the Korean food retail industry. Food items were mainly sold through small-scale grocery stores, “mom and pop” stores, and traditional market places. However, the importance of small-scale food retailers decreased sharply as Western-style supermarkets and discount stores were introduced. The development of large-scale retail chains came in part from Korean companies and in part from foreign food retailers, such as Carrefour, Wal-Mart, and Tesco. For the most part, these global retailers entered the Korean market with discount store formats. The changes in food retailing occurred so fast and with so much influence on the economy, and that is often called the “distribution revolution” in Korea.

Available evidence indicates that changes in food retailing have significantly influenced consumers, producers, and the overall food marketing system. Development of large-scale retailers with supermarket or discount store formats has generated scale economies and streamlined procurement practices leading to increased consumer welfare via lower prices and improved quality. The more efficient marketing channels have also led to ancillary benefits to those upstream suppliers able to adapt to the large retail procurement format. However, as the market shares of major supermarket and discount store chains have increased sharply in recent years, there has been a growing concern for the buying power exercised by large food retailers. All supermarkets now account for 54% of all food store sales in Korea, and the largest four firms hold 43% of supermarket sales. While this is still low in comparison to many developed nations, it is changing rapidly.

Given the revolutionary changes occurring in food retailing, it is helpful to examine the nature of these changes and their impact on food producers and consumers. The experiences in Korea may provide useful insights into food retailing sector in other countries, especially developing countries. The following section contains a thorough discussion and assessment of the recent structural changes in food retailing. Section three identifies and summarizes the effects dominant food retailers have on agricultural producers, and section four discusses and examines the public policy implications of Korea’s rapidly changing food retailing sector.

2. STRUCTURE OF FOOD RETAILING IN KOREA

2.1 Industry Definition of Food Retailing

According to the National Statistical Office (NSO) of Korea, the retail industry consists of general retailing and several specialty-retailing industries. General retailing consists of large-scale general retail stores, such as department stores, discount stores and

grocery stores.²¹ Specialty retailing is classified by the type of merchandise sold in retail stores.²² In Korea, unlike the United States, automobile retailing, fuel retailing, and restaurants are not classified as part of the retail industry.

In this chapter, food retailing is defined as a subsector of the retail industry, consisting of food, beverage, and tobacco retailing, grocery stores, and the parts of large-scale retailers focused on food. Specialty retailers, food, beverage, and tobacco retailing refers to food stores that specialize in a limited assortment of food products.²³ Grocery stores are classified based upon the following definition: “a food store that sells a general line of food products, such as canned and frozen foods; fresh fruits and vegetables; fresh and prepared meats, fish, and poultry; and nonfood grocery products with [a] selling floor less than 3,000 m² (or 33,000 ft²)” (National Statistical Office of Korea, 2000). Subcategories of grocery stores include conventional supermarkets, convenience stores, and small grocery stores.

Specifically, a supermarket is defined as “a food store that sells a general line of food products and nonfood grocery products with [a] selling floor of 165-3,000 m² (or 1,800-33,000 ft²).” A convenience store is defined as “a food store that sells a general line of food products and nonfood grocery products for 24 hours under one management or the franchise system.” Small grocery stores refer to stores that sell a general line of food products and nonfood grocery products with a selling floor less than 165 m² (or 1,800 ft²).

The supermarket sector includes not only conventional supermarkets but also discount stores (or supercenters) and department stores.²⁴ Total sales of the discount store sector are included as food retailer sales because food items account for more than 50% of total sales in Korea.²⁵ Discount stores in Korea are operated like supercenters or hypermarkets where food sales account for more than 50% of total sales. According to a survey by the Korea Chamber of Commerce and Industry (2002), food items account for about 15% of total department store sales. Most department stores in Korea operate supermarkets in the basement of their stores. Therefore, 15% of department store sales are included in sales of the supermarket category.

²¹ According to Korean Standard Industrial Classification (KSIC), general retailing (KSIC 521) consists of large scale general retail stores (KSIC 5211) and grocery stores (KSIC 5212).

²² Specialty retailing consists of food, beverage and tobacco retailing (KSIC 522); pharmaceuticals, medical equipment; and cosmetic retailing (KSIC 523); textiles; clothing; footwear and leather goods retailing (KSIC 524); electronic home appliances; furniture; household appliance retailing (KSIC 525); other specialized retailing (KSIC 526); used-goods retailing (KSIC 527); and non-store retailing (KSIC 528).

²³ Sub-categories of specialty food stores include rice and grain retailers (KSIC 52211), meat retailers (KSIC 52212), seafood stores (KSIC 52213), vegetable and fruit retailers (KSIC 52214), bread and confectionary retailers (KSIC 52215), health food retailers (KSIC 52216), other food retailers (KSIC 52219), beverage retailers (KSIC 52221), and tobacco retailers (KSIC 52222).

²⁴ The term “supercenter” is often used synonymously with “hypermarket.” Hypermarket is a phrase first popularized by Carrefour’s store formats introduced in France in 1963 (Sharkey and Stiegert, 2006). Though some distinction between supercenters and hypermarkets has been attempted in the literature (i.e. floor size, product lines, appearance) the terms refer to the same basic retailing strategy.

²⁵ In discount stores, food items account for 58.6% of total sales (Korea Chamber of Commerce and Industry, 2002).

2.2 Basic Structure of Food Stores

Traditionally, small-scale stores in Korea have dominated food retailing. Food and beverage products have been sold not only in grocery stores, but also in street stalls and by peddlers, located mainly in traditional market places. According to the National Statistical Office of Korea, there were about 233,000 food retail stores in 2001, providing employment to 470,000 people. Food stores are distributed more densely in Korea than in most other countries. In 2001, there was one food store per 202 persons in Korea (National Statistical Office of Korea, 2001). While this figure is comparable to 199 persons per store in Japan, it is much less than the figure of 1,412 persons per store in the United States (Kim, 1995).

Table 1 contains information about average store size in Korea from 1981-2001. The average size of food stores is quite small compared with most developed nation counterparts. The average employment per store has only risen from 1.6 persons in 1981 to 2.0 persons in 2001. In contrast, food stores in the United States and Japan, employ, on average, 16 and 4.1 persons respectively. Kim (1995) reports that annual average sales per store are only \$438,000, which compares to \$467,000 in Japan and \$2,044,000 in the United States. In terms of floor space, average store size has increased substantially (by a factor of 2.9), reflecting the emergence of supercenters and larger supermarkets. However, most food stores remain small, family-owned businesses that also serve as the family residence. Small family-owned food shops have been historically viable due to Korea's high population density in urban areas, frequent trips to stores, and an emphasis on freshness and quality of food sold.

Table 1. Structure of Food Stores in Korea

Year	Number of Establishments	Number of Employees	Average Number of Employees per Store	Average Store Size (m ² /ft ²)
1981	241,830	392,915	1.6	19.7 (214)
1986	311,656	528,428	1.7	21.4 (233)
1991	304,971	514,430	1.7	29.0 (315)
1995	297,834	532,527	1.8	37.0 (402)
1997	293,336	529,465	1.8	48.1 (523)
2001	233,002	469,721	2.0	57.5 (625)

Source: National Statistical Office of Korea, several years.

Note: Food stores are defined as food, beverage and tobacco retailing stores, grocery stores, and a part of large-scale retailers.

Table 2 and Figure 1 contain detailed information about the changing structure of food retailing. Until the mid-1990s, two-thirds or more of food and grocery items were sold through small grocery stores and specialized food stores. In 1995, small grocery stores and specialized food stores accounted for 40.4% and 24.0% of total food store sales, respectively (figure 1, Table 2). In contrast, supermarkets accounted for 33.2%. As the

number of large-scale discount stores increased since the mid 1990s, the share of food store sales accounted for by supermarkets grew sharply. The shares of sales accounted for by supermarkets increased from 33.2% in 1995 to 53.9% in 2005. In contrast, the shares of food store sales accounted for by small grocery stores and specialty food stores decreased from 64.0% to 41.6% during the same period. As a result, supermarkets became the number one format of food stores.

Figure 1. The Shares of Food Store Sales Accounted for by Segment

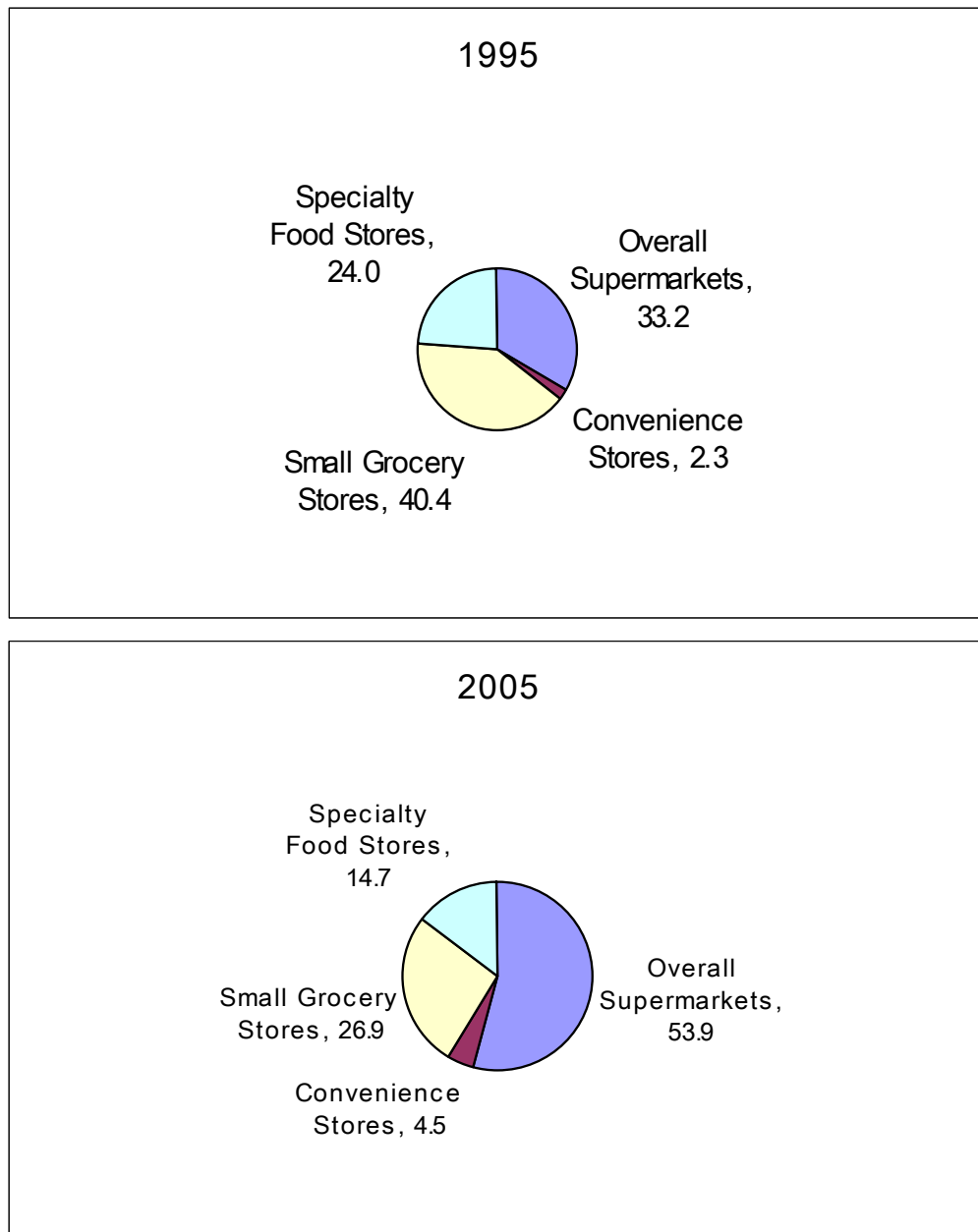


Table 2. Food Store Sales by Segment, 1995-2005.

(Unit: Trillion Won, %)

Year	Total sales of food stores	Grocery stores			Specialty food stores
		Overall Super-markets	Convenience Stores	Small Grocery Stores	
1995	29.7 (100.0)	9.9 (33.2)	0.7 (2.3)	12.0 (40.4)	7.1 (24.0)
1996	35.5 (100.0)	12.5 (35.3)	0.8 (2.2)	14.0 (39.6)	8.1 (22.9)
1997	39.4 (100.0)	14.6 (37.0)	0.9 (2.2)	15.5 (39.3)	8.5 (21.6)
1998	40.8 (100.0)	16.6 (40.6)	0.8 (2.0)	15.1 (36.9)	8.3 (20.4)
1999	45.2 (100.0)	19.8 (43.8)	0.9 (1.9)	15.2 (33.7)	9.3 (20.6)
2000	51.3 (100.0)	23.9 (46.6)	1.1 (2.0)	16.0 (31.1)	10.3 (20.2)
2001	56.8 (100.0)	28.3 (49.9)	1.6 (2.8)	17.1 (30.1)	9.8 (17.3)
2002	65.0 (100.0)	33.4 (51.4)	2.3 (3.5)	18.7 (28.7)	10.6 (16.4)
2003	69.4 (100.0)	36.4 (52.4)	2.8 (4.0)	19.8 (28.5)	10.5 (15.1)
2004	72.6 (100.0)	38.6 (53.2)	3.1 (4.3)	20.1 (27.7)	10.8 (14.8)
2005	77.4 (100.0)	41.7 (53.9)	3.5 (4.5)	20.8 (26.9)	11.4 (14.7)

Note: 1 US dollar is approximately equivalent to 1,000 won as the end of 2005.

Note: The shares of total food store sales accounted for by each format are reported in parentheses.

Source: National Statistical Office of Korea.

The overall supermarket column from Table 2 is broken out in Table 3 and Figure 2 to show significant changes that have occurred when the discount store revolution occurred. In 1995, conventional supermarkets accounted for more than 70% of total supermarket sales, but the shares of department stores and discount stores were only 16.0% and 8.3% respectively (Figure 2, Table 3). However, the shares of discount stores increased dramatically during 1995-2005 due to the sharp increase in the number of stores. While the shares of overall supermarket sales accounted for by conventional supermarkets and department stores decreased to 24.7% and 6.1% in 2005, the share held by discount stores rose to 69.2%.

Table 3. Sales of Overall Supermarket Sector by Segment, 1995-2005

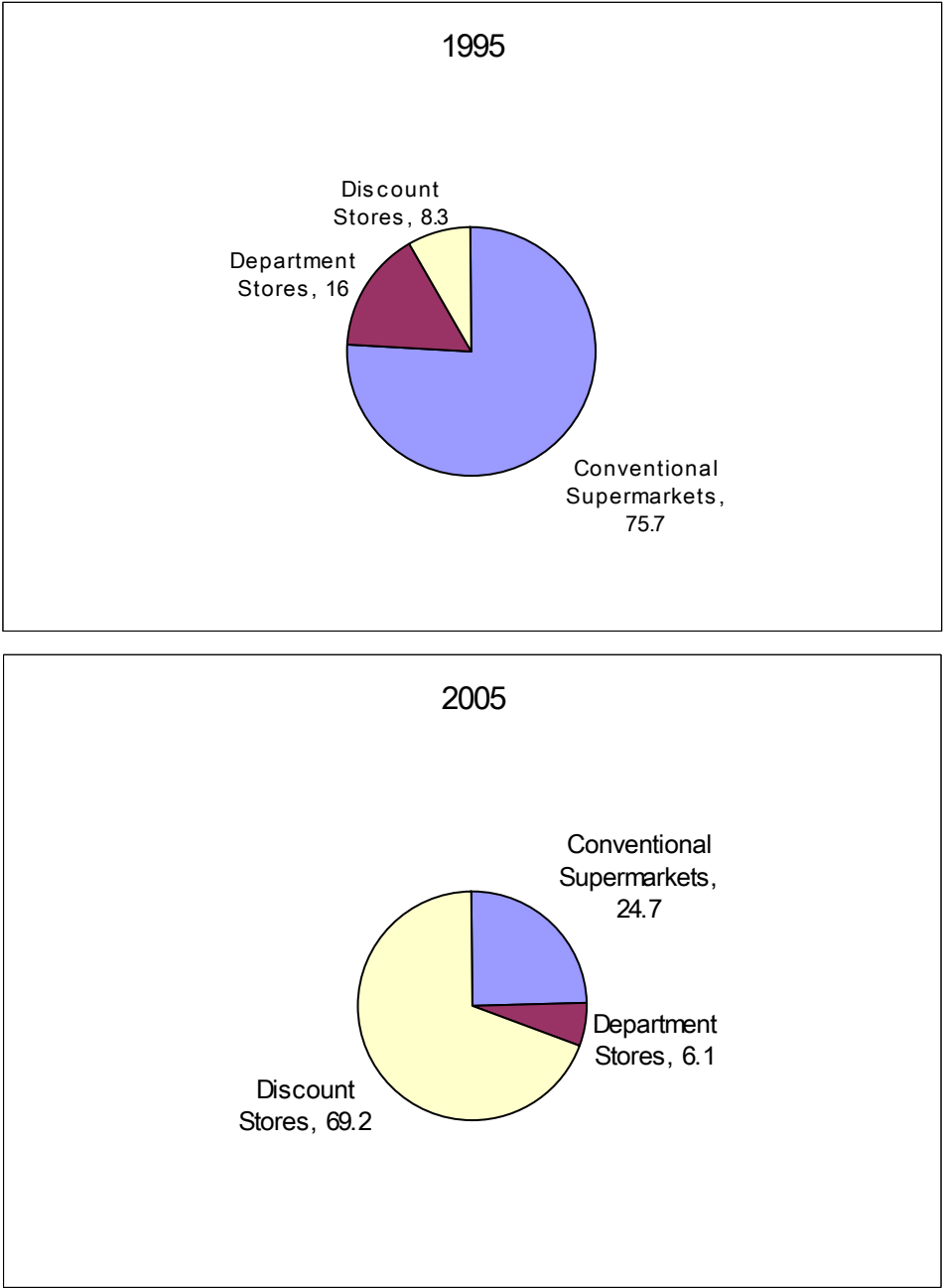
(Unit: Trillion Won, %)

	Total	Conventional Supermarkets	Department Stores	Discount Stores
1995	9.9 (100.0)	7.5 (75.7)	1.6 (16.0)	0.8 (8.3)
1996	12.5 (100.0)	8.4 (67.1)	1.8 (14.6)	2.3 (18.3)
1997	14.6 (100.0)	8.8 (60.6)	1.9 (12.7)	3.9 (26.7)
1998	16.6 (100.0)	8.9 (53.6)	1.7 (10.1)	6.0 (36.3)
1999	19.8 (100.0)	8.6 (43.7)	2.0 (9.9)	9.2 (46.4)
2000	23.9 (100.0)	8.8 (36.9)	2.2 (9.3)	12.9 (53.8)
2001	28.3 (100.0)	9.0 (31.8)	2.4 (8.5)	16.9 (59.7)
2002	33.4 (100.0)	9.5 (28.3)	2.6 (7.9)	21.3 (63.8)
2003	36.4 (100.0)	9.9 (27.3)	2.5 (7.0)	23.9 (65.7)
2004	38.6 (100.0)	9.8 (25.5)	2.4 (6.3)	26.3 (68.2)
2005	41.7 (100.0)	10.3 (24.7)	2.5 (6.1)	28.8 (69.2)

Note: The shares of total supermarket sales accounted for by each segment are reported in parentheses.

Note: Food sales of department stores are calculated based upon a share of total sales accounted for by food items in department stores (15%).

Figure 2. The Shares of Supermarket Sales Accounted for by Segment



2.3 Major Food Store Formats

Conventional Supermarkets

Unlike their US and European counterparts, conventional supermarkets are a relatively recent development in Korea. Although the supermarket format was introduced in the late 1960s, the shares of total food store sales accounted for by supermarkets never exceeded 30% until the 1980s.

In the early 1980s, the supermarket business grew rapidly owing to development of new residential/commercial areas in Seoul, the capital of South Korea. Small and medium size supermarkets were opened in apartment complexes and large supermarkets were opened as core stores in the large department stores or shopping centers located in the center of new residential areas. These modernized supermarkets gradually replaced traditional marketplaces by providing consumers with the benefits of one-stop shopping.

However, the conventional supermarket industry suffered from stagnant growth after the mid-1990s as new retail formats were introduced. Rapid expansion of discount stores and their low-price strategies triggered price competition among retailers, resulting in deteriorating profitability of conventional supermarket businesses. Because food and grocery products are major items sold in discount stores, conventional supermarkets compete directly with them. Conventional supermarkets are at a competitive disadvantage due to a poorer assortment of merchandise and higher prices, compared to discount stores.

Corporate supermarket chains operated by large enterprises have developed rapidly since the late 1990s. They have a competitive advantage against small-scale independent supermarkets or supermarket chains with a small number of stores. Corporate supermarket chains have access to abundant capital and can charge lower prices due to economies of scale in store operation and merchandise procurement. In order to compete with discount stores, supermarket chains also opened superstores, which have a more spacious selling floor than conventional supermarkets, often as large as 1,500 m² (or 16,000 ft²).

At the end of 2005, the top four supermarket chains in Korea were GS supermarket (formerly LG Mart), Seowon Distribution, Lotte Supermarket of the Lotte Retail Group, and Haitai Distribution (Table 4).

In 2005, GS Supermarket was the leading supermarket chain in Korea. It operated 83 supermarkets with sales of 695 billion won, an average of 8.4 billion won (roughly US\$8.4 million). GS Supermarket was established in 1971 and spun off the LG group in 2003. In 2005, GS Supermarket acquired nine supermarket stores from the Kolon Group, which owned and operated the supermarket chain named “Da Mart.”

The second largest supermarket chain was Seowon Distribution. Established in 1981, the stores of Seowon Distribution are mainly located in the southeastern region of Korea. It has grown to be the leading supermarket in that region by acquiring stores operated by other companies. At the end of 2005, Seowon Distribution operated 40 supermarket stores with the sales of 534 billion won, an average of 13.4 billion won (US\$13.4 million) per store.

Lotte Supermarket, the third largest supermarket chain, is a division of Lotte Shopping, Inc., which is the largest retail group in Korea. As a top department store operator, it operates not only department stores but also discount stores, conventional supermarkets, convenience stores, and even non-store retailing. Lotte Supermarket was established in 2001. To bolster its supermarket business, Lotte acquired, in 2004, 25 supermarket stores from Hanhwa distribution, which was then the number two supermarket chain. At the end of 2005, Lotte Supermarket operated 47 stores with sales of 420 billion won, an average of 8.9 billion won (US\$8.9 million) per store.

The number four supermarket chain was Haitai Stores, which was established in 1974. Excessive borrowing and overinvestment resulted in Haitai Group and Haitai Stores going bankrupt in 1997 when the foreign exchange crisis hit Korea. To improve its finances, Haitai Stores sold unprofitable stores, reducing the number of stores from 65 in 1995 to 32 in 2005. In 2005, E-Land group, a fashion conglomerate that also operates discount stores, acquired Haitai Stores.

Nontraditional Food Retailers (Discount Stores)

Discount stores in Korea have expanded rapidly since E-Mart, a subsidiary of Shinsegae Department Store, was established in November 1993. The first E-Mart store was located in the northern part of Seoul and attracted much attention from consumers because it sold necessities at lower prices than existing retail formats.

Since the introduction of the first discount store, the total annual sales of discount stores increased sharply from 0.8 trillion won in 1995 to 28.8 trillion won in 2005 (see Table 3 for details of sales figures). In other words, total volume of discount stores has expanded about 36 times in 11 years. The number of stores also increased sharply to reach 300 in 2005.

Various socioeconomic factors might have contributed to the rapid development of discount stores. Liberalization of foreign investment constraints has facilitated the development of discount stores; most foreign retailers entered the Korean market using discount store formats. Responding to these competitive forces, domestic retailers rapidly established an increased number of discount stores. The foreign currency crisis of 1997 decreased real domestic income, which encouraged Korean consumers to switch from traditional food purchasing patterns to discount stores offering lower prices. Increased use of passenger vehicles has also played an important role in the development of discount stores. As more households possessed cars, they were more likely to purchase a week's amount of food and other necessities at discount stores, even if the stores are located farther away from the home. Construction of new towns near metropolitan areas provided inexpensive land and enough space for building discount stores with selling floors of more than 6,000 m² (or 65,000 ft²). The existing retail structure also favored the rapid entrance and expansion of discount stores. Because conventional supermarkets had not emerged as a dominant format in Korea, large-scale discount stores did not have close competitors upon entry. By comparison, the emerging discount store format has not developed as easily in Japan because large-scale supermarkets already had a large market presence.

Table 4. Characteristics of Major Conventional Supermarket Chains

(Unit: Billion won)

Year	GS Supermarket		Lotte Supermarket		Seowon Distribution		Haitai Mart		Hanhwa Distribution	
	Sales	No. of Stores	Sales	No. of Stores	Sales	No. of Stores	Sales	No. of Stores	Sales	No. of Stores
1995	226	56	-	-	102	30	248	65	227	59
1996	270	62	-	-	171	28	349	69	229	45
1997	330	62	-	-	283	33	359	66	255	48
1998	354	59	-	-	344	34	310	66	240	44
1999	451	59	-	-	411	33	255	66	295	44
2000	453	56	-	-	450	37	221	57	278	42
2001	515	61	16	4	485	39	228	46	388	34
2002	606	60	66	9	508	39	173	40	317	27
2003	592	71	102	14	503	39	175	37	340	25
2004	576	82	266	41	514	37	159	32	85	-
2005	695	83	420	47	534	40	160	32	-	-

Note: Lotte Supermarkets acquired Supermarkets of Hanhwa Distribution in 2004.

Source: Company Annual Reports.

The major discount store format in Korea is the supercenter that sells food items as well as general merchandise. A supercenter combines a large supermarket with a full-line discount store. The average supercenter store size is about 10,000 m² (or 109,000 ft²), carrying 25,000-30,000 items. Major hypermarket/supercenter operators are E-Mart (a division of Shinsegae Department Store, Inc.), Homeplus (Samsung Tesco), Lotte Mart (a division of Lotte Shopping, Inc.), Carrefour, and Kim's Club (a division of E-Land, Inc.).

Although the number of stores is small, Membership Wholesale Club (MWC) is also an important discount store format in Korea. The major players in this format are Costco Wholesale and Delta Club (a division of Daegu Department Store, Inc.). The National Agricultural Cooperatives Federation (NACF) of Korea also aggressively participates in the discount store business by operating Hanaro Club, which is a discount store emphasizing sales of agro-food products produced domestically.

In Korean discount stores, food items play an important role in increasing the frequency of trips to the stores and generating sales. Because Western-style food stores are not well developed, consumers go to discount stores primarily to purchase food items. In discount stores, food items account for 58.6% of total sales. Fresh food and processed food account for 26.4% and 27.3% of total sales, respectively (Korea Chamber of Commerce and Industry, 2002).

Four major players in the discount store market are E-Mart, Homeplus, Lotte Mart, and Carrefour (Table 5).

E-Mart, the number one discounter in Korea, is operated by Shinsegae Department Store, Inc., a multi-format operator ranging from department stores, to the country's largest discount store business, to online shopping. Although Shinsegae is the oldest department store operator, with a 70-year tradition, recent growth of the company was possible through the rapid expansion of its discount division, E-Mart. At the end of 2005, E-Mart operated 79 stores with the sales of 8.1 trillion won, an average of 103 billion won (roughly equivalent to \$103 million) per store. In addition to domestic operation, E-Mart rolled out stores in China as a globalization strategy. Currently it operates six discount stores in China, most of them are located in the Shanghai area where E-Mart opened its first store in 1997.

Homeplus, the second largest discount store chain, is operated by Samsung-Tesco, which is a joint venture between Tesco of the U.K. and the Samsung Group. When entering the Korean market in 1999, Tesco bought 81% interest of Homeplus stores, which were operated by the Samsung group. From the beginning, Samsung-Tesco pursued strategies to target more up-scale customers than any other competitor. In addition to discount stores, it operates mid-size conventional supermarkets. For further expansion, Samsung-Tesco acquired Aram Mart, which was a major supermarket chain in the southeast region of Korea. At the end of 2005, Homeplus operated 40 stores with the sales of 4.6 trillion won, an average of 115 billion won (US\$115 million) per store.

Lotte Mart, the third largest discount store chain, is a division of Lotte Shopping, a multi-format retailer like Shinsegae. Emphasizing the department store side of the business, Lotte's participation in discount store retailing came later than its major competitors, and started in 2000. At the end of 2005, Lotte Mart operated 43 stores with sales of 3.2 trillion won, an average of 74 billion won (US\$74 million) per store.

The number four discount store chain is Carrefour, a global retailer that entered the Korean market in 1996. Although Carrefour started its discount store business earlier than most Korean competitors, it failed to take the leading position in the Korean market. Carrefour operated 31 stores with the sales of 2.0 trillion won in 2005, an average of 65 billion won (US\$65 million) per store.

Kim's Club, once the second largest discount store chain, went bankrupt in 1998 and was acquired, in 2004, by E-Land, Inc. Although E-Land acquired former Kim's Club stores, it has not yet become one the four largest discount stores.

Table 5. Situation of Major Discount Store Chains

(unit: Billion won)

Year	E-Mart		Homeplus (Samsung-Tesco)		Lotte Mart		Carrefour	
	Sales	No. of Stores	Sales	No. of Stores	Sales	No. of Stores	Sales	No. of Stores
1995	188	4	-	-	-	-	-	-
1996	338	6	-	-	-	-	-	-
1997	705	10	-	-	-	-	275	3
1998	1,139	14	-	-	-	-	333	3
1999	1,705	20	249	2	-	-	786	8
2000	2,886	28	561	7	563	13	1,039	15
2001	4,071	42	1,271	17	1,275	20	1,149	22
2002	5,520	50	2,147	26	1,893	28	1,375	27
2003	6,330	59	2,575	29	1,494	31	1,460	27
2004	7,170	69	3,036	36	2,329	36	1,604	29
2005	8,050	79	4,600	40	3,208	43	2,000	31

Source: Company Annual Reports.

Department Stores

Unlike department stores in the United States, Korean department stores sell food items on the lowest floor of a multi-floor selling space. Although the share of department store sales accounted for by food items is relatively small, food items might contribute to increasing the frequency of trips consumers make to department stores. According to the survey by the Korea Chamber of Commerce and Industry (2002), food items accounted for 15.1% of total department store sales. It is estimated that department stores held 6.1% of overall supermarket business in 2005.

Introduced in the 1930s, department stores have long been a leading modernized retail format. The leading retail groups such like Lotte and Shinsegae started their businesses by opening department stores. Department stores seem to contribute to modernization of Korean retail industries by adopting advanced retail technologies such as Western-style store environments, the Point of Sale (POS) system, and the credit card system. However, the status of department stores has weakened since the late 1990s. Department store sales decreased in 1998 due to the foreign exchange crisis of 1997. Since 2002, department store sales decreased further due to the rapid development of discount stores. As major discount store chains sharply increased the number of stores in recent years, total sales of discount stores surpassed those of department stores after 2003.

Department stores function as a sales outlet for high-quality fresh food products. While department stores purchase processed food and grocery items through direct

procurement, they sell fresh food items on a commission basis. Commission fees range from 25-35%.

The major department store chains are Lotte, Hyundai, and Shinsegae. These top three department store chains controlled 74.8% of total department store sales in 2005, resulting in highly oligopolistic market structure.

Lotte Shopping, Inc., the largest retail conglomerate in Korea, is the leading department store chain. At the end of 2005, Lotte operated 20 department stores nationwide with total sales of 7.2 trillion won (US\$7.2 billion), an average of 327 billion won (US\$327 million) per store (Table 6). Hyundai Department Store, Inc. was the second largest department store chain, with total sales of 3.4 trillion won (US\$3.4 billion) from 11 stores, average sales per store were 310 billion won (US\$310 million). Shinsegae, the leading discount store chain, was number three in the department store business. It operated seven stores with total sales of 2.0 trillion won (US\$2.0 billion), an average of 289 billion won (US\$289 million) per store.

Table 6. Situation of Major Department Stores

(unit: Billion won)

Year	Lotte		Hyundai		Shinsegae		Total Department Store Sales
	Sales	No. of Stores	Sales	No. of Stores	Sales	No. of Stores	
1995	1,414	6	836	5	532	4	10,520
1996	1,821	6	1,055	6	601	4	12,190
1997	1,813	6	1,227	9	749	5	12,340
1998	2,036	8	1,236	9	887	5	11,130
1999	3,195	11	2,064	10	1,376	7	13,030
2000	4,495	13	2,697	10	1,798	7	14,760
2001	6,158	15	3,370	11	1,975	7	16,100
2002	7,150	20	3,909	11	2,295	7	17,500
2003	7,100	21	3,730	11	1,999	7	16,970
2004	6,774	21	3,309	11	1,906	7	16,230
2005	7,200	22	3,410	11	2,020	7	16,880

Note: Sales figures are for total sales including food and general merchandise.

Source: Company Annual Reports.

2.4 FDI in Food Retailing

Entry Process of Foreign Retailers

Over the past few decades, the Korean government gradually liberalized foreign direct investment (FDI) in distribution industries. FDI in wholesaling and retailing is allowed for

certain types of businesses, unless it violates governmental restrictions on the number and size of stores. FDI in distribution industries began in 1981 by allowing investment in a single store of less than 300m². The restrictions on the sales floor size of stores have been gradually relaxed since then. In 1996, the restrictions on the number of stores and space of selling floor were totally lifted. In the food retailing and wholesaling industries, the government currently allows FDI in all types of businesses except cereal wholesaling and meat wholesaling. From 1996 on, FDI in all types of retail businesses and in chain stores was liberalized.

Since the liberalization of FDI in distribution industries, several large-scale global retailers have entered the Korean market. In 1996, European retailers Carrefour and Makro entered the Korean market and opened a hypermarket and a warehouse store, respectively. In 1998, Costco Wholesale entered the Korean market by acquiring several former Price Club stores that were owned by Shinsegae Department Store, Inc. Wal-Mart, the largest retailer in the world, entered the Korean market by acquiring existing Makro stores in the same year. In 1999, Tesco, one of the largest supermarket chains in the U.K., also entered by acquiring an 81% share of Homeplus, a discount store chain formerly owned by Samsung Trading Co. The joint venture was named Samsung-Tesco.

For the most part, foreign retailers operate hypermarket or supercenter type discount stores (Table 7). As discussed earlier, hypermarket or supercenter type discount stores are popular in Korea. Contrary to expectations, foreign retailers have not taken a lion's share of the Korean discount store market. The share of discount store sales accounted for by foreign retailers was only 27.1% in 2005. Samsung-Tesco held the leading position with 16.0% of discount store sales, followed by Carrefour (6.9%), Wal-Mart (2.7%), and Costco Wholesale (1.5%).

Table 7. Situation of Major Foreign Retailers that Entered the Korean Market

Company Name	Origin	Types of Investment	Entering Year	Store Format	Number of Stores*	Sales (billion won)
Carrefour	France	Single	1996	Hypermarket	31	2,000 (6.9)
Samsung-Tesco	U.K.	Joint Venture	1999	Supercenter	40	4,600 (16.0)
Wal-Mart	United States	Single	1998	Supercenter	16	780 (2.7)
Costco Wholesale	United States	Single	1998	MWC (Membership Wholesale Club)	5	440 (1.5)

Note 1: Store numbers and sales are as of the end of 2005.

Note 2: Estimates of market shares are reported in parentheses in the last column.

Source: National Statistical Office of Korea and company annual reports.

In 2006, Carrefour and Wal-Mart, the number two and three foreign retailers, decided to withdraw from the Korean market. The E-Land group, which operates fashion and retail

businesses, acquired Carrefour. Wal-Mart also disclosed plans to sell its stores to E-Mart, the leading discount store chain. Because E-Land had not held a strong position in the Korean discount business, its acquisition of Carrefour stores does not seem to affect significantly the concentration of food retailing. However, the acquisition of Wal-Mart stores by E-Mart would further strengthen the leading market position of E-Mart.

The withdrawal of Carrefour and Wal-Mart can be explained by localization failures. First, these foreign retailers failed to understand Korean consumers, whose characteristics are different from those of consumers in Western countries. In discount stores, Korean consumers want not only low prices but also good quality of merchandise. Foreign retailers failed to satisfy Korean consumers' demand for good quality, especially in fresh food items. It was reported in the media that Carrefour also withdrew from Japanese and Mexican markets because of merchandising problems. The second factor would be a failure of localization of management. Because company headquarters excessively controlled subsidiaries in foreign countries, the local management of Carrefour and Wal-Mart sometime could not make timely decisions on important managerial issues. These retailers filled important posts with managers dispatched from company headquarters.

In contrast, Samsung-Tesco has succeeded in localization and has become number two in the Korean discount store market by adopting upscale strategies. While it pursues a discount format with low prices, it also focuses on merchandise with good quality. Its store environments are also more upgraded than its competitors.

Influences of Foreign Food Retailers

The entry of foreign distributors is likely to have a significant effect not only on food retail structure but also the overall food marketing system in Korea. Above all, foreign retail firms entering the Korean market have contributed significantly to structural changes in food retail industries. Because foreign retailers entered the Korean market mostly with discount store formats, they have promoted development of the discount store and consequently contributed to upgrading the overall structure of retail industries. In fact, development of discount store business in Korea started with the liberalization of FDI in retailing industries.

Moreover, managerial skills of domestic retailers were upgraded when they competed against foreign counterparts. In order to compete with foreign retailers, domestic retailers began to adopt advanced retailing skills, such as excellent store environments, state-of-the-art information systems, advanced customer service policies, and so forth. In particular, domestic discount stores benchmarked store environments of foreign retailers, which have a more spacious selling floor than their Korean counterparts. It is therefore a plausible judgment that Korean retailers learned many aspects of store operation and store design from foreign retailers.

2.5 Concentration of Food Retailers

In Korea, there are difficulties calculating concentration ratios of food retailing industries. As far as the relevant product market, there is no clear border between conventional supermarkets and discount stores. They are direct competitors. Because food

items account for more than half of total discount store sales, it is reasonable that discount stores should be included in the category of supermarket business. In terms of geographical extent of relevant markets, it is generally argued that local or regional markets are more relevant to food retailers as sellers than national markets (Marion et al., 1979).

Unfortunately, concentration ratios at regional or local market levels are generally unavailable in Korea because of the lack of relevant data. A national concentration of food distributors may be helpful in examining the market power of large retailers as buyers, and provide some evidence of the level and trends of retail concentration in selling markets.

In this study, concentration ratios are estimated for not only conventional supermarkets but also the overall supermarket sector, including conventional supermarkets, discount stores, and food sales in department stores. Because large-scale supermarket chains are not well developed in Korea, concentration ratios of the dominant supermarket chains are much smaller than in the United States and Europe. Until the end of the 1990s, the shares of national supermarket sales accounted for by the four largest supermarket chains were less than 10%. However, the national four-firm concentration ratio (CR4) of supermarkets has increased gradually from 7.7% in 1995 to 17.5% in 2005 (Table 8). An increase in CR4 is largely due to consistent increases in sales of major supermarket chains, which were accelerated by the internal growth store numbers. Unlike in the US, it seems that mergers and acquisitions did not play a significant role in elevating the CR4 of the supermarket industry. Although Lotte Supermarket acquired Hanhwa Distribution, formerly the second largest supermarket chain, it did not contribute to an increased concentration because Lotte Supermarket was a new entrant in the supermarket industry.

Table 8. National CR4 of Conventional Supermarket Sector

(Unit: Trillion won)

Year	Sales of Largest Four Supermarket Chains	Total Conventional Supermarket Sales	CR4 (%)
1995	0.58	7.47	7.7
1996	0.79	8.41	9.4
1997	0.97	8.84	11.0
1998	1.01	8.90	11.3
1999	1.12	8.65	12.9
2000	1.12	8.82	12.8
2001	1.24	9.00	13.8
2002	1.35	9.45	14.3
2003	1.37	9.92	13.8
2004	1.51	9.85	15.4
2005	1.81	10.31	17.5

Source: National Statistical Office of Korea and company annual reports.

It is estimated that the CR4 in the discount store sector was much higher than those of conventional supermarkets. As major discount chains increase, the number of stores vary rapidly, the CR4 increased from 25% in 1995 to 62.2% in 2005 (Table 9). While the leading discount store chains like E-Mart, Homeplus, Lotte Mart, and Carrefour increased the number of stores quickly, local or minor discount store chains could not keep pace due to limited financial resources.

Table 9. National CR4 of Discount Stores

(Unit: Trillion Won)

Year	Sales of Four Largest Discount Store Chain	Total Discount Store Sales	CR4 (%)
1995	0.2	0.8	25.0
1996	0.7	2.3	30.4
1997	1.8	3.9	46.2
1998	2.9	6.0	48.3
1999	3.8	9.2	41.3
2000	5.5	12.9	42.6
2001	7.8	16.9	46.2
2002	10.9	21.3	51.2
2003	11.8	23.9	49.4
2004	14.1	26.3	53.6
2005	17.9	28.8	62.2

Source: National Statistical Office of Korea and company annual reports.

As discussed earlier, it would be more relevant to calculate concentration ratios for the overall supermarket sector. In 2005, the CR4 of the overall supermarket sector was estimated at 42.9% (Table 10). The estimates of CR4s for the overall supermarket sector were higher than those of conventional supermarkets but lower than those of discount stores (Figure 3). Because conventional supermarket chains have a much smaller sales volume than discount stores, the four largest discount store chains occupy the four largest firms in the overall supermarket sector.

Because the overall supermarket sector accounted for only 54% of all food retail store sales in 2005 (see Table 2), the largest four sellers represented only 23% of all food store sales, nationally. However, the shares of total food store sales accounted for by the four largest sellers dramatically increased from 0.7% in 1995 to 23% in 2005 (Figure 4). This suggests that the structure of Korean food retailing is changing rapidly and may be in the early to middle stage of a transformation toward large-scale retailing. It is expected that the importance of dominant food retailers will become more significant in the near future, and that the food retailing structure will become similar to that found in most European countries.

Table 10. National CR4 of Overall Supermarket Sector

Year	Sales of Four Largest Supermarket Chains	Total Supermarket Sales	CR4 (%)
1995	0.2	9.9	2.0
1996	0.7	12.5	5.6
1997	1.8	14.6	12.3
1998	2.9	16.6	17.5
1999	3.8	19.8	19.2
2000	5.5	23.9	23.0
2001	7.8	28.3	27.6
2002	10.9	33.4	32.6
2003	11.8	36.4	32.4
2004	14.1	38.6	36.5
2005	17.9	41.7	42.9

Note: Total sales of overall supermarket sector include sales of conventional supermarkets, discount stores, and supermarket business of department stores.

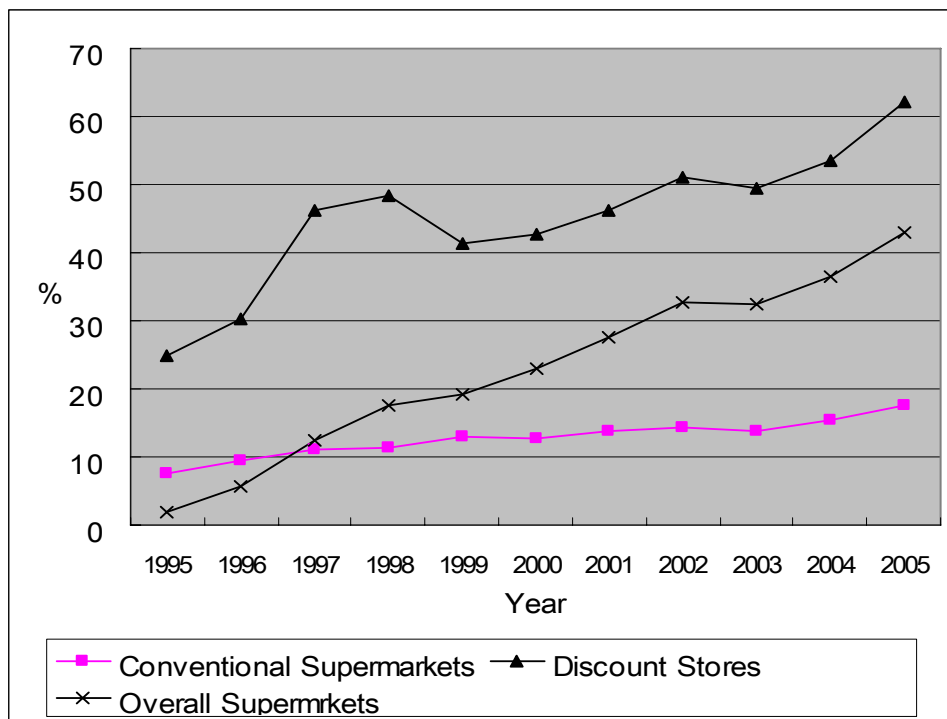
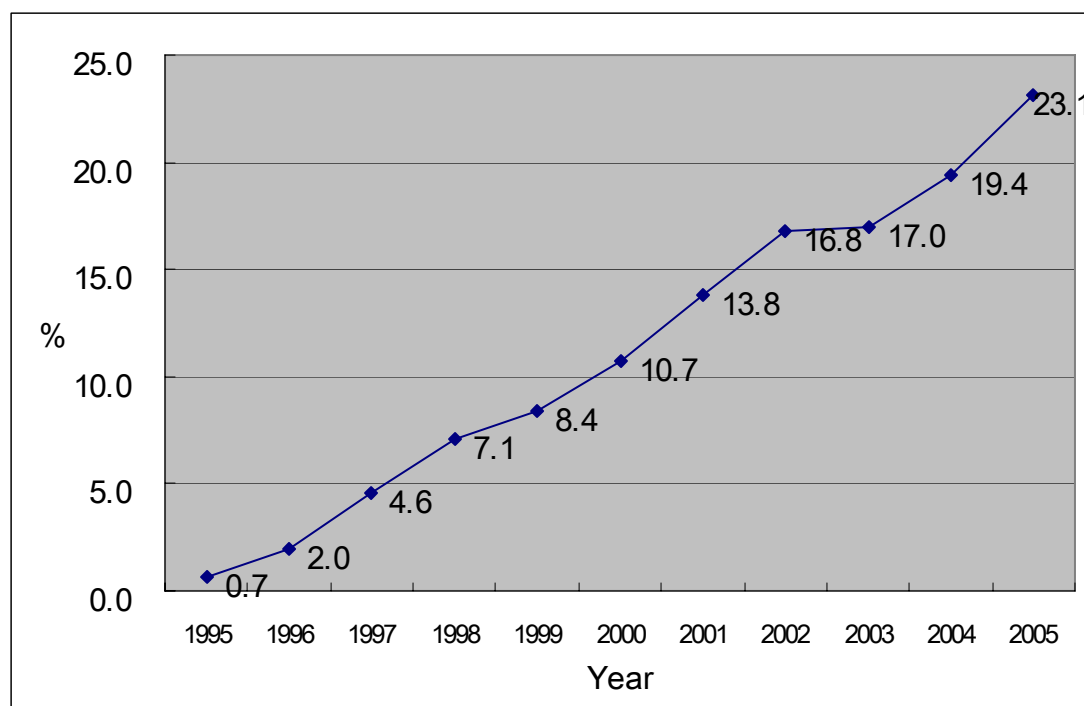
Figure 3. Trends in CR4s for Supermarkets by Segment, 1995-2005

Figure 4. Estimated Shares of Total Food Store Sales Accounted for by the Four Largest Food Retailers, 1995-2005



Although it is difficult to estimate concentration ratios for local markets, it is anticipated that local market concentration is higher than the national concentration figures in metropolitan areas, because stores of large-scale food retailers are mostly located in large cities or their vicinities. By comparison, in the rural areas, food items are mainly sold at traditional market places or small grocery stores.

It should be noted that concentration figures in supermarkets or food stores do not necessarily reflect concentration in the procurement market of fresh agricultural products. Sales in food stores include not only fresh food items but also processed foods and nonfood grocery products. It is therefore difficult to directly calculate concentration ratios in the fresh food procurement market.

3. EFFECTS OF DOMINANT FOOD RETAILERS ON PRODUCERS

3.1 General Impact of Development of Large-scale Retailers

The development of large-scale food retailers, especially discount stores and supermarket chains, has affected almost every aspect of the Korean economy. First, some analysts report that discount stores contributed to stabilizing consumer prices. The Bank of Korea estimated that expansion of large-scale discount stores lowered consumer prices 0.45% annually during 1996-1999 (Bank of Korea, 2000). Consumers benefited enormously by using discount stores especially when consumer real income decreased after the foreign currency crisis of 1997. A large number of consumers could compensate

for a decrease in real income by shopping at discount stores that sell necessities at lower prices than other types of retail stores.

In addition to the contribution to lower consumer prices, discount stores also provide manufacturers with efficient selling opportunities. Because discount stores handle a large amount of merchandise, small- and medium-sized manufacturers can save marketing and selling costs when selling through discount stores. Before the development of discount stores, these manufacturers had difficulty selling their products due to the exclusive dealership system. Large manufacturers with significant brand power built and maintained their own distribution channels, which carry their own products exclusively. For example, branded processed food items are marketed to small retailers through wholesalers that carry those products exclusively.

Some researchers argue that department stores do not provide efficient sales opportunities to small- and medium-sized manufacturers. Department stores in Korea sell merchandise mostly on a consignment basis, unlike Western counterparts, which rely mostly on direct purchase of products. Department stores charge commission fees of 25-35% depending on the bargaining power of manufacturers. In addition, manufacturers sometimes dispatch their own sales personnel to department stores and accept return of unsold merchandise. Therefore selling through department stores results in relatively higher costs than selling through discount stores.

Proponents of discount stores strongly contend that large-scale discounters have helped small- and medium-sized manufacturers by purchasing large amounts of merchandise and shortening the payment time for them compared to traditional retail formats. Traditional retailers in Korea are accustomed to pay for merchandise they purchase 30-90 days after receipt. However, discount stores usually make a payment within 30 days.

Some manufacturers are concerned about the increased bargaining power of discount stores, as major discount store chains increase market shares and compete with each other. According to a survey conducted by the Korean Federation of Small and Medium Enterprise Cooperatives (2005), 63.1% of respondents complained about unfair trade practices, such as price paid for merchandise procured, and unfair return of unsold items.²⁶ And 16.3% of respondents identified problems with requests for promotional and advertising allowances, and slotting fees (slotting fees are lump sum, upfront payments that a food manufacturer must pay to a supermarket for access to its shelves). The remaining 14.1% complained about discount stores' requests to participate in special promotional events and dispatch sales staff. In the bargaining process, small and medium manufacturers contended that they have a weaker position than discount store chains.

Upon hearing complaints from small and medium scale manufacturers, the Fair Trade Commission of Korea (2004) investigated trade practices of large-scale retailers, such as department stores and discount stores. According to the commission's survey of about 6,000 small and medium manufacturers that supply products to large-scale retailers, 44% of respondents replied that large-scale retailers conducted unfair trade practices. The

²⁶ Participants of the survey are 124 small and medium manufacturers that supply products to large retailers.

respondents pointed out unfair trade practices, such as lowering prices paid to manufacturers as a result of frequent bargain sales (42%), transferring of advertising and interior expenses to suppliers (22%), and terminating supply contracts without justifiable reasons (15%).

The Fair Trade Commission of Korea ordered large-scale retailers to stop the unfair trade practices. The Fair Trade Commission fined major discount store chains such as E-Mart, Carrefour, Homeplus in 2001 and 2005, for engaging in unfair trade practices. Cases of unlawful or unfair trade practices included reduction of prices paid to suppliers, selling merchandise at prices below purchasing prices, transfer of costs such as promotional expenses, imposing fees such as slotting fees, return of merchandise purchased, and refusal to accept merchandise ordered.

Private label products of large-scale retailers are blamed for unfair trade practices. Large-scale retailers often request the return of unsold private label products they were ordered to produce, engage in burdensome promotional allowances, and ask that manufacturers sales persons be dispatched to the stores (Hankook Daily, 2004).

There are also concerns about attempts at vertical price squeezing by large conglomerate firms. For example, it was reported that Lotte Group, which owns food manufacturing companies and retail companies, tried to discriminate against small-scale retailers by supplying their products at lower prices to their own retail stores, such as Lotte Department Stores and Lotte Mart (Maeil Economy Newspaper, 2002). By doing this, Lotte tried to strengthen its position in the retail market. Because Lotte is currently the largest department store operator, and the third largest discount store and supermarket operator, its attempts to discriminate against small retailers might increase the concentration of food retailing and consequently strengthen Lotte's superior market position. In this case, the concern about market power stems from the strategic ties between dominant manufacturers and dominant retailers.

3.2 Impact on the Food Distribution Channel

The rapid development of discount stores and structural changes in food retailing has significantly influenced the food marketing system in Korea. Traditionally, fresh food products have mostly been marketed through wholesale markets located in large urban areas. This is because the average size of producers and retailers has been so small that wholesale markets have been functioning very efficiently in assembling and distributing food products. Transactions through wholesale markets have been important because agricultural products were poorly graded and standardized in Korea. However, as large-scale retailers have increased their store numbers, a new distribution channel bypassing wholesale markets has emerged in recent years. Some large-scale food retailers have begun to purchase fresh food directly from shippers in producing areas by integrating wholesale functions vertically.

According to a survey conducted by Kim and Hwang (2000), large-scale retailers purchase 66.1% of cereal products directly from rice processing centers and 15.7% of livestock and poultry products directly from producers. While large-scale retailers buy 29.1% of fruits directly from shippers, they purchase only 17.1% of vegetable items directly from shippers (table 11).

Table 11. Fresh Food Purchasing Patterns of Large-scale retailers

Items	Shares by Purchasing Channel (%)			
	Purchasing Directly From Shippers	Wholesale Markets	Processors	NACF Marketing Centers
Cereals	66.1	7.9	23.1	2.9
Vegetables	17.1	79.2	1.6	2.1
Fruits	29.1	62.2	3.0	5.7
Livestock and Poultry Products	15.7	9.9	74.4	-

Note: NACF Marketing Centers are wholesale and retail outlets operated by National Agricultural Cooperative Federation of Korea.

Source: Kim and Hwang, 2000.

Due to an increase of direct shipments between large-scale retailers and local shippers, distribution channels of fruits and vegetables changed significantly in recent years. Although wholesale markets still play a significant role in marketing fruits and vegetables, their importance has decreased consistently as direct marketing between large scale retailers and local shipper or producers increased. While the shares of total marketed fruits and vegetables sold in wholesale markets decreased from 90.2% in 1998 to 78.0% in 2002, the shares of direct purchase by large-scale retailers, NACF (National Agricultural Cooperative Federation) marketing centers, and direct marketing increased during the same period (Table 12). The shares accounted for by direct purchase of large-scale retailers and NACF marketing centers jumped from 1.7% and 1.9% in 1998 to 5.8% and 5.4% in 2002, respectively. In addition, direct marketing between producers and consumers increased their shares from 6.2% to 10.2% during the same period.

Table 12. Market Shares by Distribution Channels, Fresh Fruits and Vegetables

(unit: %)

Distribution Channel	1998	2000	2002
Wholesale Markets	90.2	85.8	78.0
Direct Purchase of Large-scale Retailers	1.7	3.2	5.8
NACF Marketing Centers	1.9	3.3	5.4
Direct Marketing	6.2	7.7	10.8
Total	100.0	100.0	100.0

Note: Direct marketing means direct trade between producers and consumers through farmers' markets, consumer cooperatives, mail order, electronic commerce, etc.

Source: Ministry of Agriculture and Forestry of Korea.

There is evidence that direct transactions between large-scale food retailers and local shippers increased marketing efficiency of food products. According to the survey conducted by Korea Agro-Fisheries Trade Corporation (2005), direct marketing between large-scale retailers and shippers (versus marketing through wholesale markets) reduced the share of consumer prices accounted for by marketing cost by 11.5 percentage points. While share of consumer prices accounted for by marketing cost was 55.8% in marketing through wholesale markets, it was 44.3% in direct marketing between large-scale retailers and shippers. As a result of increased efficiency, consumers buying agro-food at large-scale food retailers paid 8.8% less than when purchasing at department stores or small grocery stores. Producers also benefited from the direct marketing between large-scale retailers and shippers because they could get higher producer prices than when marketing through wholesale markets. The survey indicated agricultural producers were paid 13.1% more when they sold their products to large-scale retailers directly than selling through wholesale markets.

Direct purchase could save marketing costs because producers do not have to pay fees charged in wholesale markets. When selling products in wholesale markets, shippers have to pay an auctioning fee and a handling fee incurred when loading and unloading the products. Retailers also have to pay wholesalers' margin.

Although producers may enjoy higher prices when selling their products directly to large-scale retailers, payment by large-scale retailers is usually slower than wholesale markets. Payment in the public wholesale markets usually clears within two days after the products are sold, but payment by large-scale retailers is usually made in 10-15 days, depending on the company. Prices paid to shippers are based on cost, insurance and freight (CIF), meaning that shippers are in charge of harvesting, grading, packaging, and transportation.

There are several reasons why large-scale retailers increase direct procurement from shippers. First of all, large-scale retailers can save on distribution costs by purchasing directly as the number of stores increases. By purchasing large quantities directly from shippers, they can save on fees paid when buying from wholesale markets. By purchasing on a car-lot basis, they can also save on assembling and transporting costs. Secondly, direct procurement may be better for controlling quality. Since they can identify producers from the field, direct procurement is more reliable in terms of quality and safety. In addition, quicker transportation from shippers to the stores also contributes to improved preservation. When products are purchased through auctions in wholesale markets, delivery is sometimes delayed because the auction process requires a fair amount of time.

However, direct procurement from shippers in producing areas has some disadvantages. Since local shippers usually supply a limited line of products, large-scale retailers have to deal with a number of suppliers in order to fulfill their assortment, resulting in high assembling costs. Furthermore, it is difficult to buy well-graded products from local shippers since Korean producers and shippers are still poor in grading. It is also difficult to get information about shippers since large-scale retailers in general have not accumulated enough data for direct procurement.

Nonetheless, direct purchase by large-scale food retailers from producing areas is expected to grow rapidly. As the number of stores that large-scale retailers operate increases, it will be more cost-effective to purchase directly from shippers than from wholesale markets. In addition, direct procurement seems desirable for controlling quality and safety, which concerns modern consumers.

3.3 Impact on Agricultural Producers

The development of large-scale retailers significantly influences agricultural producers. In a positive aspect, direct transactions between large-scale retailers and local shippers contributed to increased marketing efficiency. As discussed before, producers could get prices 13.1% higher when selling products to large-scale retailers directly rather than selling through wholesale markets (Korea Agro-Fisheries Trade Corporation, 2005).

In addition to higher prices, agricultural producers benefited from price stability and ease of selling large amounts. According to the survey conducted by Kim et al. (2004), 63.5% of agricultural producers regarded price stability as the most significant advantage of direct shipping to large-scale retailers, followed by the ease of selling large amounts (24.0%), and receiving higher prices for products (9.6%).

Furthermore, large-scale retailers provide better opportunities than wholesale markets for agricultural producers to sell high quality and branded products. This is because large-scale retailers prefer, in most cases, to procure well-sorted products in consumer packages. In this sense, large-scale retailers contribute to the improvement of marketing practices of growers and shippers.

Although the development of large-scale retailers appears to increase agricultural producers' income by enhancing the marketing efficiency of food products, there may be some negative aspects. First of all, the development of dominant food retailers might promote importation of fresh food products. As trade restrictions are lifted and the number of stores increases, it would be more economical for large-scale food retailers to carry imported food products. This would be especially true for the products that are poorly standardized and quality-controlled in Korea. In discount stores, the share of total sales accounted for by imported products increased from 4.6% in 1998 to 8.1% in 2000 (Korea Chamber of Commerce and Industries, 2002).

Shippers or growers have difficulties when supplying their products to large-scale food retailers. Shippers have difficulties selling low quality products, fulfilling retailers' orders or requests, breaching supply contracts from large-scale food retailers, and collecting payment for agricultural products sold to them (Kim et al., 2004). Shippers and growers are concerned about the sales of low quality products since large-scale food retailers usually require upper grade products and there remain a large amount of lower grade products. In addition, they have difficulties in fulfilling orders from large-scale retailers when they have shortages of agricultural products during poor growing seasons. Sometimes large-scale food retailers demand excessively low prices, gifts, and giveaways during bargain sale periods. Shippers and growers sometimes suffer from unilateral breach of contract from some large-scale food retailers.

Some food producers are concerned about a possible imbalance in bargaining power between large-scale retailers and local shippers. Since shippers of agricultural products are usually small in scale and fragmented in Korea, they do not have strong bargaining power compared to large-scale distributors. Utilizing a greater trade volume, large-scale retailers can exercise market power when they purchase agricultural products directly from shippers. A survey reported that 48.6% of respondents answered that retailers have stronger bargaining power than local shippers when negotiating prices. Only 7.6% of shippers responded that shippers have a stronger bargaining power (Kim et al., 2004).

There are also concerns about trade practices exercised by large-scale food retailers. Shippers sometimes complain about trade practices such as dispatch of sales persons to retail stores, promotional allowances, return of sold products, exclusive transactions, delay of payment, changes of contracts, and excessive packaging (Kim et al., 2004).

There is some evidence that private label food products help strengthen the bargaining power of large-scale retailers. In recent years, large-scale food retailers increased sales of private label food products in categories of fresh food as well as processed food. Although sales of private label products are not significant yet, sales increased sharply in recent years. Producers and shippers of fresh food products are concerned about the growth of private label products because large-scale retailers would heavily promote sales of private label products that might incur more profit than products with producers' brands. If private label products become dominant in discount stores, producers and shippers might lose their brand power.

Shippers and growers sometimes contend that large-scale retailers try to squeeze the prices paid for agricultural products they supply, but it is difficult to make a general conclusion about this. For example, several newspapers reported rice producers' complaints about large-scale retailers. Growers and shippers argued that large-scale retailers squeezed rice prices by selling rice as a loss leader item, selling at a significantly lower price to draw consumers to their stores. However, it is technically difficult to evaluate the role of large retailer in depressing rice prices. So far it is difficult to find formal research that analyzes the existence of market power exercised by large-scale retailers.

4. SUMMARY AND IMPLICATIONS

The Korean food retail industry has long been dominated by a large number of small-scale food retailers. Small-scale grocery stores and "mom and pop" stores used be major sales outlets for food items. However in recent years, modernized supermarkets and discount stores have developed as major retail groups, such as Shinsegae and Lotte participating in the discount store business, and major global retailers, such as Carrefour, Tesco, Wal-Mart entering the Korean market. Since foreign distributors have entered the Korean market mostly with discount store formats, they have contributed to the rapid development of discount stores and large-scale retailers.

The development of large-scale food retailers has significantly affected consumers, producers, and the overall food marketing system. As the number of stores operated by

large-scale retailers has increased, more fresh food items are shipped directly from shippers in producing areas to the retailers. Direct marketing of agricultural products between large-scale retailers and local shippers has reduced marketing costs compared to distribution through wholesale markets. Consumers have apparently benefited from lower prices while agricultural producers have received higher prices. In addition, it appears that large-scale retailers contribute to the enhancement of the marketing capability of local shippers, such as agricultural cooperatives and corporate farms. When transacting with large-scale retailers directly, producers and local shippers might get accurate information about consumer preferences more quickly.

As the market shares of major supermarket and discount store chains increased sharply in recent years, food handlers and farmers have been concerned about market power exercised by dominant food retailers. Local shippers complain about trade practices of large-scale retailers, and, more fundamentally, are concerned about possible market power exercised by dominant large-scale food retailers. Although market power exercised by large-scale food retailers is not significant in fresh fruits and vegetables in which distribution channels are diverse, using market power may have a greater influence on rice prices in which a major distribution channel is direct marketing between large retailers and local rice millers. Because of this, rice producers and millers complain prices paid by large-scale retailers are squeezed. However, since vigorous statistical analysis does not yet exist, it is premature to conclude that there is market power in the food retail market of Korea. In order for us to draw more plausible conclusions, more vigorous research about the existence of market power is required.

The transformation of a food distribution system always results in somebody winning, and others losing. Almost always, there will be calls by those injured for protection. In the US, the growth of supermarket chains led to the Robinson Patman Act of 1936, which made price discrimination illegal. This is rarely enforced today because of concern that it was used to protect competitors, not competition, and discouraged price reductions. The policy measures in Korea should reflect goals for the Korean economy and society. If preserving traditional retailing is more important than efficiency and low prices, a different set of competition policies are called for than those used in the US. Identifying trade-offs and balancing different goals and interests is never easy.

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