

## **CHAPTER IV**

### **CONCEPTUAL MODEL**

A Combined Retail Evolution model was developed for this study in fulfillment of Objectives 1 and 2. The Combined Retail Evolution model was developed from previous retail evolution theories (i.e., the conceptual and empirical literature reviewed in Chapter II), which provided detailed information about retail change and fragmented information about consumer change. No single retail evolution theory explained all types of retail evolutions, and limitations were recognized with all the models (Brown, 1987; Davidson, 1970; Gist, 1968; Hirschman, 1979; Kaynak, 1979; Oren, 1989). The need for a more comprehensive model was stated by several researchers (Brown, 1988; Brown, 1990; Dressmann, 1968; Thomas, Anderson & Jolson, 1973); therefore, researchers have continuously studied to gather information for developing the best theoretical model for all retail evolution. The model of this study synthesized previous retail evolution theories for a better fit to all types of retail evolutions, in addition to providing a basis for future study of nonwestern retailing situations. Using grounded theory techniques of decontextualization and recontextualization, the researcher in this chapter explains the proposed model and provides a variable-based review of the literature, giving support for the formation of each aspect of the model.

#### **Combined Retail Evolution Model**

The three, most commonly used, retail evolution theories are the Cyclical theory, the Conflict theory and the Environmental theory. These three theories provide the foundation for the three following major principles or themes used in the development of the Combined Retail Evolution Model (CREM) (see Figure 4.1): (a) rhythmical patterns of spiral change, (b) the effects of conflict or challenge from competition, and (c) the influence of retail environments. The Cyclical theory states that retail institutions evolve in a rhythmical pattern (e.g., low-high-low price cycle, general-specific-general assortment cycle) (e.g., Hollander, 1966; McNair, 1958). McNair designated these cycles with three phases, which are entry (or introduction), trade-up (or mature) and vulnerable phases. The Conflict theory states that an existing retail institution

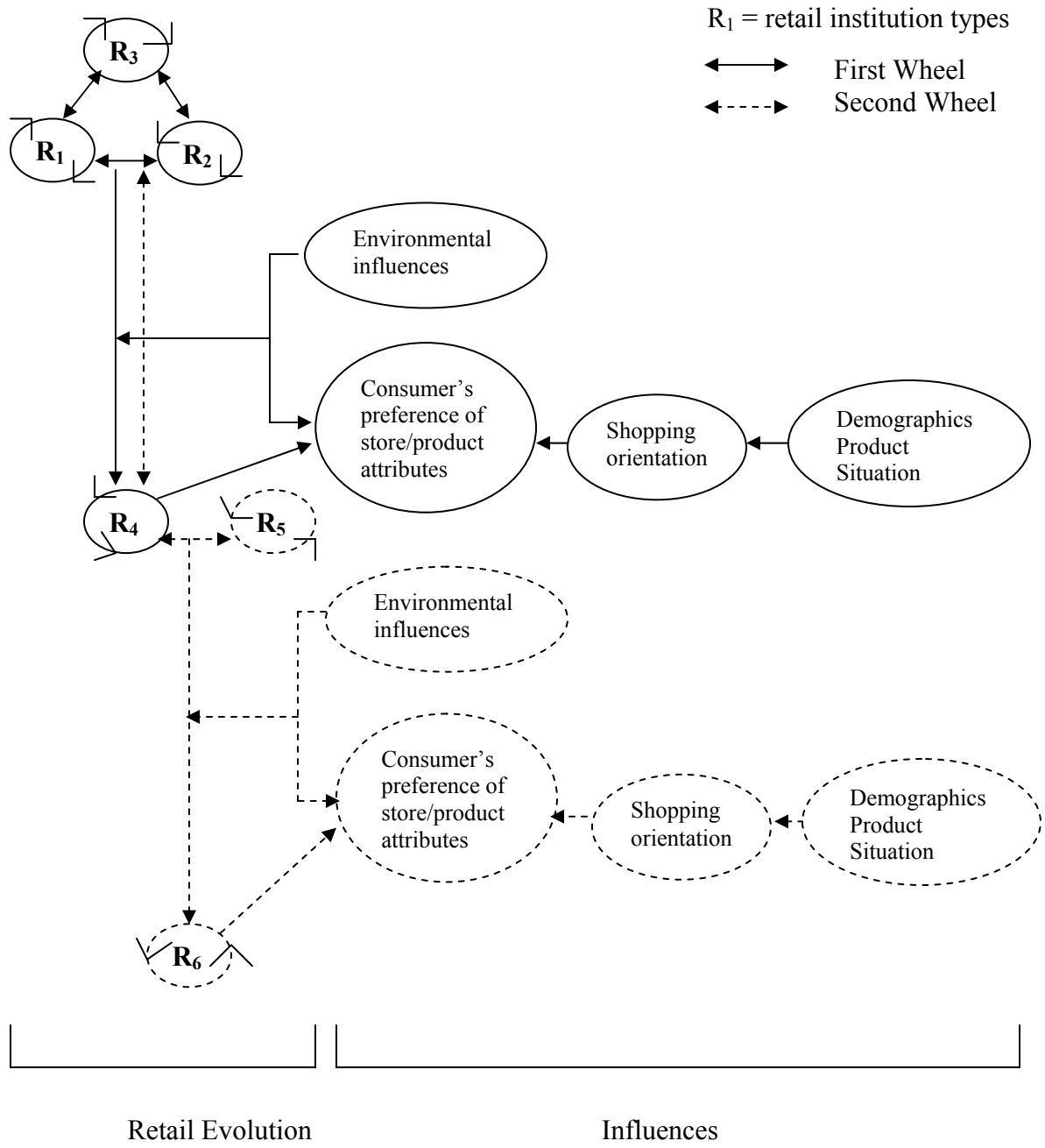


Figure 4.1. Combined Retail Evolution Model

(i.e., the thesis) is challenged by its competitor (i.e., the antithesis). As time passes, the retail institution and the competitor blend together, upgrade their attributes, and finally create a new retail institution (i.e., the synthesis) (e.g., Gist, 1968; Oren, 1989). The Environmental theory states that retail environment is a key influence to retail change. To survive or continue in operation, retail institutions need to evolve by adapting or adjusting to the changes in the retail environment (e.g., changes of consumers, economy, technology, society, culture or geography, legal, competitors), or be forced out of business (e.g., Blizzard, 1976; Brown, 1987). The CREM model combines aspects of these evolution theories and shows retail institution types in a change process.

### Patterns of Spiral Change and Conflict

Developed from a synthesis of the Cyclical theory and the Conflict theory, the Retail Evolution process (see the Retail Evolution portion of Figure 4.1) shows the cyclic change of retail institution types in a progression from “R<sub>1</sub>” to “R<sub>6</sub>”. As grounded in the Cyclical theory, the process starts with the “R<sub>1</sub>” type of retail institution type, which is evolving cyclically within the institution type but not returning to the same starting position (i.e., a spiral wheel). As time passes, this retail institution type enters the trade-up (or mature) phase. In this phase, sales are rising indicating the growing attraction that this institution type has for consumers. With more time, operational costs start rising and prices increase accordingly. This institution type enters the vulnerable phase. At this point, profit is expected to drop, and market share is expected to shrink. With rising costs and falling market share and profit, the institution type becomes vulnerable to its competitors, and this vulnerability provides a vacuum for an emergence of a new retail institution type. The spiral change is a combined format from the Wheel of Retailing theory and Environmental theory, which was proposed by Agergaard, Olsen and Allpass (1970), indicating that a retail institution returns to a higher level of position, as the surrounding environments (e.g., living standard) evolve, along with the retail evolution. A higher-level position for a retail institution could be indicated by the implementation of more advanced operating systems, more store facilities, or increased automation of supply chain activities. All other retail institution types that exist at this time are also changing in a spiral evolution, as shown with “R<sub>2</sub>” and “R<sub>3</sub>”.

Using the explanation of change as proposed in the Conflict theory in conjunction with the spiral movements proposed from the Cyclical theory, the “R<sub>1</sub>” retail institution type, while spiraling, conflicts with “R<sub>2</sub>” type of retail institution type. This conflict is proposed by Gist (1968), showing that an existing retail institution (i.e., thesis<sub>1</sub>) is challenged by its competitor (i.e., antithesis<sub>1</sub>). Providing further support for this conflict and change are the ideas from Izraeli (1973), who proposed the Three Wheels of Retailing theory, indicating that three different retail institution types conflict each other, while they are evolving within their own wheel. Therefore, in this CREM, the possibility of conflict among three or more existing retail institution types (e.g., a third or “R<sub>3</sub>” type of retail institution) is included. In the CREM, a new retail institution type can be created by the conflict between two or among three or more retail institution types. As a result of this conflict, a new modified retail institution type is created (i.e., “R<sub>4</sub>” type of retail institution).

The part of the CREM, showing multiple retail institution types that are cyclically evolving and conflicting with each other, is similar to the concept of the combined theory (e.g., Izraeli, 1973), but in the CREM, the theme of spiral evolution, instead of the simple cyclic change included in the previous combined theories, is added to cover more types of retail evolution change. In addition, in the previous combined theories, the possibility of a conflict among three or more existing retail institution types (e.g., “R<sub>3</sub>”) was rarely discussed. Even though Izraeli (1973) proposed the conflict among three different institution types, most combined theories, proposed by several other authors, did not include this aspect.

As time passes in the Retail Evolution process of the CREM, a new “R<sub>4</sub>” type of retail institution starts its cyclical evolution within its institution type and cycles to a higher level (e.g., matures by obtaining more advanced operating systems, more store facilities) than the one before the wheel occurred. The Retail Evolution process of the CREM is evolutionary and repetitive (see Figure 4.1). With more time, the cycling “R<sub>4</sub>” type institution ages and becomes an established retail institution type and conflicts with “R<sub>5</sub>” type institution (i.e., a new retail institution type), and additional existing types of retail institutions (e.g., “R<sub>1</sub>”, “R<sub>2</sub>”, “R<sub>3</sub>”). The work of Gist (1968) provides grounding for this conflict between an existing retail institution type and a newly emerged competitor, and information from the work of Izraeli (1973) supports the concept of a conflict among two or more existing retail institution types. This conflict provides the impetus for a new “R<sub>6</sub>” type institution. This portion of the model now portrays a

more complex retail evolution path than is portrayed in previous literature, and should be able to provide an improved framework for studying the increasingly complex array of retail institution types.

### Environmental and Consumer Influences

During the transition to and creation of a new retail institution type (i.e., the Retail Evolution process in the CREM), environmental influences and changing consumers' preferences toward store/product attributes (see the Influences portion of Figure 4.1) influence the emergence of a new retail institution type. The Influences portion of the model is grounded in information about the retail environment from the Environmental theory literature and consumers' shopping behavior literature. Environmental influences include but are not limited to social, cultural or geographical, technological, legal and economical conditions (e.g., Blizzard, 1976; Brown, 1987; Kaynak, 1979). These environmental influences significantly affected retail evolution, according to the previous researchers.

The consumer variable, which was previously included within the environmental influences in the Environmental theory, is separated from the environmental influences, in this study and in the CREM. This separation in the model shows consumers as one of the major and interactive influences in the retail change process, not simply another of the numerous environmental influences. Some writers on Environmental theory even avoid the mention of the consumer (e.g., Blizzard, 1976). Although many previous researchers do not clearly define consumers' roles in the retail change process (e.g., Gist, 1968; McNair, 1958), this distinction is made in the CREM because of the differences, conflicts, and interactions among consumers, the other environmental influences, and the retail institution types. According to Sheth (1983) and MacNair and May (1978), a consumer's needs for a certain type of retail institution are affected by environmental influences such as economy, technology, and social configuration. Using that explanation, a consumer's preference for store/product attributes and the associated environmental influences are proposed in the CREM to have a cause and effect relationship.

Another reason to separate consumers from the other environmental influences is the increasing importance of consumers in the retail environments. Support for this aspect of the model comes from the findings that changing consumers' preferences for store/product attributes

may directly affect retail evolutions (Arnold, Handelman & Tigert, 1998; Monroe & Gultinan, 1975). Another aspect of the consumer influence, added within the Influences portion of the CREM, is the reciprocal effect of the retail to consumer relationship. This aspect is included because previous research shows that a new retail institution might initiate consumer changes in preference for store/product attributes. Carpenter & Nakamoto (1989) examined the forming procedure of consumers' preference for a new or pioneer product. They found that consumers' preference for attributes of a new or pioneer product affected their preference for other products in a same category, which showed the possibility that new store/product attributes (i.e., a new retail institution type in the CREM) might affect consumers' existing preference. Therefore, the influence from "R<sub>4</sub>" to consumers' preference for store/product attributes is included in the CREM (i.e., "R<sub>4</sub>" → Consumers' preference). This direction of influence has not been proposed in the previous combined retail evolution theories, which generally include a consumer variable within the environmental influences that affects retail evolution (i.e., Consumers' preference → "R<sub>4</sub>").

The variable of the consumer, or more specifically the consumer's preference for store/product attributes, is, in itself, a complex process with additional influential forces. The consumer variable in the CREM is expanded beyond what is discussed in many retail evolution theory articles. Authors (e.g., Gist, 1968; Kaynak, 1979; McNair, 1958; MacNair & May, 1978) described consumers as simply a part of changing retail environments and did not discuss what might influence consumers' changes and how these consumers' changes might affect retail evolution. According to previous articles about Environmental theory and other retail and consumer behavior research, a consumer's preference for store/product attributes is influenced by his/her shopping orientations, and, in turn, a consumer's shopping orientations is affected by his/her demographics (e.g., Kim & Chen-Yu, 2003; Monroe & Giltinan, 1975; Sheth, 1983; Shim & Kotsiopulos, 1992).

According to several authors in both theoretical and empirical work (e.g., Chen-Yu, Williams, & Kincade, 1999; Engle, Blackwell & Miniard, 1995; Moye & Kincade, 2002), the consumer's situation, which is a personal environmental influence, also influences preference for store/product attributes. The variable of situations in previous literature has been described as mood, information, location, time, usage (i.e., formal, casual, gift), and whether the product is for self or other (e.g., Engle, Blackwell & Miniard; Moye & Kincade; Sheth). Many previous

researchers describe a consumer's situation as a direct influence on his/her preference for store/product attributes; however, this study proposes an indirect relationship between the two variables. The relationship is intervened with a consumer's shopping orientation, which is assumed to change depending on the situations. Grounded support for this more complex and indirect relationship is provided in Sheth's model (1983). In Sheth's model, product types were proposed to affect consumers' shopping orientations, which influenced consumers' preference for store/product attributes. Sheth also noted that product determinants including product characteristics and usage situations influence consumers' shopping orientations. In turn, consumers' shopping orientations affected their retail institution type selection by determining their preference for store/product attributes. Using Sheth's proposed structure, in this study and in the CREM, a consumer's situations and product types are assumed, therefore, to affect changes in his/her shopping orientation. In turn, a consumer's shopping orientation influences his/her preference for store/product attributes.

In summary, according to previous consumer behavior studies, all of these consumer related variables (i.e., shopping orientation, demographics, product, situation) and the associated relationships affect consumers' retail institution type selection (i.e., store patronage). These findings provide grounding for the CREM, and indicate that these variables might affect consumers' selection of a new retail institution type as well, which in turn, may affect or enhance retail evolution. Therefore, these relationships, which have not been discussed in any previous retail evolution theory, but have been highlighted in some literature on consumers' shopping behavior, are included in the CREM.

In addition, previous consumer and retail research (e.g., Engel, Blackwell, & Miniard, 1995; Kaynak, 1979) recognize that many of these variables do differ across countries. Numerous cross-cultural studies in consumer research recognize the difference in consumer behaviors within differing cultures. For these reasons, geographic and cultural differences or specifics may also have an influence on the retail evolution process.

## **CHAPTER V**

### **RESULTS AND DISCUSSION**

Various retail institution types that have emerged and evolved in Western countries, including department stores and discount stores, were imported to South Korea and adjusted appropriately to the South Korean environments within a compressed time period (Kim, 1999). For this reason, evolution of retail institution types in South Korea is difficult to explain with current retail evolution theories (Ok & Kim, 1997). During the review of literature search, no research was found that studied the historical retail institution evolution in South Korea with any of the three main retail evolution theories (i.e., Environmental, Cyclical, Conflict theories); however, articles were found that reported where previous researchers have studied and explained influences on the lifecycle of retail institution types (i.e., growth, maturity, decline) after the importation. This information contributes to the explanation of the retail evolution in South Korea.

This chapter explains the evolution of retail institution types in South Korea, through the model of Combined Retail Evolution (CREM) as proposed with the modified ground theory method in the previous chapter. The chapter, thereby, addresses Objective 3 and Research Question 1: How have South Korean retail institutions evolved, including the emergence of the new retail institution in South Korea. The three major representatives among the retail institution types in South Korea were examined. These types are department stores, discount stores, and Private-Branded Hive type store (PBH).

#### **Evolution of Retail Institution Types in South Korea**

In South Korea,  $R_1$  and  $R_2$ , as noted in the CREM (see Figure 4.1), represent department stores and discount stores. Historically, department stores were imported earlier than discount stores; however, these two retail institution types both became major retail institution types in South Korea within a short time. Over time as diagramed in Figure 4.1, department stores and discount stores are evolving within their retail institution types. Evidence is available that supports the fact that they became strong competitors to each other and conflicted in terms of their store/product attributes. As designated in the CREM, a new retail institution type was

created from this conflict (i.e., PBH). In this chapter, the background, a cyclical evolution process, environmental influences, consumer influence, and the overall spiral evolution of each retail institution type (i.e., department stores, discount stores, and PBH) will be explained separately. In addition, the conflict between these two types of stores will be explained and finally, a new retail institution type (PBH) will be introduced.

## Department Stores in South Korea

### Background

During Japan's colonial period (1910-1945), a Japanese-style department store was imported to South Korea (Lee, 1996), so that as early as the 1930s, the first department store opened in Seoul, South Korea. However, as recently as the 1960s, small traditional "street" stores continued to be plentiful in South Korea (Hwang & Jung, 1993). A street store is a small general store located in a neighborhood, carrying various products for daily life. This store type is an early, smaller version of the current convenience store, and a number of street stores were often densely located within a district.

In the 1970s, conglomerates started opening Western-style department stores with modern environments and advanced operation systems (Lee, 1996; Ok & Kim, 1997). Since then, South Korean department stores evolved and formed unique characteristics, which differ from those in Western countries, to serve South Korean consumers. One primary difference is that most South Korean department stores do not purchase products from manufacturers but instead lease spaces to manufacturers (Lee, 2000); therefore, inventories within the store are owned by manufacturers (Cha, 1998). For this reason, department stores do not have power or control in product planning and price decisions. All product-related marketing and management activities are under the manufacturers' control. Another difference is that department stores carry a food category, which accounts for 17% of total sales (Kim, 1999). Department stores provide high quality domestic food products and imported food products. Lastly, most retail institution types in South Korea, including department stores, are located in central business districts (Cha, 1998). Major, fashion-oriented shopping malls, the U.S. location for most U.S. department stores, have not yet been introduced into South Korea. Department stores are located primarily in central business districts to reach consumers, who are accustomed to shopping and doing social

activities in a central business district, with the convenience of close proximity to all retail institution types (Jang, 2000).

### Cyclical Evolution of Department Stores

According to the Cyclical theory, which was part of the foundation for the CREM, an innovative retail institution starts in its growth phase with limited product lines, low prices, and minimum services; however, this aspect of the Cyclical theory appears not to be applicable to South Korean retailing. Department stores in South Korea were imported and positioned initially (i.e., their entry phase) as a high-end retailer, providing high price and high margin products. In review of its background, this retail institution type seems not to have evolved from the large general store as found in the United States nor from the small “street stores” of South Korea; instead, the evolution of department stores in South Korea seems to start from the second phase of the cyclical evolution (i.e., trade-up or mature phase). According to Levy and Weitz (2001) and McNair (1958), an institution type enters the trade-up phase as time passes, as the innovative retail institution offers more services (e.g., more variety in products, advertisements, delivery, and provision of credit) and better store characteristics (e.g., rest rooms, carts, wide aisles, food courts and resting areas). With entrance into the trade-up phase, an innovative retail institution achieves high sales volume, profitability and market share due to improvement of its store retail mix, and becomes a traditional or mature retail institution. Due to this successful operation, many new stores imitating these upgraded operations open for business. Many researchers agree that department stores have been a very successful retail institution in South Korea; however, whether this success of department stores followed the steps of the Cyclical theory or some other evolutionary process has not been previously discussed. In the following paragraphs using the constant comparative analysis method, the operations and other retail history of South Korean department stores are analyzed based on the retail evolution process proposed in the CREM.

A number of factors can be examined to indicate the success of a specific retail business or of a general retail institution type. Success can be measured by growth of sales, market share, profit, increase in number of individual units, and expansion in size of square footage (Gist, 1968; McNair, 1958). These variables are examined in the following section to analyze the evolution of the department store and compare the changes to the predictions in the CREM. From the 1980s to the mid 1990s, department stores were the major retail institution in South

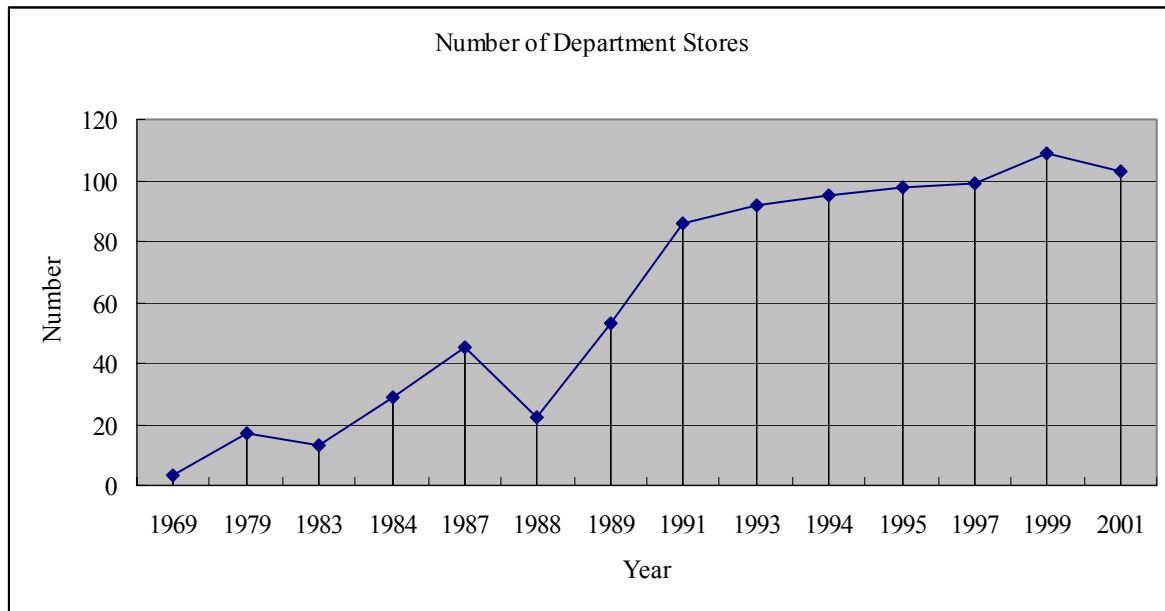
Korea, as indicated by significant sales increases, with total sales increasing by 246 % between 1987 and 1991 (“South Korea,” 1995). Until the mid 1990s, the growth rate of sales was an average of 20% every year (Lee, 1997). In 1993, total sales of department stores were seven trillion won (about \$6 billion), and ten trillion won (about \$ 8.5 billion) in 1995 (Jeong, 2000). In addition, the dominance of the department store, in the late 1980s and early 1990s, can be seen in the comparison of the market share for that retail institution type (Pak, 1998). The department store sales volume was 14.2% of total retail sales, while that of supermarkets remained at 3.8% and that of discount stores remained at 1.3%.

As department stores were successful as a retail institution (e.g., increased sales and market share), the numbers of stores were rapidly increased. Retail businesses expand the number of doors or outlets when the business is profitable and sales are increasing (Kincade, Gibson, & Woodard, 2004; Levy & Weitz, 2001). At the beginning of the 1980s, the number of department stores had grown by 140% from their introduction in the 1970s (“South Korea,” 1995). According to *The Statistic Resource of Distribution Industry* and *The Report for Retail Operation and Trend*, the number continuously increased except in 1988 (see Table 5.1 and Figure 5.1). (More discussion on this growth is provided in the next paragraph.) These large sales growths and increasing numbers of stores were expected in the CREM, which is based on the Cyclical theory proposed by McNair (1958).

The global measures for the institution type showed rapid, successful growth of the retail institution type of the department store; however, sales per store showed a different trend. The increase in sales per store did not coincide with the continued maturation of a retailer as the CREM proposed. The sales volume per store increased until 1988 (see Table 5.2 and Figure 5.2). The average sales per store actually dropped during 1988 and 1989, and then rapidly increase in the following period, with additional peaks and valleys. Such a drop in per store sales can be hidden in total sales in a retail institution type that has growth in stores as well as growth in total sales. However, the number of stores dropped during this period also.

Table 5.1. Number of Department Stores in South Korea<sup>1</sup>

Year	Number of Stores
1969	3
1979	17
1983	13
1984	29
1987	45
1988	22
1989	53
1991	86
1993	92
1994	95
1995	98
1997	99
1999	109
2001	103



Note: Data from 1970 to 1987 are not continuous.

Figure 5.1. Number of Department Store<sup>2</sup>

<sup>1</sup> The report for retail operation and trend, 1970~2001;  
The yearbook of distribution industry, 1984, 1998, 2002

<sup>2</sup> The report for retail operation and trend, 1970~2001;  
The yearbook of distribution industry, 1984, 1998, 2002

Table 5.2. Sales Per Store<sup>3</sup>

Year	Sales per store (W million)	Consumer Price Index (Year 2000 Base)	Sales per store based on CPI
1982	10,785	51	21,146
1983	14,878	53	28,072
1984	32,624	54	60,415
1985	33,417	53	63,051
1986	44,249	54	81,943
1987	58,962	56	105,290
1988	45,026	61	73,814
1989	44,880	69	65,043
1990	62,875	75	83,834
1991	78,173	79	98,953
1992	90,892	84	108,205
1993	86,093	87	98,958
1994	106,000	89	119,101
1995	120,400	90	133,778
1996	127,200	91	139,780
1997	122,100	93	131,290
1998	112,600	97	116,082
1999	141,000	98	143,878
2000	169,300	100	169,300
2001	195,500	103	184,434

<sup>3</sup> CPI calculation, 2003; The report for retail operation and trend, 1983~2001;  
The yearbook of distribution industry, 2002

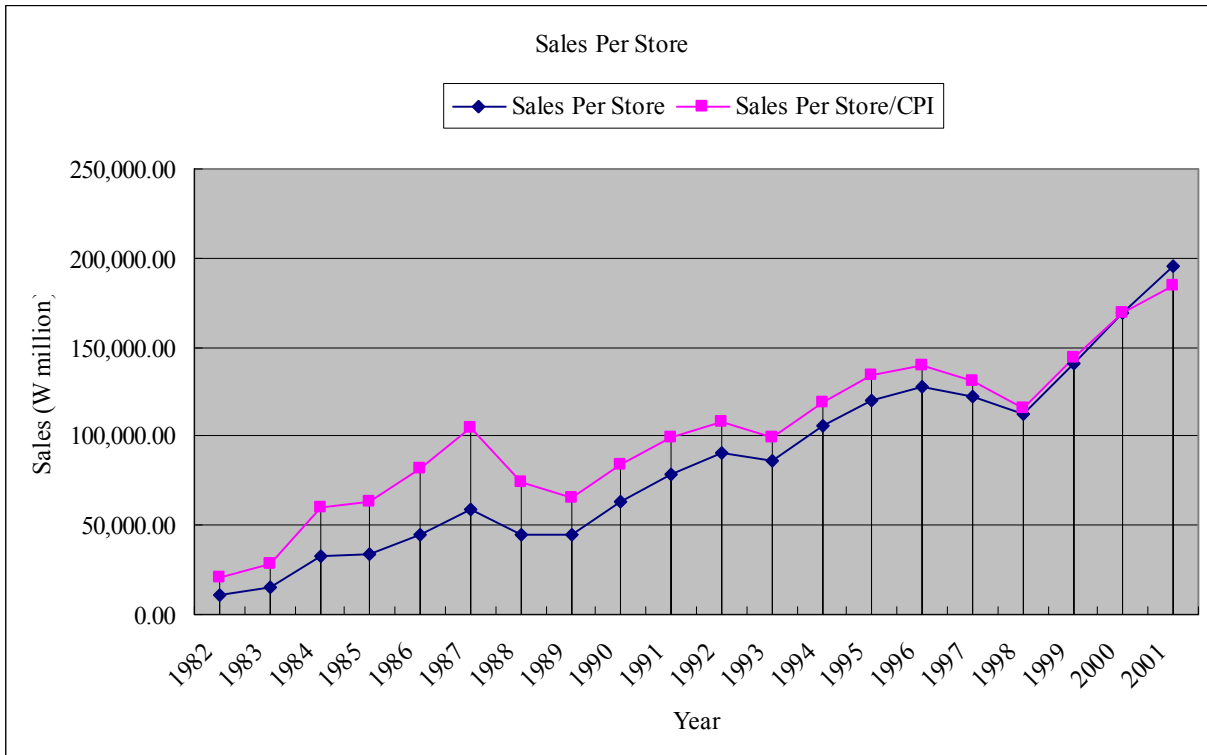


Figure 5.2. Sales Per Store without and with the Consumer Price Index Adjustment<sup>4</sup>

Multiple environmental factors could be the reasons for the drop in sales. For example, a nation-wide cultural event in 1988 (i.e., 88 Olympics in South Korea) could have negatively affected retail activities due to the national focus of financial support for the Olympics and the financial downturn effects of post-Olympics. Additional explanations of environmental factors that influenced evolution of department stores will be supplied in the next section on environmental influences. According to the CREM, with fewer stores and with more time, sales per store were supposed to increase due to less competition. However, even though the number of department stores decreased in 1988 (1987-45, 1988-22), the sales per store decreased as well. This result indicates that environmental events influence the evolution process of department stores. According to the CREM, environmental influences were the primary base of the emergence of a new retail institution type, but the data show that changing environments continuously influence the evolution of a retail institution after its emergence.

<sup>4</sup> The report for retail operation and trend, 1983~2001; The yearbook of distribution industry, 2002

In 1993, another fluctuation is observed in the data (i.e., 1992-W90,292 million vs. 1993-W86,093million). This change also indicates some environmental (e.g., social/political) event/s happened and affected sales in department stores (see next section for additional environmental explanations). After 1993, even though the number of department stores kept increasing (1993-92; 1994-95; 1995-98), sales per store were also increasing, which means that generally all department stores had a significant sales success regardless of increasing competition. However, during 1997 and 1998, the sales per store decreased again due to an economic crisis (i.e., 1997-W122,100million vs. 1998-W112,600million). In addition, the increasing number of department stores regardless of the economic crisis (1997-99; 1999-109), and the increasing number of competitors (i.e., discount stores) are assumed to affect the decreasing sales volume per store.

To adjust for inflation in the statistics in sales per store and to provide a more accurate trend in sales, sales per store were recalculated with Consumer Price Index (CPI), which is the most common index that indicates inflation over time (CPI Calculation, 2003). The equation used for conversion from sales volume to sales volume based on CPI is:

$$\text{Sales per store based on CPI} = \text{Sales per store} \div \frac{\text{CPI}}{100}$$

The sales per store based on CPI showed the same trend as sales per store without CPI (see Figure 5.2); therefore, sales per store can be used for the analysis, and the trends as discussed previously are supported.

The growth rate of sales and market share provided another visualization of the evolution and potentially associated influences on sales in department stores (see Table 5.3 and Figure 5.3). In 1997, department stores suffered a dramatic decline in growth rate of sales. As discussed in terms of the CREM, this change along with associated growth in discount stores (see following sections) indicates the beginning of competition between two retail institution types, and marks the yield of the top retail institution type position to a new retail institution type (i.e., discount stores). According to *The Report for Retail Operation and Trend* (1998, 1999), the growth rate of sales in department stores in 1997 was - 4.0%, and -7.8% in 1998. The market share of department stores in South Korea decreased from 14.2% in 1996 to 11.5% in 1998 (Lee, 1996; Pak 1998). During the late 1990s, the decline of sales resulted in the bankruptcy of many small and mid-size department stores (Kim, 1999; Lee, 2000). This change, according to the

CREM, should indicate the beginning of the vulnerable phase and perhaps final demise of the department store as a retail institution type; however, since 1999, the growth rate of sales in department stores has begun to increase again as economy has also started to recover.

Table 5.3. Growth Rate of Sales Per Store<sup>5</sup>

Year	Growth Rate of Sales Per Store
1984	12.5
1985	23.1
1986	25.2
1987	33.3
1988	35
1989	14
1990	25
1991	24.3
1992	17.5
1993	18.4
1994	17
1995	16.6
1996	5.6
1997	-4
1998	-7.8
1999	25.2
2000	20.1
2001	15.5

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<sup>5</sup> The report for retail operation and trend, 1985~2001; The yearbook of distribution industry, 2002



Figure 5.3. Sales Growth Rate Per Store<sup>6</sup>

As with the per store sales trend, when environmental influences affected the operations of department stores in 1988, 1992 and 1997, the profit rates decreased (see Table 5.4 and Figure 5.4). In contrast to other measures of the change and thereby evolution of a retail institution type, except for these declining years; the profit rate remained relatively stable over time (i.e., average 21% of total sales). The CREM proposed that as a retail institution type became mature and successful, profit rates were expected to increase. However, the result showed that profit rates did not necessarily increase as a retailer achieved a sales increase. Regardless of the increase or decrease of sales and costs, department stores tried to maintain a certain level of profit rates. However, in another interpretation of the data, even though the profit rates were stable, the value of profit (i.e., amount of money) actually increased in the years that have increased sales volume because the profit rate is calculated based on the sales volume of the year. Therefore, even though the profit rate did not increase as department stores matured, the actual profit (i.e., amount of money) increased; however, when environmental influences affected change, the profit decreased as profit rates and sales volume decreased. Again, profit was also affected by environmental influences, while department stores matured.

<sup>6</sup> The report for retail operation and trend, 1985~2001; The yearbook of distribution industry, 2002

Table 5.4. Profit Rate<sup>7</sup>

Year	Profit (%)
1986	22.5
1987	20.3
1988	19.5
1989	19.7
1990	19.7
1991	21.2
1992	19.0
1993	20.3
1994	22.6
1995	22.1
1996	21.4
1997	20.1
1998	20.0
1999	21.5
2000	22.0
2001	23.0

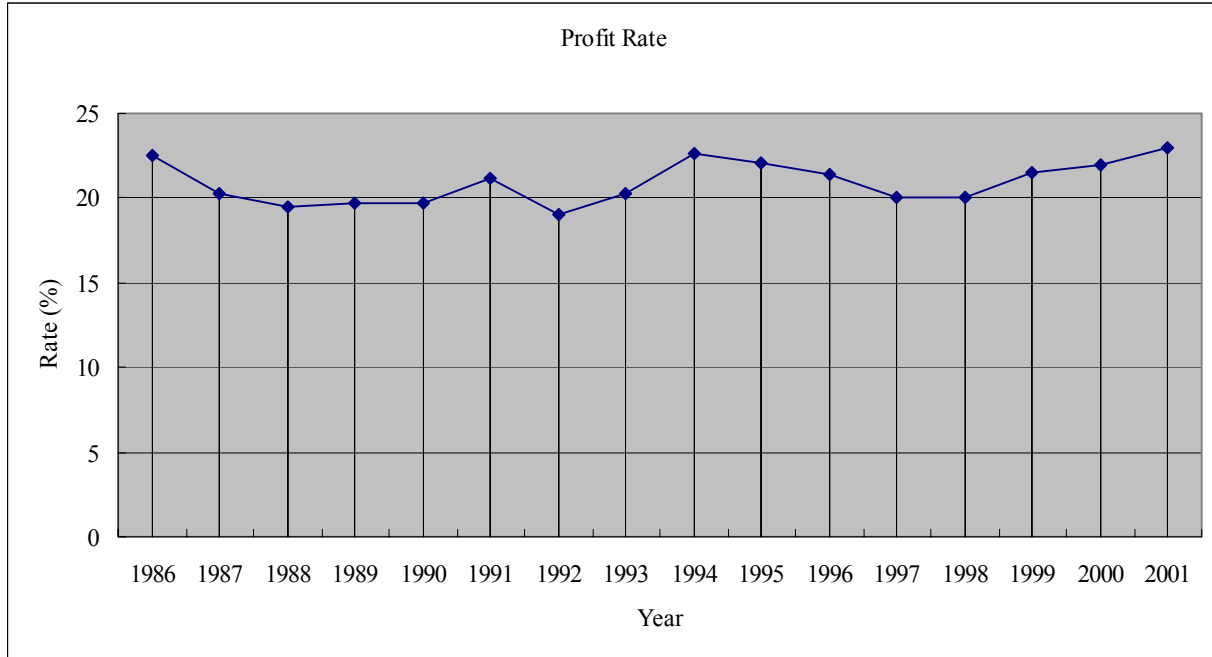


Figure 5.4. Profit Rate<sup>8</sup>

<sup>7</sup> The report for retail operation and trend, 1987~2001; The yearbook of distribution industry, 2002

<sup>8</sup> The report for retail operation and trend, 1987~2001; The yearbook of distribution industry, 2002

In the CREM, upgrading of services and operations is an indication that the retail institution type is maturing and is spiraling to a higher level. Regarding the upgrade of services and operations, as a retail institution matures, department stores in South Korea generally followed the predicted trend. A survey with retail managers showed that the major focus of management, as department stores grew, was the provision of more services (43.3% in 1983), more promotions (19.1% in 1985), better products (product assortment: 12.9% in 1987, product development: 8.6% in 1984), and more facilities (8.6% in 1984) (see Table 5.5). All of these changes would increase operating costs as proposed in the CREM. To become a mature retail institution type, not only the facilities for consumers but also the facilities for store operations are expected to be upgraded to serve consumers. This expectation was met as expected, 15.9% of respondents in 1987 were concerned about the upgrade of store operating systems. For example, as shown in Figure 5.5, the number of POS terminals installed per store generally increased over time, which showed that department stores had placed more financial input in upgrading the operating system. Another major focus of department stores was store expansion (12.8% in 1985). Department stores increased in size over time, even though the land price of center business district increased (see Figure 5.6). With the increasing cost of land in downtown locations in South Korea, maintaining the downtown location would occupy a high proportion of the operating cost, and the expansion of its size would add more to the operating cost.

As retailers added higher levels of operational practices, employees would need to be trained to be accustomed to a new system, which would increase operating costs accordingly. In a positive comparative analysis with the CREM, in 1984, the management topic that was rated as the highest concern by retail managers was employee training (The report for retail operation and trend, 1985), which is generally considered very expensive (Kincade, Gibson, & Woodard, 2004). Except for 1997, the growth rate of operating expense continuously increased (see Table 5.6 and Figure 5.7). In general, department stores added an average 20% more to the operating cost from the previous year.

Table 5.5. Management Focus<sup>9</sup>

Year	Topics	%
1983	More Service	43.3
	More high brand name product	10.0
	Store expansion	6.7
	Product development	6.7
1984	Employee training	19.0
	More promotion	17.2
	Better service	10.3
	Better facilities	8.6
	Product development	8.6
	Credit purchase promotion	8.6
	Store expansion	5.2
	More high brand name product	5.2
1985	Better service	21.3
	More promotion	19.1
	Employee training	17.0
	Store expansion	12.8
	Better facilities	8.5
	Credit purchase promotion	6.4
	Product development	6.4
1987	Better management efficiency	31.8
	Sales/operating system	15.9
	Product assortment	12.9
	Management structure	11.4
	Consumer protection policy	8.3
	Product exclusivity	6.1
	Reduce operating expense	5.3
	Employee training	3.8

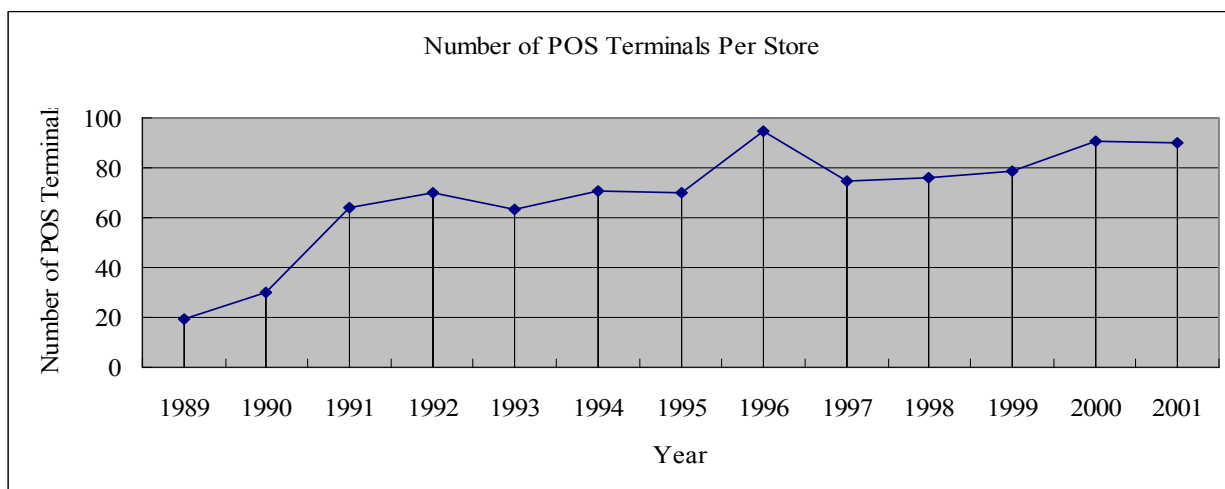


Figure 5.5. Number of POS Terminals per Store<sup>10</sup>

<sup>9</sup> The report for retail operation and trend, 1994~1996, 1998

<sup>10</sup> The report for retail operation and trend, 1990~2001; The yearbook of distribution industry, 2002

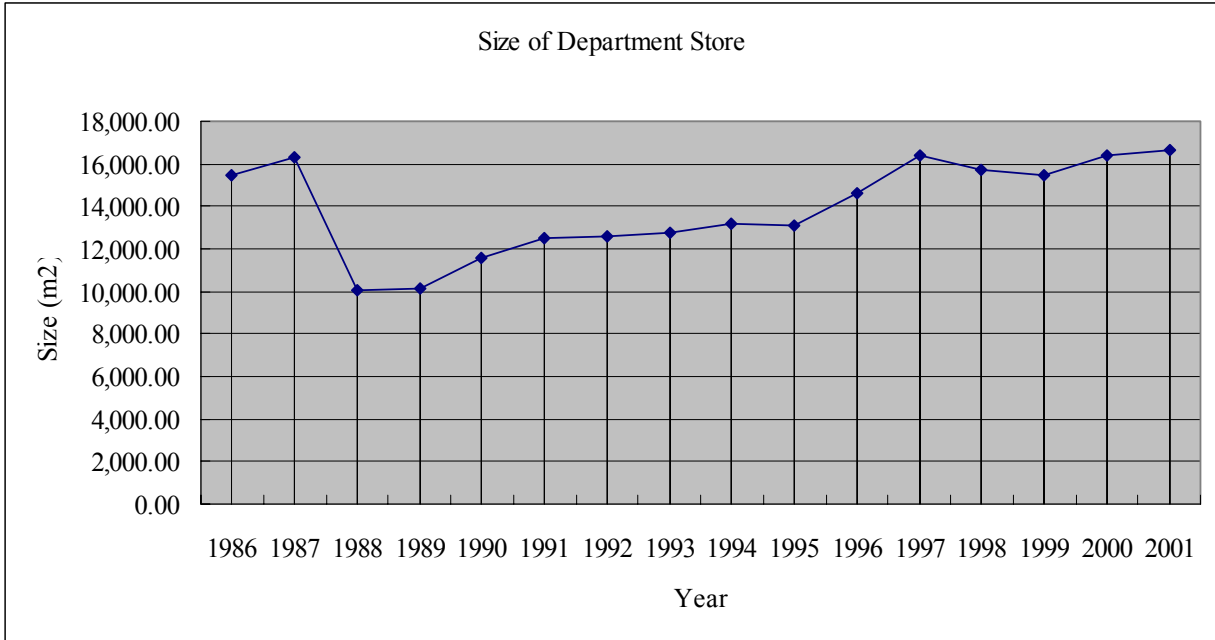


Figure 5.6. Size of Department Store<sup>11</sup>

Table 5.6. Growth Rate of Operating Expense<sup>12</sup>

Year	Operating expense (%)
1986	18.1
1991	22.7
1994	23.0
1995	25.8
1996	18.6
1997	-14.9
1998	-1.7
1999	14.0
2000	16.3
2001	17.4

<sup>11</sup> The report for retail operation and trend, 1987~2001; The yearbook of distribution industry, 2002

<sup>12</sup> The report for retail operation and trend, 1987~2001; The yearbook of distribution industry, 2002

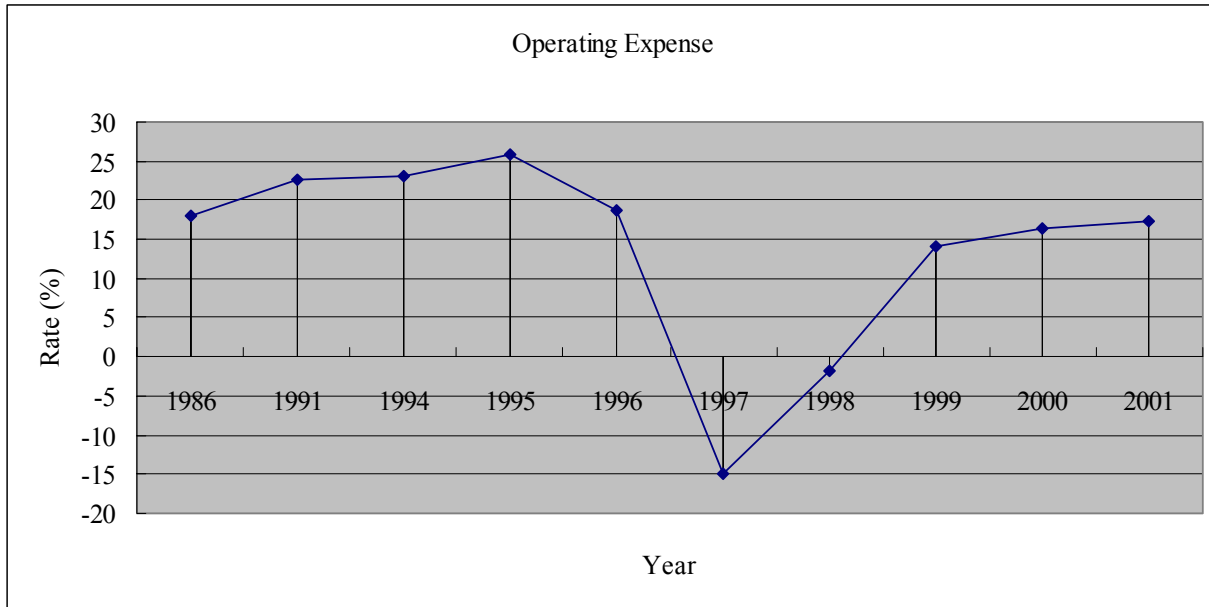


Figure 5.7. Growth Rate of Operating Expense<sup>13</sup>

As noted with the dip in 1997 and the specific yearly rate changes, upgrading practices have not happened at a consistent and continually positive rate, in contrast to the prediction of the CREM. The number of POS terminals installed per store decreased in 1997, perhaps due to increasing numbers of bankruptcies among some department stores (further discussed in the next section) and the large size of the sales decrease. The size of department stores also shows some fluctuations in 1988 and 1998 (see Figure 5.6). Again, when environmental influences affected the department store operation during its evolution, the upgrading practices were reduced. As shown in the Table 5.6, in 1997, department stores reduced operating costs by 14.9% from the operating cost in 1996. In 1998, operating costs were reduced even more (-1.7%) from the operating cost of the previous year. Therefore, operating costs coincided with changes in environmental influences and fluctuated rather than continuously increased over time as department stores matured, which contrasts to the proposition of CREM.

One possible explanation is that the growth and maturity of the department store in South Korea has occurred over a short time period (40 years) in comparison to the growth and maturity in the United States (140 years). In addition, environmental influences are not the same between the two countries in terms of the type of influences and the time when they occurred. Each

<sup>13</sup> The report for retail operation and trend, 1987~2001; The yearbook of distribution industry, 2002

country had unique environmental influences, and the time period for those influences was different. South Korea experienced all the environmental influences discussed in this study within a short time (within 15 years), while the United States did not have some of the environmental influences that South Korea had or these influences were already experienced at the entry phase for department stores (about 100 years ago). Due to the differences of lifecycles and environments, the evolution process of retail institution types in different countries might vary, which justifies the aspect of the CREM proposing geographic differences across retail evolutions.

Additional measures used to evaluate the evolution of a retail institution type are labor and promotion costs (Gist, 1968; Ingene, 1983; McNair, 1958). These measures can provide a look at the spiraling growth and change of the institution type. According to McNair (1958), labor and promotion costs were major operating costs, and these costs were expected to increase as a retail institution matures. However, the data from *The Report for Retail Operation and Trend* do not show the increasing rate of labor and promotion costs in South Korea, even when department stores achieved significant sales increases and upgraded their services and operations. Even though the wage per hour kept increasing (see Figure 5.8), department stores reduced the rate of labor cost (see Figure 5.9).

Before 1990, labor cost seemed to increase steadily and generally as predicted, but after 1990, the rate was reduced and perhaps showed the efforts made by retailers to reduce the rate, even though department stores achieved high sales volume. This trend contrasted to the prediction of the CREM, which proposed that as a retailer matured, labor cost would increase due to the increase in wages from increased and improved sales assistance. An influence, such as advanced operating systems installed as technology developed, is assumed to have helped reduce labor cost more than McNair expected in 1958 without such technologies. Especially in 1998, because many people were unintentionally unemployed due to the economic crisis, department stores could reduce salary and accordingly reduce the labor cost. Further explanation of this environmental influence is discussed in the next section.

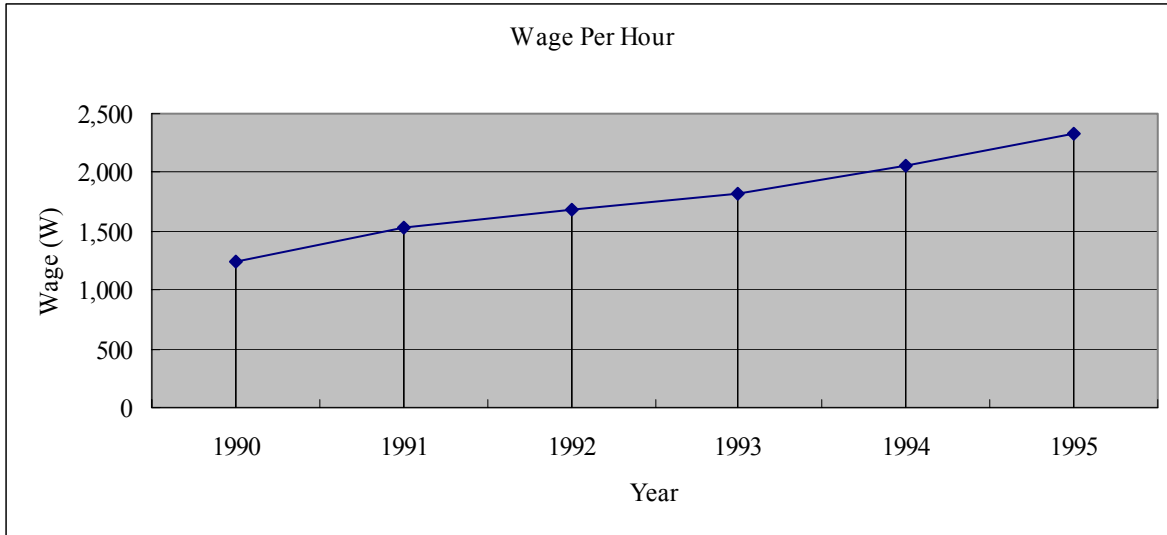


Figure 5.8. Wage Per Hour<sup>14</sup>

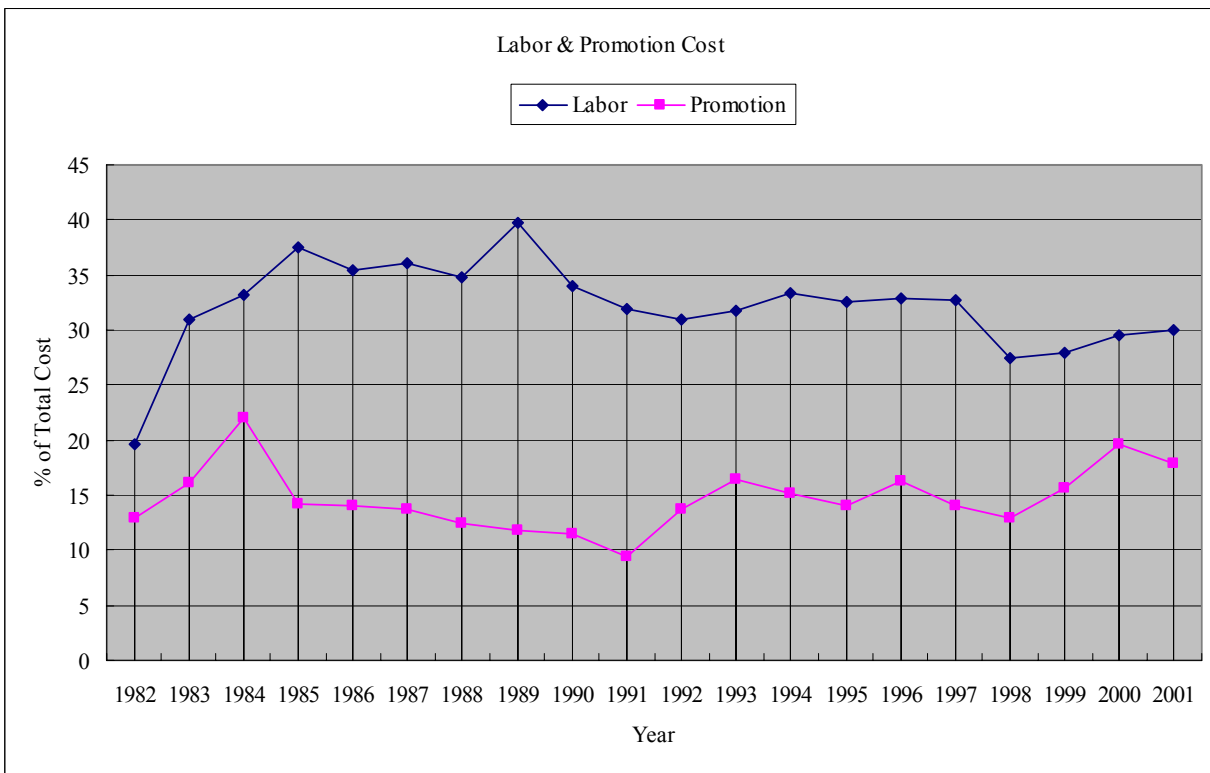


Figure 5.9. Labor and Promotion Cost<sup>15</sup>

<sup>14</sup> The report for retail operation and trend, 1991~1996

<sup>15</sup> The report for retail operation and trend, 1983~2001; The yearbook of distribution industry, 2002

In the case of promotion costs, an overall and generally, increasing trend was not shown as proposed in the CREM. The promotion cost before 1991 tended to decrease, and after 1991, it generally increased, even though the economic crisis contributed to promotion budget reduction. The reason why the promotion cost could be reduced before 1991 is explained as follows: while department stores achieved a significant success and entered the trade-up phase, limited special efforts to promote stores were necessary, which contrasts to the prediction of the CREM. After 1991, comparing favorably with the processes outlined in the CREM, as the number of department stores significantly increased (53 in 1989 versus 86 in 1991) (see Figure 5.1) and competition increased accordingly, promotion became an important marketing strategy to compete with competitors. Promotion costs, as other operating costs, do not exist within a vacuum and support is given to the CREM that other influences impact promotion expenditures (see the influence section).

After 1991, promotion costs for the retail institution type of department store increased as the CREM predicted; however, before 1991, the trend contrasted to the CREM theory. Therefore, even though overall operating cost increased as the retail institution matures, labor and promotion costs were not the major factors that contributed to the rise in operating costs, and the rise was not a steady increase as previously predicted. The CREM was partially supported in labor and promotion costs.

In summary, the sales volume and profits generally increased as department stores in South Korea matured, following the trend predicted in the evolution portion of the CREM, until an economic crisis happened. Department stores continuously achieved sales and profit growth when no major environmental influence interrupted its success; however, when department stores were affected by a negative environmental influence (e.g., economic crisis), the sales and profits discontinued to grow. The CREM did not predict that an environmental influence could negatively affect the retail evolution. Results indicated instead that a growth in sales and profit did not follow a steady and generally upward maturation of a retail institution but fluctuated depending on influences of environmental changes.

The same results are seen in the case of operating costs. Department stores in South Korea upgraded their services and operations as they aged or matured, and accordingly the operation costs increased until negative environmental influences affected the growth of department stores. However, labor and promotion costs were not the major factors that increased

or decreased operation costs. Contrary to the proposition of the CREM, the labor and promotion costs decreased along with the growth of department stores. However, negative environmental influences and the decrease in sales volume contributed to the promotion cost increase.

Therefore, the CREM is partially supported in the evolution of department stores in South Korea. This supports the limitation mentioned by Oren (1989). He argued that price and expense factors cannot solely explain retail evolution. Many other factors may affect retail evolution.

### Environmental Influences on Department Stores

Changes in variables within the environment, such as society, technology, economy, and legislation, are predicted by the CREM as highly correlated with the evolution of department stores. Since a modern-style department store opened in the 1960s in South Korea, positive and negative retail environments have had noticeable effects on the evolution of department stores.

Social environment. Increasing population in metropolitan areas and developing transportation and communication systems are changes in the social environment that were noted to elicit a synergistic effect on the location of department stores within the center of metropolitan areas (Kim, 1999; Lee, 1996; Lee, 2000). Since the 1970s, South Koreans have moved into cities from the more rural surrounding areas. Currently, high population density within the cities has contributed to people's movement to suburban areas. The movement into the cities started decreasing since 1988 as shown in the Figure 5.10. Yet, cities in South Korea continued to have high population density, which contributed to the growth of department stores that were still located in the center of cities. A high rate of population growth and density generated high sales and profits, according to Ingene and Lush (1981). They found that new residents purchased a greater quantity of products than established residents did and preferred large and new modern stores, which had better and easier store environments in which to shop compared to old and small traditional stores. The prediction based on the environmental influence section of the CREM is supported. The social environment highly affected the location decision for department stores since their importation.

As stated in the evolution section on department stores, this retail institution type has continued to mature or up-grade their characteristics to serve these new residents in cities and achieved a high success corresponding with this growth of city population; however, consumers

are currently moving to suburban areas to avoid the high traffic congestion and high living costs inside city areas (Kim, 2000). For this reason, department stores located in the center of a city are predicted to experience a decrease in sales in the near future, as CREM predicted the entrance of the department store into the vulnerable phase. This evolution indicates that as mentioned previously, the environmental influences not only affected the operation of department stores, when they were imported, but also continuously affected the evolution process over time.

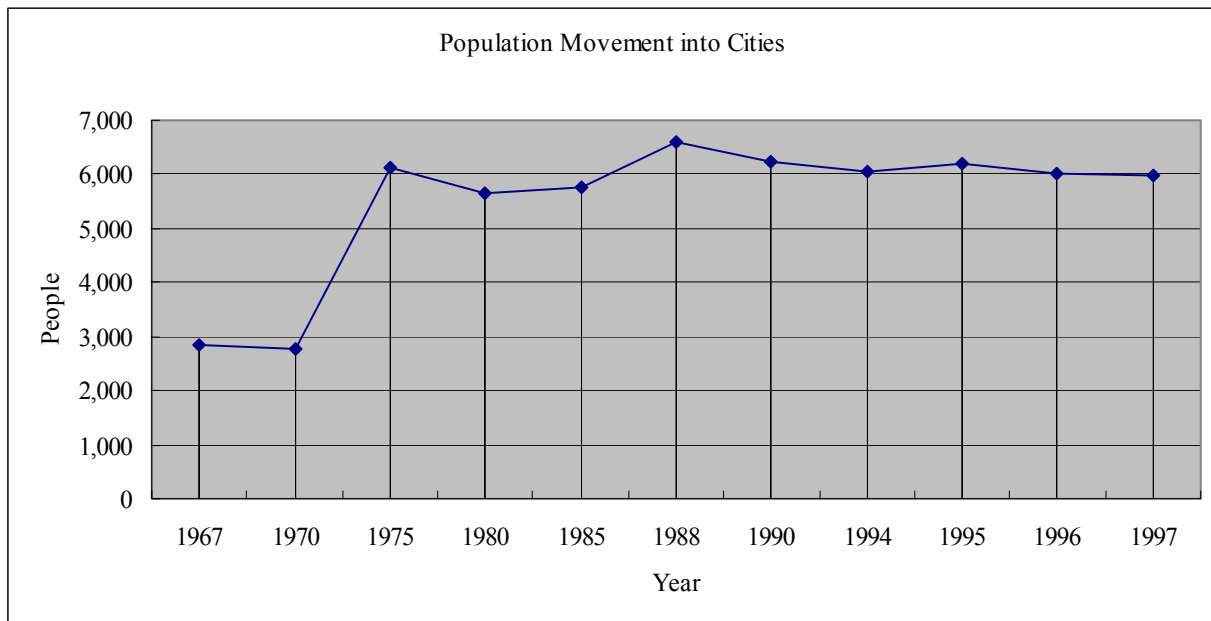


Figure 5.10. Population Movement into Cities<sup>16</sup>

Technological environment. As the economy has grown since 1960, transportation and communication systems have significantly developed in South Korea, and these advanced systems are predicted by the CREM to have helped retailers create a more efficient retail environment. In addition, consumers' accessibility of these technologies increased along with technological development. This high accessibility allowed consumers more possibilities to enjoy more the convenient shopping environment. For example, car ownership during this period increased significantly (see Table 5.7 and Figure 5.11). In 1960, only 4,200 cars were registered among the population of 25 million. In 2002, over 13 million cars were registered among the population of 47million. During this time, one of 3.5 people purchased a car for home-use. If the

<sup>16</sup> Changes of Korean society and economy in 50 years, 1998

number of cars purchased for business-use is added, the figure is increased. This increasing car ownership provided easy access for consumer to stores and enabled consumers to shop often (Ji, 1995). Therefore, this technological environment contributed to changes that consumers made in their shopping orientations. The CREM did not predict this direct relationship between environmental influences and shopping orientation.

Table 5.7. Car Registration for Home use<sup>17</sup>

Year	Car Registration (1000)
1960	4.2
1965	5.5
1970	28.7
1975	50.1
1980	178.5
1985	449.1
1990	1,902.1
1995	5,778.0
1997	9,860.1
1998	9,908.6
1999	10,550.2
2000	11,389.0
2001	12,193.8
2002	13,133.3

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<sup>17</sup> Monthly statistics of Korea, 2002

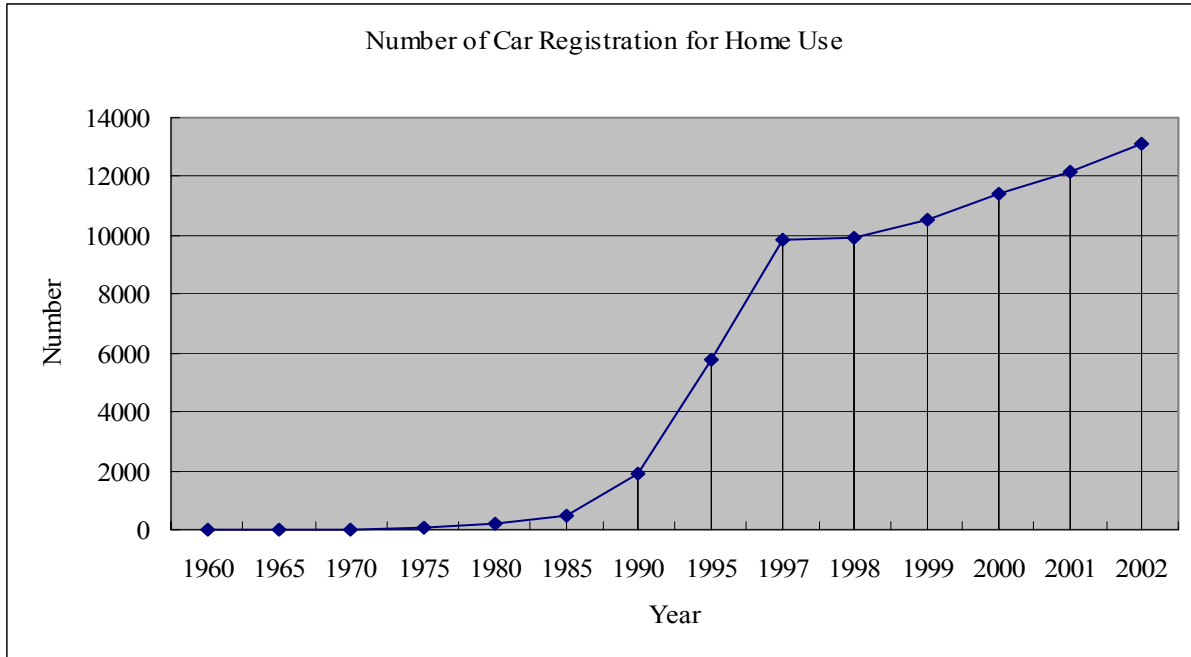


Figure 5.11. Car Registration for Home Use<sup>18</sup>

Advanced communication systems, such as TV, radio, and telephone, increased department stores possibilities to reach more consumers. In addition, technology changes and economic growth meant that consumers could easily access these systems. For example, the number of home phone and cellular phone registration significantly increased (see Figure 5.12 and Figure 5.13). People started having a home phone and cellular phone together. Recently, the marketing activities through cellular phone considerably increased in South Korea. A high accessibility of an advanced communication system is predicted by the CREM to have accelerated department stores' success by promoting stores through these systems. Since 1998, department stores have put more efforts into promotions to initiate more consumption by consumers because the economic crisis reduced consumer spending. However, developing communication systems and consumers' high accessibility of these communication systems made the promotion costs increase. This new method of promotions became an expensive method to reach consumers.

<sup>18</sup> Monthly statistics of Korea, 2002

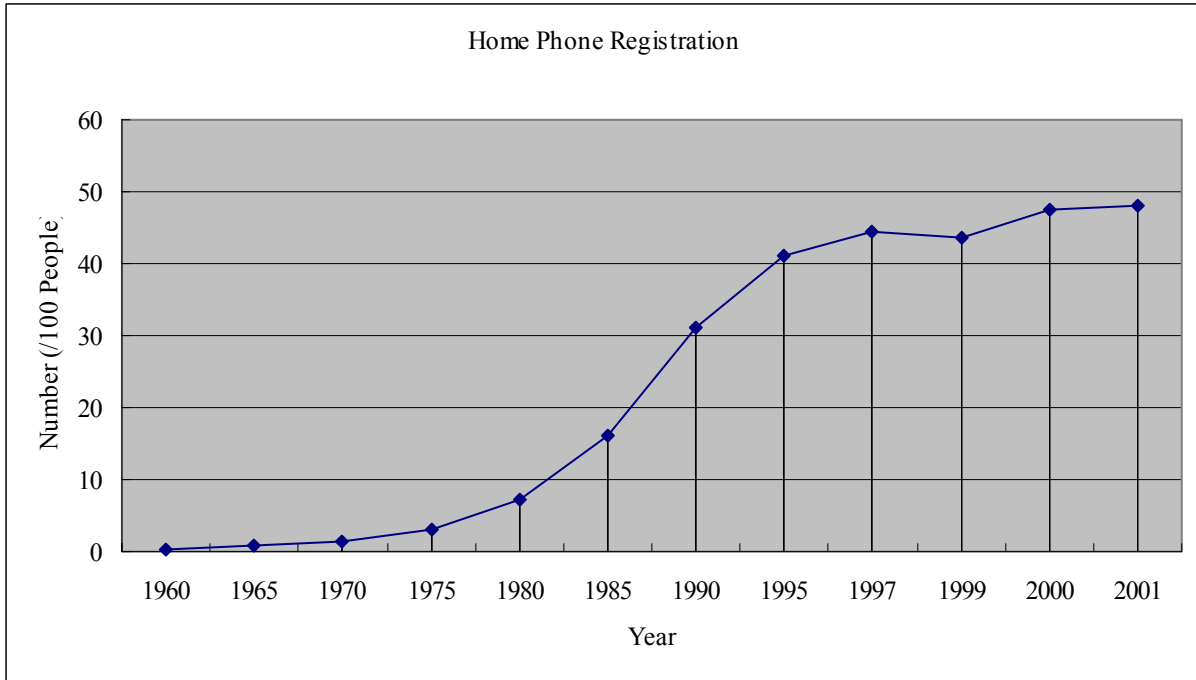


Figure 5.12. Home Phone Registration<sup>19</sup>

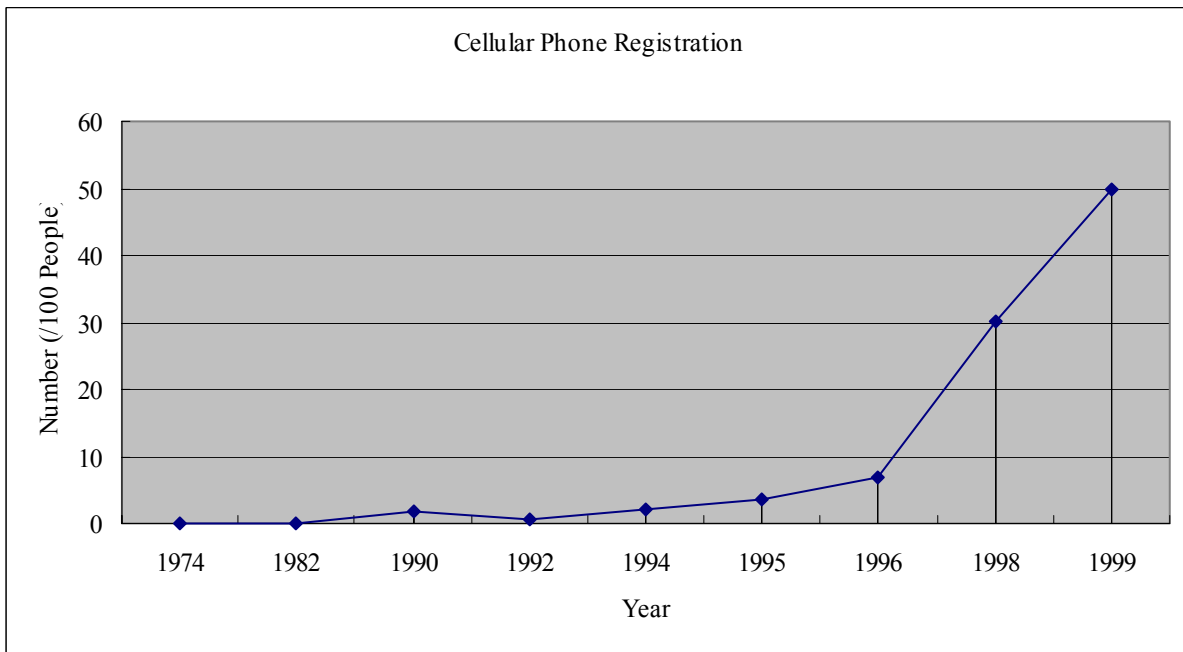


Figure 5.13. Cellular Phone Registration<sup>20</sup>

<sup>19</sup> Korea seen by statistics, 2000; Monthly statistics of Korea, 2002

<sup>20</sup> Korea seen by statistics, 2000

Also, advanced technology affected internal operations, and helped department store managers to run the stores more effectively and efficiently so that department stores could achieve high success in sales. For example, a POS system, as mentioned previously in the section on department store evolution, paralleled the maturity and increased developmental level of the retail institution type; however, this technology again increased operating cost. On the other hand, more automated operating systems should have reduced the labor cost. Continuously developing technology and the high accessibility to both retailers and consumers helped the success of department stores, but a positive relationship was not found when other environmental influences affected the operation of department stores more powerfully than the technological environment. For example, the sales per store decreased in 1988, 1993, and 1997, even though the statistics of technology continuously increased. Therefore, the results indicate that technology can be a positive influence for the success of a retail institution but is not always paralleled with the valleys and peaks of department store evolution.

Economic environment. According to Ingene and Lush (1981), when people have more income, they demand more expensive and greater quantities of products; therefore, the increase in income (i.e., demographics), which is the result of a growing economy, was predicted to change consumers' shopping behavior and then, positively influence sales in stores and ultimately initiate retail evolution. The CREM proposed a direct relationship between the environment influences and consumers' preference for store/product attributes; however, the data supported the indirect relationship through consumer's demographics and shopping orientation as Ingene and Lush predicted.

In South Korea, as the economy grew from 1960s to the mid 1990s, consumers' income and living standard increased (Ji, 1995). Multiple indexes were used to verify the income change over time. An examination of statistics of GNI per capita showed a continuous increase between 1985 and 1996 (see Table 5.8 and Figure 5.14). The number increased five times from \$2,229 in 1985 to \$11,385 in 1996. Also, the increasing salary in wholesale/retail/restaurant/accommodation industry supported the fact that people had more income over time (see Table 5.9 and Figure 5.15). The salary in the industry increased 3.7 times between 1985 and 1997. Household income also rapidly increased since 1965 (see Table 5.10 and Figure 5.16). Household income increased more than five times from 1985 to 1997. All indexes showed the

increase in income, especially since 1990. Therefore, the relationship between environmental influences and consumer's demographics was found.

Table 5.8. GNI Per Capita<sup>21</sup>

Year	GNI per capita
1970	249
1975	592
1980	1,598
1985	2,229
1990	5,886
1995	10,823
1996	11,385
1997	10,315
1998	6,744
1999	8,595
2000	9,770
2001	8,900
2002	10,013

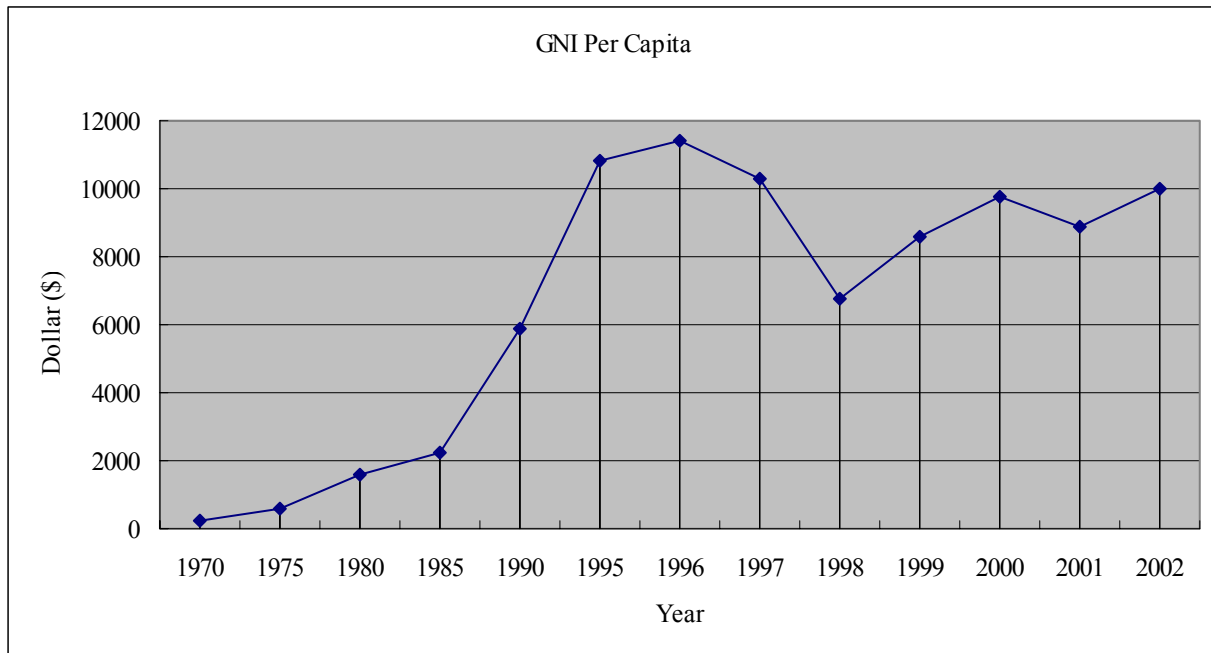


Figure 5.14. GNI Per Capita<sup>22</sup>

<sup>21</sup> Monthly statistics of Korea, 2002

<sup>22</sup> Monthly statistics of Korea, 2002

Table 5.9. Salary in Wholesale/Retail/Restaurant/Accommodation Industry<sup>23</sup>

Year	Salary (W1000)	CPI	Salary Based on CPI (W1000)
1970	19.8	10	198.0
1975	52.7	18	292.8
1980	211.0	41	514.6
1985	372.0	53	701.9
1990	655.2	75	873.6
1994	1,035.4	89	1,163.4
1995	1,144.4	90	1,271.6
1996	1,284.3	91	1,411.3
1997	1,394.2	93	1,499.1

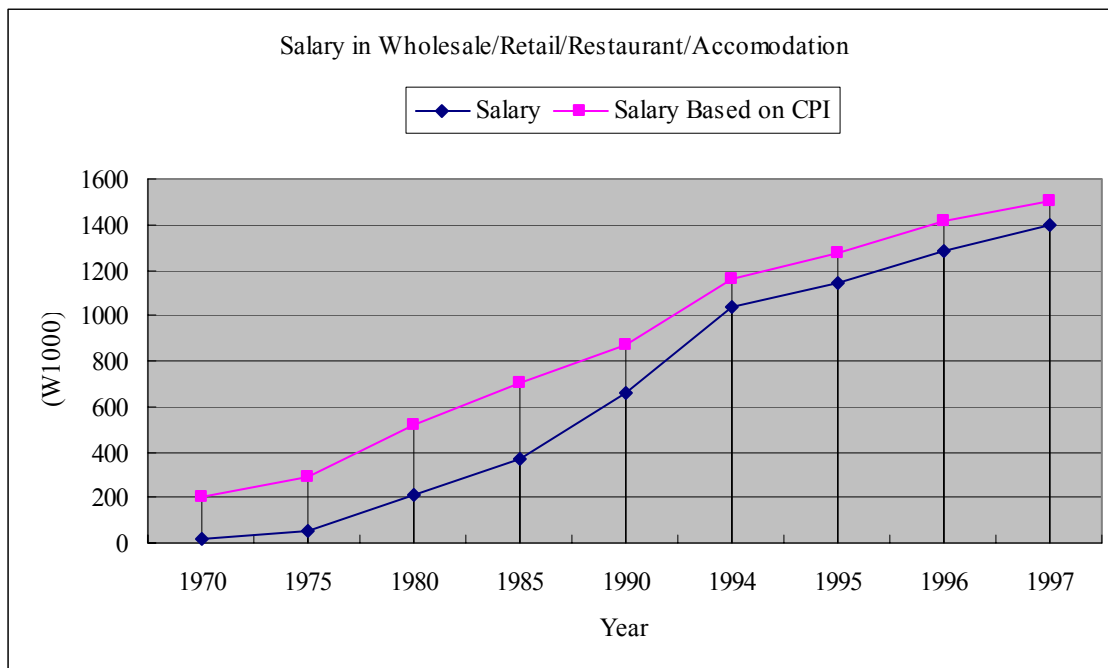


Figure 5.15. Salary in Wholesale/Retail/Restaurant/Accommodation Industry without and with CPI<sup>24</sup>

<sup>23</sup> Average monthly salary, 2003; CPI calculation, 2003

<sup>24</sup> Average monthly salary, 2003

Table 5.10. Household Income<sup>25</sup>

Year	Household Income (W)	CPI	Household Income Based on CPI (W)
1965	8,450	6.6	128,030
1970	28,180	10	281,800
1975	65,540	18	364,111
1980	234,086	41	570,941
1985	423,788	53	799,600
1990	943,272	75	1,257,696
1995	1,911,064	90	2,123,404
1996	2,152,700	91	2,365,604
1997	2,287,335	93	2,459,500
1998	2,133,100	97	2,199,072
1999	2,224,700	98	2,270,102
2000	2,386,900	100	2,386,900
2001	2,625,100	103	2,476,509

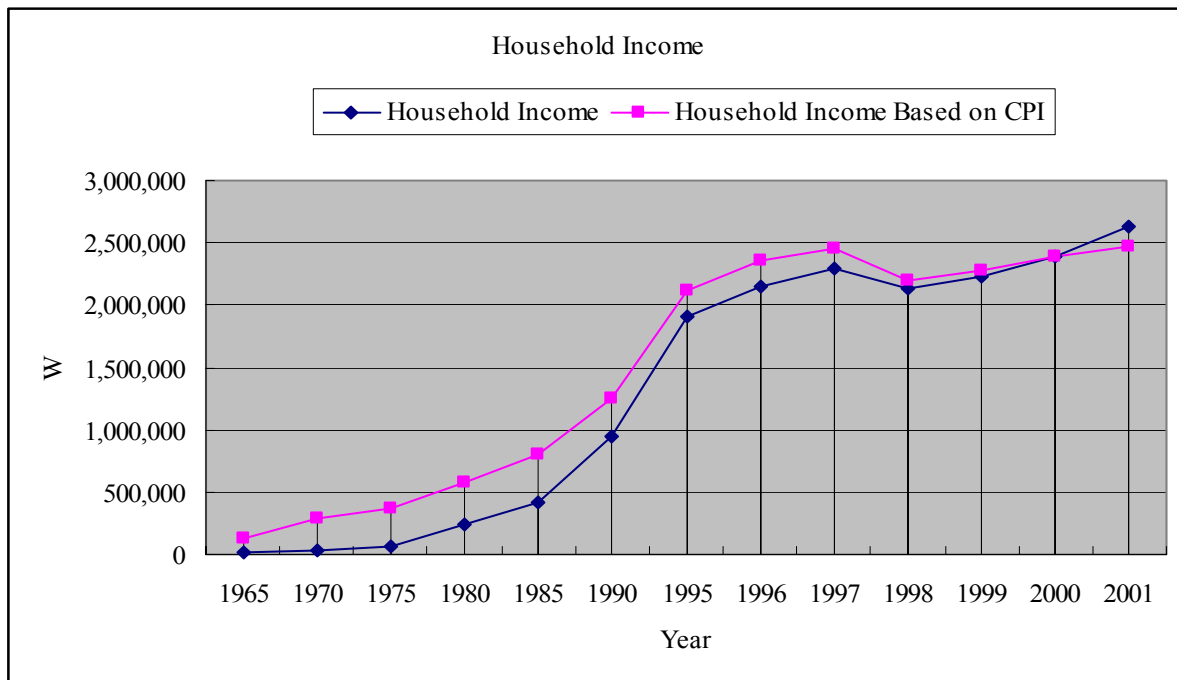


Figure 5.16. Household Income without and with CPI<sup>26</sup>

<sup>25</sup> CPI calculation, 2003; Monthly statistics of Korea, 2002

<sup>26</sup> Monthly statistics of Korea, 2002

In 1997, South Korea encountered an economic crisis and all income indexes showed a significant decrease. The growth of GNI per capita showed a drastic reduction from \$10,315 in 1997 to \$6,744 in 1998. Household income also decreased from W2,287,335 in 1997 to W2,133,100 in 1998. To verify whether the increase or decrease in income was truly meaningful based on inflation, salary and household income were recalculated with CPI with the same equation used previously (see Table 5.9 & 5.10 and Figure 5.15 & 5.16). The results showed the same trend as the statistics without CPI; however, the decrease in household income between 1997 and 1998 became more significant than the decrease without CPI. The increasing unemployment rate since 1997 supported the significant decrease in household income and sales in department stores (see Table 5. 11 and Figure 5.17). Unemployment rate before the crisis seemed to be very stable as around 2.0, but in 1998, the rate jumped to 6.8, which is 3.4 times more than before the crisis. As consumers' income significantly and rapidly decreased, they became price sensitive and developed value-seeking behaviors (Cha, 1998). Consumers could not afford to purchase the products that they had bought at department stores. Reduced consumer spending resulted in a significant sales decrease of department stores. These findings provide additional support the relationship between economic influence and consumer's demographics. On the other hand, as unemployment rate increased, department stores could reduce the labor cost because the supply exceeded demand in the labor market. This environmental influence directly affected the operation and subsequent evolution of department stores. This finding indicates that the direct relationship between the environmental influences to the evolution of department stores exists, which was not predicted in the CREM.

Political/legal environment. As an additional influence noted in the CREM, the changing legal environment was predicted to have affected the emergence of a retail institution type. Since 1989, the South Korean government gradually opened the market to foreign investors (Shin, 2002). The first step of the market opening started in 1989 with technology import and expansion of foreign investment but was limited only to imported items and wholesales industry. In 1992, the government started a second step of the market opening, allowing foreign companies to open less than 10 branch stores with a 1,000m<sup>2</sup> size limit. As the third step in 1993, foreign companies were allowed to open more stores with bigger sizes, 20 stores per company with a 3,000m<sup>2</sup> size

Table 5.11. Unemployment Rate<sup>27</sup>

Year	Unemployment rate
1965	7.3
1970	4.4
1975	4.1
1980	5.2
1985	4.0
1990	2.4
1995	2.0
1996	2.0
1997	2.6
1998	6.8
1999	6.3
2000	4.1
2001	3.4
2002	2.7



Figure 5.17. Unemployment Rate<sup>28</sup>

<sup>27</sup> Changes of Korean society and economy in 50 years, 1998

<sup>28</sup> Changes of Korean society and economy in 50 years, 1998

limit. As a final step, in 1996, the government opened the South Korean market to foreign investors without any limitation, because of the need for the acquisition of foreign currency due to the economic crisis. An exception to the open market was the ban on the importation of department stores to protect domestic department stores. As a result, many other retail institution types were imported (e.g., discount stores, warehouse clubs, hypermarkets, category killers), which appealed to consumers because of their low prices. Even though the government tried to protect department stores, the importation of other retail institution types created high competition (Cha, 1998). Discount stores became the strongest competitor to department stores because they carried a similar product mix and one-stop shopping, and offered regular low prices (Jeong, 2000). This legal environment, although designed to protect department stores, negatively affected department stores in their evolutionary cycle. These findings contribute support to several sections of the CREM. The legal environment opened a space for importation of new retail institution types in South Korea, which supports the relationship between the environmental influences and the emergence of a new retail institution type as is diagrammed in the CREM. In addition, as mentioned previously, opening the South Korean market increased competition within and between retail institution types, and the legal enforcement affected retail operations by restricting or allowing store size and the number of stores during a retail type evolution. Therefore, the relationship between environmental influences and the conflict and the relationship between environmental influences and the evolution of retail institutions were found from the data.

Other influences. In addition to the changing economic and political/legal environments, department stores encountered other environmental influences that affected their evolution. A high land cost in center business districts resulted in the lack of parking lots, which has always been a constraint for would-be consumers. Traffic congestion in metropolitan areas, where most department stores are located, seriously influenced the amount of consumer traffic to the stores (Cha, 1998).

#### Consumer Influences on Department Stores

Since South Korea's liberation from Japan in 1945, the number of middle class people in South Korea has increased, along with an increase in their income. The CREM predicts that

these consumers searched for variety of product, and purchased high fashion, high quality products. Accordingly, more consumers were able to pay higher prices for higher value, and had the desire to purchase quality products (Ji, 1995). In addition, with the increase in standard of living, consumers pursued both a high quality of life and an increased differentiation of themselves from others (Lee, 1996; Ok & Kim, 1997). Over this time, consumers have looked for ego-intensive products and services (Pak, 1998). These influences are tracked in the CREM by the relationships drawn among consumers' demographics, shopping orientations and consumers' preference for store/product attributes. To satisfy their needs and complete their ideal idiosyncrasies, consumers spending increased accordingly, and they sought an appropriate retail institution type. To meet these consumer needs, department stores were spirally changing including offering a higher level or image-forming products (e.g., highly recognized national brand-name products, high-fashion products, high-quality products). The adequacy of department stores to meet this consumer influence can be seen in patronage patterns. Until 1996, most South Korean consumers displayed strong patronage to department stores, regardless of their demographic differences (Gu, 1998); therefore, consumer influence on the evolution of department stores was supported by previous research. This direct relationship between consumer and the evolution of department stores was not proposed by the CREM. More details are explained in the following paragraphs. (Note: As previously mention in Chapter 4, the data for this consumer section has been analyzed previously by some researchers so that the format of data analysis appears more often as reviews of previous research rather than analysis of primary and raw data.)

The relationship of changing consumers and the corresponding changes in the spirally developing department stores was seen by reviewing the data on consumers' changes in demographics, shopping orientation and preference for store/product attributes and by comparing to the changes noted in department stores, described both here and in the evolution section. The major demographics studied in previous research of department store consumers were age, occupation, household income and education. In South Korea, department store consumers were mostly in their 20s and 30s (59.7%) (Cha, 1998). They were housewives (42%), employed (28%), or students (21%). In department stores, 23% of consumers had a household income ranging from \$2,000 to \$3,000 per month, and 26% had an income of more than \$3,000 per month (Lee, 2000). The majority of consumers (56%) had earned more than a college degree,

and 39% of the remaining consumers had earned more than a high school degree (Cha). Those consumers who usually shopped at department stores were in the upper and upper-middle socioeconomic classes, and were called “non-price-conscious consumers” (Kim, Choi, Song, & Jeon, 2000; Lumpkin & Burnett, 1991).

The frequency of visits to a department store was once a month (37.0%), or two or three times per month (43%) (Kim, 1999). This visit frequency can be used to illustrate the interrelationship between consumer demographics and shopping orientation. Before the economic crisis, consumers chose department stores as a major shopping store (53.7%); however, after the economic crisis, this number decreased to 40.3% (Cha, 1998). Before 1997, consumers spent an average \$250 per month at department stores. After the economic crisis, the majority of consumers (53.7%) spent less than \$250 per month. The main product categories of consumer purchases at department stores were apparel (63.0%), accessory (20.0%), and food (17.0%) (Kim). Consumers preferred purchasing high-involvement products (i.e., apparel, furniture, appliances) at department stores (Lee, 2000). After the economic crisis, consumers tended to postpone their purchase at department stores until products were on sale (Kim; Lee). Sales volume was thus significantly decreased, especially in sales of electronics (-18%) and cosmetics (-15.0%) (Cha). According to Um (1998), 41.7% of consumers reduced expenses for apparel, and 37.3% of consumers reduced expenses for leisure products after the crisis. As the number of personal bankruptcies increased, consumption of luxury products and high-priced foreign brand-name products decreased, and domestic product consumption increased by 84.9% compared to consumption prior to the economic crisis (Um).

The main reason for these changing shopping orientations was the decrease in income due to the economic crisis. These findings also contribute support to the product/situation variable that was introduced in the consumer phase of the CREM. However, rather than a cause that influences shopping orientation as the CREM proposed, the product/situation in the data was shown as the result of changed shopping orientation. The pattern observed in the data is that changes in shopping orientation due to changes in demographics influenced consumers' product/situation, as choosing different products or changing/selecting situations. The relationship between product/situation and shopping orientation, which was originally proposed in the CREM, has different meaning from the above relationship found from the data. The

product/situation in the CREM is a condition/proposition set ahead to find the consequence of shopping orientation, which was not found in this study.

Support for how changes in shopping orientation affected consumers' preference for store/product attributes were shown from the data collated from several previous research studies. Prior to 1997, the attributes that consumers considered most when they shopped at department stores were convenience (48.0%), credit (39.0%), fashion (38.1%), quality (33.6%), and price (15.7%) (Um, 1998; Ji, 1995; Kim, 1999; Lee, 2000). Several researchers found that service was the most important attribute, when consumers shopped at department stores (Jeong & Park, 1993; Kim). Other attributes were highly recognized brand-name products, store reputation, and knowledgeable sales personnel. Regarding apparel products, consumers were concerned most about brand names (34.8% in 1990, 42.9% in 1991, 53.4% in 1992) and design (43.5% in 1990, 42.9% in 1991, 32.8% in 1992) (The report for retail operation and trend, 1991, 1992, 1993). Consumers chose department stores for the department store type attributes. After the economic crisis, consumers changed their priority of attributes. Price was the most important attribute (30.6%), followed by quality (29.1%), fashion (27.6%), service (18%), and brand-name products (9%) (Um; Lee). Consumers changed their shopping orientation from brand loyalty to store loyalty. Regardless of brand names, consumers, who were brand loyal, shopped at any store that carried the value product they want to buy.

In summary, changing environmental influences affected consumers' demographics. This changed demographics made consumers adjust their shopping orientation appropriate to the changed demographics. Changed shopping orientation rearranged consumers' preference/priority of store/product attributes and choice of product/situation. This changed preference and priority directly affected the evolution of department stores, which is not designated in the CREM, and became the base of the emergence of PBH as the CREM proposed.

#### Overview of the Spiral Evolution of Department Stores

As a retailer adds a higher level of operational practices and increasing operation costs erode product prices, the retailer becomes vulnerable to its competitors. As a result, the retailer modifies or evolves its characteristics to survive in a highly competitive retail environment. This modification/evolution is caused not only by a conflict with its competitors (more information is expanded in the conflict section) but also by environmental and consumer influences as

discussed in the previous two sections. A mature retailer ultimately focuses on product quality and services rather than on prices, opening a space for a new low level of retail institution to enter. This evolutionary process was discussed in the CREM and the historical data to support this process was presented in the previous three sections.

Continuing with the comparisons between the historical data and the CREM, from 1997 to 2003 in South Korea, department stores took several paths to continue to evolve and to meet the challenges of competitors and the influences of environments and consumers. Some of the mature department stores upgraded their mature and traditional department store characteristics and their, middle-class, target market and became up-scale apparel specialty department stores, offering exclusivity in products and services. They accordingly upgraded their management systems by starting a loyalty program and consumer database marketing (Kim, 1998). These stores did not return to the original position in a cycle but went to a higher position than its previous peak position, as in a spiral. On the other hand, some mature retailers have focused on product prices by reducing operation costs to survive price competition, and returned to a position similar but different and lower from its original position where the wheel of evolution started, when they opened new discount department stores. This finding supports the spiral evolution described in the CREM in terms of operations, the retailer does not return to its original position because environments including its competitors and consumers evolved along with the retail evolution, and its characteristics and operating level changed to adjust these changing environments. However, in terms of the price level, the spiral points below the original position when the wheel started.

In South Korea, the economic crisis in 1997 changed consumers' shopping behavior and created high competition with newly introduced discount stores. Many department stores could not compete with these discount stores, which offered quality products with lower prices that consumers started looking for. Department stores lost their market share significantly. As a result, some department stores changed their retail type. They expanded their business into a multi-format business. They domestically and internationally opened discount stores, specialty stores, and telecommunication/catalog shopping formats, as means of providing an organizational support system among each other (Im, 2000). Some loss in one retail institution type was to be complemented by the profit of another retail institution type. On the other hand, some department stores tried to find a niche market and downgraded into a local mid-size

department store. Some department stores tried to differentiate themselves from other department stores by launching their private brands to achieve product competitiveness in an effort to be a special department store (Kim, 1998). Also, department stores started strategic corporations with other channel members to use operational variables to maximize the efficiency of management, production and marketing as a means of survival. Many department stores, which could not respond promptly to this changing environment and high-level of competition, had to go out of business. Therefore, the spiral wheel was supported as retail institutions disappeared when they returned or stayed at the same position as when the wheel started. These recent changes are compatible with the spiral evolution predicted by the CREM as one retail institution type was faced with competition from a new store type and was forced to close or change internally within operations and other organizational variables.

### Discount Stores in South Korea

#### Background

Discount stores have been a major retail institution type in the United States since the 1960s; however, in South Korea, discount stores were imported in the 1990s (Kim & Chen-Yu, 2003). The first discount stores opened in 1994 and quickly achieved significant financial success (Lee, 2000). Since the economic crisis in 1997, discount stores have diffused quickly into the South Korean retail market (Kim, 1999). From the late 1990s, the discount store has become the major retail institution type, rising in sales and popularity over the department store.

In South Korea, as in the United States, the discount store is a type of retail institution that continually sells products at prices lower than other retail institution types (Lee, 1997). Low prices are achieved by fast turnover, economies of scale, and reduction of operation costs (e.g., reduced advertisement costs, self-selection service) (Ji, 1995; Pak, 1998). Discount stores can maintain margins at 20% to 30% of retail prices, while the margin of a department store is, on average, 50% of retail prices (Ji; Kim, Choi, Song, & Jeon, 2000). Discount stores mainly carry food and convenience products for daily life. In addition, they carry apparel and electronics. Lower prices do not indicate lower quality in discount stores in South Korea (Lee, 2000). Most products in discount stores are national brand-name products (Lee, 1997; Lee, 2000), and, recently, discount stores are producing their own private-brand products.

Unlike traditional U.S. discount stores, food is the primary product category in discount stores in South Korea (Lee, 2000). The South Korean discount store is similar to discount supermarkets in the United States, and almost 50% of total sales come from the food category. While the more recent supermarkets coexist in the United States with the earlier and smaller forms of the discount store, there is no clear distinction between discount stores and supermarkets in South Korea (Kim, 2000). In another difference from U.S. discount stores, most South Korean discount stores operate in buildings with more than two stories, with extra stories for parking lots (Lee, 2000). Again, as with department stores, the discount store seemed to emerge in South Korean retailing at a more advanced maturity (beyond the entry phase) than the institution type did in the United States.

### Cyclical Evolution of Discount Stores

As proposed in the CREM and evidenced in the data, discount stores in South Korea started with low priced products as a competitive tool against the department stores. Discount stores in South Korea became popular within a short time period, especially after the economic crisis in 1997. The total sales data supported this evolution of popularity and growth of discount stores. The total sales of discount stores in 1997 were W3.35 trillion (The yearbook of distribution industry, 1998, 2001). By 2000, the total sales increased 3.3 times within three years to W11.2trillion. In 1997, the growth rate of total sales was 137% compared to that of 1996 (Lee, 2000). The average rate of sales growth was 32% since 1998. Sales of apparel products increased 900% and sales of do-it-yourself products increased 50% in 1997 (Cha, 1998). In 2000, continued growth was expected by trade analysts. The rate of sales growth was expected to be 30% every year, and the market share of discount stores was expected to be 11.3% of total retail sales in 2003 (Kim & Chen-Yu, 2003; Lee).

Even though the total sales of discount stores continuously increased from 1997 to 2002, the statistics of sales per store showed a conflicting trend. Before 1997, the sales per store were increasing; however, in 1998, the sales per store decreased by 0.5% (1997-W72.2billion, 1998-W71.8billion) (see Table 5.12 and Figure 5.18 & 5.19), even though the total sales increased from W3.35trillion in 1997 to W5.5trillion in 1998 (The yearbook of distribution industry, 1998, 1999). Also, a decreasing sales trend was shown in 2001. In 2001, the sales per store decreased by 2.2% from the sales in 2000 (2000-W84.9billion, 2001-W83billion). To further verify this

trend, the sales per store were recalculated with CPI using the same equation used previously. The negative trend was present before and after the recalculation, and the decreased amount in 1998 and 2001 compared to previous years actually became more significant with the CPI adjustment than the data without CPI (1997-W77.6billion, 1998-W74billion; 2000-W84.9billion, 2001-W78.3billion). When doing the comparison with the CREM, the reason for decreased sales per store might be a reflection of the general economic crisis and increasing competition; however, the competition is from the same store type and other existing store types and not yet from a new store type. As shown in Table 5.12 and Figure 5.20, the number of discount stores significantly increased as this type of store achieved a significant success. The number doubled between 1997 and 2000 (i.e., 1997-78, 2000-160). When examining the source of the competition for comparison to the CREM, data show that not only domestic discount stores but also foreign discount stores added to the level of competition. (Reasons for this influence are discussed in the legal environment section).

Table 5.12. Sales Per Store, Growth Rate of Sales Per Store, and Number of Discount Stores<sup>29</sup>

Year	Sales Per Store (W million)	Sales Per Store Based on CPI (Year 2000 Base)	Growth Rate of Sales Per Store	Number of Discount Stores
1995	57,570	63,967	N/A	25
1996	63,020	69,253	9.5	45
1997	72,200	77,634	14.6	78
1998	71,810	74,031	-0.5	90
1999	73,740	75,245	3.0	119
2000	84,900	84,900	14.7	160
2001	83,010	78,311	-2.2	N/A

<sup>29</sup> CPI calculation, 2003; The report for retail operation and trend, 1996~2001; The Yearbook of Distribution Industry, 1996~2002

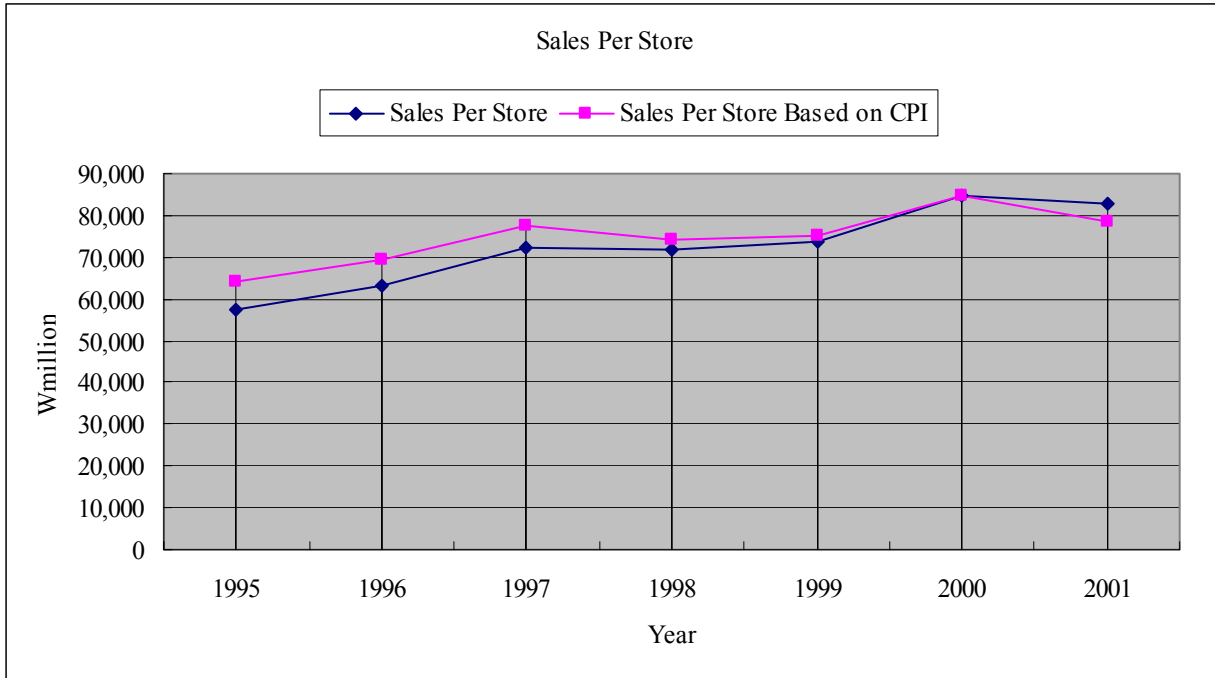


Figure 5.18. Sales Per Store without CPI and Sales Per Store Based on CPI<sup>30</sup>



Figure 5.19. Growth Rate of Sales Per Store<sup>31</sup>

<sup>30</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002

<sup>31</sup> The report for retail operation and trend, 1997~2001; The yearbook of distribution industry, 1997~2002



Figure 5.20. Number of Discount Stores<sup>32</sup>

Competition with department stores also affected the decrease in sales as department stores tried to lower their prices due to the economic crisis. This factor becomes important for the second dip in sales experienced after 1997. Even though consumers spent more money in discount stores, especially after the economic crisis, as the number of discount stores increased, the sales per store actually decreased. In addition to the increasing number of discount stores, the recovering economy might affect the decrease in sales in 2000. According to Lee (2000), the slowed growth rate of sales since 1999 (i.e., 26.8% in 1999, 25.7% in 2000, 23.2% in 2001, 22.5% in 2002) shows the decreasing popularity of discount stores as the economy has gradually been recovering. Therefore, while the total sales increased as predicted from the CREM, the sales per store did not increase due to increasing competition and an improving economy. The CREM proposed that the competition/conflict between retail institution types affected the evolution and this proposition is supported by the data. As an environmental influence, the recovering economy affected the operation of discount stores, while they were evolving. This new relationship was also found in the case of department stores. Therefore, the data indicate that environmental influences not only provided a base to open a new retail institution type, but also have continuously affected the evolution of existing institution types.

<sup>32</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2001

Additional measures of evolution of a retail institution type include profit, growth of profit, and operating costs (Gist, 1968; McNair, 1958). Even though the total sales continuously increased, discount stores did not achieve an increase in the profit rate for all years from 1996 to 2001. The profit rate decreased in 1998 by 0.1% from that of the previous year, and decreased by 0.3% in 2000 from that of 1999 (see Table 5.13, Figure 5.21, and 5.22). As profit can simply be calculated by the subtraction between total sales and costs (Kincade, Gibson, & Woodard, 2004), the costs must be the reason for decreasing profit. The profit rate did not increase as discount stores succeeded and matured, contrary to the process described in the spiral evolution of a retail institution type within the CREM. In other words, the profit rate did not decrease after the maturation of the discount store (i.e., entrance into the vulnerable phase), but decreased during the maturation. Several factors related to the costs and to the level of development of the discount stores upon introduction to South Korea may contribute to this unexpected trend. A business can make a profit by reducing operating expenses or by increasing sales volume (Kincade, Gibson, & Woodard, 2004). These two factors may work independently, in support of each other or in opposition to each other. The rising operating costs and reducing per store sales were both factors for the discount store during this period. Also, this trend provided further support that the discount store, as an institution type, was imported into the South Korean retail market as a “mature” retailer, although it was new to this market. As a mature institution type, the discount store began to exhibit characteristics of operational changes and other maturity growth patterns. As an indication of a mature retailer, its operating costs had already reached a peak. Two interpretations of this data seem possible. Discount stores began to enter the vulnerable phase as indicated by a drop in profit rate, or discount stores in South Korea began experiencing a drop in profit rate as a result of a vulnerability to other retail institution types.

The proposed decreases in profit, in conjunction with increased operating expenses, in 1998 and 2000 were supported by the increase in number of POS terminals installed per store, which eventually increased operating costs. The significant increases in 1998 and 2000 compared to the previous years are shown in the Table 5.14 and Figure 5.23. The decrease in profit in 2000 was also supported by the significant increase in the size of discount stores (see Table 5.14 and Figure 5.24). In 1999, the average size of a discount store was 8,695.2 m<sup>2</sup>. In 2000, the size increased by 150% as 12,622.5m<sup>2</sup>. The cost increased corresponding with the increase in size and contributed to the profit rate in 2000. Building new stores demands much

capital investment, including increased debt from financing of additional money, and tends to reduce short-term profitability of a business (Boyd, Walker, & Larreche, 1998). As another factor that might decrease the profit, the number of employees per store showed a significant increase from 154.6 in 1997 to 232 in 1998 (see Table 5.14 and Figure 5.25). This action too corresponded with the proposal that the discount stores evidenced the activities of a more mature store type. However, after 1998, discount stores tried to reduce employees so that they could reduce operating cost and provide low priced products, as often found in store types that are in the vulnerable phase.

Table 5.13. Profit and Growth Rate of Profit<sup>33</sup>

Year	Profit (%)	Growth Rate of Profit (%)
1996	12.8	N/A
1997	13.3	0.5
1998	13.2	-0.1
1999	15.1	1.9
2000	14.8	-0.3
2001	15.9	1.1

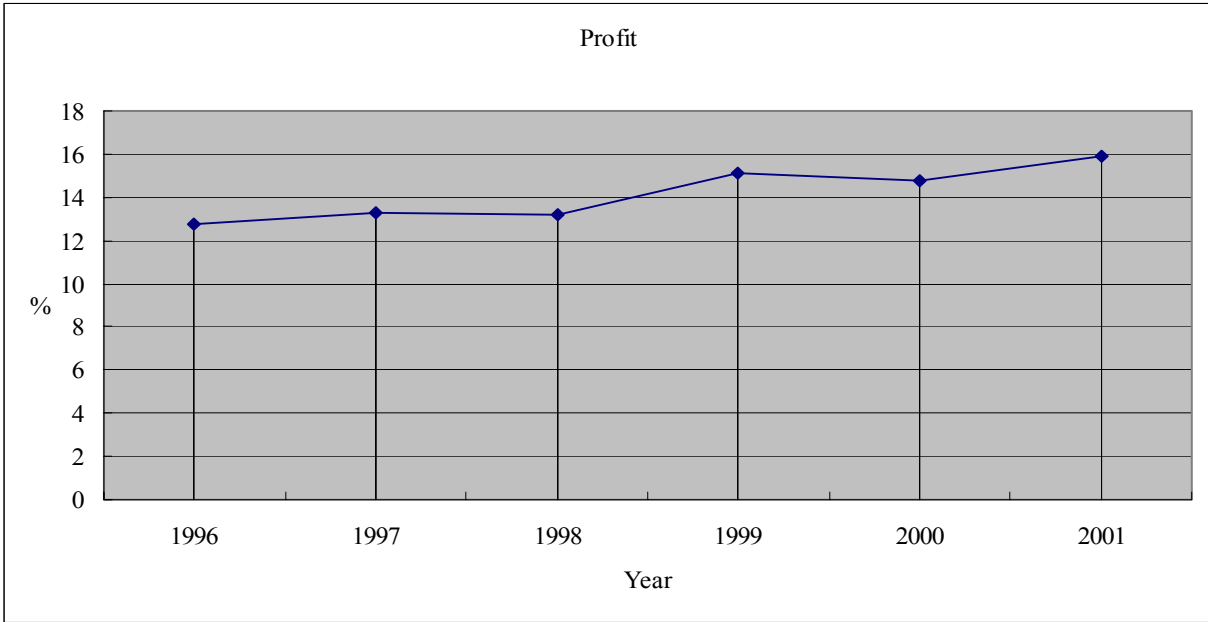


Figure 5.21. Profit Rate<sup>34</sup>

<sup>33</sup> The report for retail operation and trend, 1997~2001; The yearbook of distribution industry, 1996~2002

<sup>34</sup> The report for retail operation and trend, 1997~2001; The yearbook of distribution industry, 1996~2002

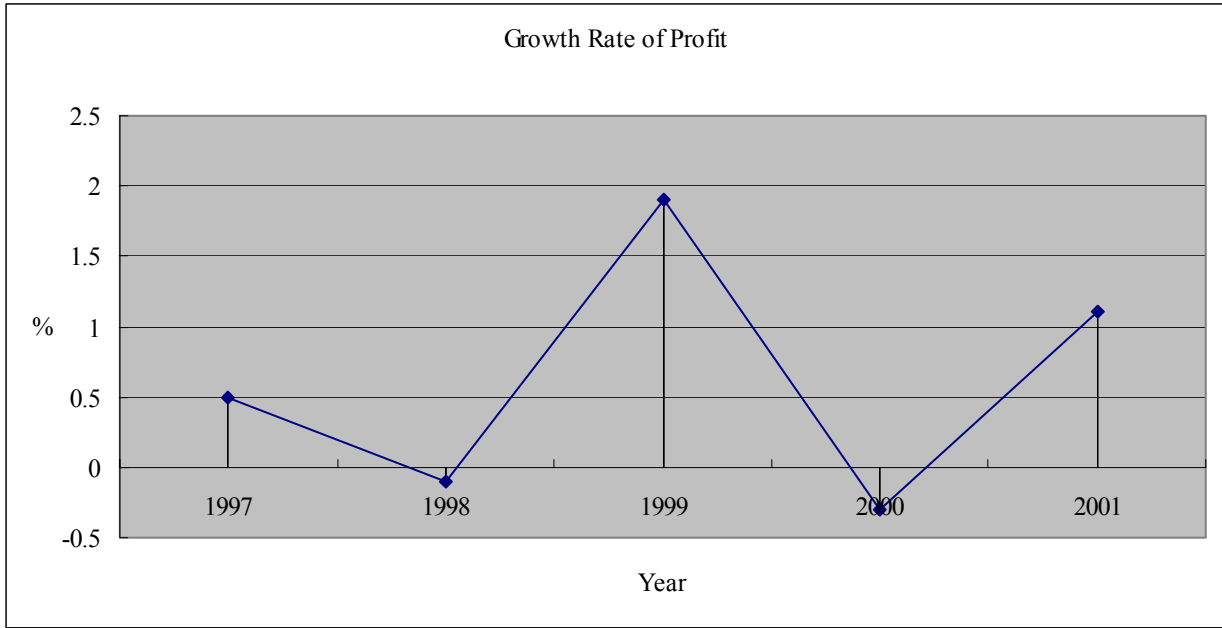


Figure 5.22. Growth Rate of Profit<sup>35</sup>

Table 5.14. Number of POS Terminals, Size, and Number of Employees Per Store<sup>36</sup>

Year	Number of POS Terminals Per Store	Size Per Store (m <sup>2</sup> )	Number of Employees Per Store
1995	N/A	6,204.0	136.8
1996	23.1	7,863.9	149.3
1997	27.1	8,169.2	154.6
1998	34.5	8,314.7	232.0
1999	34.8	8,695.2	210.0
2000	36.0	12,622.5	207.1
2001	35.0	13,526.7	202.2

<sup>35</sup> The report for retail operation and trend, 1997~2001; The yearbook of distribution industry, 1996~2002

<sup>36</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002

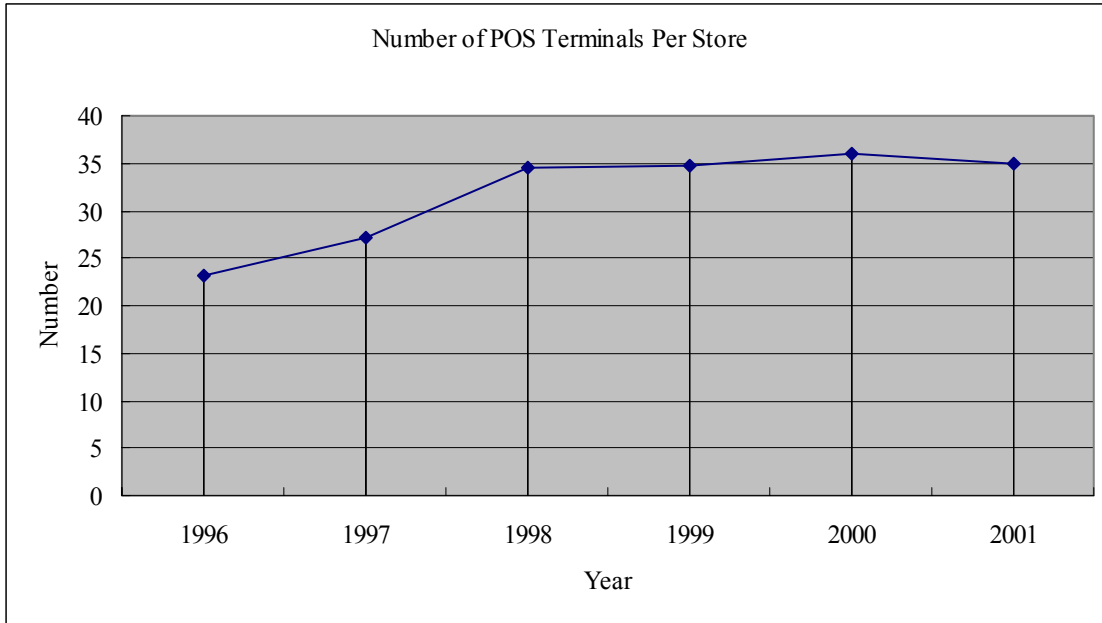


Figure 5.23. Number of POS Terminals Per Store<sup>37</sup>

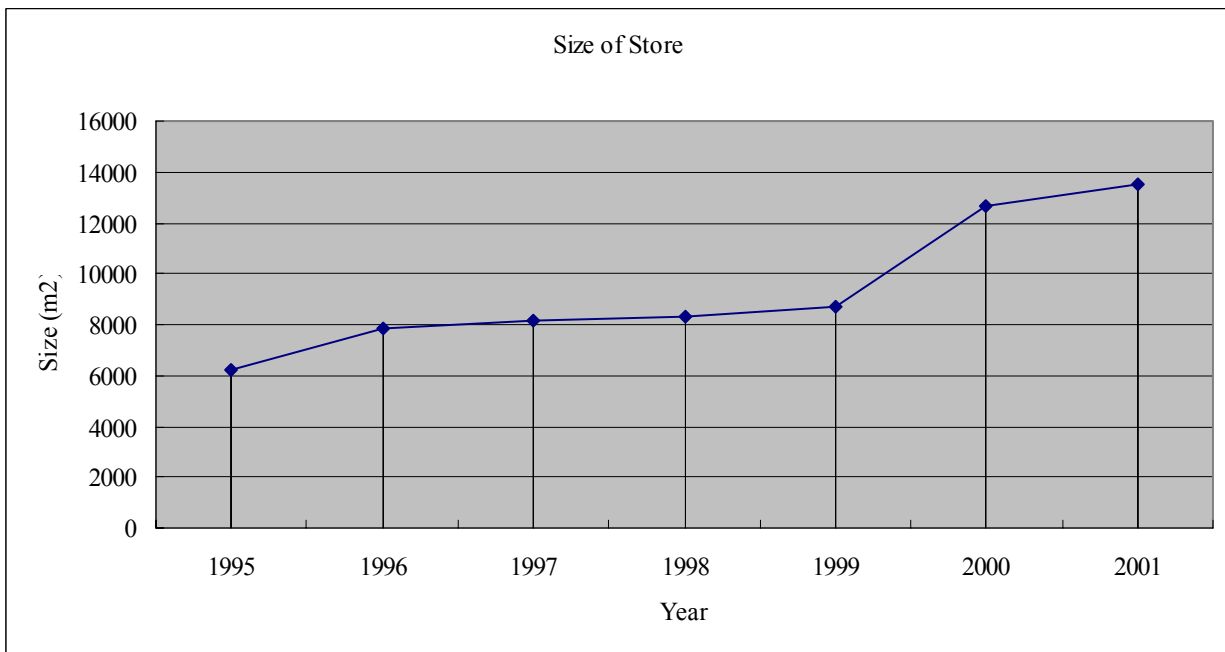


Figure 5.24. Size of Discount Store<sup>38</sup>

<sup>37</sup> The report for retail operation and trend, 1997~2001; The yearbook of distribution industry, 1997~2002

<sup>38</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002



Figure 5.25. Number of Employees Per Store<sup>39</sup>

The mature phase of the spiral in the CREM proposed that as a retailer matures, its operating costs continuously increase. Some factors, discussed previously, accounted for increased costs and decreased profit accordingly in 1998 and 2000. However, as Table 5.15 and Figure 5.26 show, even in the years that showed an increase in profit, operating costs continuously increased. In 1997, when the economic crisis occurred and discount stores became the most attractive retail store to consumers, discount stores achieved 137% of total sales growth, and they spent more on operating costs as shown by the steep slope between 1996 and 1997 in Figure 5.26. Operating cost seemed to increase continuously as predicted from the CREM. However, when operating costs were recalculated with CPI, a different trend was shown. The actual operating costs in 1998 and 2001 decreased. In 1998, some costs other than operating costs or other factors might have affected the decrease in profit. (The complexity of influences is further discussed in the next section.) In 2001, the decrease in sales due to high competition and a recovering economy might have affected the decrease in operating cost and profit. The CREM proposed that as a retailer matures, sales and profit increase as well as operating costs, however, the data showed that all variables decreased when environmental influences negatively interrupted the success of discount stores. Therefore, while the discount store spirally evolved in

<sup>39</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002

South Korea, environmental influences constantly affected the retail evolution, which the CREM did not predicted.

Table 5.15. Operating Costs<sup>40</sup>

Year	Operating Costs	Operating Costs Based on CPI
1995	3,706.4	4,118.2
1996	5,345.8	5,874.5
1997	7,086.4	7,619.8
1998	7,143.8	7,364.7
1999	7,275.1	7,423.6
2000	8,912.3	8,912.3
2001	9,090.2	8,575.7

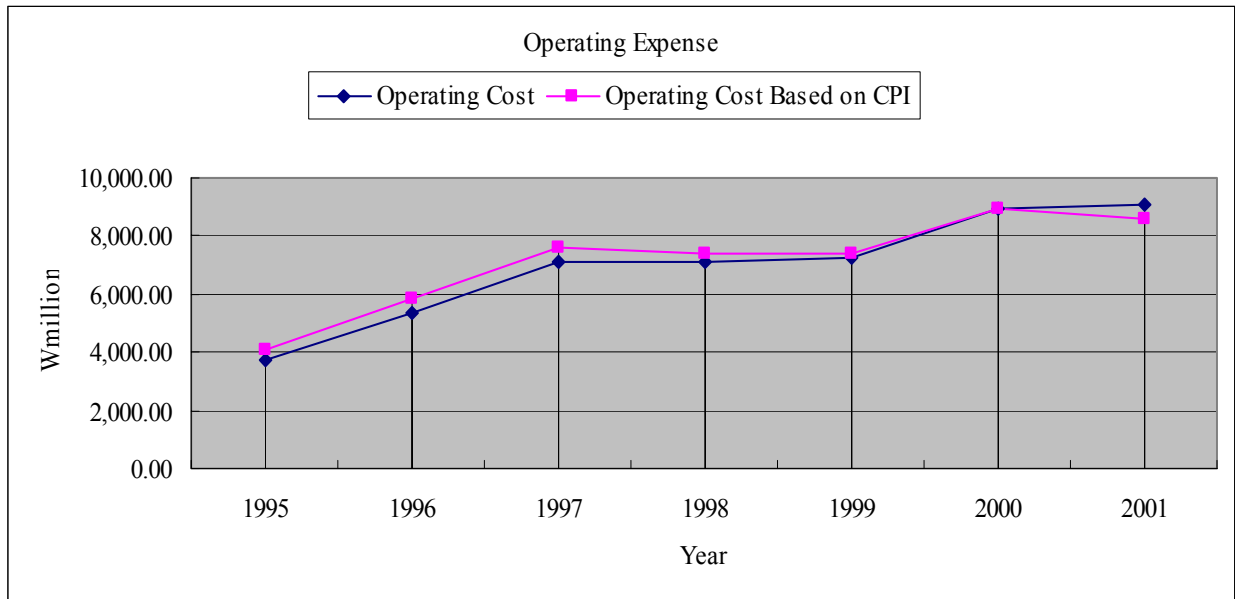


Figure 5.26. Operating Costs without and with CPI<sup>41</sup>

<sup>40</sup> CPI calculation, 2003; The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002.

<sup>41</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002.

As discussed in the department store section, labor and promotion costs contrasted with the trends of other environmental factors. The data in Table 5.16 and Figure 5.27 showed that the labor cost kept increasing except in 1997 and 2001. Even though operating costs increased in 1997, the labor cost was reduced by 2.0% compared to the previous year. Again, this supported the finding that the labor cost was not the major influence on the increase in operating cost; however, labor cost was the first operating cost with which discount stores responded to the negative environmental influence. Not all environmental variables were equal in impact or in timing of influence. Labor cost decreased in the year of the economic crisis (1997) but other costs statistically started decreasing in 1998. The reason for this reduction in the labor cost in 1997 is not clear because the number of employees and hourly payment only started decreasing in 1998 (1997-W2, 702, 1998-W2,587; see Table 5.17 and Figure 5.28). Even though low level of services and the low labor cost due to a small number of sales personnel are the representative characteristics of discount stores, the labor cost started increasing again, which follows the prediction derived from the CREM. However, in 2001, the labor cost decreased again by 2.0% compared to the previous year. This reduction might be caused by the improving economy of South Korea. Due to this recovering economy, the importance of price decreased, which is the most attractive attribute of discount stores, and ultimately the sales decreased from W84.9billion in 2000 to W78.3billion in 2001 (i.e., -2.2% decrease). The decrease in sales might have affected the labor cost in 2001. Reducing sales associate hours or numbers is a reaction, although often self-defeating, that is frequently used by stores for a quick response to dropping sales (Kincade, Gibson, & Woodard, 2004). In addition, even though discount stores achieved success, they might have reduced the labor cost due to a high unemployment rate. Since 2000, as the economy was improving, the payment to labor seemed to be increasing. However, the payment based on CPI shows a different trend in 2001. Even though the hourly payment seemed to increase in 2001, the hourly payment based on CPI decreased in 2001. Inflationary affects masked some of the trends in the data.

Table 5.16. Labor and Promotion Costs<sup>42</sup>

Year	Labor Cost (%)	Promotion Cost (%)
1995	34.1	5.5
1996	38.2	6.6
1997	36.2	7.0
1998	36.4	5.6
1999	37.3	7.4
2000	37.7	7.1
2001	35.7	8.3

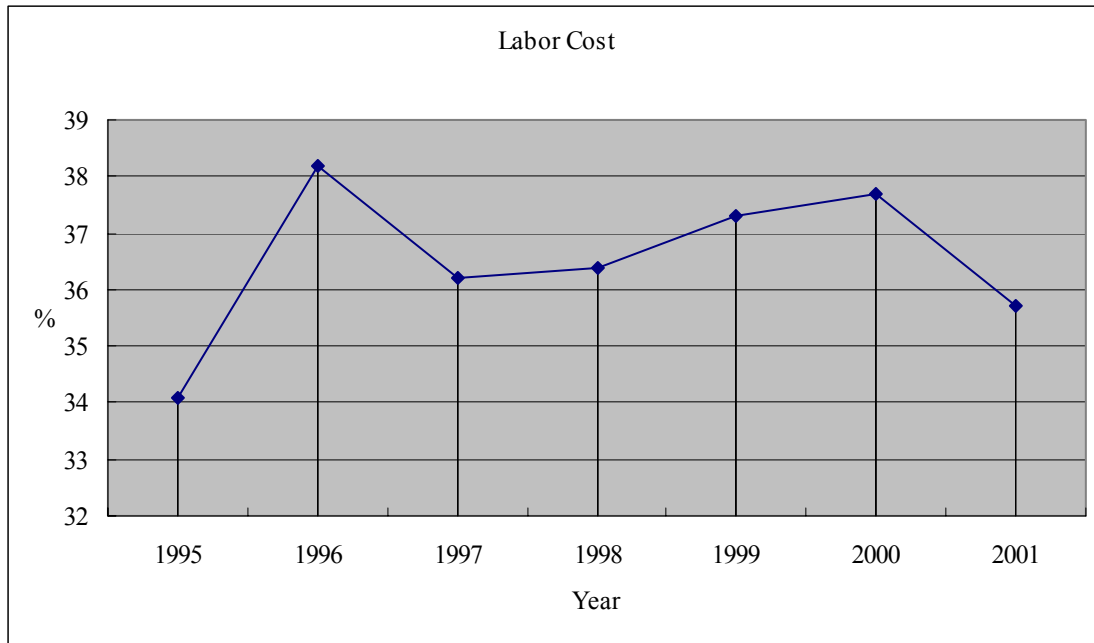


Figure 5.27. Labor Cost<sup>43</sup>

<sup>42</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002.

<sup>43</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002.

Table 5.17. Hourly Payment<sup>44</sup>

Year	Hourly Payment	Hourly Payment Based on CPI
1995	2,381	2,645.6
1996	2,407	2,645.1
1997	2,702	2,905.4
1998	2,587	2,667.0
1999	2,447	2,496.9
2000	2,723	2,722.5
2001	2,849	2,687.3

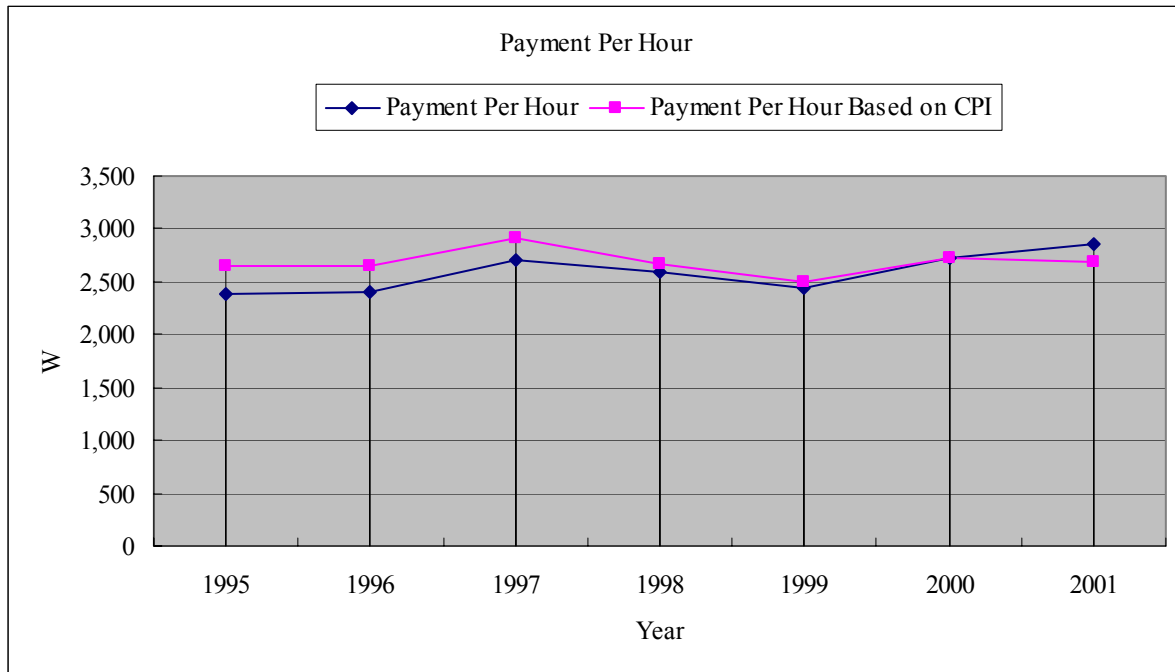


Figure 5.28. Payment Per Hour without and with CPI<sup>45</sup>

Promotion costs rapidly decreased in 1998; however, promotion costs generally increased even when sales and operating costs decreased (see Table 5.16 and Figure 5.29). The decrease in 1998 was probably reflective of the drop in sales and the general economic crisis. A retail institution often reduces, although inappropriately but necessarily, promotion cost when sales drop that other retail institutions also experience at the same time. In contrast, promotion

<sup>44</sup> CPI calculation, 2003; The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002.

<sup>45</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002.

activities are often increased, which tends to increase the promotion cost to attract more consumers, when a retail institution is having a difficult time due to high competition. As previously noted, the numbers of discount stores rapidly increased since 1997, and the improving economy encouraged consumers return to department stores. Contrary to the CREM, promotion cost decreased when the economic crisis affected the entire South Korean retail industry, but when a specific retail institution did not compete with its competitors well enough to achieve positive sales growth, the promotion cost increased, which was predicted in the CREM.

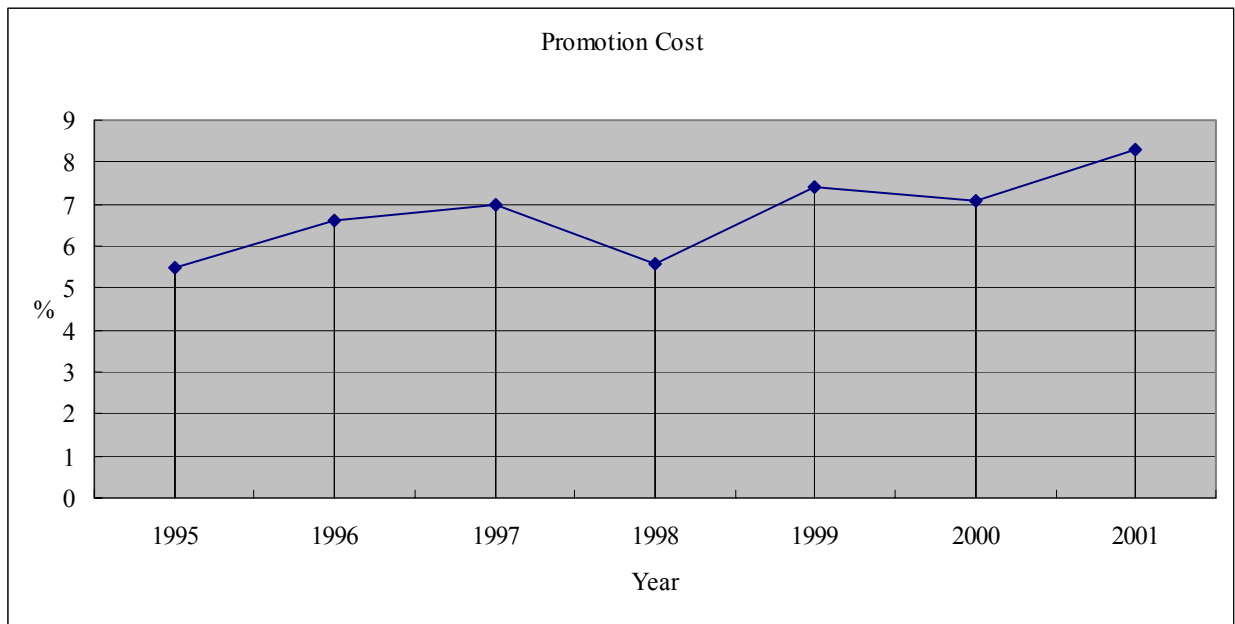


Figure 5.29. Promotion Cost<sup>46</sup>

Therefore, even though the characteristics of discount stores dictated a small number of laborers and minimum promotion to reduce operating cost, these costs kept increasing, as the evolution portion of the CREM proposed. However, when environmental influences (i.e., economic crisis, recovering economy, competition) interrupted the growth of discount stores during the mature phase, the costs decreased. Contrary to the other cost factors, management used labor cost sensitively and quickly to respond to the environmental influences. Promotion costs increased when environmental influences negatively affected the growth of a retail

<sup>46</sup> The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002.

institution. With these findings, the CREM was partially supported by the labor and promotion costs.

### Environmental Influences on Discount Stores

Environmental influences in the CREM were previously identified and discussed in the department store section. In a similar comparison, changing environments are predicted and supported as major influences to the emergence and success of discount stores since the mid 1990s. Similar data about the changing environments shown in the department store section were also used with discount store analysis. As with the results from the department store analysis, data from this section has been previously examined by some researchers so that both primary and secondary data are used in the following discussion.

Social environment. Discount stores were opened in the center business district of cities at their introduction in the mid 1990s. At that time, increasing population, within metropolitan areas, supported physically sizeable retail institutions, such as large discount stores in contrast to the traditional, small “street stores” or local department stores (Gil, 1996; Lee, 2000; Moon, 1999). However, the population movement into the cities started decreasing as of 1995 (see Figure 5.10), and people started moving out of the cities into suburban areas to avoid high land costs and traffic congestion. Discount store businesses quickly opened stores in these suburban areas, whose population increased rapidly, to achieve all the benefits of a pioneer retailer (e.g., high market share and increased store patronage). This change occurred at the similar time of the economic crisis; therefore, during and after the economic crisis, discount stores served consumers not only in metropolitan areas but also in suburban areas. For this reason, the social environment is proposed to have affected the location decision of discount stores, and the consumer coverage that was broader than department store markets helped the profitability and growth of discount stores. Therefore, when the data is compared to the model, the environmental influences were found to be related directly to the evolution process of discount stores, a relationship that the CREM did not include.

Technological environment. Gist (1968) mentioned that advanced technology in mass communication enabled consumers to conduct more self-information searches, which ultimately

decreased the importance of a salesperson. Due to changes in advanced technology, a new retail institution could emerge by lowering operating cost through reducing labor cost. Discount stores could reduce the number of laborers because consumers know the product that they want to purchase through their information search. Self-service becomes more acceptable when these conditions exist. Increasing consumers' knowledge through advanced media reduced the importance of salespersons, and discount stores fully exploited this benefit because they carried general consumer goods, which do not need an expert level of knowledge. In addition, highly automated operating systems have been developed and installed in discount stores, which contributed to the reduction in the number of laborers and the labor cost. Similarly, as management systems improved, discount stores in South Korea applied advanced management practices from Western countries to their stores to offer store environments comparable to Western countries within a short time period (Lee, 2000). For example, adoption of advanced technology (e.g., computerized production system, information network technology, point of sales system, electronic data interchange, computer database) made effective and efficient management possible, in addition to the reduction of prices (Gil, 1996; Kim, 1998). As proposed in the CREM, the technological environment provided a base for the operation of a new retail institution.

According to Gist, high mobility due to the increase in auto ownership also positively influenced suburban retail institutions. Increasing car ownership and developing transportation systems allowed consumers to more easily reach discount stores, which were located both inside and outside of metropolitan areas (Kim, 2000). This technology environment had the potential to improve the discount store's market growth and its dominance over the the department store. Therefore, the technological environment also influenced, while discount stores were evolving, which the CREM did not predict.

As discussed in the department store section, the number of car registrations and home/cellular phone registrations rapidly increased since 1990s. Operating costs were supposed to increase continuously along with the installation of developing technology and utilization of mass media for promotion in discount stores according to the CREM; however, operating costs decreased in 1998 and 2001. Sales per store also showed the same trend of decreasing in those years. Therefore, the technology environment contributed to increasing the operating costs and sales, but was not the major cause of unstable figures of operating costs and sales because

regardless of increasing technology adoption and its cost, operating costs and sales decreased. Other environmental influences might have more impact on the operation of discount stores than the technology environment.

Economic environment. In 1997, the economic crisis in South Korea resulted in the increase of prices of imported goods and raw materials, due to the increase of taxes and the unfavorable exchange rate (Kim, 1999). Accordingly, prices of products for daily life increased. For example, prices of oil, flour, sugar, and gas were imports on which South Korea heavily relied, due to its lack of natural resources, and prices of these products rose dramatically. As a result of the economic crisis, the unemployment rate also increased significantly (1997-2.6, 1998-6.8). In turn, consumer income considerably decreased. The GNI showed a slight decrease in 1996 and then, a steep decrease in 1997 (see Figure 5.14). Household income also decreased in 1997 (see Figure 5.16). With diminished incomes, consumers became highly sensitive to price and started looking for low priced products. However, they did not want to give up product quality and the shopping environment that department stores provided. Korean-style discount stores met these consumers' needs and satisfied their wants. Discount stores were accepted by South Korean consumers, who wanted low-priced but quality products in their financially difficult time. This acceptance was demonstrated in the growth of sales of discount stores during this period (see Figure 5.30). Further support for this finding was noted in that manufacturers and some department stores saw discount stores as the best place to sell their over-stocked inventories, and some manufacturers started producing products for discount stores only (Gil, 1996). Consumers, who were accustomed to the products provided from department stores, could purchase similar products in discount stores. This made consumers feel safe to purchase products in discount stores and ultimately increased consumers' visits and sales.

The economic crisis since 1997 favored the growth of discount stores in comparison to department stores. However, with the beginning of the economy recovery, discount stores could not expect the same sales growth rate as that during the crisis. In a positive comparison with this influence and evolution, sales per store started decreasing in 2001.

In summary, the results of the data analysis indicated that the economic environment directly influenced the operation of discount stores in terms of product prices, taxes, labor cost by unemployment rate, and sales. In addition, the economic environment influenced consumers'

income (i.e., demographics) and in turn, the changed income affected their shopping orientation. These relationships were not proposed in the CREM.

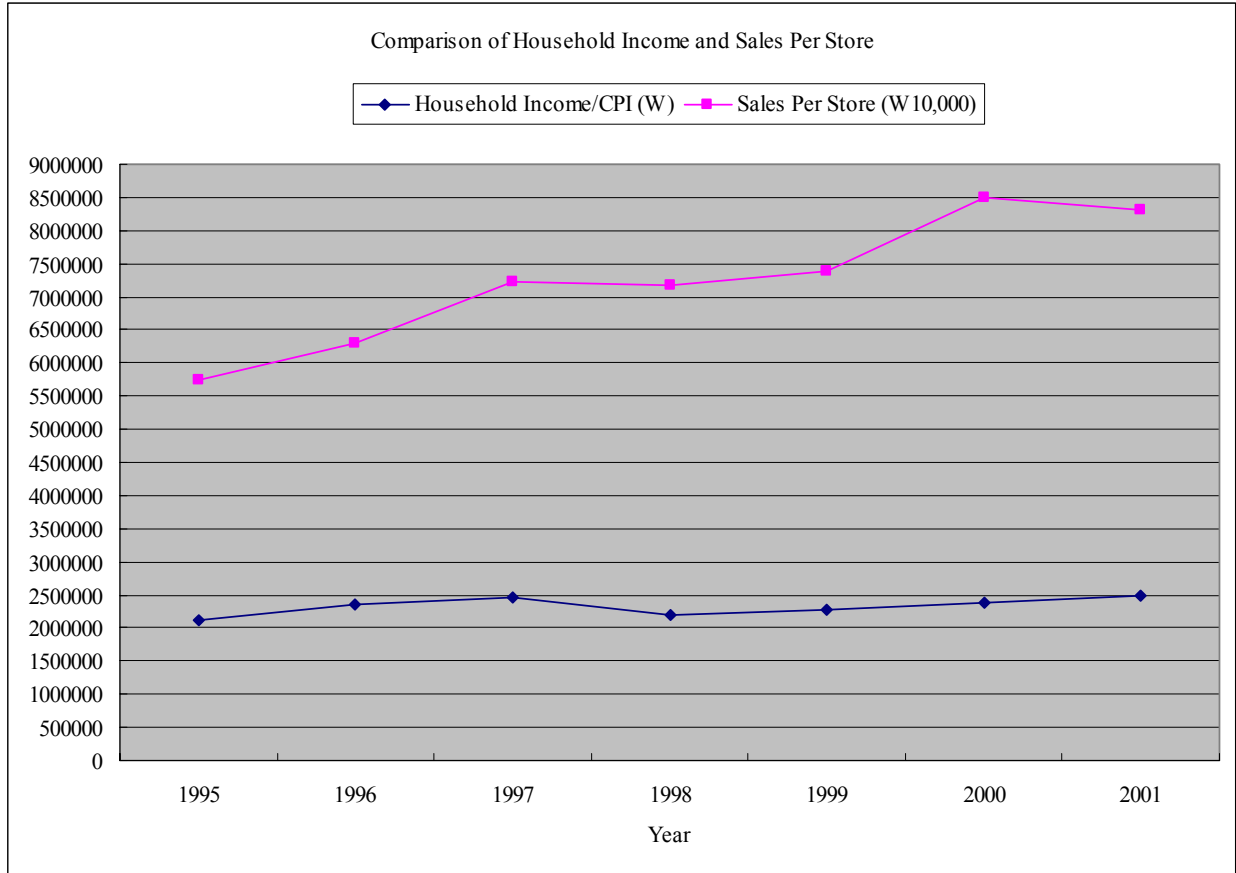


Figure 5.30. Comparison of Household Income and Sales Per Store<sup>47</sup>

Political/legal environment. As found in the department store section, legal and governmental environments corresponded to changes in retail institutions. During the late 1990s, changes in legal and governmental policies were also potential influences to the growth of discount stores. Prior to the late 1990s, foreign discount companies were restricted within South Korea in terms of store size, number of stores, product categories, and real-estate ownerships. At the same time, the lack of foreign currency was a major cause of the economic crisis. When the government recognized the urgent need for the acquisition of foreign currency, it opened the

<sup>47</sup> Monthly statistics of Korea, 2002; The report for retail operation and trend, 1996~2001; The yearbook of distribution industry, 1996~2002

South Korean retail market to foreign investors (Gil, 1996). Foreign discount companies were eager to participate in the South Korean market, which was one of the biggest markets in the world. In the 1990s, South Korea was the world's ninth largest economy, with 47 million residents, and one of the most densely populated countries in the world (Han, 1997; Mammarella, 1997a). When most of the barriers, previously created by South Korea's governmental policies toward foreign investments, were removed, foreign companies started opening their stores in South Korea (Kim, 1999). Because of this increasing competition and recovering economy, discount stores were required to modify or evolve their characteristics to adjust to these changing environments, characteristics indicative of the trade-up (or mature) phase of evolution.

For example, some discount stores launched their own private brand products to differentiate themselves from other discounters (Lee, 1997; Lee, 2000). (More store adjustment will be discussed in the spiral evolution section.) The political/legal environment allowed foreign discount stores to open their business in the South Korean market, which supported the proposition of the CREM, and resulted in high competition due to an increasing number of discount stores. This high competition urged domestic discount stores to change their characteristics to compete with foreign discount stores, which have more attractive store/product attributes and advanced management systems and skills. The influence from the political/legal environment to the conflict was not predicted in the CREM.

#### Consumer Influences on Discount Stores.

Before the economic crisis in 1997, consumers in South Korea were accustomed to shopping at supermarkets (35%) and at department stores (31%); whereas, only 13% to 22.4% of consumers shopped at discount stores (Cha, 1998; Kim, 1999). These shopping patterns were also supported by the sales volume share of discount stores versus other store types. The discount store sales volume was 1.3% of total retail sales, while that of department stores was 14.2% until the mid 1990s (Pak, 1998).

Prior to the economic crisis of the 1990s, consumers mainly considered product quality (41.0%) when selecting supermarkets and department stores. After the economic crisis, the discount store became the major retail institution type (87.0%) due in a large part to the significant reduction of consumer income. In the study of Um (1998), 76.5% of consumers

answered that their income had been reduced since 1997, and 89.3% of these consumers answered that their income decreased about \$1,000 per month. The growth rate of income in 1997 was 7%, but in 1998 the growth rate of income was -14.5%. The Consumer Consumption Index for South Korean consumers at the fourth quarter of 1997 was 45.6, but at the first quarter of 1998, decreased to 27.7 because of a simultaneous decrease in consumer income and an increase in product cost (Um). In 1998, the decline continued and growth rate of consumer consumption decreased by -13.0% (Kim, 1999). The distinction between the wealthy and the poor became very significant, as the middle class became the lower class (Kim, Choi, Song, & Jeon, 2000). Consumers became very cautious about spending their income. Several authors noted that the economic crisis changed South Korean consumers' behavior (Lee, 2000; Moon, 1999; "Net Sales growth," 1999).

Consumers began to seek lower-priced products as they became more sensitive to price. More consumers planned their spending before a purchase and sought value for price. The discount store, with its characteristics differing from department stores, satisfied these consumers' needs. Before the crisis, Kim and Lee (1994) found that price-conscious consumers were highly concerned about economics, time, and convenience. Consumers with these concerns consisted of people who generally had low incomes, low education, and were female over the age of 40. However, Jin (1998) found that, after the economic crisis, consumers in many social classes became price-conscious regardless of demographic differences in income level, age or education. According to "Discount Stores" (1997), 41.6 % of discount store patrons were 31 to 40 years old. This proportion was an increase of 3.8 % compared to the previous year of 1996. The next largest age group included those 21 to 30 years old, and accounted for 22.9 % of patrons. The change for this group was an increase of 2.9 % compared to 1996. In the past, elderly shoppers, considered an economic risk for retailers, were the major consumer group for discount stores; however, during and immediately following the economic crisis, even the young age groups, who traditionally have had a low level of economic concern, reported that they enjoyed shopping at discount stores. These young consumers were called smart shoppers, dealmakers, intelligent consumers, professional consumers, or value-oriented consumers (Mammarella, 1997b). In the post crisis period, consumers in their 20s and 30s had the highest satisfaction rating, over other age groups, with discount stores. The majority of these consumers (68.6%) had earned a college degree, and 40.5% of consumers were white-collar workers (Gong,

1999). As the number of working women increased, marketing strategy for discount stores increasingly emphasized the need to make shopping both timesaving and convenient (Kim & Kim, 1995). These findings alter the processes described in the CREM. Rather than a direct influence of environments to consumers' preference for store/product attributes, environmental influences affected consumers' demographics and in turn, these changed demographics affected consumers' shopping orientation.

According to a study of the counter strategy for domestic retailing to respond to changing environments, immediately after the economic crisis, consumers reported that product prices were the most important attribute (63%), when they selected a retail type (Kim 1999). Consumers became more involved in searching for products more appropriate to their income level (Kim 1999; Lee, 1996). According to a study conducted by Gu (1998), most discount store patrons were satisfied with the price (70 %), the wide range of merchandise (63.2 %), return policies (62.4 %), and customer service (61.7 %). Satisfaction with quality for price (60.6 %) and merchandise (58.1 %) was somewhat lower. In another study, the most important variables, which affected consumers' satisfaction in discount stores, were product price (35.5%), product variety (15.7%), product quality (12.4%), and parking availability (11.6%) (Gong, 1999). According to Sul, consumers attracted to discount stores were highly satisfied with payment options, a clean environment, and customer service, in order of decreasing satisfaction. Many researchers agreed that convenient locations, low prices, wide assortment, large store sizes, and one-stop shopping were the top five important attributes of discount stores (Koh, Park, & Lee, 1997; Mammarella, 1997b; Park & Lim, 1996; Sul, 2000).

Consumers evaluated that the prices of food, appliances, and convenience products at discount stores were cheaper than other retail institution types (Sul). Consumers mostly purchased food (43.1%), convenience products (19.0%), and shoes/apparel (3.2%) at discount stores. Most consumers used their own vehicle (70.4 %) because they purchased a large quantity of goods in a single trip. These findings show that the changes in consumers' shopping orientation influenced consumers' preference or priority of store/product attributes, which is designated in the CREM. As discount stores provided store/product attributes that met the changed consumers' preference, the number of consumers who used discount stores increased. This finding provides support for the process that consumers influence the evolution of a retail type as well as competition, which was not included in the CREM

However, with the recovering economy, frequency of visit and amount of spending at discount stores seems to be decreasing. Although discount stores stay open late in the evening and are open seven days a week, the number of shopping trips and amount spent have changed in the past two years. In 1997, 38.1% of consumers shopped at discount stores four to eight times per month. In 2000, 44.3 % shopped two to four times per month, and 32.3% shopped five to ten times per month (Sul, 2000). In 1997, 42 % of consumers spent 50,000 won (US \$42) to 100,000 won (US \$83) per visit. In 2000, 35.8% spent 30,000 won (US \$25) to 50,000 won (US \$42) per visit, and 34.8% spent 50,000 won (US \$42) to 100,000 won (US \$83) per visit (Gu, 1998; Sul). As found in the previous sections, continuously changing environments influence consumers' demographics and in turn, consumers' demographics affect their shopping orientation.

#### Overview of the Spiral Evolution of Discount Stores

As environments continued to change, discount stores needed to respond appropriately by changing their store attributes. Favorable environments increased the growth of the discount store type but have then increased competition not only among discount stores but also among all retail institution types in South Korea (Kim, 1999). As many discount stores have opened since the economic crisis in 1997, the South Korean retail market has become saturated. High competition and recovering economic conditions negatively influenced the sales growth of discount stores. This finding was partially in support of the processes discussed in the CREM. Competition as described in the CREM affected the evolution of discount stores. Continuously changing economic environments influenced the evolution, but additional relationships among these variables were supported as discussed in the previous sections.

Although discount stores have been in South Korea for over five years, many discount stores still lack adequate management systems and skills. For example, lack of an inventory management system, lack of non-systemized product order and display, unstable relationships with manufacturers, and lack of operation systems are prevalent problems with this retail institution type (Jeong, 2000; Lee, 1996; Lee, 2000; Ok & Kim, 1997). The reason might be the gap between the management system and skills in developed countries and in developing countries. The import of the system from advanced countries is not always applicable in the developing countries. Because of the different retail environments, some systems may be difficult to implement. Cultural differences in adoption of technologies and management changes

are well documented in other fields (Engle, Blackwell & Miniard, 1995; Sethi, 1971). Due to lack of management systems and “know-how”, operating costs have generally increased except for a few years as discussed previously (Jeong, 2000). Operating costs increased from W3.7billion in 1995 to W9.1billion in 2001. The operating costs increased almost 250% within 6 years, resulting in the increase of retail prices of both imported and domestic products. Other evidence of inadequate operating systems is that product flow became unstable in the early 2000s (Lee, 2000). Therefore, not only the retail maturation but also the lack of operation systems and skills affected the increase in operating costs. According to the phases diagrammed in the CREM, discount stores now needed to be renovated to differentiate themselves from their competitors including other domestic and foreign discount stores and department stores (i.e., conflict between  $R_1$  and  $R_2$  in the Figure 4.1). The data supports this need for change as predicted in the CREM. Other data that provide a clue for the need of change is that when the economy has recovered, consumer preference for discount stores seemed to be decreasing, as shown in the decreasing sales volume. In addition, sales proportion of some product categories show inefficiency regarding the space allocation in discount stores (e.g., apparel product - around 10% out of total sales), and consumers’ satisfaction with quality and product assortment was somewhat low (Gu, 1998).

To be competitive, discount stores should be evolving and changing their characteristics (i.e., spiral evolution of  $R_2$  in the Figure 4.1). Further evidence of this phase orientation to the evolutionary process is that discount stores have reorganized their merchandise assortment, and are offering more high-quality merchandise and providing products with up-to-date fashion trends and good value, in addition to providing lower-priced products (Kim & Chen-Yu, 2003; Lee, 2000). Some discount stores launched their own private brands. The wheel of the discount stores has started and is expected to be a spiral evolution according to the CREM (see Figure 4.1).

#### Conflict between Department Stores and Discount Stores

The CREM proposes that while two types of retail institutions individually and spirally evolve, they influence each other as a competitor (i.e., conflict between  $R_1$  and  $R_2$  in Figure 4.1). At some point in this evolution, these two institutions are perceived by consumers as conflicting.

Consumers find that they are not satisfied with either of these two retail institutions. In addition, the two institution types may be losing profit rate, decreasing in market share, or otherwise exhibiting loss of financial success. Because of the conflict, according to the CREM, a new retail institution emerges by combining the characteristics of two retail institution types or by creating new characteristics that better fit to changing environments and consumers' tastes.

Verification of this CREM process was sought through the constant comparison method in evaluating the data from South Korean retailing and the CREM. Several authors have examined conflict between retail institution types in previous literature and have noted multiple variables that could be used in this examination. Oren (1989) selected the following factors to show the differences between retail institution types and originate the conflict: fulfillment process, prices, trading area, product variety, inventory required, communication medium, delivery time, marketing concept, type of relationship with other channel members, segmentation efficiency, segmentation size, and value of customer. To identify the conflict between retail institution types, Levy and Weitz (2000) also compared characteristics of retail institution types and selected services (e.g., personal shopping, credit, in-store baby sitting, delivery), product variety and assortment, prices, sizes, SKUs, location (e.g., center business district, out of urban area), and organizational structure (e.g., number of staff and administrative positions, a structure or steps of administrative/supervisory).

In South Korea, department stores and discount stores have been competing with each other since the economic crisis because both department stores and discount stores have unique characteristics that differentiate each from the other. Many of the variables used in previous studies can be examined in evaluating the data collected about the retail situation of South Korea (see Table 5.18). For example, the price strategy in department stores is middle to high level, while that of discount stores is as low as possible. Department stores in South Korea mainly focus on a high level of services (e.g., educated sales people, personal credit, delivery, gift wrapping) and facilities (e.g., bank, playground, exhibition, hospital, hair shop) to serve customers, who pay for both merchandise and service (Lee, 1996). In addition, consumers expect high levels of quality in department stores. On the other hand, discount stores in South Korea minimize services and facilities and try to keep the quality acceptable compared to the price (Ji, 1995; Pak, 1998). Department stores carry more variety and deeper product lines than discount

stores, especially within apparel classifications. Discount stores mainly carry high turnover commodity goods for daily life (Ji, 1995).

Table 5.18. Comparison of Characteristics between Department Stores and Discount Stores

<b>Characteristics</b>	<b>Department Stores</b>	<b>Discount Stores</b>
Price	High price to average	Low price
Service	Various services	Self selection service
Quality	Medium to high product quality	Good quality
Variety	Various	Less various
Assortment	Deep to average	Average to shallow
Promotion	Various promotion	Minimum promotion
Location	Center business district	Out of center business district
Margin	High margin 50%	Low margin 20-30%

Department stores use various types of media to promote stores and products, and these high promotion costs are included in product prices, while discount stores try to reduce the promotion costs so that they can focus more on low prices, from low operating margins. In addition, discount stores minimize laborers, and succeed in having one-fifth of the number of laborers as used in department stores, again to keep the price low (Lee, 2000). Department stores are mostly located in a center business district, while discount stores are mostly located outside of a center business district (i.e., newly developing suburban). To cover the high land cost for this downtown location, additional costs contributing to high margins were necessary for department stores. Department stores usually keep around 50% of retail price for a margin to cover all costs, while discount stores can manage with 20 to 30% margins (Ji, 1995). These findings support the CREM where it shows that two retail institution types can simultaneously exist with differing characteristics.

The data were examined to determine if the social, technological, economical and legal environments favored department stores, to determine when these environments became an obstacle or a negative environment for the growth of department stores, and to identify what changes or evidence exists to support the spiral evolution. With negative environmental influences including environmental and consumer changes and competition with discount stores (i.e., conflict between  $R_1$  and  $R_2$  in the Figure 4.1), department stores started evolving to adapt themselves to these changing environments. This situation was proposed in the CREM and supported by the data discussed in previous sections; however, the CREM also proposes that if conflict is too great or the change is not quick enough, a retail institution type will not satisfy

consumers' changing needs and wants, leaving room for the introduction of a new retail institution type. This situation is exemplified in the data where high competition within institution and with discount stores resulted in profit loss, and bankruptcies (Kim, 1999; Lee, 2000). Starting from two department store bankruptcies in 1995, the number of bankruptcies increased (i.e., 1996-4, 1997-13, 1998-5). Since 1997, discount stores took over the popularity of department stores and became the most attractive retail institution in South Korea; however, as the economy is improving since 2000, data in sales show that discount stores also started losing their attractiveness (i.e., price competitiveness) to consumers. This data shows the same patterns that are proposed in the CREM, patterns such as changing environments and evolving competitive store types that have the potential for the spiral evolution in current store types, or the introduction of a new institution type.

Through the spiral evolution of department stores and discount stores, consumers' preference for store/product attributes in both retail institutions appeared to change according to the environmental changes. Department stores and discount stores in South Korea have taken, since their importation, a position on extreme ends of the classification scheme in terms of store/product strategies. Department stores positioned in the high level and discount stores positioned in the low level in that scheme. Consumers acknowledged that product quality and services that department stores provided were satisfactory when the environmental conditions were economically positive, but prices that discount stores offered were desirable when economic conditions were negative. The economic environment improved in the post-crisis years, and department and discount stores were no longer "new" or innovative, or even mature institution types. At this point in the retail evolution process within South Korea, within one retail institution type, consumers were not satisfied by finding all store/product attributes in one retail institution type that they considered when shopping. This unsatisfactory shopping experience and the aging of the present retail institution types opened a space for a new retail institution type to emerge.

#### Emergence of a New Retail Institution

#### Private-Branded Hive Type of Retail Institution (the PBH)

To meet consumers' needs in quality, services, fashion, and price, a new retail institution type emerged in 1998 to instant consumer interest (i.e.,  $R_4$  in the Figure 4.1). This emergence is the result of conflict predicted in the CREM. This type of retail institution is not a globally acknowledged type of retail institution, and no official name yet exists. In this study, this new institution type will be designated as a Private Branded Hive (PBH). The PBH provides the desired quality level and fast new fashion with low prices, combined characteristics that were previously missing in either department store or discount store types (Kim, Choi, Song, & Jeon, 2000). In South Korea, because the PBH meets consumers' needs, the PBH is highly successful and widely accepted by current retail consumers. Changing economic conditions also considerably accelerated the success of the PBH. Therefore, the main influences of the success of the PBH are changing consumers' demands and economic conditions. Because the PBH is recently emerged, this retail institution type is not independently categorized in retail textbooks and other sources, like department stores and discount stores, and government statistics are not published yet on this retail institution type. All statistics and information regarding the PBH in this section are drawn from publications from trade journals and magazines.

### Background of the PBH

The first PBH that appeared in 1998 was named Miliore - a building name - and was seven stories. This PBH opened in the Dong Dae Moon district (DDM), which has historically been the center of the traditional apparel wholesale market in South Korea (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000). DDM consists of thousands of small traditional street stores and larger buildings for wholesaling and retailing. Since the Miliore was constructed, many PBH buildings have appeared (e.g., Doo-San Tower, Preya Town), especially within DDM, imitating the operation system and the characteristics of Miliore (Kim, Choi, Song, & Jeon). As the number of PBH buildings increased and the PBH was quickly accepted by consumers, this type of retail institution became a leader of South Korean apparel retail institutions and a mecca of fashion in South Korea. The PBH has become representative of DDM and South Korean apparel retailing.

Inside a PBH building, more than 2,000 booth-style stores sell their own private-branded apparel items, which are normally named after their individual store name. A PBH normally occupies a five-to-ten-story building, and each floor has a category theme, in other words, stores

on one floor carry the same merchandise category. For example, the 1st floor carries accessories; the 2nd floor carries lady's clothing, including casuals and suits; the 3rd floor carries men's clothing; the 4th floor carries shoes; the 5th floor carries children's clothing; and the 6th floor carries imported apparel items. This categorization is similar to department store layouts but contains stores instead of departments so that the volume and diversity of products is more extensive. The PBH provides all apparel merchandise categories, so that consumers can enjoy one-stop shopping (Kim, Choi, Song, & Jeon, 2000). The sales volume of one store/booth in a PBH building is an average \$120,000 per year, averaging \$10,000 to \$12,000 per month (Shin, 2001), which includes exports mainly to China, Russia, Southeast Asia and Japan (Im & Pak, 2001; Kim & Kim, 2001).

Within a big modernized building, convenient facilities such as elevators, escalators, rest rooms, dressing rooms, food courts and sophisticated interior design and lights are provided (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000). In addition, the PBH provides quality services (i.e., return/refund, a customer service center, sales personnel, and credit) to customers who are accustomed to the service level of department stores ("Doo-San Tower," 2001; Kim, Choi, Song, & Jeon; "Shopping mall," 2001).

### Cyclical Evolution of the PBH

The PBH is the most recent and successful retail institution type in South Korea; therefore, according to the CREM, the PBH would be at the beginning of its evolutionary wheel. No description or evidence of modification of the characteristics for the PBH was found in any research and trade articles, which supports the supposition that the wheel of the PBH has not begun. The PBH is the new retail institution type that emerged from the conflict between the previous retail institution types. The following paragraphs will present data on the current characteristics of the PBH, including operational variables that are examined when analyzing evolution of a retail institution type. This background will provide a foundation for future studies of the PBH.

To manage the needed quality services, the PBH operates the floor manager system (Kim, Choi, Song, & Jeon, 2000; "Shopping mall"). Each floor has a manager, who supervises store services. Although most retail stores close by 9pm, the PBH is open from 9am to 6am the next day, thereby providing a shopping place for consumers who want to shop after 9pm (Kim,

Choi, Song, & Jeon; Kim & Shin, 2000). This is a highly successful service provided only by the PBH. The PBH also provides services to store/booth owners. The management of the PBH buildings operates an office for export business to assist their store/booth owners, who want international trade, so that foreign buyers, especially, can contract directly with the PBH store/booth owners without involving a separate buying office or wholesaler (Kim, Choi, Song, & Jeon). Some PBH buildings also have a fashion information center to help with their store/booth owners' and designers' product planning. The PBH provides store/booth owners promotion opportunities via a public relation center (Kim & Shin).

The PBH uses all types of promotions activities including a wide variety of media (e.g., TV, magazines, fashion shows, Internet website) to promote their stores (Kim, Choi, Song, & Jeon, 2000). Some stores in the PBH utilize Internet shopping malls, thereby extending their sales route into cyberspace (Kim & Shin, 2000; Lee, 2000). Some of the PBH businesses enter foreign markets by opening buildings in Taiwan and Japan with their own building names ("The fifth fashion," 2001).

The training and skills of the PBH store owners further influence the success of the PBH. The PBH removes wholesalers, by assigning multiple tasks to one person (Kim, Choi, Song, & Jeon, 2000). For example, a store owner handles product planning and design because many store owners are designers. This educated owner also uses efficient management practices for store operations. A store owner/designer purchases raw materials and orders products from the manufacturer. A store owner/designer checks product quality and displays the product in the store; therefore, a store owner does the jobs of a product planner, a designer, a merchandiser, and an accountant (Kim & Shin, 2000). The PBH can reduce labor cost, which is the major proportion of operation and production costs. When a store owner/designer purchases raw materials and final products from manufacturers, he/she further reduces the cost by a cash discount. Also, real-estate costs can be reduced because the store serves multiple functions. For example, a store is used for an office, a distribution center, a trading center, and a place for inventory stock. All activities are possible in one small booth-type store because the PBH carries a small amount of inventory. The stores in the PBH reduce cost by 80.0%, at most, compared to department stores.

The product assortment is managed differently in the PBH than in other retail institution types. To obtain a wide assortment of fashion forward products, more than 1,500 designers work

in the PBH (Kim, Choi, Song, & Jeon, 2000). Most designers in the PBH are young and highly educated. They have a college degree, which specialized in apparel design, and many of them studied in France, Italy, the United States, or Japan (Kim, Choi, Song, & Jeon). Some designers own their own stores in the PBH. Using these in-store designers, the PBH stores achieve Quick Response (QR) and apply new fashions easier than stores that utilize a separate designer. The designs are very high quality and highly competitive, compared to designs in other retail institution types (Lee, 2000). The PBH management holds design contests, selects the best-qualified new designers, provides them an opportunity to open a store in the building, without any financial obligation, and supports their fashion shows (Lee).

In the PBH, the lead-time from product planning to display is an average two days (Kim & Shin, 2000; Lee, 2000). For example, a product is created or developed and raw material is purchased at 8am; manufacturing starts at 11am, and finishes at 10pm; product Quality Check (QC) is conducted at 6am the next day; packaging and documenting is done at 7:30am; and finally, delivery is begun at 9:30am (Lee, 2000). The display will be completed by the afternoon or night of the same day. Traditional apparel companies, whose lead-time normally are one and a half to three months, and whose pipeline is geographically and functionally diverse would find it difficult to compete with the PBH in terms of QR (Kim & Shin).

When a product arrives at a PBH store, products are displayed at stores at the right moment. If a new item elicits a positive reaction from customers within a day, the item will be reordered and displayed for three to four more weeks (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000; Lee, 2000). If consumers do not show interest in an item, the lifecycle of the item is one to several days, and designers in the PBH are required continuously to create new designs or develop different items.

Currently, the PBH management also provides a delivery service to Japan to improve the supply chain. Because Japan is a two-hour flight distance from South Korea, products can be delivered within one day. The unique feature in this international delivery is that a professional deliveryman, called a 'Hakobi', personally carries products and flies to Japan (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000). He delivers products to an owner or a store and helps them with product displays. All legal documents and deliveries are completed by the delivery service of the Hakobi. This service saves delivery costs as well as delivery time.

Uniqueness of production process and QR in the PBH. The process of production in the PBH, from product planning to display, is unique compared to the process incurred in traditional apparel manufacturing and retail companies. This operational characteristic of the PBH supply chain has the potential to affect many aspects of the evolution of this retail institution type. At the product planning stage, traditional apparel companies have a hierarchical structure in decision making (Kim, Choi, Song, & Jeon, 2000; Regan, Kincade, & Sheldon, 1998). When a designer creates new designs, a manager or decision-making group needs to approve final designs. Then, the final designs need to be approved by a final decision maker, such as a director, a CEO, or an owner. If a final decision maker wants to modify the final designs, the designs are returned to a designer and need to go through all decision steps again. At the product planning stage, several separate departments participate in the final decision. Thus, the time and effort spent at this stage is considerable. The product planning of the PBH is simpler than that of traditional apparel companies that supply department and discount stores.

In a PBH retail institution, many store owners are designers themselves (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000; Lee, 2000). If not a designer, store owners hire a designer, or they purchase products directly from manufacturers who develop their own products to sell to retailers. A designer/store owner creates and decides on final designs in one step. He/she controls the entire production process, from design to display, single-handedly. Most designers in the PBH are well-educated in the apparel field, are well-experienced, and are capable designers, collecting information from Paris, Milan, Tokyo, and London and applying that information to South Korean consumers (Kim, Choi, Song, & Jeon; Kim & Shin). Without passing through multiple steps with many separated departments, a company that operates in a PBH has a shortened time for product planning.

After deciding on the final designs, a designer needs to purchase raw materials (Regan, Kincade, & Sheldon, 1998). Traditionally, apparel companies search for the right materials in the market, or they order them from manufacturers. Until the exact materials for the final designs can be produced, apparel companies and manufacturers give and take their requirements and samples. On the other hand, in DDM, thousands of traditional street stores for raw materials are located within walking distance from the PBH (Lee, 2000). For example, one five-story building in DDM, containing hundreds of small wholesale stores, sells only raw materials. The PBH designers and owners can purchase fabrics, threads, buttons, labels, zippers, snaps, laces,

padding, plastic store bags, and packing boxes and bands within a two-kilometer radius of the PBH. Quick decision making and direct purchase from raw-material stores save considerable time.

Next, a designer brings the final designs and raw materials to the manufacturers (Lee, 2000). More than 2,000 small manufacturers are located within two kilometers of the PBHs in DDM. These manufacturers are mostly family-owned, and are able to produce from a sample to a large amount of re-order products (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000). Laborers are mostly family members and relatives, who do not work under the regulation of a working-hour limit. They can work anytime, whether weekend, day or night; therefore, these manufacturers are highly successful at making due dates, because of high flexibility in labor and working hours. The high flexibility works well with QR in fashion goods, which requires fast turnovers (Kim, Choi, Song, & Jeon). Manufacturers can finish within six hours of patterning, cutting, and sewing. They take orders of, at minimum, 80 to 100 items per style. Traditional large manufacturers, on the other hand, accept orders of a minimum 1000 items per style. Both manufacturers and retailers can reduce inventory investments for materials, labors and inventory management costs in the PBH.

At this stage in the supply chain, a designer discusses with a manufacturer the fit between designs and raw materials. A designer either brings patterns to the DDM manufacturers or makes patterns with manufacturers who have a pattern maker (Lee, 2000). A decision, regarding whether manufacturers can produce the products matching a designer's requirements, is made within a few hours of the designer's visit to a manufacturer because two final decision makers from each designing and manufacturing side directly discuss the issue with the final raw materials and the final pattern in front of them, saving large amounts of lead-time.

After finishing production, products are delivered to a designer/store owner in a PBH. The delivery of traditional apparel companies starts with loading products to trucks or containers from a manufacturer. If products are for domestic consumption, trucks deliver and unload them to a distribution center. Then, trucks reload products and deliver them to individual stores. If products are for international trade, products are loaded to containers and delivered to an airport or port for shipment (Pelton, Strutton, & Lumpkin, 1997). The delivery and distribution system for a PBH is simple and fast because many steps that traditional apparel companies take are removed (Kim & Shin, 2000). Products are delivered from the hands of a manufacturer to the

hands of an owner. The hand-to-hand delivery results in maximum accuracy of delivery. Because of the small number of items and the proximity between a manufacturer and the PBH, most deliveries are conducted by what are called auto bikes, a quick service delivery. Delivery can be finished within an hour.

### Environmental Influences on the PBH

In the CREM, environmental influences are assumed to affect the emergence of the PBH. The changing environments discussed in the department store and discount store sections not only influenced the evolution of department stores and discount stores but also provided a ground for the emergence of the PBH. The following sections will discuss how environmental influences helped to form the characteristics of the PBH.

Social and economic environments. Seoul is one of the cities that have the highest population density in the world. In addition, the DDM area is the center of public transportation systems. These social environments helped the PBH to reach consumers and consumers to access the PBH easily. Also, because DDM has been known for the center of wholesaling and retailing of apparel industry in South Korea, the PBH could serve not only the Seoul area but also large local cities nation wide. As the coverage area is much broader than any other retail institution types, the success of the PBH was promised.

An economic change (i.e., economic crisis) favored the instant success of the PBH for many reasons. Many big apparel companies have been without sales since the economic crisis; therefore, many laborers, including designers, were unemployed. The high unemployment was a main reason why designers, who worked for big apparel companies, opened their own businesses or went to work for stores in the PBH (Kim, Choi, Song, & Jeon, 2000). The quality and design of products were assured in the PBH because of these well-educated apparel experts. The economic crisis provided the positive background for the PBH to emerge as serving consumers' need for low priced quality products.

The improving economy also positively affected the PBH, as consumers no longer wanted to purchase apparel products in discount stores due to increasing disposable income. As shown in the Table 5.8, 5.10 and 5.11, the unemployment rate was decreasing since 2000, and GNI and household income recently started increasing. This influence of the economic

environment on consumers' demographics was not predicted in the CREM but was commonly found in the department store and discount store sections. Even though household income based on CPI showed that the income level came back to the level before the economic crisis, GNI has not returned yet to the level before the crisis, and consumers have not return to their identical shopping behavior before the crisis. Consumers normally restrain their spending when they expect the decrease in income in the near future, even though the income is not actually decreased yet (Engle, Blackwell & Miniard, 1995). Therefore, consumers have not wanted to spend yet much money in department stores, because of the uncertain future of economy, but want more quality and fashionable items. This post-economic crisis environment also helped the success of the PBH because the PBH met these consumers' needs and wants. This impact of consumers' demographics on their shopping orientation and the reciprocal influence between the consumers and the PBH was predicted in the CREM. These influences of environments on the retail operation and consumers' shopping orientation were also identified in the previous sections.

Geographic environment. The geographic environment is a primary influence to make the PBH unique and successful by achieving QR and price reduction. The PBH opened in the Dong Dae Moon district (DDM), which consists of thousands of small traditional apparel street stores (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000). In 2000, around 2,700 apparel-related stores and over 20,000 small apparel manufacturers were located in DDM (Kim, Choi, Song, & Jeon). All segments of the industry, required to complete one, apparel product, are located in DDM; therefore, DDM is called a Fashion Valley (Kim, Choi, Song, & Jeon). This unique geographical proximity among channel members (i.e., design offices, raw material and fabric stores, manufacturers, distributors, and retailers), which is possible in DDM, allows the PBH to have a unique QR system (Kim, Choi, Song, & Jeon; Kim & Shin; Lee, 2000). Through this QR system, the PBH greatly reduces lead-time and costs in each step of the production process (Kim, Choi, Song, & Jeon; Kim & Shin).

As a further example of the geographic influence, DDM has historically been known as a traditional apparel wholesaling area. DDM already had loyal wholesale and retail customers (Lee, 2000). In addition, DDM was famous for its foreign buyers, from Russia and Southeast Asia. Because foreign buyers have been doing business in DDM, they knew the product quality

(Kim & Shin, 2000; Pak, 2000). The traditional reputation of DDM products, and the existing loyal customers, helped the PBH to quickly secure consumers' trust in product quality.

Political/legal environment. A PBH provided highly attractive characteristics to both domestic and foreign consumers and achieved high sales success. Accordingly, the DDM area became one of the most attractive tourism areas, embedding its own unique traditional market characteristics. In addition, the South Korean government officially designated DDM as a national tourism area. This governmental action provided support to the area so that more foreign businesses and tourists can visit DDM area and accelerated its economic revival (Park, 2000). To respond to this changing environment, the PBH quickly prepared several operational activities. The PBH made shopping guide booklets to promote themselves and provide them to airports and hotels. Also, the PBH started providing in-store announcements in five different languages and store guides who speak a foreign language. The PBH tried to upgrade facilities and fix prices for foreign buyers, who are not accustomed to bargain at the moment of trading/purchasing ("Famous tourism areas," 2002). Therefore, the political/legal environment directly affected retail activities and operation of the PBH. This reciprocal relationship, which is the influence of environments on the entry phase of the cycle and the influence of a retail institution on environmental changes, was not predicted in the CREM.

#### Consumer Influences on the PBH

One consumer trend that has changed drastically, since the economic crisis, according to researchers and analysts, was consumers' consumption patterns and shopping orientations (Kim, Choi, Song, & Jeon, 2000). Prior to the economic crisis of 1997, consumers purchased high-fashion brand-name products in department stores, regardless of their financial status. Consumers had a strong loyalty to department stores for high quality, fashion, and services. After the economic crisis, consumers had to be careful when and where they spent their income. More consumers were looking for value for money, not high-priced, brand name products. Consumers were willing to spend time and effort to search and compare information to find the products best suited to their changed circumstances (i.e., decreased income). With the crisis, consumers developed a more practical consumption pattern (Kim, Choi, Song, & Jeon), and discount stores

became the appropriate retail institution type for consumers. More consumers chose discount stores as their prior retail institution type after the economic crisis.

However, consumers were accustomed to high quality and fashionable items and services in department stores until 1997. As the economic crisis of 1997 came to a close, consumers were looking for services and quality fashion items with low prices; however, department stores could not offer low prices compared to the level of products and services they offered, and discount stores could not provide a certain level of services and high quality fashion items compared to the level of cost they offer (Lee, 2001). The PBH emerged at the right time, when consumers were looking for a new solution. To meet the improving living standard in South Korea and consumers' increasing demands for improved products and services, the PBH provided a convenient shopping environment with high quality, fashion oriented products (Lee, 2000; Kim & Kim, 2001). This finding supports the influence of consumers' behavior on the emergence of a new retail institution type as diagramed in the CREM.

In South Korea, 200,000 to 300,000 customers per day visit the PBH buildings, including 2,000 foreign visitors per day from Japan, Taiwan, China, Hong Kong, Russia, South Africa, Central Africa and the United States (Kim, Choi, Song, & Jeon, 2000; Kim & Shin, 2000; Kim & Kim, 2001; Lee, 2000; Shin, 2001). Target consumers of the PBH range in age from teenagers to those in their early 30s ("Dong Dae Moon," 2001; Ha, 2001; Kim, Choi, Song, & Jeon; Kim & Kim; Pak, 2000). The teen-to-30s age group is the major consumer group for apparel retailing ("20s in department stores," 2001). These consumers are highly sensitive to fashion and are willing to spend most of their income for clothing. As the PBH meets consumers' expectations in the shopping environment, the PBH increases its competitiveness, at the same time, especially with department stores. In addition, the design of the PBHs' buildings revised consumers' image of DDM, which had been known for a dense area of small, non-organized, traditional street stores (Kim, Choi, Song, & Jeon; Lee).

Family structure and population age profiles are consumer demographics with potential to influence a retail institution type. As the number of full-time working parents increased, consumers preferred the one-stop shopping environment. Consumers spent more time on leisure than shopping. As consumers have gotten older, they tended to spend less money on clothing. In contrast, teenagers have tended to purchase clothing with money from parents or part-time jobs. These consumers in their 20s and early 30s usually have jobs and an independent, disposable

income. By targeting teens to early 30s, the PBH targeted the right age group for fashion forward apparel and provided store environments and product mix appropriate to this age group, such as the latest fashion items, loud background music with music videos, and a variety of events and entertainments (Kim, Choi, Song, & Jeon; 2000). The PBH became the preferred meeting place for this age group to interact and communicate with each other. Therefore, the influence drawn from consumers' demographics, shopping orientation and preference for store/product attributes in the CREM is supported.

### Overview of Conflict and Evolution of the PBH

Some modifications of other retail institution types have been found that were the result of their conflict with the PBH, as described in the CREM (see Figure 4.1) in the confliction between  $R_4$  and either  $R_1$  or  $R_2$  or both. Many small and mid-size department stores could not compete with the PBH. In response, they renovated their stores in the style of the PBH buildings, imitated characteristics of the PBH, and specialized only in apparel merchandise (Jeong, 2001). This finding supported the CREM's spiral wheel of department store evolution resulting from conflict and time. Also, management in big department stores realized that the PBH was achieving a higher sales growth rate than major department stores (e.g., in 2000: department store 20.1% versus the PBH 676.7%; in 2002: department store -3.8% versus the PBH 21.9%) (The report for retail operation and trend, 2001, 2003; Financial Report, 2003). In 1999, Miliore, the first PBH, achieved an annual total sales \$670million, in comparison to \$117million annually per department store. Some of these traditional department stores opened a department within their stores for the PBH brand items, or a department for discounted items and low-priced private-brand items to compete with the PBH brands. Discount stores have tried to carry more fashionable items to "keep up with" consumers' fashion interests and to compete with the PBH.

As is proposed in the CREM and is supported with the data, when a retail institution type achieves a significant sales success, many similar stores open imitating the operation practices, and the number of stores increases accordingly. Even though a spiral wheel of the PBH should not have started yet, many retail investors, including owners of the PBH in DDM, opened a PBH not only in the DDM area but also in other areas in South Korea. However, even though a PBH type of retail institution has high potential of significant success, implementation of the PBH in other market places may be limited and the success may be uncertain. The market place,

where the PBH can be opened, must have similar environmental influences and competitions, for example geographical proximity among channel members, the same as the PBH in DDM, South Korea. In those other areas, the unique characteristics of the PBH cannot be duplicated without the geographical proximity in DDM. Fast QR and low prices cannot be achieved in those areas, because the PBH is functioning only as a retailer, who purchases products from wholesalers or manufacturers in DDM and delivers to local consumers. Only DDM has the unique geographic proximity, which was built historically and traditionally. Retailers in New York City in the United States did have a similar geographical proximity of the entire textile, apparel and retail industry; however, the labor cost and real estate costs in New York have increased considerably, and channel members, who once were geographically close, have been dispersed.

On the other hand, in another aspect, the PBH can be successful anywhere as long as the geographic proximity among channel members is achieved or simulated. The apparel industry is a cottage industry (i.e., small scale of channel members) and a labor-intensive industry. For these reasons, movement of small size of manufacturers, raw material stores and retailers, and laborers is easier than other industries, which need complex and expensive set-ups and movement costs due to heavy equipment and a large scale of working space. In addition, the increasing complexity of computer technology to aid the design and manufacture of apparel materials may allow some geographic proximity to be approximated. Technology may be the driving influence behind another successful PBH. Using the CREM to predict the outcome of future change and effects of influence, the PBH can be predicted to be a prosperous retail institution type anywhere in the future; and can be imported to other geographic regions, where labor and raw materials are easily accessible and channel members move into one place to form a type of DDM and where they are geographically or technologically close to a dense population demanding high fashion goods.

Several problems of the PBH, which need to be solved for continued financial success, may soon initiate the movement of the wheel, as proposed from the CREM. First, because the PBH is located in the middle of the center business district, the DDM in Seoul, and all types of transportation systems have been developed to service this area, high traffic congestion restrains some consumers from visiting frequently (Kim, Choi, Song, & Jeon, 2000; Lee, 2000). Second, some services, especially refund or return policies, are not satisfactory for most consumers (Choi, 2001; Jang, 2000; Lee, 2001). For example, consumers have a hard time to return

products because store owners are reluctant to refund or accept returned products because of small profit margins and changing product lines. Third, because of the fast turnovers and frequently changing designs, product quality control is not always thoroughly conducted; therefore, consumers complain about product quality (Jang; Jo, 2001; Lee). Fourth, prices in the PBH are not fixed. Consumers can bargain for product prices, which means that consumers distrust prices that store owners offer (Lee). Lastly, this PBH type of retail institution first appeared in 1998. Since then, the PBH has been a highly competitive and prosperous retail institution type. At the same time, the number of the PBH-style retail institutions has increased, and other existing retail institution types have imitated the PBH and offered the same characteristics. The PBH retail institution type is being saturated in the market (Jo; Kim, 2001; Choi). According to the CREM, South Korean consumers may begin looking for another new retail innovation, to solve the problems they find with the PBH (i.e., R<sub>5</sub> and a repetitive process of Retail Evolution in Figure 4.1).

**CHAPTER VI**  
**MODEL REFINEMENT, SUMMARY AND CONCLUSIONS,**  
**IMPLICATION, AND RECOMMENDATIONS**

Historically, many researchers have endeavored to find a pattern in all retail evolution and to propose a theory with a graphical model. However, most retail evolution studies have been conducted in the United States and in Europe. To study South Korean retail evolution, an appropriate theory that can be applied to South Korea and a synthesis of other research findings about past retailing in South Korea were needed; however, no comprehensive work has been done regarding the evolution of South Korean retailing.

The purpose of this study was to examine the evolution of retail institution types in South Korea and to build a model, which more fully explains retail evolution. A qualitative research design, specifically, a modified grounded theory type of design with a constant comparative method was employed in this study. To proceed with this study, retail evolution theories, which were commonly recognized as the primary theories, were reviewed. These theories were the Environmental theory, Cyclical theory, Conflict theory, and Combined theory. Then, the CREM was proposed by synthesizing these retail evolution theories for a better fit to all types of retail evolution. Although these theories have been used in some form since the 1950s, they have never been used to explore the development of retailing in South Korea. Three retail institution types in South Korea were selected and analyzed for retail evolution based on the Combined Retail Evolution Model (CREM) proposed in this study. The data about retail institutions in South Korea were collected from government offices, trade and industry associations, public libraries, and websites on the Internet and were analyzed to find a pattern of retail evolution.

In this chapter, the CREM is revised based on the analysis, and the final CREM is proposed. In addition, summary and conclusions, implications, and recommendations for the future are included in this chapter.

## **Model Refinement**

The CREM is a two-part model that includes (1) a retail evolution portion containing a cyclic and spiral evolution and the conflict process and (2) the environmental influence portion containing multiple environmental influences and a section on consumer influences (see Figure 4.1). Three major principles are proposed in the CREM: (a) rhythmical patterns of spiral change, (b) the effects of conflict or challenge from competition, and (c) the influence of retail environment. Using a constant comparison analysis with the proposed model and data about the retail environment in South Korea, the CREM was refined. The relationships among variables that were supported by the results were confirmed and remain as shown as the same type of lines in the CREM. The partially supported cycles are shown with a circle with dashes and dots, and the non-supported relationships are marked with Xs in the revised CREM, (see Figure 6.1), but are removed in the final CREM. In addition, new relationships that were found are added with bold lines with dashes and dots in the revised CREM. The process of revising and finalizing the model provided the information to address Research Question 2: Can the retail evolution process in South Korea be completely explained by the retail evolution theories. As indicated by the revisions described in this paragraph, the answer to this question is no. Further explanation of the revisions and the final model are given in the following sections.

### Retail Evolution

The retail evolution portion of all the CREMs graphically shows both the principles of the rhythmic and spiral change through the evolution process and the effects of the conflict with other institution types. The one cycle in the retail evolution process in the original CREM contained three phases: (a) entry (or introduction), (b) trade-up (or mature), and (c) vulnerable. In addition, the spiral evolution moving to a higher level within a retail institution type was also included. The conflict among retail institutions was predicted to create a new retail institution type. Overall, two principles of rhythmic and spiral change and conflict among institution types were supported; however, the exact shape, timing, and relationships of and among the changes and variables varied between the data and the original CREM.

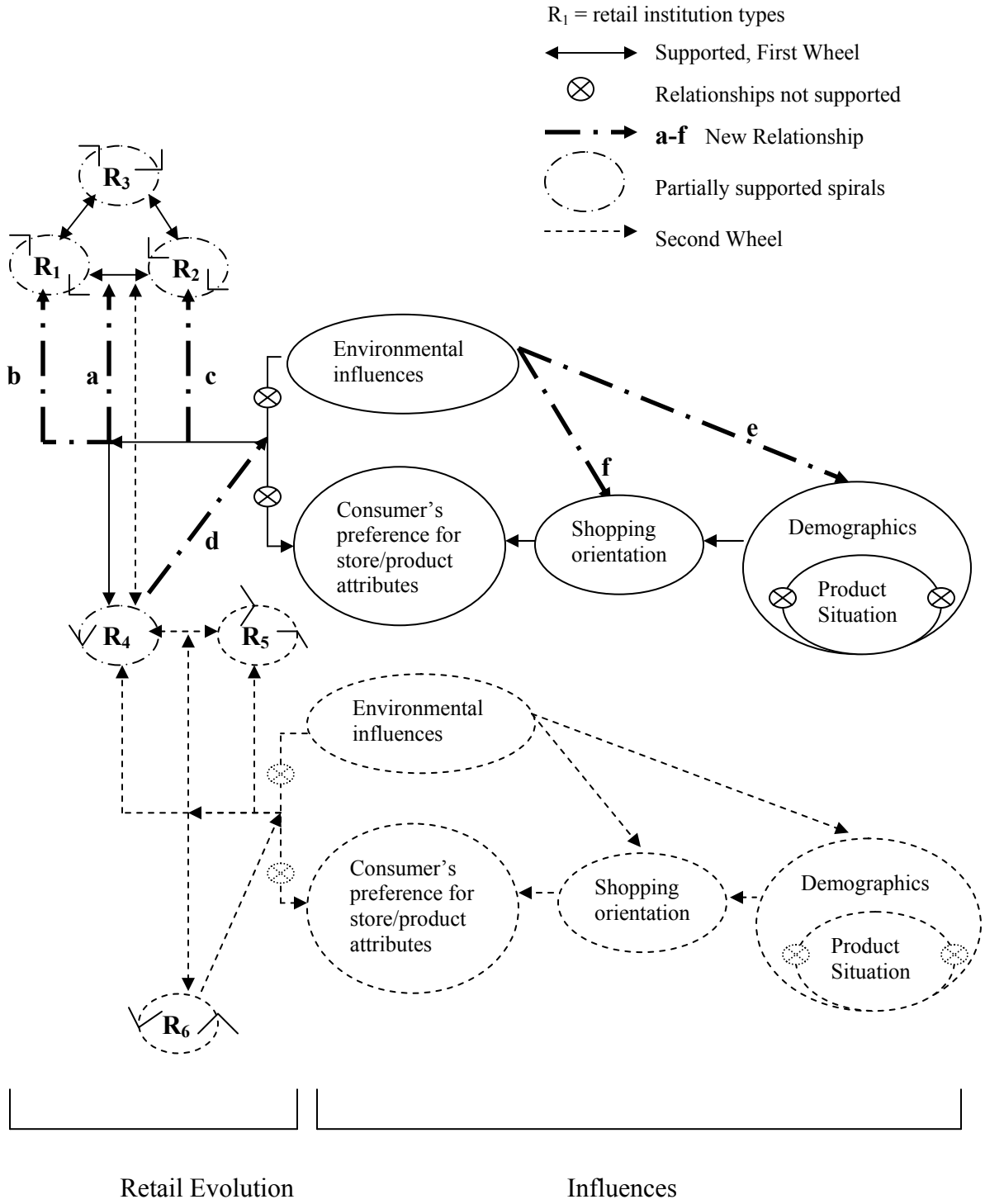


Figure 6.1. Revised Combined Retail Evolution Model

### Phases of the Retail Evolution

In the retail evolution process of the original CREM, the model proposed that in one cycle of the process a retail institution type matures from the entry phase to the vulnerable phase. During this maturation, the institution type makes many changes within its operating structures, as noted in Chapter 4 in the section on Patterns of Spiral Change and Conflict. For example, a retailing institution type that is in the trade-up (or mature) phase should experience increases with its operating costs and product prices, accordingly. In the final phase (i.e., vulnerable phase), the retail institution loses its competitiveness in the market, as reflected in drops in sales and profit, and finally allows the emergence of a new retail institution type. To compete with this new retail institution type, the existing retail institution type must adjust its characteristics and ultimately will return back near its original position, but on a higher level than before the wheel started, or is forced out of business. The results from the South Korean retail data partially supported this spiral evolution in the retail evolution portion of the CREM (see Figure 6.1). In the results, several items in the data indicated that the retail institutions in South Korea have evolved into institutions with features of more mature institution types or higher levels of their original type; however, the pattern was not as cyclic nor as steady as predicted in the CREM.

As shown in the department store and discount store sections of the results, sales per store, profit, and operating cost did not continually increase as the CREM proposed. Instead, the data showed both positive and negative changes, which corresponded in time to major changes in the environmental influences. For example, department stores entered the South Korean retail market as a mature retail institution type, and began immediately to experience the maturing process of an evolving retail institution type. The department store, as a mature retail institution type, showed changes that seemed to be initiated by social/political events (e.g., 88 Olympics), and passed quickly into the vulnerable phase where it was negatively affected by the high level of competition from the new retail institution type of the discount store. As a result, the sales and profit dropped and operating cost decreased as well. The spiral for  $R_1$  is partially supported (see the dash and dots circles in Figure 6.1)

Discount stores were also introduced into the South Korean market as a mature retail institution type. For discount stores, the economic crisis was correlated with an initial peak in the growth rate of sales, which was followed by a drop in sales rate during the initial consumer recovery from the economic crisis. Again, the spiral evolution of this retail type seemed to be

compressed in correspondence with the rapid importation of the retail institution type at the peak of the economic crisis, which resulted in fluctuations of sales, profit and operating costs.

Discount stores showed many of the same fluctuations in the data as department stores, which had a considerably longer lifecycle in South Korea (i.e., department stores-more than 40 years, discount stores-less than 10 years). Department stores continuously showed an increase in sales and operating costs until 1988. This point of change was almost 30 years after their importation, when a social event (i.e., 88 Olympics) affected their success. If discount stores followed this trend, they would have had continuous sales success until 2020; however, the sales and operating costs reacted at the same time as when department stores had fluctuations. The  $R_2$  spiral was also partially supported (see the dash and dots circles in Figure 6.1).

The major measurements to evaluate the phases of the spiral evolution and the progression of a retail institution type were predicted to the changes in operational costs of labor and promotions. However, another finding that contrasts to the original CREM is that labor cost and promotion costs were not the major factor related to the increases in operating costs. As shown in the data on South Korean retailing, regardless of the fluctuations of operating costs, labor and promotion costs appeared to be controlled independently of operating costs, instead perhaps by environmental influences. For example, even though operating costs in discount stores increased in 1997, the labor cost was reduced by 2.0% compared to the previous year. Reducing the labor cost seemed to be the first action that stores took to reduce operating costs in reaction to the economic crisis. Also, in 2001, despite the increase in operating costs, a high unemployment rate helped discount stores to reduce the labor cost. In another contrast to the prediction in the CREM for adjustment of operating costs, promotion costs decreased when a retail institution type achieved the sales success, probably because management thought that high promotion efforts were not necessary. However, when a retail institution (i.e., discount stores) started losing its competitiveness as it matured, the promotion cost increased, which is consistent with the CREM.

In examination of measurement indicating spiraling growth for retail institution types (i.e., sales, profit, and operating costs), the trend of retail evolution seems to be a repetition of valleys and peaks, and the scale of these rhythmic changes may vary. The data from department stores show that sales volume continuously increased until environmental influences interrupted their growth. The sales volume decreased by the effect of negative environments but when

environments were a positive influence, the sales volume recovered. Similar trends but with different influences affected the discount stores. Therefore, rather than a spiral evolution, retail institutions are described as evolving with repetitive valleys and peaks cycles in terms of dollar scale.

#### Multiple Endings of Spiral Evolution within One Type

In addition to the patterns of the spiral evolution being different from the predictions, the final phase of the spiral evolution was found to result in multiple endings within one retail institution type. The data on department stores indicated that within one retail institution type, department stores showed several different endings of the spiral evolution, instead of the one ending that was predicted in the CREM. When considering a number of the variables used to measure the spiral evolution, some department stores took an extreme side of store/product classification scheme within the institution type, in upgrading their store/product attributes, and improving management and marketing. Therefore, this first type of department stores returned to the spiral position that was a higher level than before the wheel started, as predicted. In a second spiral ending, some department stores downgraded their store/product attributes, such as prices, especially in correspondence to the negative aspects of the economic crisis, which occurred as these stores were aging (i.e., vulnerable phase). Even though these department stores have a higher level of operating systems and skills than before their wheel started, the product price actually dropped below that of their original position. Thus, spiral evolution can move higher or lower than the original position depending on the intervening variables. In a third ending of the spiral evolution, some department stores changed their retail type by opening a different format of stores, which cannot be explained by the traditional spiral evolution because these stores were neither vertically upgraded nor downgraded. They just horizontally broadened their business. Finally, some department stores stayed at the original position. In other words, they did not respond to changing environments or could not afford to adjust. Many bankruptcies of those stores were identified, as discussed in the department store section. Therefore, the spiral evolution has several options regarding the position to which a retail institution returns, and the findings provide partial support for the spirals of retail institution type (see Figure 6.1).

Discount stores showed similar patterns of spiral change as department stores in the upgrading their characteristics. In 2001, discount stores in South Korea started experiencing a

decrease in sales in correspondence to the recovering economy. Based on the original CREM, discount stores should have been entering the vulnerable phase as indicated by decreasing sales; however, no official statistics of bankruptcies of discount store are published. Instead, in the post-crisis period, they started carrying higher quality and more fashion items than before their wheel started (i.e., their importation into South Korea); therefore, only one spiral ending was found in the data for discount store types in contrast with department stores. Discount stores have not yet downgraded their prices. The price level that discount stores are providing is lower than any other retail institution types, so more down-scaled discount stores, as happened with department stores, are not expected to appear soon but could be possible, but not probable. Transformation to either another retail type or a multi-format retail type is also not yet shown, but remains as a possible spiral evolution, considering the findings for the department store spirals.

#### Conflict between Department Stores and Discount Stores

The second aspect of the retail evolution portion of the CREM and the second major theme of the CREM is the conflict between or among retail institution types. Many studies about South Korea retailing, as discussed in the result section, supported that department stores and discount stores have been competing each other since 1997. These two retail institution types, when faced with the challenge of each other, adjusted and modified their characteristics by combining and imitating the opponent's store/product attributes. For example, when discount stores emerged and attracted more consumers, department stores started imitating discount stores' attributes, such as carrying low priced products and lowering their product prices. When department stores regained consumers' acceptance when the economy started recovering, discount stores started upgrading their attributes by carrying more fashionable and improved quality products. This conflict corresponded with the emergence of PBH, which has characteristics from both discount stores and department stores (e.g., low prices, fashionable products). Therefore, the conflict between two retail institution types in the CREM was supported.

A new point, for the conflict aspect of the CREM, found from the data examined about the conflict between department stores and discount stores in South Korea, was the source of the competition. In the original CREM, the source of conflict or competition was predicted to be

from other institution types, as noted in the previous paragraph. In the data, however, evidence was found that a new retail store started competing with other retail stores within the same retail institution type as the number of stores significantly increased. As time passed, a retail institution type lost its competitiveness both between itself and other retail institution types and among stores of its own type.

In the period of conflict predicted in the CREM, another new retail institution type emerged. At this point, the first retail institution type started competing not only within its retail institution type but also with other existing retail institution types including a newly emerged institution type. In the results, when department stores were a mature but recently introduced retail institution type, they competed among stores within the type at the beginning and then, competed with discount stores as another new retail intuition type, and with street stores that were the traditional retail institution type. When discount stores were a rather mature but newly introduced retail institution type, they soon competed with the PBH as another new retail institution type and with traditional retail institution types including street stores, department stores and the expansion of discount stores. This conflict for discount stores was a more immediate conflict instead of a long growth conflict because of the compression of the phases of the spiral and variations in operational development.

The most recent data indicated that the PBH, as an institution type, has problems to solve such as how to satisfy consumers, which means that PBHs may start evolving by adjusting their characteristics. At the present, PBHs are trying to keep providing department store level of service and discount store level of price as they originally aimed. Moreover, they have to compete with traditional retail institution types including department stores ( $R_1$ ), discount stores ( $R_2$ ), street stores ( $R_3$ ), and possible variations of the PBH as noted in the new findings. In the near future, PBH might compete with another new retail institution type ( $R_5$ ) as the original CREM proposed; however, evidence of this was not found in the data. The original CREM stated that multiple retail institution types might exist at one time in contrast to previous research supporting only two simultaneous types. The multiple type concept was supported in the South Korean retail data; however, the exact characteristics of the third or additional types was not as expected.  $R_3$  is also marked in Figure 6.1 as partially supported.

## Influences

The second portion of the CREM was the influence portion. This portion of retail influences included both environmental influences and consumer influences, and covered the third major theme of the model. Both parts of this portion were confirmed in the data with some modifications including two relationships not supported.

### Environmental Influences

A direct relationship between environmental influences and the emergence of a new retail institution type was predicted by the CREM and the results supported the relationship. In addition, environmental influences directly and indirectly affected the evolution of existing and new retail institutions. Examples of many of the variables predicted as influences were found in the data. For an example of a social environment, increasing city population and South Korean consumers' shopping preference in a metropolitan area were correlated initially with the success of department stores; however, when consumers experienced many problems with a city life (e.g., traffic congestion, parking problem), they started moving to suburban areas. Discount stores adjusted their location more quickly than department stores by opening stores in suburban areas whose population increased rapidly. This example showed that the social environment directly correlated with the retail operation, such as location. As an example of the economic environment, due to the economic crisis, the unemployment rate increased. Accordingly, department stores and discount stores were able to reduce labor cost because supply was much higher than demand in the labor market. People worked for less salary than before the economic crisis. This economic environment appeared to help the operation of retail institutions. In addition to labor cost, that data showed that the economic environment ultimately influenced product prices, taxes, and sales.

The environmental influences were both direct and indirect, in contrast to the prediction of the CREM, and occurred at the same time as other environmental forces within the CREM. At the same time as the economic crisis, advanced technology, such as POS system and mass media, was installed in stores and helped managers to run stores more efficiently and effectively; however, technology adoption increased operating cost. At the same time, because the operating systems had developed and many automatic systems became available, stores could reduce the

number of laborers, which reduced operating cost; therefore, technological environment altered the retail evolution as decreasing or increasing operating costs. The data also indicated that other environmental influences might have more impact on the retail operation than the technology environment as shown when regardless of increasing technology adoption and its cost, operating costs and sales decreased.

The legal environment allowed foreign discounters to open business in the South Korean market and ultimately increased competition. This increased competition urged domestic discount stores to offer more attractive store/product attributes and to adopt advanced management systems and skills to compete with foreign discount stores. Therefore, the legal environment directly affected competition among retail institution types by allowing a new retail institution to open a business and providing a base for a new evolution. On the other hand, the legal restriction prevented foreign department stores from opening their business in South Korea to protect domestic department stores, which helped not to increase competition. Therefore, a new relationship between the environmental influences and the conflict is added (**a** in Figure 6.1).

As confirmed in the data, environmental influences appeared to be intervening continuously during the spiral evolution of department stores and discount stores because environmental influences are continuously changing as time passes and have affected each phase of evolution process (**b** and **c** in Figure 6.1). The influences and resulting changes were more continuous than in phases as predicted previously. These continuously changing environments corresponded to the emergence of PBH, which was predicted in the CREM. In addition, a new reverse relationship from the PBH to environmental influences was found from the data. Because the PBH became one of the most popular tourism sites, the South Korean government designated the DDM area as a national tourism area. This governmental support affected the operation of the PBH. The PBH needed to change their characteristics, as mentioned in the previous section, to adjust to this political/legal environmental change so that they could fully exploit the environment to accelerate its sales. Therefore, the success of the PBH encouraged the government to regulate their policy (**d** in Figure 6.1), and a new regulation affected the operation of the PBH.

Meanwhile, the direct relationship between environmental influences and consumers' preference for store/product attributes, as shown in the CREM (see Figure 4.1), was not found.

Instead, environmental influences appeared to have affected directly consumers' demographics (e in Figure 6.1). For example, the economic environment changed consumers' income and job status. The economic crisis reduced consumers' household income and made consumers unemployed. In addition, the social environment affected consumers' residence area (i.e., metropolitan area, suburban area). In turn, these changes in demographics correlated with changes in consumers' shopping orientation, as proposed in the original CREM. Changed shopping orientation seemed to have altered previous consumers' preference for store/product attributes. This influence process and relationships among demographics, shopping orientation and consumers' preference for store/product attributes are further explained in the next section.

Another direct relationship was found between environmental influences and consumers' shopping orientation (f in Figure 6.1), which originally was not predicted in the CREM. For example, increasing car ownership and the high accessibility of communication media corresponded with changes in consumers' shopping orientation. With these changes in technology, consumers could more easily access department stores located in a center business district and discount stores located in suburban areas. Based on their car ownership, consumers started looking for shopping locations that were more convenient. Department stores effectively used mass media to reach more consumers as media became a part of consumers' lives and helped consumers' purchase decision. Mass media also helped discount stores to reduce the number of salespersons because consumers were able to search more information through media and became more knowledgeable in their purchase. In summary of these findings, environmental influences directly affected the emergence, evolution and conflict of retail institutions; and consumers' demographics and shopping orientation. They were reversibly affected by a new retail institution type. A direct relationship with consumers' preference was not found.

### Consumer Influences

As indicated in the results, the data show that consumers experienced many changes in their demographics, and, as predicted by the CREM, these changes seemed to have influenced their shopping orientation. For example, as consumers' household income decreased with the economic crisis, they became price sensitive. This price conscious shopping behavior was seen in the data as affecting their previous preference for store/product attributes. Before the economic crisis, consumers were concerned about product quality and fashion and preferred

department stores in a booming economy; however, after the economic crisis, they re-prioritized price to be the first store/product attribute, as exhibited by the change in their loyalty from highly recognized brand products to a store that provides lower prices regardless of brand names. The store/product attributes of discount stores satisfied these consumers' needs and wants for price, until the economy started recovering. The improving economy perhaps allowed consumers to return to their shopping behavior before the economic crisis, which was to be quality and fashion-conscious. However, even though the economy was recovering, uncertainty about the future of the nation's economy was described in previous studies of South Korean consumers as restraining consumers from spending as much as before the economic crisis. Although consumers were forced to accept lower priced goods, the South Korean consumer has traditionally wanted high quality brand name products; therefore, consumers wanted more quality and fashionable items than those provided by discount stores with low prices.

This preference for store/product attributes became the base of the emergence of PBH. The results showed that the changed preference for consumers provided part of the justification for importation of discount stores and the emergence of PBH. This finding supported the direct influence from consumers' preference to an emergence of a new retail institution type; therefore, changes in consumers' demographics potentially and temporarily altered consumers' shopping orientations. In turn, these changed shopping orientation affected consumers' preference for store/product attributes, which directly influenced the emergence of a new retail institution as proposed in the CREM. Although the influence from product/situation to shopping orientation was proposed in the CREM, this relationship was not found, which is shown with a circle with Xs inside the demographic circle in the revised CREM (see Figure 6.1). On the other hand, rather than a cause that influenced shopping orientation, the product/situation was the result of changes in shopping orientation. The data showed that, after the economic crisis, consumers changed their shopping orientation as mentioned before, and they reduced their spending on apparel products and leisure.

As noted in the previous evolution sections and in confirmation of the CREM, department stores and discount stores started modifying their characteristics, in reaction to the competition of other retail institution types. In addition, evidence was found in the data that these changes might also have been based on changing consumers' preference. For example, department stores reduced product prices, and discount stores started carrying more quality and

fashionable items while they were still evolving in the vulnerable phase. These changes correlated in dates with the changes in consumer characteristics, which could indicate that consumers' preference affected not only the emergence of a new retail institution but also the evolution of existing retail institutions (see the new relationships indicated by **b** and **c** in Figure 6.1). These findings provided a support that the changing preferences of consumers were both the basis of the emergence of a new retail institution type as shown in the CREM and remained as an influence in the revised CREM, and also influenced the evolution of other institution types.

To continue confirming the process of influence and evolution, the findings showed that the current consumers' preference for store/product attributes, which department stores and discount stores needed to meet, were reestablished based on the store/product attributes of PBH (i.e., low prices, higher quality, more fashionable items). Department stores and discount stores needed to change their attributes because consumers were looking for low prices and waited for markdowns in department stores before buying, and were looking for quality and fashion in discount stores. Therefore, one possible assumption is that consumers were trying to find their preferred store/product attributes, which were reestablished from the PBH, in department stores and in discount stores. Interpreting the data using the relationships of the CREM, the store/product attributes of PBH became the consumers' preference for store/product attributes, and this changed preference made department stores and discount stores change their characteristics (i.e., evolution). This interpretation of the data supported the influence from  $R_4$  to consumers' preference for store/product attributes (**d** in Figure 6.1) and the influence from consumers' preference for store/product attributes to  $R_1$  and  $R_2$  (**b** and **c** in Figure 6.1) that is newly added in the revised CREM. In addition, department stores and discount stores conflicted based on consumers' preference for store/product attributes. Because consumers preferred prices of discount stores, department stores competed with discount stores by reducing prices, and discount stores improved products to compete with department stores because consumers preferred quality and fashionable items of department stores. Therefore, consumers' preference for store/product attributes contributed to the conflict between two retail institution types. A new relationship is added (**a** in Figure 6.1). Based on all findings from the data, the CREM was revised and the final CREM is proposed.

### Final Combined Retail Evolution Model

A final CREM was developed based on the revisions and confirmations found in the data (see Figure 6.2). New relationships were placed in the model, partially supported relationships and processes were indicated as such, and the unsupported relationships were removed. Some conclusions can be made from the final CREM. Because of the lack of completeness observed in the CREM through the comparative analysis, this revised model fulfilled the final objective, Objective 4.

For the spiral evolution of retail institution types, specifically department stores and discount stores, three main conclusions can be made from these results with implications for the final CREM. First, for South Korea, the retail institution types of the department store and the discount store were imported into the market as mature stores and did not experience the features predicted to belong to a new or entry phase retail institution type. Second, all types of indicators did not continuously increase but fluctuated whenever environmental influences appeared to interrupt the growth. Third, the fluctuations were shown not only in the vulnerable phase, but also during the mature phase. In the final CREM, this is shown as an irregular spiral evolution (see circles with dashes and dots in Figure 6.2). One reason for the variance in spiral evolution, which was different from that in Western countries, might be that discount stores and department stores were imported from Western countries as mature retail types, whose operating cost had already reached a peak. They began exhibiting further maturity growth early, skipping the entry phase, and appearing to enter quickly into the vulnerable phase. Likewise, the PBH was created or originated in South Korea. If the PBH is imported to other countries, the PBH is predicted based on the final CREM to meet the trade-up phase (i.e., mature phase) sooner than the PBH did in South Korea.

The variation may also be explained with environmental influences discussed in this study, which can be unique from one country to the other. Environmental influences continuously affected retail institutions and made indicators fluctuate. However, this fluctuation may be different because of the uniqueness of environments in a country. The final CREM was also adjusted based on this result of multiple spiral directions. A newly added symbol in the bottom of the spiral expresses four different endings of spiral evolution: (1) upgrade, (2) stay the

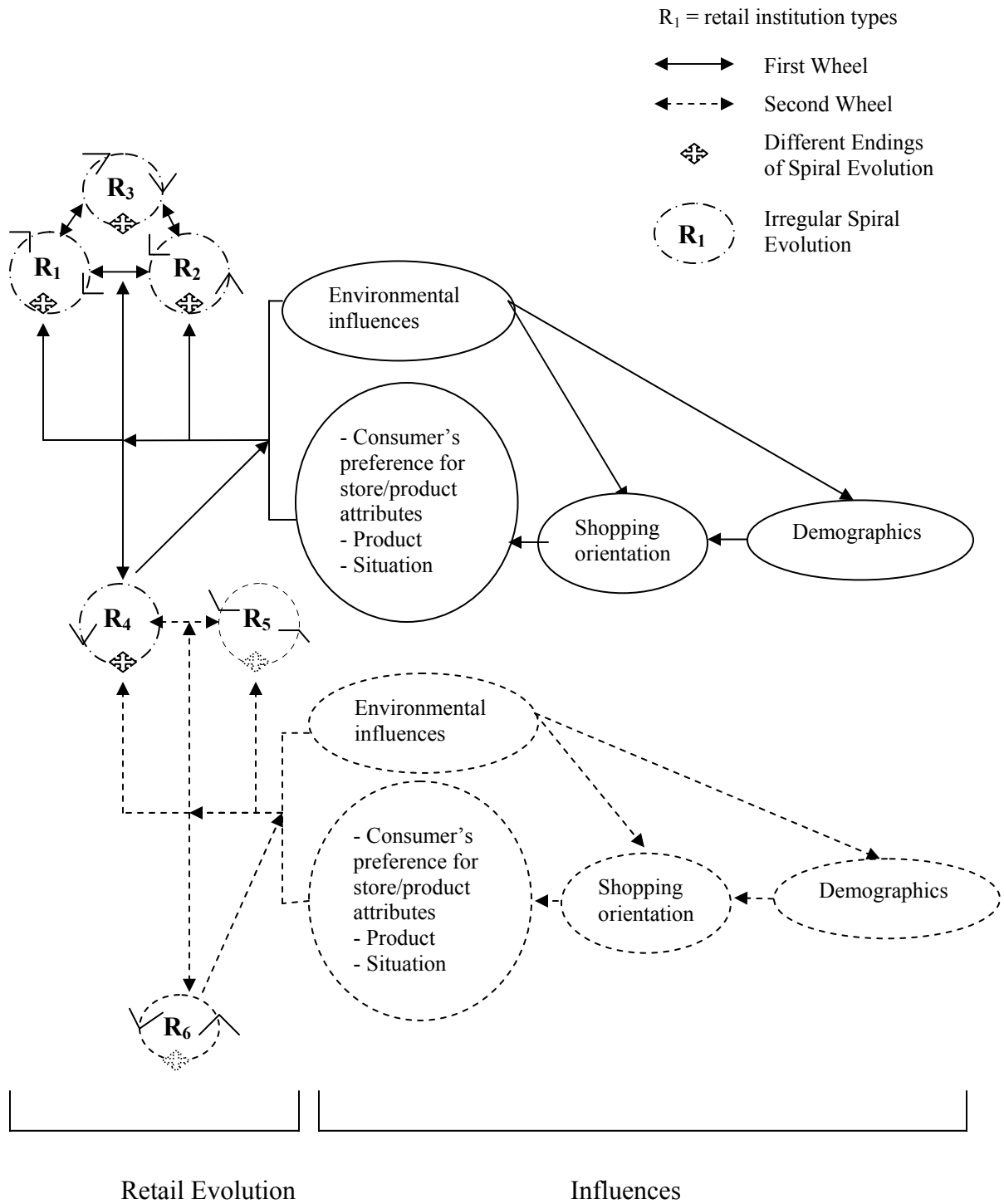


Figure 6.2. Final Combined Retail Evolution Model

same and eventually go out of business, (3) downgrade, or (4) transfer to a different type of retail institution (see Figure 6.2). Only the upgrading option was predicted in the original CREM, but the data showed that department stores took all four different options for spiral ending, and although other retail institution types took only one or none of spiral ending options yet, other options are still remaining as their future spiral endings.

Evidence was found that environmental influences could both negatively and positively affect retail evolution, depending on the type of environments and the characteristics of the retail institution type. A positive environment to one retail institution type could be a negative environment to another retail institution type depending on the characteristics of that retail institution, and, within a same environment type, the impact was different based on the method of response by retail institution types. Depending on environments and retailers' reaction to the environments, the institution type's spiral evolution pattern and lifecycle were decided.

Normally, retail institutions respond to environments, which are not controllable by their managers, by adjusting their attributes, which are controllable. However, the result showed that retail institutions could change, if not control, environments including consumers by providing attractive attributes (i.e., the reverse relationships from a new retail institution type to environmental influences and consumers in the final CREM) (see Figure 6.2). In the findings, attractive attributes increased consumers' store patronage of a new retail institution type, which ultimately manipulated environmental influences. This relationship was supported even though few researchers previously showed an interest in this relationship.

As found from the data, consumers were affected by environmental influences and attributes of a new retail institution type. Consumers had a set of preferred store/product attributes; however, priority of these attributes appeared to be flexible based on what resources were currently available, such as information, income, technology, and low-priced but fashionable products. As shown from the data in this study, consumers could also be manipulated by retail institutions. If a retailer provides and meets consumers' preferred attributes, a retailer can alter consumers' change, whether or not environmental changes affect consumers. This relationship is also shown in the final CREM as an arrow from R<sub>4</sub> to consumers' preference for store/product attributes (see Figure 6.2).

In a change in the influence direction, the product/situation was found to be not the cause but the result of changes in shopping orientation. The data showed that, after the economic

crisis, consumers reduced their spending on apparel products and leisure an indication of a changed shopping orientation. This influence is shown in the final CREM by moving product/situation from the demographic circle to the consumers' preference for store/product attribute circle (see Figure 6.2).

In summary, the CREM, although lacking completeness for all aspects of South Korean retailing, was partially supported through the constant comparison analysis with the data. With modifications, the retail portion of the CREM was supported, including the spiral evolution and the conflict among retail institution types. Environmental influences affected consumers' demographics and shopping orientation, which ultimately affected consumers' preference for store/product attributes. Both environmental influences and consumers' preference for store/product attributes had a reciprocal relationship with a new retail institution type. In addition, these two variables influenced the evolution and conflict of existing retail institution types. Two relationships were not supported by the results. Instead of a direct relationship between environmental influences and consumers' preference for store/product attributes, indirect relationships through consumers' demographics and shopping orientation were found, and a relationship between products/situation and shopping orientation was not found. Based on the results, the CREM was revised as shown in the Figure 6.1, and the final CREM appears as shown in the Figure 6.2.

The final CREM was evaluated by the criteria developed by Beach (1999): purpose fulfillment, credibility, usefulness, and possibility of development. The CREM met these four criteria. To fulfill the purposes of theory, a model should be able to organize observations, explain phenomena, and generate new ideas and research. The CREM organized statistic data and explained the retail evolution phenomena in South Korea. Credibility can be achieved by controlling the process of development when forming the model. The data analysis and comparative process was done by a controlled process with documentation and checking procedures. Usefulness of a model is judged in part by the variety of contexts in which it can be used. The CREM was built with the information from retail evolution studies based on retailing in Western countries, primarily the United States, and was tested with the data from South Korea. Most of the relationships, variables and the primary themes were supported. In addition as discussed in implications, the final CREM provides a way to predict the process of retail evolution. Finally, the CREM provides room for improvement whenever unexpected influences,

variables, and relationships are found, as shown in the changes from the original CREM, the revised CREM and the final CREM. For example, the CREM generated new ideas, which were not found in previous studies, and these were easily placed in the final version.

### **Summary and Conclusions**

According to the data analysis, the CREM was partially supported and refined. Regarding the first theme of patterns of spiral change, all types of indicators (e.g., sales, profit, market share, operating cost) did not continuously increase as retail institutions mature, which was in contrast to the CREM, but fluctuated whenever environmental influences interrupted the retail growth. In the vulnerable phase, four paths, taken by retail institutions for a spiral ending, were found: (1) upgrade, (2) stay the same and eventually go out of business, (3) downgrade, and (4) transfer to a different type of retail institution. The second major theme of the effects of conflict in the CREM was supported. Additional evidence was found that a new retail store also starts competing with other retail stores within the same retail institution type as the number of stores significantly increases. As time passes, this new retail institution type starts competing with its own type, other traditional retail institution types, and a new retail institution type.

For the third major theme of influences, which were proposed to affect the emergence of a new retail institution type in the CREM, environmental influences included social, technological, legal, economical and cultural/geographical conditions. These environmental influences affected not only the emergence of a new retail institution type but also the conflict among retail institution types and the evolution portion. These new findings were added in the CREM. In addition, the evidence found that a new retail institution in South Korea influenced retail environments; therefore, a reciprocal relationship was found between environmental influences and a new retail institution type, and added to the CREM. A direct relationship between environmental influences and consumers' preference for store/product attributes, as proposed in the CREM, was not found. Instead, environmental influences directly affected consumers' demographics and shopping orientation. The CREM was revised to reflect these new findings and the changes to previous relationships.

Further describing the consumer influence variables, the data showed that changes in consumers' demographics altered consumers' shopping orientations, and in turn, these changed

shopping orientation affected consumers' preference for store/product attributes, which directly influenced the emergence of a new retail institution. Therefore, the proposition in the CREM was supported that consumers have an influence on the emergence of a new retail institution. In addition, new relationships were found. The result supported that consumers' preference for store/product attributes originated the conflict between two retail institution types and influenced the evolution of existing retail institutions. In addition, the store/product attributes of a new retail institution type became the consumers' preferred store/product attributes, and this change in preferences made existing retail institution types change their characteristics. Therefore, a reciprocal relationship between consumers' preferred store/product attributes and a new retail institution type was found. The CREM was revised based on these findings and the final CREM was proposed.

### **Implications**

This study could provide a framework for retail businesses as they strive to gain a competitive advantage over other retail institution types. The CREM was developed using a synthesis of previous retail evolution studies and analysis with statistical data from a nonwestern country for quantification of the model. Differences were found between the CREM that was proposed based on the primarily Western theories and previous research and the data from South Korea. Retail evolution in other nonwestern countries may also be found to have similar characteristics as proposed in the CREM: (a) the evolution process is shortened, (b) cyclic phases are not the three clear phases, and (c) influences may be more interwoven than previously known. These findings may imply that the retail evolution process is geographically diverse or that the process is evolving with time. Researchers should not automatically assume that one of the traditional or previous models can be readily applied to any retail evolution process. Some variation may exist when some variables or relationships in the final CREM are not proven or not supported in other retail institution types and in other countries; however, the final CREM covered all major variables and relationships from the previous research and added new variables and relationships from the analysis of this study. The CREM should be usable as model that could explain more various retail evolution situations than any of the previous more narrowly focused models.

For retail businesses, especially in nonwestern countries, the relationships found in this study indicate that retailers in South Korea could examine ways to exploit their environmental changes, predict consumers' changes depending on these environmental influences, and gain competitive advantage over other retail businesses. Using this study could provide a more authentic prediction about the direction of evolution in terms of retail offerings. The relationships in the CREM predict that competitive advantages can be achieved to provide benefits to customers. In other words for retailers, this study provides direction to the ultimate goal of retail operation, which is to maximize the value of attributes that consumers prefer. Because the maximization of the value could alter consumers' changes in favor of a specific retail institution, retailers need to put an effort into negotiations among values of attributes to produce maximum value of each attribute based on the cost efficiency and potential profit.

Finally, the CREM provides information about a retailer's control over the future of retailing, by predicting the emergence and characteristics of a new retail institution type through analyzing current retail institution types. The final CREM includes predictions about the future possibility of a new retail institution type. Using the information from the CREM, a future scenario is predicted in the following example. If a retailer chooses a path that adjusts well, the store type could extend its lifecycle; however, because the lifecycle of a retail institution appears to becoming shorter than noted in previous research, a retailer should respond quickly. If a retailer decides to stay static and tries to avoid evolution, the store type might serve a niche market, especially consumers who prefer the traditional retail type as they are accustomed to finding it, but that market size becomes smaller. Even though a retail institution type does not change or evolve, their market will be reduced; therefore, the only viable choice for retailers is to take any ending option of the spiral evolution, except to stay static or without change. Knowing consumers is the core of a retail operation; therefore, knowing the reason for consumer change is to be able to predict the direction of retail changes (i.e., evolution) that provide a competitive advantage and ultimately increase store patronage.

### **Recommendations for Future Research**

This study provides many possible research topics. As a first topic, an explanation is needed whether a retail institution enters into the vulnerable phase because its sales volume starts

decreasing, or sales volume decreases because a retail institution enters into the vulnerable phase. The data did not clearly illuminate the cause and effect relationship. As a second topic, the precise criteria/definition of maturation is needed. Future research can generate better criteria and measurement schemes to indicate more precisely, what is maturation of a retail institution type. As a third topic, future researchers can examine the relationships between a new retail institution type and the consumers' shopping orientation, and between the product/situation variable and the consumers' shopping orientation, which were not confirmed through the data in this study. As a fourth topic of study, the CREM is tested in only one country in this study, so future researchers can test other or multiple countries, which perhaps have different retail environments. This stream of research could lead to finding other significant variables and relationships, and to increasing generalizability. As a fifth topic, employing different statistical method can be used, such as Chi-test or t-test, to examine potential significance between numbers from the data. Lastly, in the near future, the PBH might begin to compete with another new retail institution type as the final CREM proposed. Although evidence of this event was not found in the data, longitudinal studies are needed to verify the path of further retail evolution and to increase validity and reliability of the CREM.