

ESTABLISHMENT AND IMPROVEMNT OF CHAINSTORE OPERATIONS IN KOREA

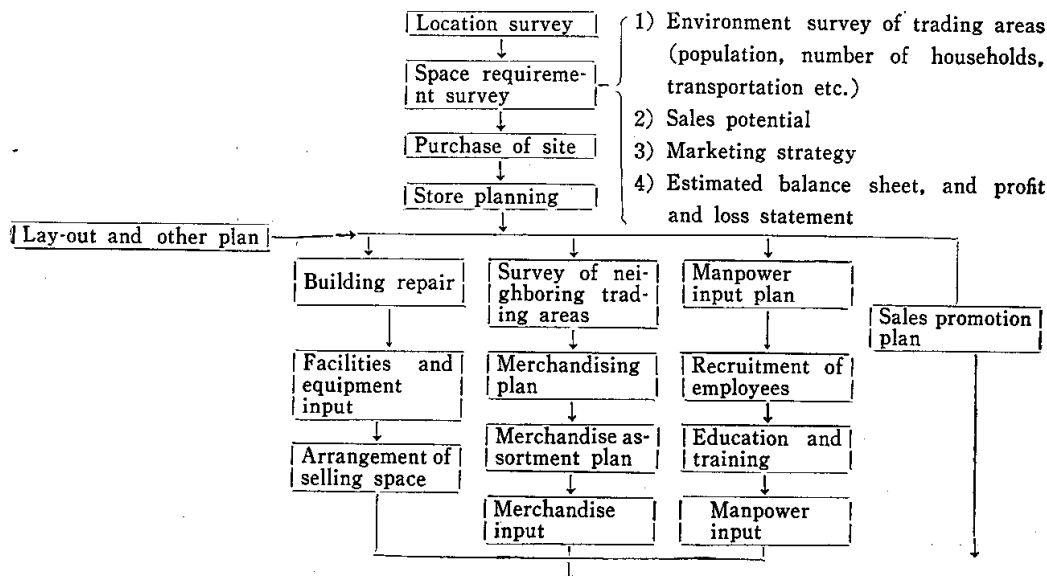
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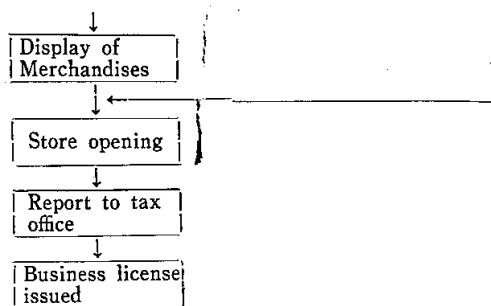
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I. ESTABLISHMENT OF CHAINSTORES

The establishment of supermarkets and chainstores in Korea usually takes the following steps.



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II. PROBLEMS IN CHAIN OPERATIONS

In Korea, the super-chain system has been rapidly growing on the strong support of the government since 1971, but it confronts conventional wholesale and retail stores in a severe competition because it threatens to destroy the existing pre-modern distribution structure.

As a result, supermarkets and chainstores are now faced with the following problems in Korea.

First, they are kept at a distance from producers as the latter tends to preserve the existing distribution channels. In fact, the producers are reluctant to supply their products to supermarkets and chainstores, because the latters are engaged in wholesaling which is strictly prohibited by law for tax evading activity. Supermarkets and chainstores are supposed to sell government-designated commodities such as sugar, flour, liquors, etc., bought from producers at ex-factory prices only to ultimate consumers with the allowed margin in compliance with the government's price control policy.

Second, self-service, one of the merits of supermarkets, poses a problem in Korea; losses of merchandises due to pilferage or damage and deformation of commodities by handling because Korean customers are not well accustomed to this practice of self-service.

Third, most Korean people still rely on house-to-house peddlers and retail stores in the neighborhood for the supply of their necessary commodities

although supermarkets offer goods at somewhat lower prices, and only a few people, merely one per cent of the total population, go to supermarkets.

Fourth, the lack of well-trained managers and merchandisers is another problem facing Korean supermarkets and chainstores. This is an inevitable problem because supermarkets and chainstores started in the country only a few years ago.

III. IMPROVEMENT OF OPERATIONS

1. Location

Supermarkets and chainstores must be located in the place where the population grows rapidly, which is nearby residential quarters, where land price is inexpensive and which is an intersection of roads of busy traffic of pedestrians, where at least four-ton trucks possibly pass through. Places near the areas of high-class houses, existing shopping streets, underground shopping streets and expressways are not suitable as sites of supermarkets and chainstores.

Supermarkets and chainstores must attract 80 per cent of the population in the neighborhood as their customers. The space of the site remaining idle after constructing the store building can be used as a parking lot. There is no need to set a large parking lot, as supermarkets in the United States do. In countries like Korea and Japan, 90 per cent of the customers come to supermarkets and chainstores on foot.

The distance between stores in a chain should be 1.5 kilometers so that other chainstores may not make inroads into it. There should be no more than seven-minute-walking distance for each customer, and there must be a supermarket or chainstore in a planned shopping center.

2. Floor Space

At present, the selling space of supermarkets and chainstores in Korea is

usually 100 pyong to 200 pyong* but it should be at least 350 pyong. If possible, it must be so planned as to increase to 500 pyong in consideration of the possible store expansion in the five year future.

In Japan, only 10 stores could survive out of 100 supermarkets after 15 years, and this was because most supermarkets started with a very small floor space.

The total building area of a supermarket or a chainstore is usually computed in accordance with the following formula.

$$\text{BUILDING AREA} = \text{SALES AREA} \times \left(\frac{10}{8} \text{ or } \frac{10}{9} \right)$$

A selling space of at least 200 to 300 pyong of the first floor makes customers feel like going up to the second floor. The aisle in the store must be 1.5 meters wide or more and commodities must be piled up to the height of the eyes level. In the stores with a selling space of less than 200 pyong, plastic-made hand baskets are more convenient than carts and hand baskets should be replaced by carts gradually as sales increase. Carts are preferable in stores with a selling space of more than 300 pyong, with many customers who buy more than 10 items at a shopping, or with aisles having width of more than two meters.

3. Chain Operations

A. Organization

1) Specific Sales Responsibility System

The store manager should be employed under a contract in order to increase management efficiency, and when he fails to meet the contract terms (specific numerical sales target) he may be laid off or his pay may be reduced. This system will make the store managers strive for an increase in net profit. The discrepancy between the planned sales

* One pyong is equivalent to 36 square feet (6'×6').

and the actual sales must be less than two per cent.

The merchandiser should be hired on a one season basis, and store manager, on a one month basis.

In order to train store managers well-equipped with merchandising theories and practice, accounting and leadership, a training fund of 300,000 won* to 500,000 won per capita is required annually and this will make possible a 500-hour training per capita. The training fund must be included in the annual budget and the fund for the chain headquarters must be set aside in separation from the funds for individual stores.

2) Three-stage Organization

The chain must be organized in three stages—top managers, specialists and workers. Under the control of the top managers will be specialists in general affairs, finance, personnel, store operation, purchasing and merchandise development. The functions of these specialists, who perform highly specialized and independent work in their respective fields, without passing the buck to others, will be divided into general staff, service, line-staff, creative line and operation line. A specialist should not hold concurrently additional post in which he is not specialized. The controller system is preferred rather than the accounting department.

B. Planned Operation

In operating supermarkets and chainstores, the plan should be 100 per cent consistent with the result. A 90 per cent achievement of the plan is not a good operation, nor good is a 110 per cent or a 120 per cent achievement of the plan. The permissible gaps with the plan are two per cent in the value of sales, five per cent in the quantity of sales, 0.1 per cent in

* 480 won is equivalent to 1 US dollar as of March 1, 1975.

gross profit rate and 10 per cent in net profit.

To this end, the following measures must be taken.

- 1) Departmental management must be made, as in hotel or department store operations. The controller must check and compute the net profit and the merchandise loss rate of every department of all stores once a month.
- 2) Achievements must be compared with the plan once a month.
- 3) The merchandise inspection should be done everyday and inventory must be made once a month. For each inspection and inventory must not spend more than three hours. The selling prices and costs of merchandises must be accurately grasped by item and they must not be estimated. Merchandises must be procured on a regular supply basis, not on a fixed quantity basis.

C. Standardization, Simplification and Specialization

1) Standardization

All stores in a chain must be uniform in conditions of location, floor space, assortments of merchandises, manpower, building and layout. The only difference should be the site, and there should be no exception in this standardization. They must be also uniform in packaging, signboard, inventory inspection, pricing and even merchandisers' behavior. The standardization of stores must be planned before establishing stores.

2) Simplification

The job of workers must be so simplified that it may be excellently performed by any workers upon employment and even by part-time workers.

3) Specialization

- a) There must be an effort of product development aimed at selling commodities differentiated from the goods sold in other chainstores.
- b) A low price policy must be persued. To this end, chainstores must

put into practice mass merchandising by placing specification orders with producers. Farm cooperatives will grow vegetables specified by chainstores, and supply them to the stores.

D. Training

For an effective training, department head-levels and above managers must prepare training programs in their specialized fields for the conduct of training with stress placed on the following:

1) Recruitment

It is not necessarily required to recruit those who have experience in the retailing business. But it is necessary to employ those who are able to work cooperatively with others in any organization, persons having practical ability rather than theoretical and who will abide by rules. Those in their 30's are preferred rather than those in their 20's and 40's because the latter do not well observe rules or loose. New employees are better than old employees in training.

In order to train one specialist successfully, at least 10 workers must be recruited for training. In other words, ten times the required number of workers must be employed. Training effects should be evaluated once a week and greater attention should be paid to successful trainees than to drop-outs, no matter how many they may be.

The training of a specialist costs 300,000 won to 500,000 won. Trainees must be made to memorize merchandising theories and skills.

2) Training Period

The most important in establishing chainstores is the recruitment and training of technical manpower, especially specialists. If a sufficient number of specialists is available, the establishment of chainstores would be accelerated.

Manpower training for the establishment of a store requires six

months. In order to open a store in every six months, the manpower training must be for three stores at a time. If not, the establishment of even one store may not be materialized.

IV. GOVERNMENT'S ROLE IN DEVELOPMENT OF CHAINSTORES

The Korean government adopted a policy to develop the chainstore system for a reform of the pre-modern distribution structure, the realignment of the trading order, price stabilization, the protection of consumers and the elimination of unnecessary middlemen in distribution channels.

Under this policy, the government established a retailer sponsored super-chain with 100 million won in 1971, with a view to developing the retailing business on a large and cooperative scale. In 1974, it established the long-term marketing modernization plan for the improvement of the distribution structure and provided low-interest rate loan for 1.5 billion won to eight corporate type super-chains in support of their development, while enacting and revising laws in support of them.

The government's financial support in the improvement of the distribution structure between 1971 and 1975 is shown in the following table.

	(Unit: thousand won)				
	1971	1972	1973	1974	1975
Industry Rationalization Fund (to Super-Chains)	100,000	100,000	—	1,500,000	1,500,000
Fund for Modernization of Distribution Channels	—	—	150,000	—	—
Fund for Organizing small, medium groceries chain	—	—	—	—	1,500,000
Fund for Public Market Development	—	—	—	—	500,000
Discount of Commercial Bills	—	—	—	2,000,000	—
Ordinary Financial Institution Loans	30,000	—	—	1,500,000	—
Total	130,000	100,000	150,000	5,000,000	3,500,000

As seen in the above table, it was in 1974 that the government started to put stress on support in the development of the super-chain system in the country. In 1975, the government set aside 3.5 billion won to finance the development of supermarkets and chainstores in an effort to reform the distribution structure. In addition, the government exercises a control over producers avoiding trade with supermarkets and chainstores with regard to their production, supply and factory prices of products in order to insure smooth and timely supply of goods to supermarkets and chainstores.

For modernization of the distribution structure, especially of the retailing and wholesaling, the government is drafting a law promoting the modernization of the retailing and wholesaling, along with revision of the related tax laws.

All in all, the Korean government is endeavoring to improve the pre-modern distribution structure with support in finance, law and taxation, and this is believed to help modernize the country's distribution channels at a rapid tempo. Especially, Korea's super-chain business will thrive in the near future because the government is now placing emphasis on the development of this business as part of its long-term plan for the modernization of the distribution structure.

APPENDICES

1. Super-Chains in Korea As of December 31, 1974

Name of Chains	No. of Stores	Capital (thousand won)
Government Designated Corporate Chains		
1. Hannam Super-Chain	18	160,000
2. Korea Market Super-Chain	17	100,000
3. Whasung Chain	10	—
4. Jaeil Super Chain	9	100,000
5. Lucky Super Chain	7	150,000
6. Mitopa Chain	6	—
7. Shinsegye Stores	6	500,000
8. Miwhadang Chain	2	100,000
Sub-total	75	
(Retailer Sponsored Chain) Semaul Super-Chain	18	
(Designated by Provincial Gov't) Chungnam Super-Chain	17	
Sub-total	110	
(Small Groceries Chain) Modernization Chain	356	60,000
Total	466	

2. Sales of Super-Chains Designated by Government As of December 31, 1974

(Unit; thousand won)

Super-Chain Corporations	Number of Stores	Average Selling Space (Pyong)*	Annual Sales	Average Monthly Sales per Store	
				Sales per Pyong	Sales
1. Shinsegye Stores	6	164	586,936	355.3	58,265
2. Lucky Super-Chain	7	145	726,147	130.4	18,912
3. Jaeil Super-Chain	9	93	453,733	104.7	9,737
4. Mitopa Chain	6	220	1,127,372	174.6	38,417
5. Korea Market Super-Chain	17	93	712,840	117	10,877
6. Whasung Chain	10	106	913,051	180.8	19,164
7. Hannam Super-Chain	18	114	2,610,538	150.1	17,108
8. Miwhadang Chain	2	160	60,480	96.6	15,452
Total (average)	75	136.9	7,191,097	163.7	23,492

*One pyong is equivalent to 36 square feet (6'×6')

3. Productivity by Each Store (Hannam Super-Chain)

(As of September 30, 1974)

Store Names	Monthly Sales (thousand won)	No. of Employees	Selling Spaces (Pyong)	Operating Hours (daily)	No. of Customers (monthly)	Average Purchase per Customer at a shopping (won)	Sales per Employee (daily) (won)	Sales per Pyong (daily) (won)	Sales per Operating hour (thousand won)	Remarks
Hannam	36,650	22	162	10 (hours)	18,753	1,819	55,530	7,541	122.2	
Donggyo	29,560	20	154	12	33,310	926	49,333	6,407	79.3	
Hyaewha	14,351	14	60	11	21,349	661	34,169	7,973	43.5	
Jaedong	17,514	15	89	11	26,064	660	38,921	6,559	53.1	
Ah-hyong	14,943	15	78	11	25,564	587	33,207	6,389	45.3	
Royal	20,636	16	92	11	28,793	705	42,993	7,477	62.5	
Yunhee	18,840	15	90	11	19,071	967	41,868	6,978	57.1	
Yunchon	14,840	15	18	11	25,099	617	32,979	4,192	45.0	
Jungnyng	10,366	14	74	11	23,081	504	24,680	4,669	31.7	(1) shows only 18 day's operation
Soosaek	9,893	10	160	11	10,179	660	32,977	2,061	30.0	
Yangji ⁽¹⁾	5,560	8	80	11	13,449	413	23,169	2,317	28.0	
Average	17,472	15	105	11	21,431	774	39,267	5,566	53.0	

4. Financial Statements Analysis

(Hannam Super-Chain)

	1973	1974	Remarks
	(%)	(%)	
Current Ratio	173.0	192.5	
Fix Assets to Net Worth	78.0	88.6	
Liabilities to Net Worth	93.0	210.0	Long-term loan included
Net Profit to Net Sales	1.33	1.19	
Gross Profit to Net Sales	11.96	11.4	
Net Profit to Net Worth	10.26	17.0	
Net Worth Turnover	7	20.3	
Inventories Turnover	12	12.8	
Gross Margin	—	12.5	
Marketing Costs in Percent of Total Sales:			
Personnel	—	4.7	
Rent for Store	—	3.9	
Transportation	—	5.5	
Packaging	—	0.72	
Advertising	—	0.15	

5. Stock Turnover Rate
(Hannam Super-Chain)

Items	Stock portion	1st qtr.	2nd qtr.	3rd qtr.	Remarks
1. Meet	(%) 16				3rd qtr's low rate is due to increase of storage
2. Marine produce	4	14	9	7	
3. Agricultural produce	13	48	25	19	
4. Processed food	26	4	4	5	
5. Groceries	21	9	8	7	
6. Household goods	6	2	1.3	1.2	
7. Fiber goods	3	1.5	2.2	1.4	
8. Sundry goods	11	2	2	3	
Total & Average	100	5.2	5.0	4.4	