The Growth Strategy of A Department Store

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I. The Birth of Shinsegae Department Store
II. The Failure of Expansion
III. Rebuilding Competitiveness Through Rational Management
IV. Differentiation Strategy

V. Prior Occupation of Market Opportunities
VI. Diversification Strategy
VII. Challenges Coming
VIII. Discussion

I. The Birth of Shinsegae Department Store

The history of Shinsegae Department Store began in nineteen sixty-three when Samsung, then one of leading business corporations in Korea, purchased the department store building that used to be the Seoul Branch of the Japanese Mitsukoshi company. By the 1960s the retail market in Korea consisted of nothing but premodern business facilities with small family-run stores and traditional marketplaces. The so-called department stores that existed at that time were not the kind that were operating in the West but were buildings in which independent store owners rented spaces, and there was no systematic methods of retail management in practice.

Shinsegae Department Store started out as the first Korean department store with direct management system and unified marketing methods. The first thing for Shinsegae to do was to bring a stop to premodern style retailing practices, such as uninvited solicitation and price conferring, and to provide the motivation to sell high-quality products at fixed prices.

The next innovative method Shinsegae adopted was the refund system which was then

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a revolutionary idea enabling Shinsegae to increase the trust of customers. Then, Shinsegae introduced the credit card system bringing Korea one step closer to a credit society. The credit card system served as the turning point in the traditional credit and installment sales methods.

II. The Failure of Expansion

During the seventies, these new methods of retail management yielded highly positive results and, encouraged by these results Shinsegae opened several branch stores in Korea. In addition Shinsegae ventured to participate in the supermarket business, the distribution system of everyday goods. The supermarket system with the Western style self-service was introduced to Korea in the late sixties. The Korean government recognized the system as a modern method of retail business, and thus encouraged the opening and expansion of supermarkets. Shinsegae began to operate five supermarkets by 1974 in the suburbs of Seoul.

The business expansion in the 1970s was not limited to the domestic market. In order to learn the management techniques of department stores in developed countries and gather information about foreign products, Shinsegae began to run a variety store in Bronx, New York in 1974. However, all these expansions were met with depression in the wake of the international oil crisis. Reasons for the failure were not simply in the depression. Shinsegae lacked in expert manpower to support the expansions, and overlooked the importance of rational management of retail business such as merchandise sourcing. Eventually Shinsegae had to close down not only all the branches in cities other than Seoul, but also all the supermarkets in the Seoul area and the store in New York. It was the biggest crisis in the history of Shinsegae. Finally Shinsegae recognized that irrational business expansion without necessary expert manpower and knowledge to run a multi-store retail business system was the major cause of their failure. However, this experience of failure has been a valuable lesson that has served as the foundation upon which, after two decades, Shinsegae has built an enterprise with capable people, state-of-the-art marketing knowledge and an extensive merchandise
sourcing capability.

II. Rebuilding Competitiveness Through Rational Management

Shinsegae started to rebuild itself from its failure by adopting new strategies and setting up a new structure. The first strategy they chose was to raise the competitive strength of their products by focusing their efforts on one particular department. The first department was that of men's shirts. At that time the manufacturing industry was stronger than the distribution industry in organizational power. Clothing manufacturers were supplying department stores with products that were compromised in quality at high prices. Shinsegae had the manufacturers submit their cost estimates and established strict supervision system over price and quality of products. Gradually the voice of manufacturers became weakened. Shinsegae trained their distribution experts systematically for quality control. Consequently Shinsegae's men's shirts department became the best of its kind in Korea. Men's shirts sold at Shinsegae became the talk of the upper-class society in Seoul and Shinsegae's shirts became the most popular in Korea. Following the success of the men's shirts department, the pants department, the blouse department, and other individual item departments were improved one after another. Further, Shinsegae started to make a customer list and began to keep track of and provide quality service to customers.

The results of all these endeavors proved to be a remarkable increase in sales profits as well as definite improvement in the quality of the department store itself. The marketing and management methods of Shinsegae became the benchmarks for other department stores to measure themselves against.

The late seventies in Korea was marked by the fact that Korea's per capita GNP rose to one thousand dollars. The national economy had established a certain level of stability and the department stores were growing at an accelerated speed. Large corporations as well as many small and mid-size businesses were getting involved in the distribution industry in all major cities. Shopping malls, which used to be aggregation of rented stores were transformed into direct management department stores and many department
stores were opening their branches in Seoul and other major cities.

Shinsegae opened their second Department Store in Seoul in the southwestern suburb, Youngdeungpo. The opening of this second department store was such a huge success that they had to close the main gates seven times in an attempt to restrict the number of people getting into the store. There were just too many customers who had come to the opening. Encouraged by these successes, Shinsegae started the operation of the Dongbang Plaza Shopping Center in the midst of metropolitan Seoul.

IV. Differentiation Strategy

In the late eighties, economic progress continued and the Seoul Olympic Games brought increased demand. Thus department store business was very good. As a result many giant department stores opened for business in Seoul and other major cities. Gradually the competition became much more intense. In order to compete with the rivals, some of which had larger buildings and better facilities, Shinsegae began a marketing strategy that emphasized differentiation by raising the quality of goods and developing private brand merchandise. For instance, in sourcing fruits to be sold at Shinsegae, the purchasing personnel actually tasted all the fruits that were available in the whole-sale market and only dealt with the best tasting, best quality fruits.

Through the Research Institute of Distribution, Shinsegae gathered and analyzed information on management methods of developed nations and prepared for changes in the management environment of the future. Through the Research Institute of Goods, Shinsegae concentrated on improving the quality and dignity of their products. Beginning in the mid-eighties Shinsegae signed technology collaboration and merchandise exchange contracts with the Mitsukoshi Department Store and the Seibu Department Store of Japan and continued to acquire the management know-how of developed countries. Shinsegae introduced the POS system when they were opening the second Shinsegae in Youngdeungpo.

In order to systematically train their employees, Shinsegae founded Shinsegae Training Center for education specializing in distribution marketing on a land of over one hundred
and forty-two thousand square feet with approximately twenty-two billion won. In this training center, they train their employees so hard that the Center is referred to with the nickname “the military school of distribution.” In fact many capable people who were trained at the training center and became experts in the retail business are showing prominence in various related distribution areas in Korea, even after they left Shinsegae.

When Shinsegae was introducing the POS system, they founded the Korean Bar Code Center together with the Korea Chamber of Commerce and Industry in order to establish the bar code system in Korea. Shinsegae also played a positive role in transferring various technologies to other small-and mid-size department stores in other cities in Korea. On the basis of social trust earned through these various service, Shinsegae went public in nineteen eighty-five. At that time, there was considerable participation from Shinsegae’s customers, including housewives, and thus it again became evident that Shinsegae was trusted and loved by their customers. Further, ten percent of their new stocks were always given by priority to their employees so as to make the company an employee owned and operated enterprise.

V. Prior Occupation of Market Opportunities

In advanced countries like the United States businesses such as Walmart, K-mart, and Price Club had already begun to lead the distribution industry in the eighties through the discount marketing strategy. However, even in the nineties, eighty percent of the retail market in Korea was still occupied by traditional marketplaces and family-run small stores. Thus Shinsegae began to pursue various other business methods in retailing as they moved into the 1990s. Korea achieved a GNP of ten thousand dollars in the mid-nineties accompanied by the formation of solid middle-class population with the spread of automobiles, increase of working women and construction of large apartment complexes. With these new waves, Shinsegae predicted that discount stores could also be successful in Korea. With this faith in mind Shinsegae decided to open a discount store in Korea. The preparation for the opening of a discount store was not easy. Until then, the pricing system of goods was still controlled by the manufacturers and when a retail store sold at
a price that was lower than the recommended price, manufacturers would stop their supply altogether. Furthermore, within the company fundamental doubts were raised as to whether a top-ranking department store could also run a discount store.

Despite all these difficulties, the project team responsible for the preparation of the discount store developed a Korean style discount marketing strategy. Finally in December, nineteen ninety-three, the first Korean variety discount store, E-Mart was opened in the northern apartment residential area of Seoul. The letter ‘E’ in E-Mart represents “Everyday Low Price, Economy, and Ease.” It was a huge success.

Together with E-Mart, Shinsegae also started Price Club as a membership warehouse wholesale club in cooperation with the Price-Costco Company of the U.S., opening the first store in Yangpyongdong, Seoul. As of June 1997, Shinsegae is operating six E-Mart stores and one Price Club. The discount marketing strategy that Shinsegae initiated stirred significant reactions from both the distribution industry and Korean society as a whole. For the middle-class housewives who were suffering from high prices of everyday goods, it was sheer good news. Customers came from ten to twenty kilometers away. The Korean government actively encouraged the opening of discount stores as a means of stabilizing retail prices and both the media and academic circles actively began to do research, triggering a revolution in distribution. Thus the phrase “price breaker” was born.

As distribution businesses grew at much faster average rate than manufacturing businesses in Korea, large enterprises in Korea are planning to participate in the discount store business. Moreover, the opening up of the Korean distribution market according to the WTO system, direct and indirect participation from multinational distribution enterprises such as Carrefour and Makro has started.

Shinsegae began to import world-famous brand names such as Giorgio Armani, Escada, Paul Smith and Calvin Klein and have started selling their merchandise through the many directly operated specialty stores as well as through department stores. Shinsegae expects that the importation of famous foreign brands will not only aid in the differentiation strategy of Shinsegae but also help to acquire the know-how of developed countries and thereby assist them in their globalizing movement, bringing them closer to
the international fashion industry.

\section*{V. Diversification Strategy}

Shinsegae has started to promote the diversification of their businesses. Already in the eighties, Shinsegae had purchased Chosun Hotel and a financial company, thus providing firm grounds to transform Shinsegae into a group level corporation. They have also separated a design company called Design Shinsegae, a food distribution company called Shinsegae Food System, and a fashion export and import company called Shinsegae International from the Shinsegae Department Store and have begun the diversification of their group in related industries. Shinsegae Food System, in particular, is not only participating in the already existing distribution business of food materials, it is also participating in the restaurant business.

The company expansion in the mid-nineties is not restricted to the domestic market. In the past, globalization of the company meant technical cooperation with foreign advanced companies or the introduction of famous foreign brands. Now in the nineties they opened a department store in Shanghai, China, and have thus established the first stepping stone for the development of the international market. Shinsegae's entry into the Chinese market was the first of its kind for the distribution industry of Korea. In February 1997, Shinsegae also opened an E-Mart in Shanghai. Owing to these business expansions, the overall increase in sales in nineteen ninety-six rose three point five times over that of nineteen ninety-one. Their nominal assets increased two point three times; the labor force two point six times. In particular, their sales within the same period showed a thirty percent increase each year.

\begin{table}[h]
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\begin{tabular}{llll}
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Total Sales (in billion won) & 529.2 & 1,843.2 & 3.5 \\
Nominal Assets (in billion won) & 760.0 & 1,775.0 & 2.3 \\
Labor Force (persons) & 2,400 & 6,300 & 2.6 \\
\hline
\end{tabular}
\caption{Growth of Shinsegae}
\end{table}
Shinsegae's goal for the 21st century is that by two thousand and three they will achieve fifteen trillion won in sales and become a member of the top one hundred worldwide distribution enterprises. The basic direction for their business expansion is that they will grow into a total distribution service group on the basis of localization, globalization and diversification, and they have set up their future business areas into four divisions: distribution, finance, service and information as shown in Table 2.

VII. Challenges Coming

Since the early 1980s Shinsegae has enjoyed continued progress. However, as they move into the twenty-first century they are faced with Challenge in business environment and thus are in need of a new frame of strategy to handle the future. The first challenge to Shinsegae is the opening up of the Korean distribution industry to foreign investments according to the WTO system. Makro, Carrefour, Walmart, and Toys-R-Us are already planning to enter the Korean market. In addition to the entry of foreign businesses, competition among Korean businesses is also intensifying. Large enterprises such as Samsung, Daewoo and DongA are beginning to participate, while already existing distribution enterprises are actively pursuing multi-store strategies.

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<tr>
<th>Distribution</th>
<th>Service</th>
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<tbody>
<tr>
<td>Department Stores</td>
<td>Hotel</td>
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<tr>
<td>Discount Stores</td>
<td>Restaurant</td>
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<tr>
<td>Specialized Stores, Direct Sales</td>
<td>Interior Decoration</td>
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<td>Trading in Fashion Products</td>
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<tr>
<th>Finance</th>
<th>Information</th>
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<tr>
<td>Total Financing</td>
<td>Software Industry</td>
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<tr>
<td>Safety Deposit Companies</td>
<td>System Integration</td>
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<tr>
<td>Finance Companies</td>
<td>Cyber Shopping</td>
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<td>Credit Cards</td>
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Moreover, problems in high wages, high priced real estate, and high interest rates have worsened the business environment. Added to these problems, they expect more difficulties in the transportation of goods due to increased traffic. They also expect that the growth rate of the Korean economy as a whole will gradually decrease. These negative conditions will reduce the growth rate of customers' expenditures and thus make it difficult for the distribution industry to enjoy its past growth.

The future of distribution is moving toward Cyber-shopping with the use of information and communications technology. Shinsegae is getting ready with such changes. Eventually they will have to enter the information and communication industry for their retail enterprise.

At present, Shinsegae is running a management revolution campaign called the SQ-Twenty-One, short for Shinsegae Quality Twenty-One, with emphasis on employees, system and merchandise. SQ-Twenty-One is a management revolution campaign that aims to raise the level of the quality of Shinsegae in order to become the leading distribution enterprise of the twenty-first century.

In this campaign, all employees of Shinsegae, from the chairman and executives down to ordinary workers, have set up individual goals to arrive at the world-best level in their own areas, and they are all endeavoring to achieve those individual goals. The basis of this campaign is in "transformation and creation" so that they can build Shinsegae into a stronger and better enterprise.

VII. Discussion

During the past three decades of the 1960s through the 1980s, the Korean economy developed at a faster rate than any other newly industrialized country. As a result the success of the Korean economy came to serve as a model for developing nations in the Third World and eastern Europe. The most important reason that the Korean economy could grow at such a rate was that the government, the enterprises, and the people had united with a unique national spirit: "It is possible if we try." When the first-generation entrepreneurs started their businesses in Korea, they had to start with virtually nothing.
However, they have been successful owing to their endless and painful efforts. Nothing could stop them from building their businesses with an immense will for success and ambition for the expansion of business. In general, these earlier Korean entrepreneurs had clear insight in taking business opportunities, the driving force to boldly push their businesses forward once they have started, a determination to endure all difficulties and wait for the success, and a thorough sense of responsibility for the national economy and society.

The Shinsegae Department Store Group is an example in which those characteristics of traditional Korean management style are well reflected in the area of retail business.