

<CASE>

NEW SEOUL CO-OPERATIVE CHAIN STORE

Chong Yeong Lee

In March 1969, Mr. Park, President of the New Seoul Co-operative Chain Store (NSCCS) in Seoul, Korea, was assisted by the marketing development team of the International Marketing Institute of Cambridge, Mass. to find ways to increase the efficiency and productivity of Korean food retailing institutions. NSCCS was formally organized on Nov. 30, 1968. A detailed plan of operation was completed by January 1969, and it started to operate. However, after an ambitious start, within two months the chain system began to stall. There were differences of opinions among the member store owners of the chain system. The legal status of the chain organization was not recognized by the government. Exchangeable gift coupon system was not working properly, and group purchasing and group advertising ceased.

Activities of IMI Korea Marketing Development Team

Since 1960, the Korean economy had been developing rapidly. During the period from 1960 to 1968, the gross national product doubled and reached 1,125 billion won⁽¹⁾. The amount of export increased 14 times during the same period, and in 1968, exports reached \$500,000,000. Exports were estimated to reach \$700,000,000 in 1969, and one billion dollars in 1970. Gross national product per capita was \$164 and national income was \$138 per capita in 1968. The economic growth marked a sharp upturn since

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(1) Foreign exchange rate was based on floating exchange rate system, and it varied day to day. In 1968, it was around 1 US dollar to 270 won.

1963 and the annual growth rate during the period was over 10% on the average, and it was 13.1% in 1968⁽²⁾.

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Despite rapid economic development, it was generally agreed that the domestic marketing structure was not keeping pace with it. To solve this problem, the International Marketing Institute (IMI) of Cambridge, Mass., U.S.A. was asked both by the Korean Government and US Agency for International Development to make a series of studies and recommendations on how to improve the marketing systems of Korea. IMI was a non-profit organization for education and research in the field of international marketing and distribution. The project was mainly financed by USAID/Korea and partly by the Korean Government.

In September 1967, the IMI Korea Marketing Development Team came to Seoul. It was a four-man team; an export marketing specialist who the chief of the party, an agricultural marketing specialist, an industrial marketing specialist, and a project coordinator.

Among other things, one of the major concerns of the IMI Team was the introduction of modern marketing in retailing in Korea. It seemed that the inability of the retail industry to absorb increasing economic activities was one of the most serious bottle necks in the balanced growth of the Korean economy. As it was pointed out by the IMI final report, "the most

(2) See exhibits and also see E. Chapin; "Success Story in South Korea", *Foreign Affairs*, April, 1969, pp. 560-74.

visible and, at the same time, crucial point in the retail sector was the extremely small size of individual units"⁽³⁾

In 1967, there were about 370,000 retail stores officially registered with the Office of Taxation, and 99.9% or 366,000 of them were individually-owned stores. There were about a half as many little "corner stores" which were usually below the taxable level throughout Korea. Average number of employees were 2.4 men per store. A retail transaction with a consumer usually required a considerable period of time due to the practice of haggling over price and "shopping around". Wholesalers also were characterized as being very small in volume and in scope. There were about 27,000 wholesalers in Korea. Usually the total number of retail accounts for each wholesaler numbered 35 to 40 and represented 60% to 70% of the wholesaler's business; the balance was sold at retail⁽⁴⁾. In many cases, the retailers and wholesalers lacked managerial ability as to inventory control, merchandising, and pricing. Average weekly sales of a food retail store was estimated to be about \$200.

Food retail stores were smaller in size than other retail stores. Until 1966, there was no supermarket operation in Korea. Typically, housewives or maids went to the marketplace every day to shop for food. Most food retail stalls were clustered in market places. These market places were maintained by local governments or private companies. Each market place, except some large ones, had about 200 to 300 food retail stalls or stores, and the market places were usually located within walking distance for housewives. There were about 40 market places in Seoul.

Information on consumer expenditure pattern in Korea indicated that the majority of all family units were spending in excess of 50% of their total income on food. For lower income groups, the estimated expenditure on

(3) IMI Korea Marketing Development Team Final Report, Vol. II, Aug. 1969, p. 5.

(4) Office of Taxation: Taxation Yearbook, 1967.

(5) Many wholesalers also performed retail operations.

food ranged up to 65% of total income⁽⁶⁾. Since food expenditure absorbed more than a half of the total consumer income, it seemed that improvement of food retailing system would have great effect in modernizing marketing structure in Korea. Therefore, IMI Korea Marketing Development Team invited Mr. E. Lee Feller as a short-term (3 months) specialist in retail food marketing to conduct a survey of food retailing and make recommendations to the Korean Government.

Mr. Feller once served as Director of the Office of Food Distribution with the Puerto Rican Economic Development Administration and was largely responsible for the formulation of the first Puerto Rican government action program in the field of food distribution. At the time he was invited to Korea, he was the president of Alliance Associates, Inc., Cold Water, Michigan, which represented over 300 US food manufactures in providing technical assistance in operations and private label development to allied food chains and wholesalers operating throughout the US.

In preparation for Mr. Feller's arrival in Seoul in Sept. 1968, a shopping patterns survey was initiated by the IMI Team, and it was supplemented by Mr. Feller. After three-months of intensive study from Sept. to Nov., Mr. Feller came to the conclusion that it was urgent to increase the scale of operations of retail store units. He proposed that a voluntary food retail chain-system be established in Seoul. Seoul, with its 4,400,000 people in 1968, was the largest and most important food marketing area in Korea⁽⁷⁾. Yet, according to Mr. Feller's conclusion, Seoul was classic in its lack of broad-scale development and utilization of modern food and non-food distribution techniques and institutions. He concluded that if major economical sound changes could be implemented in Seoul, they would be quickly transfer-

(6) Economic Planning Board: Economic Statistical Year book, 1968. For detailed breakdown, see exhibits.

(7) The Total population of Korea in 1968 was 30 million.

red and adopted to other urban marketing areas with marked effects on the smaller towns and rural areas⁽⁸⁾.

In 1968, before Mr. Feller came to Korea, some efforts were made by several companies in Seoul to organize a corporate chain system. Out of eight fairly large size department stores in operation in Seoul, Mitopa Department Store, Inc. was interested in the development of a mixed food and non food discount type chain system. Mr. Cho, Managing Director of Mitopa Department Store, was very active in introducing new marketing techniques and he actively participated in various management training programs. Some interest had been expressed in corporate chain development by the Manager of Building C of the Seun Commercial residential Complex in downtown Seoul. This company established the Sampoong Supermarket in 1968 in the Seun Commercial residential Complex and it was the first real western-style supermarket in Korea, although there were four "quasi-supermarket" operating in Seoul at the time, which all started to operate after 1966. This attempt at retail modernization did represent great effort on the parts of ownership and management of the Sampoong Supermarket to introduce consumers of Seoul self-service shopping under clean, spacious, and generally modern conditions. The market offered most food items available in Korea and most items were sold at prices below competition. The Seoul Eastern Central Wholesale Market, Ltd. was also planning major retailing activities in addition to its present wholesale operations. This company was operating a modern wholesale fish marketing center and was planning to establish a supermarket within a year.

A group of grocery stores in Seoul also was interested in chain store operations. Several years ago, about 200 grocery stores in Seoul organized the National Food Retailers Association as a pressure group, but they had no formal organization nor functions as to collective operation. During the

(8) For excerpts of Mr. Feller's final report, see appendix.

process of IMI's study, the idea of promoting a food retail chain was brought up by members of IMI Team, and they talked to younger members of the National Food Retailers Association. About 20 of the NFRA members were inspired to form a cooperative chain. But they had no experience in chain store operation, and the IMI Team could not offer time to look after them. Experienced knowledge seemed to be necessary. It also seemed on the ground that it would have favorable effect on the Korean economy. IMI looked for a good promoter of the idea. Mr. Feller, a good promoter and a man with experience, was chosen for the purpose and was given the responsibility of promoting the idea to the Korean business community, as well as to the Korean Government, and of giving them technical advice on organizing and implementing food chain store operation. When Mr. Feller completed his survey, the IMI Korea Marketing Development Team organized a seminar, in Nov. 1968, on chain store operation. More than 100 people, businessmen and government officials participated in the seminar which was held at New Korea Hotel in Seoul. The seminar was very successful. Mr. Kenneth weiss, Program Coordinator of the IMI Team recalled:

It was a big seminar and was very successful. He (Mr.. Feller) started by explaining world food revolution. Then he worked down to the situation in Korean and he predicted the future of the Korean food retail distribution system. It was a good sales meeting, a real "dog and pony show. He showed movies and said; 'This is what will happen in Korea! Don't fight it! Help it and make it happen!'⁽⁹⁾

Formal Organization of NSCCS

Inspired by the seminar and by the talks with Mr. Feller before and after the seminar, 13 members of NFRA agreed to organize a formal firm.

(9) For the conclusion of the seminar, see appendix.

Thus, the New Seoul Co-operative Chain Store (NSCCS) was formally organized on Nov. 30, 1968. Membership was open to those who; 1) had more than 3 years of food retail experience, 2) were willing to invest 5,000,000 Won or more for NSCCS, and 3) were endowed with proper cooperative spirit. They agreed to adopt the sign board "New Seoul Chain Store" with exactly the same size and same design for all members. They also agreed on joint advertisement. Same wrapping paper with exactly the same design would be used by all member stores. Exchange gift coupon system was adopted so that a gift coupon issued by a member store would be honored by any other member store⁽¹⁰⁾.

The 13 charter members were relatively large grocery stores. The average monthly sales and profit per store in 1968 were as follows;

Average Monthly Operation per Member Store

Sales	₩1,465,300
Cost of goods Sold	1,252,831
Gross Profit	212,469
Operating Cost	115,660
Wages & Salary	48,160
Rent	30,000
Packing	9,500
Electricity & Water	8,800
Communication	3,600
Delivery	3,600
Maintenance	2,000

(10) Gift coupons were widely used in Korea. If someone wanted to give a gift, he bought a gift coupon from a store which issued it. The coupon specified the merchandise and its quality grade. Anyone who received the coupon went to the designated store and exchanged with the merchandise. He could choose size, design, or color, or he could exchange it with other merchandise in the store if he paid the difference in price. Considerable amount of shoes, suits, shirts, sugar, candy, seasoning and other groceries was sold in the form of gift coupon. Some Stores had national net work gift coupon system.

Misc.	10,000
Profit before tax	96,809
Tax (4.5% of saes)	65,557
Net Profit after tax	31,252
Average Floor Space	16.1 pyongs (1pyong is 36 sq/ft)
Number of Employees	5.2 person (including owner)
Turn-over rate of goods	1.1 per month.

Note: Source; NSCCS Plan

As was shown in above table, average retail gross margin was 14.5% of sales, ranging from 4% to 25% according to merchandises. Typical gross margin for those goods carried by the member stores were as follow;

Typical Gross Margins of goods carried by Member Stores

Sugar	4%
Powdered milk	6
Candies and cakes	20
Bottled liquor	10
Seasoning stuff	8
Fruits	25
Canned goods	10
Dried fish	25
Tea and coffee	22
Subsidiary food	15
Misc.	15
Average	14.5%

Note: The member stores did not carry rice and other grains.

Outline of NSCCS Operational Plan

Having completed his mission, Mr. Feller left Korea a few days before Christmas. After Mr. Feller left, 7 other grocery stores wanted to join the

chain system, and many others were expected to join. In order to accept these stores, NSCCS officials felt the necessity of more sophisticated organization and a detailed operational plan. In early January, six of the charter members worked out a plan titled "plan for Food Distribution Reform and Store Modernization".

According to their estimate, housewives travelled up to 15-minute walking distance (about 1 mile) to shop groceries, and the area covered by one-mile radius contained about 5,000 households. They planned to relocate the member stores so that each store would serve roughly 5,000 households. New stores had to be built in each market area. In 1968, there were about 860,000 households and 4,400,000 people in Seoul. Monthly food bills per person amounted to 1,715 won in 1967 and 2,215 won in 1968⁽¹¹⁾.

They thought that each member store ought to be able to capture 27% of the food bill of the 5,000 households to whom the member store would be serving. Furthermore, although current retail gross margin was 14.5%, it was thought to be possible to reduce the gross margin down to 10%, by selling more at lower price. The estimated monthly operating statement would be as follows;

Estimated Monthly Operating Statement per Store

Sales	₩14,951,000*
Costs of Goods Sold	13,456,000
Operating Cost	468,000
Wage & Salary	175,000
Packing	28,000
Electricity & Water	20,000
Communication	8,000
Advertisement	10,000

(11) Economic Planning Board: Economic Statistical Yearbook, 1968.

Delivery & Transp.	20,000
Maintenance	20,000
Loss of Goods	14,000
Depreciation	60,000
Insurance	13,000
Interest	100,000
Profit before tax	1,026,000
Tax	700,000
Net profit after tax	326,000

* Sales were estimated as follows;

Monthly food bill per person	2,215 won
Average size of household	5 persons
Monthly food bill per household	11,075 won
Total food bill in a service area	55,375,000 won
Target sales (27%)	14,951,000 won

Source: NSCCS Plan

Based on the estimated sales of 14,951,000 won per store, the planners estimated facilities and equipment necessary to build one store. They expected that monthly turn-over rate of merchandise would be 3 times, and merchandise in value of one-third of the monthly sales would have to be displayed in the store. On the average, 93,000 won worth of merchandise would be displayed per pyong (36 sq/ft) of store space. Thus they estimated that about 50 pyongs of store space was necessary for one store.

In addition, a storage (15 pyongs) and office (5 pyongs) were planned for each store. In total, 70 pyongs of building space was estimated to be necessary for one store. Besides the building space, about 30 pyongs of additional land for loading and other operation were added to each store. Freezing and refrigerating facilities were planned to be installed. Thus, the planners estimated that about 23,745,000 won would be necessary to build,

equip and operate one store (see exhibit).

The 13 charter members of NSCCS were all from the city of Seoul, but the planners expected that the chain system would be expanded gradually to neighbouring cities. In order to control the chain system operation, they thought that a central office was necessary. The functions of the central office would include; research, providing informations for member stores, group purchasing, operation of central warehouses, delivery to member stores, co-oprative sales promotion and advertisement, and managerial advice and training for member stores.

Members of Board of Directors of the NSCCS were to be elected from among the member stores. The functions of the Board of Directors would be to review and make decisions on the basic operational policies of the chain. Service of the directors would be honorary and receive no payment. The president would be elected from among the directors and be responsible for the over operation and supervision of the NSCCS activities. Auditors would be elected at General Meeting of all members and he would assisted by a certified public accountant (outsider) for financial auditing. Planned organization chart is shown in exhibit.

Having decided the organization and functions of the Central Office of the chain system, the planners moved on to determine estimated costs and fund necessary to build, equip, and operate the central office. They thought the most important functions of the central office would be group purchasing, warehousing, and delivering to member stores. Cold storage facilities were necessary for this purpose. 85 pyongs of underground warehouse space was planned and it would be equipped with refrigerating facility to maintain 3 to 5 degrees of temperature (centigrade). Also 15 pyongs of underground warehouse was planned to be equipped with freezer to maintain 15 to 20 degrees below zero temperature (centigrade). In total, about 31,788,000 won was estimated to be necessary.

Estimated Fund to build, equip, and operate central office

Building	₩12,500,000
Warehouse equipment	3,788,000
Truck, 4 ea.	4,000,000
Office equipment	1,500,000
Operating fund	10,000,000
Total	31,788,000
* Underground warehouse	100 pyongs
Ground floor warehouse	100
Office	20
Garage	30
Total Building Space	250 pyongs

Of course, the construction would not be completed in the first year of operation. They planned to build office and garage in 1969. One truck was necessary in 1969. The planners planned to rent a warehouse for the year 1969. In 1970 a part of the new warehouse would be built and it would be completed in 1971.

According to their plan, the prime source of fund was their member stores, As of January 1969, each member of the 13 charter members and 7 additional members who joined lately contributed ₩120,000, and the total was ₩2,400,000. The members also agreed to pay membership fee, ₩10,000 per month per member store. It was also decided to issue stocks with par value of ₩50,000 per share to member stores to provide fund required for the planned group purchasing, group advertising, warehouse rent, and procurement of delivery truck. They planned that any member store would be eligible to subscribe to the stocks but the total amount of the stocks to be subscribed by one member store would not exceed one-tenth of the total stock value to be issued.

Since it was expected that member stores would benefit from the group

purchasing at cheaper price, member stores agreed to make a compulsory contribution of 1% of monthly gross purchase every month for five years to finance construction of warehouse and procurement of delivery trucks and other fund for expansion. In return, the member stores would receive loan from the Central Office for their operation. But, in order to facilitate and accelerate construction and expansion, they planned to request a loan from the Government at cheaper interest rate.

Five-Year Plan

The planners agreed that the foregoing plan was too heavy to be implemented within a year or two. Therefore, they thought at least five years would be necessary to complete the construction and to bring the operation up to the desired level. Accordingly, a five-year plan was established. The plan was to start from 1969 and end in 1973. Key informations concerning the five year plan were as follows;

Plan for 1969: As it was explained, the average monthly sales per store was in 1,465,000 won in 1968. Assuming that 30% of the amount, or 439,000 won will be purchased co-operatively through the Central Office, the total group purchase by 20 members will be 8,70,000 won (439,000 × 20), and 1% monthly contribution for 12 months will amount to 1,053,000 won. Rented warehouse will be used in 1969. Until 1968, only 17% of the total food line (in kind) were carried by average member store. The merchandise line will be increased to 21% in 1969, by adding those items which do not require special change in existing store facilities; such as Chinese vermicelli, soy bean curd, carrots, red pepper, cucumber, pumpkin, sweet potato, and persimmon.

Plan for 1970: Each member store will be equipped with partial cold storage facilities and merchandise line will be increased to 33% by adding fresh fish and meat lines. Number of member will increase to 50. Average monthly sales per store will be increased to 3,494,000 won.

Assuming 30% of it would be purchased co-operatively, monthly total group purchasing will be 52,400,000 won ($3,494,000 \text{ won} \times 30\% \times 50 \text{ stores}$). 1% contribution for one year will be 6,288,000 won. A part of the central warehouse will be completed.

Plan for 1971: Construction of the central warehouse will be completed. The year 1971 is also set aside as the year for expanding floor space of member stores by 20 pyongs to 30 pyongs each. In total, 5,000,000 won will be loaned out of the central office's reserve fund to member stores to partially finance this expansion. The loan to the members will be made at 5% interest per annum with 10 maturity⁽¹²⁾. Addition of grains and sea weeds will increase merchandise to 52%. Membership will increase to 80. Monthly average sales per store will be increased to 4,140,000 won. Assuming 30% of it will be purchased co-operatively, the total group purchase will amount to 99,600,000, and 1% monthly contribution for 12 months will be 11,952,000. Another delivery truck will be purchased.

Plan for 1972: Number of members will be increased to 100 and merchandise line will increase to 70%. Monthly average sale per store will reach 4,843,000 won. Assuming 5% of the amount will be co-operatively purchased, the total co-operative purchase will amount to 252,000,000 and 1% contribution for 12 months will be 29,000,000.

Plan for 1973: Average floor space per store will be increased by 50 pyongs and merchandise line will increase to 80%. The Central Office will loan out its reserve fund to finance the expansion of the member stores, at the interest rate of 5% per annum with 10 year maturity. The central warehouse will be expanded and two delivery trucks will be added. The amount of the member's compulsory contribution which exceed the previous amount to member stores.

(12) Bank loan interest rate in Korea in 1968 was 26% per annum.

The plan was rough, but at least it seemed that it gave a hope for the future. The summary of the five year plan is shown in exhibit.

Problems

NSCCS started to operate from February 1969. All the member stores adopted the same store name "New Seoul Chain Store", the exactly same size of sign board with the same design and lettering. Several manufactures of canned food, sugar, confectionary, and seasoning stuff showed interest in NSCCS's group purchasing activities, and they offered to delivery products directly to NSCCS member stores since HSCCS's central warehouse was not ready. Exchangeable gift coupon system was adopted and the coupons were honored by all member stores. Publicity was made through newspapers. Advertisement began to appear on newspaperapers. The Ministry of Commerce and Industry of the Korean Government also showed a great interest.

But soon after it started its operation, NSCCS found several problem areas. First, the lack of proper accounting system hampered further expansion of the gift coupon system. Gift coupons had to be cleared through central office but the accounting procedure at the central office was not precise enough and member store owners doubted that accounting was not accurate. The central office of NSCCS did not seek any outside advice to correct this prolem because member stores did not want to disclose their sales figures. Mr. Felller also did not tell them exactly how to do it.

Another problem area was found among the management themselves. Mr Park, President of NSCCS, was 59 years old and had no formal education, and never studied management or organization through formal training. He started running his own small stores many years ago, and his store became fairly large when he joined the NSCCS. He thought that he had had enough practical experience to run food retail business. Vice

president and manager also were men of similar ages with long years of experience in running grocery stores. Mr. Park, the president, employed two young assistants. Although their official titles were assistant managers, they were not experienced in food business and most of their work was confined to clerical works. One of them was Mr. Song's nephew. The other man was recommended by younger members of NSCCS.

Before Mr. Feller left Seoul, he talked much about the possibility of obtaining a loan from US Government under the Public Law 480, on the ground that it would increase sales in US wheat product. He said that the loan would help NSCCS in building warehouse, buying trucks, and, and purchasing co-operatively, and also in helping member stores build new stores. Therefore, NSCCS member store owners thought that they might be able to obtain from US Government at low interest rate. But the management of the central office did not know how to go through the heavy "red tape" to get the loan. Mr. Weiss, Program Coordinator of the IMI Korea Marketing Development Team said;

We found that there was a possibility of getting a loan from US Government, although the AID people we talked to was less optimistic. But one of the provision of the law was that they could not get the loan unless they put up a certain percentage of fund by themselves. It seemed that they were not willing to meet the requirement. None of them, nor the NSCCS Central Office submitted formal application for the loan. They thought it was all "cream and sugar".

There was also occasional disagreements among the members on various problems. The younger members of the 7-man Standing Committee wanted to seek advice for their operation from an American adviser. They also wanted to do things more "scientific" way, and wanted to introduce an American style of operation as was suggested by Mr. Feller. One of the young members, Mr. Kim, who was owner of a food store, worked with

the IMI Team and helped Mr. Feller when he was in Korea. Mr. Park, the president, and two other older members did not want to have any advisor, Korean or American. They thought that they knew enough about food retail business. They had the experience and they had the age which was respected in Korea. They said that so called "scientific" way did not work in a practical situation. The younger members were against the older members but they would not actively argue very much because of age.

When the Central Office of NSCCS started to operate, the management of NSCCS found that their activities were subject to tax. The Office of Taxation interpreted that the Central Office of NSCCS was a separate business entity. Therefore when they purchased and distributed merchandise to their member stores, NSCCS was taxed for its "wholesale" operation, and when member stores sold the merchandise to consumers, they were taxed again. So there was a double tax problem.

According to the Korean law, activities of co-operative associations were tax-exempt. But the co-operative association had to be approved by the Government. Therefore NSCCS submitted an application to the Ministry of Agriculture and Forestry. The ministry of Agriculture and Forestry turned it down on the ground that it was not an agricultural co-operative since it was composed of retailers, and said that it should be submitted to the Ministry of Commerce and Industry. The Ministry of Commerce and Industry did not accept it because there was no law governing the chain store operation, although there was a law governing manufacturers co-operatives. At the time, the Ministry of Commerce and Industry(MCI) was in the process of formulating a marketing system reform program, based on the recommendation of the IMI Team. Increasing distribution productivity by encouraging small scale retail stores to organize chain systems was one of the MCI's major policy and necessary legislative procedures were under way.

Therefore MCI was very cautious of the successful operation of the first chain system in Korea as it might be regarded as a test case of the Government's plan. To the officials of MCI, NSCCS was not sound enough to be approved as the first chain food retailing operation in Korea, although they could administratively approve the operation. One responsible MCI official privately expressed his opinion; "When we're ready to have that kind of organization, we'll have one."

Mr. Edward Chobanian, Agricultural Marketing Specialist of the IMI Team, saw an important problem in another area of the NSCCS operation;

The basic objective of any group organization like a voluntary chain must be to buy in volume a commodity that is desirable to bring customers into store so that they can buy higher margin products. The biggest mistake of NSCCS, as I pointed out a number of times, was that they did not pick out a basic commodity, such as, rice, barley, etc. They stuck to canned goods and sugar which are not commodities or staples. And they did not go into any vegetables. It was still a difficult concept for people to buy vegetables in a grocery store. They did not pick out a product that would draw customers into store..... The items they thought attractive for the customers and member stores were gift coupons and advertisements. A basic philosophy behind most voluntary group is joint buying, not advertising; advertising is a supplementary activity. In short, the core was missing with NSCCS. They had the roof but they did not have the pillars to support the roof. They were concerned about superficial functions, disregarding the core commodity. The commodity could have been rice, barley, some basic vegetables, or some basic fruits. In a 25-mile radius of Seoul city, there were enough basic commodity producers and they could have picked up the commodities with their trucks. But they did not approach group buying as they have. Instead, they started group-buying sugar, not a basic commodity.

In less than two months after the Central Office of NSCCS started operation, many member stores showed their dissatisfaction as to the assesment of expences for various group activities, such as advertisement, delivery, group purchasing, maintenance of the Central Office, etc. They stopped paying the compulsory 1% contribution. As of March 1969, the level of group activities seemed to be comming to a stand still.

Appendix A

NEW SEOUL CO-OP CHAIN STORE
Exerpts from Mr. Feller's Report

III. The Situation in Seoul

A. General

The estimated total food sales volume in the Seoul area is approximately 65,820,000,000 Won, or \$235,000,000 per year. A 10% reduction in the total food bill in this area would result in a savings of 6,580,000,000 per year in real purchasing power. This increased purchasing power would undoubtedly be reflected in the increased consumption of more and better food. This, in turn, would have a favorable impact on Seoul's primary agricultural producers, and the nutritional level of consumption. The goal of reducing food prices as much as 10% is far from unattainable when one considers the inefficiencies now prevailing throughout the distribution system.....

Retail Sales Volume: While statistical data is difficult to validate, it is estimated that Seoul has 19,000 stores selling food which, together with thousands more small peddlers, serve the food needs of this city of 4,400,000 population or approximately 860,000 households. This means that, as a rough estimate, there is one grocery store for every 46 families in Seoul.... Given the estimate of Seoul's yearly food bill at 65,820,000,000 Won per year, the average yearly food sales per retail food unit would be around 2,869,000 Won, or slightly over \$10,000. Average weekly sales would be 55,173 Won or \$193.

Wholesale Sales Volume: It is estimated that there are 484 dry grocery wholesalers operating in Seoul. Using this figure we can calculate that

there is one dry grocery wholesaler for about every 40 retailers. If the average wholesaler serve an average group of 40 retailers, he would be serving the dry grocery wholesale requirements of retailers doing a combined weekly retail volume of around 2,267,000 won, or approximately \$7,800.....

Gross Margin: The composite of depth interviews with retail operators in Seoul shows that retail gross margins range around 18% to 20% on the general line of dry groceries, 30% on fish, meat, fruits, vegetable, and candies, and from 20% to 30% on various items on non-foods. Basic staple gross margins on items such as rice go as low as 12%.....

Based on modern self-service superette supermarket operations, it is reasonable that the production per full-time employee in Seoul's best food stores could be increased from its present 6,000,000 won to at least 9,000,000 won per year. Present wage costs for the best food retailers in Seoul range around 4%, based on a 12-hour day and a 28-day month. Given these same wage costs and considering the increased productivity that will result from modern self-service superette operations, an average wage costs of less than 3% can be projected. Comparable store-level expenses in a US food market runs approximately 8%.....

Net Profits: Retail operations in Seoul report net profits on sales ranging around 5%. This compares to an average of around 2.5% before taxes in the US. With increased volume, store operators could realize far higher net returns on investment while substantially reducing their percentage of net profit on sales. With an increase in volume, coupled with an increase in modern competitive pressures, it can be expected that net profits as a percentage of sales in Seoul will be reduced by a minimum of 2%.....

Modern food distribution, based on the volume concepts, utilizes the techniques of creating volume by offering a wide range of basic staples at cost or below, and relies on the sale of higher margin products to balance

out the overall gross margin figures. For example, full-line food and convenience non-food superette will some day offer such basic staples as rice and coal at costs below than current price, using these and other basic staples as "lead" items to generate needed volume of a broader range of both food and non-food items. It will of course be necessary to provide a delivery service for both rice and coal since rice can be sold most economically in its original 176 lbs. or 80 kgs. bags, and coal, of course is not an item than can be handled on a self-service basis⁽¹⁾.

B. Consumer Shopping Habib Survey:

Income: In each of the three income classes, upper, middle, and lower, 167 interviews were conducted, for a total of 501 interviews. Among those interviewed, the largest number of family units in the upper income class reported income of from 90,000 won to 100,000 won per month (about 350). In the middle income class, the largest number of respondents reported income of from 50,000 won to 59,000 won or \$210 per month, whereas, the largest number in the lower income class reported monthly income ranging from 19,000 won to 20,000 won or \$70 per month.....

Expenditure: By far, the largest number of those interviewed in the upper income class (46%) reported household monthly consumption expenditures of 80,000 won, or in the range of 300 per month..... In the middle class, there was quite a spread in the monthly household consumption expenditure pattern with 16.2% reporting expenditures ranging from

(1) Typically rice was packed in straw bag and net-weighted 80 kgs. On the average 6 five-person family consumed about 60kgs. or 132 lbs. of rice per month. Rice and other grains were sold by grain retail stores and usually rice was delivered to customer's house. For cooking and heating, Korean families used anthracite. Anthracite powder, with proper amount of water added, was molded into a cylindrical form with 15cm. in diameter and 17 cm. in height, with 19 holes in it to help it burn. This molded anthracite, called Yontan, was manufactured by machine and had standardized form and size. It weighted about 5 lbs. Average family unit consumed about 60 yontans in summer and 120 yontans in winter. Retail price was 15 Won per yontan and typical buying unit was 100 yontans. Yontans were also delivered to consumer's house, either directly from yontan manufacture or youtan store. (Case writer's note)

20,000 won to 30,000 won per month; 21% reporting ranging from 30,000 won to 40,000 won; 31% reporting ranging from 40,000 won to 50,000 won per month; 6.2% reporting ranging from 50,000 won to 60,000 won per month..... In the lower income class, it was found that 31.1% had monthly household consumption expenditures below 10,000 won with 50.9% reporting ranging from 10,000 won to 20,000 won per month.....

Radio Ownership: To the question relative to the ownership of radios, 100% of the upper, 90% of the middle, and 65.6% of the lower income groups reported ownership.....

Refrigerator Ownership: In the response to the question regarding the ownership of a refrigerator, 94% of the upper income class and 37% of the middle income class reported such ownership. No one in the lower income class reported an electric refrigerator ownership. In the light of this finding, one might ask whether there is any validity for broadening the use of the ice-box as a means of home food preservation.....

TV Set Ownership: 98.2% of the upper income class and 70.7% of the middle income class and 6% of low income groups reported that they had television.....

Automobile Ownership: On the question of mobility, 59.3% of the upper income class surveyed reported the ownership of an automobile, with none reported for either the middle or lower income class groups. This further serves to support the conclusion stated earlier that, when considering the distribution of basic convenience foods, both food and non-food, heavy reliance must be placed upon distribution units placed in locations and built of a size to serve basic walk-in traffic..... Until such a time as high degree of car ownership develops in Korea, supermarket development by be limited to highly concentrated population areas and the size of the specific unit will be largely determined by the distance consumers are willing to walk to and from the point of distribution.....

Expenditures for Food: Regarding the question pertaining to total monthly expenditures on food, 66% of upper group reported expenditures ranging from 30,000 Won or more per month. In this income group, 26.9% reported monthly food expenditures ranging from 30,000 Won to 35,000 Won, or in the range of \$120 per month, whereas 26.4% reported expenditures exceeding 50,000 Won, or \$170 per month. 49.7% of the middle income group reported total monthly food purchases ranging from 15,000 Won to 25,000 Won with the largest number reporting expenditures from 20,000 Won to 25,000 Won per month or in the range of \$85.

Frequency of Shopping: 96.4% of upper income, 98.2% of middle income, and 84.4% of the lower income groups surveyed reported doing their shopping once a day. However, it is interesting to note that, in the lower income groups, 15% reported two shopping trips per day.

Number of Stores Visited: As could be expected, due to the limited variety of goods carried by most retail stores in Seoul, the majority of all consumer groups and all income classes reported shopping at more than one store to fulfill their family requirements.....

Who Shops: Unlike some cultures, the Korean housewife plays the dominant role in basic consumer goods shopping. Although 62.1% of the actual purchase of, for example vegetables, in the upper income and 35.3% in the middle class are done by the maid, the housewife can be assumed to be in control of the decision-making process. 27.7% in the upper class, 62.6% in the middle class, and 90.1% in the lower class indicate that the housewife does the actual shopping herself. It should be noted, however, that the fact that the maid does 62.1% of the vegetable shopping in the upper income class and 35.2% in middle class, is a handicap to be overcome in the establishment of modern self-service distribution outlets. This is true since an important aspect of such merchandise is the degree that the retail operator can induce consumer to make unplanned purchase of

new and different items. Potential developers may find it interesting in the fact that modern chain operators in Puerto Rico have successfully broken the maid shopping habit by providing more inviting shopping facilities, plus making the shopping trip an enjoyable experience.....

Distance Travelled: Our survey seems to dispel in large measure the impression that many consumer family units travel considerable distance, such as to East Gate and South Gate markets to buy basic staples. Our survey showed that 94.2% of the upper class, 97.8% of the middle class and 98.7% of the lower income family units purchases, for example, their vegetables and condiments in the neighborhood stores or in nearby market places.....

Mode of Transportation: the mode of transportation for all classes utilized on shopping was mostly walking. In the upper and middle income classes, walking shopping trips were generally restricted to a distance no greater than one kilometer, although in the lower income class, 65.8% of the consumer surveyed indicated willingness to walk from one to two kilometers to purchase basic vegetable and condiment requirements.....

CONCLUSION: Our survey of consumer shopping habits did not turn up any surprising conclusions, but served further to validate the fact that the shopping habits of Seoul consumers are classic and fall clearly in line with the patterns observed in many other developing areas..... Women everywhere want to purchase food quickly, inexpensively, conveniently, and in pleasant surroundings. Available shopping facilities within Seoul and throughout Korea fall far short of these optimal conditions. Seoul's consumers are limited in their shopping choices by a lack of mobility and the general unavailability of large-volume, price-conscious, quality-oriented, competitive, integrated chains of retail distribution.

Appendix B

NEW SEOUL CO-OP CHAIN STORE

Conclusion of Mr. Feller' Speech at the IMI Retail Chain Seminar

The door of change has been opened. Preliminary research has been done. Immediate short-term and long-term action recommendations have been made.

Those Korean government leaders, who have had the vision to identify this problem and who are now seeking solutions have the destiny of this revolution (food retail revolution) in their hands. Will they, and this perhaps means *you*, take the initiative to completely understand and help Korean government leaders to understand, not only the need by the means by which the revolution can be carried out?.....

Will they, or *you*, turn this preliminary research and these preliminary ideas into positive creative ACTION?.....It is *your* problem, *your* country, *your* opportunity, *your* responsibility!

In my few months in Korea, I determined that I had never worked with a more capable and determined group of people dedicated to building a better Korea and a better tomorrow for their families and their countries. I have never worked in a food distribution area that I thought was more ripe for change. This situation is ready. Are you ready to take the initiative? Every problem will yield to the application of brains, energy, and initiative. You have the brains. I have seen your energy. Will you now take the initiative?

Exhibit 1

NEW SEOUL CO-OP CHAIN STORE

Growth of Korean Economy

Year	Population (in million)	Gross National Product (1965 fixed price in million)	% Increase
1960	24,989	₩589.09	2.3
1961	25,402	613.61	4.2
1962	26,125	634.97	3.5
1963	26,868	693.03	9.1
1964	27,248	750.31	8.3
1965	28,002	805.85	7.4
1966	29,208	913.82	13.4
1967	29,784	995.43	8.9
1968	30,467	1,125.40	13.1

Exhibit 2

NEW SEOUL CO-OP CHAIN STORE

Private Consumption Expenditure by Use

	1960	1965	1966	1967	1968
Food	54.7%	55.4%	54.3%	52.0%	51.1%
Beverage	4.7	3.9	4.3	5.0	5.1
Tabacco	1.8	2.9	3.3	3.7	3.8
Clothing	11.4	10.9	10.0	10.1	10.7
Rent & Rate	5.4	4.8	4.6	4.4	4.0
Fuel & Light	3.9	4.2	4.6	4.4	3.9
Household eqpmt	2.2	2.6	3.3	3.9	4.4
Household oprn	1.2	1.2	1.2	1.2	1.2
Health & Personal	4.0	4.1	4.2	4.4	4.6
Transp. & Comm.	2.9	4.2	4.3	4.5	4.6
Recreation	3.6	4.2	4.2	4.5	4.6
Misc.	1.5	1.6	1.7	1.9	2.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Republic of Korea Economic Planning Board, 1969 Economic Statistical Yearbook.

Exhibit 3

NEW SEOUL CO-OP CHAIN STORE

Monthly Income & Expenditures of Average Urban Family 1968

	All Cities	Seoul	
		Salary Earner	Wage Earner
Income			
Earning	₩18,690	₩25,330	₩17,360
Other Income	6,070	8,330	4,200
Total	24,760	33,600	21,560
Expenditure			
Food & Beverage	11,120	14,100	10,200
Grains	4,790	4,460	4,480
Meat & Fish	2,100	3,470	1,680
Milk & Egg	290	540	210
Fruits & Vegetable	2,130	3,200	2,170
Condiments	1,010	1,220	970
Processed Food	240	330	230
Candy & Soft Drinks	260	470	220
Alcoholic Beverage	120	140	140
Meals at Restaurant	180	270	100
Housing	3,380	5,100	2,620
Fuel & Light	1,320	1,810	1,100
Clothing	2,740	3,990	1,970
Misc.	4,720	6,880	3,730
Non-consumption Exp.	870	1,650	500
Total	24,150	33,530	20,120
Saving	610	70	1,440

Exhibit 4

NEW SEOUL CO-OP CHAIN STORE

Agricultural Products Purchased by Average Urban Household

	July 1967(Summer)	Jan. 1968(Winter)
Rice(Liter)	78.8 liters	84.0 liters
Glutinous rice	0.2 liters	1.5 liters
Barley	16.4 liters	8.3 liters
Wheat	0.04 liter	0.007 liter
Soy bean	0.1 liter	0.8 liter
Red bean	0.09 liter	0.3 liter
Green bean	0.01 liter	0.5 liter
Millet	0.01 liter	0.1 liter
Sorghum	0.01 liter	0.1 liter
Wheat flour	1,980.8 liters	2,126.2 liters
Beef	706.8 grams	1,393.9 grams
Pork	492.8 grams	731.3 grams
Chicken	0.1 bird	0.1 bird
Egg	13.4 eggs	15.2 eggs
Powdered milk	26.3 grams	12.3 grams
Fluid milk	4.7 grams	14.2 grams
Radish	6,454.1 grams	6,459.7 grams
Cabbage	7,441.6 grams	2,168.7 grams
Chinese cabbage	2,703.9 grams	65.1 grams
Green onion	3,062.0 grams	2,150.3 grams
Onion	1,658.0 grams	86.5 grams
Spinach	40.3 grams	727.2 grams
Cucumber	46.0 grams	0.06 grams
Pumpkins	7.7 grams	0.004 gram

Egg apple	15.0	grams	0.001	gram
Bracken	87.8	grams	177.0	grams
Ballon flower	63.9	grams	135.0	grams
Fresh red pepper	1,306.7	grams	0.6	gram
Dried red pepper	123.1	grams	137.3	grams
Garlic	29.2	grams	2.6	grams
Sweet potato	257.1	grams	1,882.7	grams
White potato	10,141.5	grams	245.2	grams
Apple	1.5	apple	13.1	apples
Pear	0.01	pear	1.3	pear
Peach	8.4	peaches	—	
Grape	101.0	grams	—	
Chestnut	0.004	liter	0.1	liter
Persimmon	0.3	persimmon	0.4	persimmon
Sweet melon	7.5	melons	—	
Water melon	3.1	melons	—	
Tomato	286.5	grams	2.5	grams

Source: Statistical Yearbook of Agricultural Economy, 1969, National Agricultural Co-operatives Federation, Seoul.

Exhibit 5

NEW SEOUL CO-OP CHAIN STORE

Central Office Organization

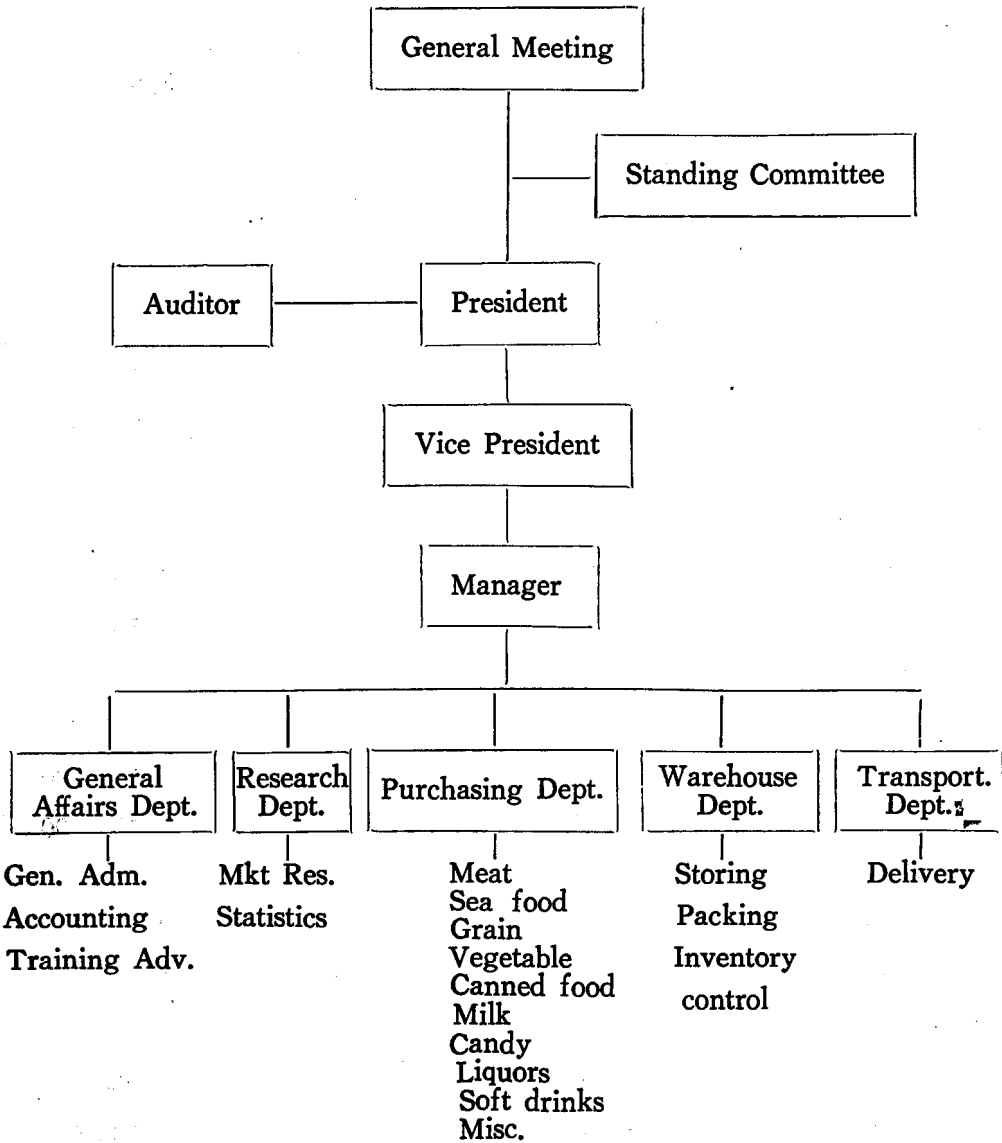


Exhibit 6

NEW SEOUL CO-OPERATIVE CHAIN STORE

Estimated Budget to Build, Equip, and Operate one Store

Building, 70 pyong in floor space	₩3,500,000
Freezing and Refrigerating Facilities	2,800,000
Fresh meat show case	500,000
Fresh meat freezer cabinet	400,000
Fresh meat storage	600,000
Fish show case	400,000
Vegetable fruits display table	500,000
Liquor and soft drink show case	400,000
Other equipments	3,990,000
Meat cutter	600,000
Cash register(2 ea.)	900,000
Air Conditioners, 10 tons, 2.	1,600,000
Hand carts(10 ea.)	150,000
Display stand, 60 ft.	50,000
Display stand, 30 ft. 2 ea.	60,000
Display stand, center, 6 ea.	180,000
Wheeled card for storage, 3 ea.	150,000
Telephone, 2 ea.	300,000
Inventory	5,810,000
Delivery truck	1,000,000
Bicycles, 3 ea.	45,000
Office furnitures and stationery	200,000
Land, building site, 100 pyongs	5,000,000
Operating fund	1,400,000
Total	23,745,000

Exhibit 7

NEW SEOUL CO-OP CHAIN STORE

Five-Year Plan (in thousand of won)

	1969	1970	1971	1972	1973
Cash Inflow	10,853	12,288	20,952	41,000	50,400
Initial fund	2,400				
Stock issue	5,000				
1% contrib.	1,053	6,288	11,952	29,000	36,000
Membership fee	2,400	6,000	9,000	12,000	14,400
Expenditure	6,000	5,000	12,000	15,000	27,000
Warehouse	1,000	1,000	2,000	—	10,000
Office	4,000	4,000	4,000	—	—
Truck	1,000	—	1,000	—	2,000
Loan	—	—	5,000	15,000	15,000
For group purchase & reserve	4,853	7,288	8,952	26,000	23,000
Merchandise line	17.3%	33%	52%	70%	80%
Member stores	20	50	80	100	120

Source: NSCCS Plan

NEW SEOUL CO-OP CHAIN STORE

Suggested questions:

1. Evaluate Mr. Feller's study and recommendation. Was his recommendation practical? How would you evaluate his ability as an adviser to a foreign government?
2. Evaluate NSCCS's operational plan. Was it realistic? How would you change it?
3. What do you think were important problems? As the president of NSCCS how would you solve them?
4. If you were invited to Korea to continue the role of the IMI Team, what would your approach be? What would you advise to the president of NSCCS?

Suggested readings:

1. Richard, H. and Galbraith, John K.: Marketing Efficiency in Puerto Rico, Harvard University Press, 1955.
2. Slater, Charles C.: "The Role of Food Marketing in Latin American Economic Development", American Marketing Association, 1965 Fall Conference Proceeding.
3. Wood, Richardson, and Keyser, Virginia: Sears Roebuck de Mexico, S.A., National Planning Association, 1954.