

**The Model for the Evolution of Retail Institution Types in South Korea**

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E-mail: [kincade@vt.edu](mailto:kincade@vt.edu)**ABSTRACT**

*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, by overcoming existing problems in the previous retail evolution theories. A qualitative research design with a constant comparative method was employed in this study in order to analyze the retail industry data collected in South Korea. The Combined Retail Evolution Model was proposed by synthesizing previous retail evolution theories, which are commonly recognized as the primary theories. Based on the Combined Retail Evolution Model, three retail institution types in South Korea were selected and analyzed for retail evolution. The result of the analysis is the Final Combined Retail Evolution Model.*

*Keywords: Retail Evolution, Retail Institution, Combined Retail Evolution Model*

**Introduction**

Historically, many researchers have studied retail evolution and proposed theories that explain a pattern for retail evolution; however, the current theories may exhibit four main limitations when selected for use. The first limitation is lack of geographic universality (Brown 1987). Among these works, most retail evolution

studies were conducted in the United States and in Europe. Meanwhile, in South Korea, these various Western retail institution types, including department stores and discount stores, were imported and adjusted to the South Korean environments within a compressed time period (Kim 1999). Second, previous retail evolution theories do not explain the evolution for all types of retail institutions types (Brown). Third,

many of the combined theories do not include graphical representation. Finally, most previous theories are conceptual without quantification. For these reasons, evolution of retail institution types in South Korea is difficult to explain using current retail evolution theories (Ok and Kim 1997). To study South Korean retail evolution, a synthesis of other research findings about past retailing in South Korea and an appropriate theory applicable to South Korea are needed.

The objectives of this study were to review existing retailing evolution theories to build a more comprehensive model, to examine the evolution of retail institution types in South Korea, and to build a model, which more fully explains retail evolution by overcoming existing problems in previous theories. A qualitative research design, specifically, a modified grounded theory type of design with a constant comparative method was employed in this study.

### Conceptual model

Although existing theories have been used in some form since the 1950s, they have never been used to explore the development of retailing in South Korea. To meet the first objective of this study, previous retail evolution theories were reviewed and synthesized. This literature provided detailed information about the retail change process and fragmented information about consumer change. The consumer aspect of the model was enhanced by including information from consumer patronage literature for more detailed information on consumers and their impact on retailing.

#### *Retail Evolution and Consumer Patronage Theories*

Three well-known theories are recognized as the primary retail evolution theories: (a) Cyclical theory, (b) Conflict theory, and (c) Environmental theory. Based on these theories, additional retail evolution theories have been developed. 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 proposed the Wheel of Retailing theory and described the cycles in his theory as containing the following three phases: entry (or introduction), trade-up (or mature) and vulnerable phases. The first or entry phase starts with the opening of innovative retail institutions. As time passes, the innovative retail institutions become traditional retail institutions that offer more services and better store characteristics at higher prices. These upgrading practices continue to be practiced into the trade-up or second phase. As time passes and the wheel turns, retail institution types mature and move into the third and final phase, the vulnerable phase. In the vulnerable phase, retail institutions lose market share and profitability, allowing for the emergence of a new innovative retailer in the next cycle.

While the Wheel of Retailing theory proposed that a retail institution evolves, circling and ending to its original position, Agergaard, Olsen, and Allpass (1970) proposed the Spiral Wheel theory, which suggests that a retail institution would return to a higher position relative to its original position. These researchers stated that because the retail environment evolved and developed as time passes, a retail institution simultaneously developed or improved its facilities and management, which led to an upgrade of its original position.

The Conflict theory states that an existing retail institution (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). This new retail institution becomes a traditional retail institution in the next evolution. Researchers (e.g., Levy and Weitz, 2000; Oren) compared variables, such as price, trading area, product variety, inventory required, communication medium, services, product assortment, and location, to explain

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conflict between retail institution types. 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 to changes in the retail environment (e.g., changes of consumers, economy, technology, geography, competitors) or be forced out of business (e.g., Blizzard 1976; Brown 1987).

To expand coverage of and remove limitations from previous theories, researchers have combined two or more evolution theories. Some researchers have tried to combine the Cyclical theory with either the Environmental or the Conflict theory (e.g., Cox 1958; Deiderick and Dodge 1983; Gist 1968; Izraeli 1973). Several researchers have combined Environmental and Conflict theories (e.g., Alderson 1957; Oren 1989). Other researchers have tried to combine all three theories - Environmental, Cyclical, and Conflict (Hunt 1976; Kaynak 1979; Shaw 1978). The four common limitations continued to be noted by other researchers (e.g., Brown 1988; Gist; Hirschman 1979; Kaynak; Oren).

#### *Combined Retail Evolution Model*

Using grounded theory techniques of decontextualization and recontextualization, the researchers synthesized previous retail evolution theories and consumer patronage theories into a model for a better fit to all types of retail evolutions. The outcome of this synthesis was the initial Combined Retail Evolution model (CREM) (see Figure 1). The initial CREM combines aspects of previous theories, introduces new concepts from the recontextualization, and shows

retail institution types in a change process. The model is a representation of three principles: (a) rhythmical patterns of spiral change, (b) the effects of conflict or challenge from competition, and (c) the influence of retail environments. The first two principles are shown in the Retail Evolution part in Figure 1. The last principle is shown in the Influences part.

In the Retail Evolution part, multiple retail institution types (e.g., “R<sub>1</sub>” to “R<sub>6</sub>”) are evolving in a spiral pattern within an institution type. Retail institutions evolve from the entry phase, through the mature phase, to the vulnerable phase, and return to a higher level than the position before the wheel started. In the initial CREM, aspects of the Cyclical theory and the spiral wheel theory are combined, which is a new concept not covered by existing theories. With this spiral movement (i.e., the rhythmical patterns of spiral change principle), the “R<sub>1</sub>” type of retail institution type conflicts with “R<sub>2</sub>” type of retail institution type, and a new modified retail institution type is created (e.g., “R<sub>4</sub>” type of retail institution; the effects of conflict or challenge from competition principle). Another new concept in the initial CREM is the possibility of conflict not only between two existing retail institution types but also among three or more types (i.e., a third or “R<sub>3</sub>” type of retail institution). As time passes, a new “R<sub>4</sub>” institution starts its spiral evolution within its institution type and returns to a higher level than before the wheel began to move. This evolutionary procedure is repetitive as conflict among existing types and new types (e.g., “R<sub>4</sub>” type institution, “R<sub>5</sub>” type institution and additional types) creates a new “R<sub>6</sub>” type institution.

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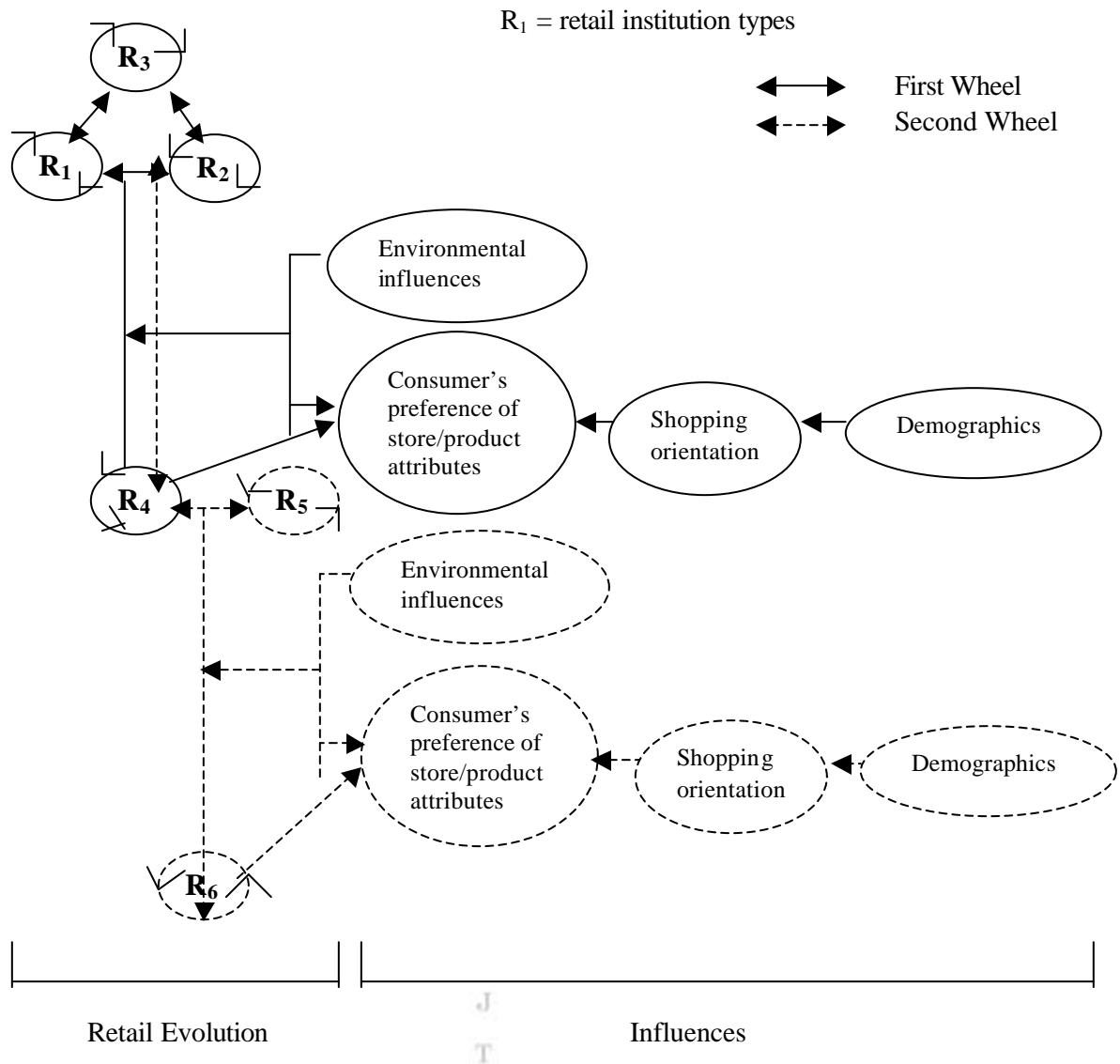


Figure 1. Initial Combined Retail Evolution Model

During the transition to the creation of a new retail institution type, environmental influences (e.g., social, cultural, economical conditions) and changing consumers' preferences toward store/product attributes are influencing retail evolution (i.e., the Influence part in Figure 1). In the initial CREM, the consumer variable, which has been included within environmental influences in previous research, is separated from environmental influences because consumers are a major interactive influence for retail evolution, and their importance for retail institutions is increasing. Also, some researchers (McNair and May 1978; Sheth 1983) found that consumers' needs (i.e., consumers' preference of store/product

attributes) in a certain retail institution type are affected by environmental influences. Further support for this relationship is found in retail patronage research. A consumer's preference of 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., Monroe and Giltinan 1975; Sheth 1983; Shim and Kotsiopoulos 1992).

A second new concept related to consumers in the CREM is the directional relationship between a new retail institution type (e.g., "R<sub>4</sub>") and consumers' preference of store/product attributes. A basis for this relationship is the finding from Carpenter

and Nakamoto (1989) that consumers' preference for attributes of a pioneer product changed their preference for other products. These relationships between consumers, environmental influences and retailing types have not been discussed in any previous retail evolution theory but have been highlighted in some literature on consumers' shopping behavior. The initial CREM proposes that a new retail institution type and its attributes affect consumers' preference of store/product attributes in not only new but also existing retail institution types.

### **Review of literature on South Korean retailing**

#### *Department Stores in South Korea*

During Japan's colonial period (1910-1945), a Japanese-style department store was imported to South Korea (Lee 1996). By the 1930s, the first department store opened in Seoul, South Korea. In the 1970s, conglomerates opened Western-style department stores (Lee; Ok and Kim 1997). Since that time, department stores have been a major retail institution type in South Korea. To serve South Korean consumers, these department stores evolved and formed unique characteristics, which differ from those in Western countries. One 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 a store are owned by manufacturers (Cha 1998). Another difference is that these stores carry a food category, both high quality domestic and imported food products, which accounts for 17.0 percent of total sales (Kim 1999). Lastly, most retail institution types in South Korea, including department stores, are located in central business districts (Cha). Major, fashion-oriented shopping malls, the U.S. location for most U.S. department stores, have not yet been introduced into South Korea.

#### *Discount Stores in South Korea*

Discount stores have been a major retail institution type in the United States since the 1960s; however, in South Korea, discount stores were not imported until the 1990s (Kim and Chen-Yu 2005). These first discount stores quickly achieved financial success (Lee 2000). With the economic crisis in 1997, discount stores diffused throughout the South Korean retail market (Kim 1999), and quickly became 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 continually sells products at prices lower than other retail institution types (Lee 1997). The South Korean discount store is similar to discount supermarkets in the United States (Kim 2000). These stores mainly carry food, convenience products for daily life, apparel, and electronics. Most products are national brand-name products (Lee 1997; Lee 2000); however, recently, South Korean discount stores have begun producing and carrying their own private-brand products.

#### *Private-Branded Hive Type Stores (PBH) in South Korea*

The Private-Branded Hive Type Store (PBH) in South Korea typically contains more than 2,000 booth-style stores that sell their own private-branded apparel items. The stores are usually named after their individual store name or after manufacturers. 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 (e.g., 1<sup>st</sup> floor carries accessories; 2<sup>nd</sup> floor carries men's clothing). The first PBH, named Miliore, opened in 1998 in the Dong Dae Moon district (DDM), which has historically been the center of the apparel wholesale market in South Korea (Kim, Choi, Song, and Jeon 2000; Kim and Shin 2000). DDM consists of thousands of small traditional street stores and large buildings for wholesaling and retailing.

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Since Miliore was constructed, many PBH buildings have appeared (e.g., Doo-San Tower, Preya Town), especially within DDM, imitating the operation system and characteristics of Miliore (Kim, Choi, Song, and Jeon). As the number of PBHs increased and the PBH was quickly accepted by consumers, this type of retail institution became a leader of South Korean apparel retail institutions and of fashion in South Korea. A PBH provides all apparel merchandise categories, so that consumers can enjoy one-stop shopping (Kim, Choi, Song, and Jeon 2000). In addition, a PBH provides quality services (i.e., return/refund, a customer service center, sales personnel, credit) to customers who are accustomed to the service level of department stores (“Doo-San Tower” 2001; Kim, Choi, Song, and Jeon; “Shopping mall” 2001). Although most retail stores close by 9pm, a PBH is open from 9am to 6am the next day, providing a shopping place for consumers who want to shop late (Kim, Choi, Song, and Jeon; Kim and Shin 2000). This service is highly successful and provided only by the PBH. PBHs also provide services to store/booth owners. For example, a PBH operates an office for export business to assist store/booth owners, who want international trade. Foreign buyers can contract directly with the PBH store/booth owners without involving a separate buying office or wholesaler (Kim, Choi, Song, and Jeon).

PBHs provide desired quality level and fast new fashion with low prices, a combination of characteristics previously missing in either department stores or discount stores (Kim, Choi, Song, and Jeon 2000). This combination can be achieved through unique production processes and Quick Response (QR) between a PBH and businesses in its surrounding locale. Real-estate costs can be reduced because each store in the PBH serves multiple functions. For example, a store is used for an office, a distribution center, and a retail center. All activities are possible in one small booth-type store because stores in a PBH carry a small amount of inventory. Stores in a PBH are able to reduce cost by 80.0 percent compared to department stores.

## Data collection

Data for this study to test the initial CREM were collected from a variety of sources. As with many qualitative research projects, the collection of data was a “snowball” process, and additional sources were investigated when noted while searching known sources. The most commonly occurring data types in the literature and those known to be available in the data sets were as follows: consumer demographics (Gist 1968; Ingene 1983; Sheth 1983), indicators of technology (Ingene and Lush 1981; Kaynak 1979; Takeuchi and Buklin 1977), retail establishments in retail institution type (Gist; Oren 1989), store operation (Gist; Hollander 1960; Ingene), and store attributes (Hollander; McNair and May 1978).

Known sources of data in South Korea include government offices, trade and industry associations, public libraries, and websites on the Internet. Government offices in South Korea that collect retail and consumer data are the Korea National Statistical Office, The Administration, and The Korea Chamber of Commerce and Industry. Data from these sources are reported from industry associations, trade research institutes, and government surveys. Data were also collected from statistical publications published by trade and industry associations, which are The Korea International Trade Association, Korea Chain Store Association, and Korea Department Store Association. Data available in public libraries in South Korea were from textbooks on marketing, retailing, and consumer behavior, and theses and dissertations, which showed statistics of South Korean retail and consumers and discussed their changes. Data available on the Internet were from government websites (e.g., Korea National Statistical Office) and retail magazines (e.g., *Discount Merchandiser*).

## Data analysis

Information about retail institution types in South Korea was reviewed to reveal the

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patterns of retail evolution, and the historical/comparative analysis method was used to analyze this data. In the analysis of historical data, no systematic analytical technique is generally accepted as the primary form of analysis rather it is a general understanding of the data by the researcher. As a technique often used by analysts, conceptual models, which Weber (as cited in Babbie 1999) called ideal types, are proposed to find patterns from data. This ideal conceptual model must portray, with the researcher's interpretation, the essential characteristics of the subject matter of the study. Using the initial CREM (i.e., the ideal model) and data collected about South Korean retail and consumer environments, patterns of data changes were traced.

Next, data were presented with graphics to show change trends. From the data analysis, findings of this study were then compared to those of previous research to determine whether retail evolution patterns in South Korea were similar to or uniquely different from those in Western countries. The graphical model (e.g., the initial CREM), built from previous research, was evaluated to determine whether the model accurately explained evolution of retail institution types in South Korea. Finally, through the constant comparative analysis, the model was refined with changes such as adding variables, which were absent in the model, or deemphasizing or eliminating relationships, which did not exist when compared to historical data.

### **Limitation**

Several limitations exist, which are unique to the specific study and data type. By using historical data from a variety of sources, the trustworthiness and reliability of data depended on the collection methods of other researchers and on these researchers' judgment of whether or not the data were reliable and usable. In addition, limitations of data included the following: government restrictions on availability of data, lack of data prior to 1980, and lack of multiple sources for triangulation for some variables and years.

## **Results and discussion**

### *Evolution of Department Stores in South Korea*

#### Spiral Evolution of Department Stores

According to the spiral process of retail evolution noted in the initial CREM, an innovative retail institution starts in its growth phase with limited product lines, low prices, and minimum services; however, 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. A number of factors (e.g., growth of sales, market share, profit, increase in number of individual units, and expansion in size of square footage) can be examined to track retail evolution (Gist 1968; McNair 1958). With these variables, comparisons can be made between changes that actually occurred to what was predicted by the initial CREM.

From the 1980s to mid 1990s, department stores were the major retail institution in South Korea, as indicated by significant sales increases, with total sales increasing by 246.0 percent between 1987 and 1991 ("South Korea" 1995). Until the mid 1990s, growth rate of sales was an average of 20.0 percent every year (Lee 1997). In the late 1980s and early 1990s, department store sales volume was 14.2 percent of total retail sales, while that of supermarkets remained at 3.8 percent and discount stores remained at 1.3 percent. This change is an indication of growth because retail businesses expand the number of doors or outlets when a business is profitable and sales are increasing (Kincade, Gibson, and Woodard 2004; Levy and Weitz 2001). At the beginning of the 1980s, the number of department stores had grown by 140.0 percent from their introduction in the 1970s ("South Korea"), and the number continuously increased except in 1988 (*The report for retail operation and trend 1970~2001*). These large sales growths and increasing numbers of stores were expected in the cyclic process of the initial CREM.

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Global sales 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 continued maturation of a retailer as the CREM proposed. The sales volume per store increased until 1987 (see Figure 2). The average sales per store actually dropped from 1987 to 1989, even after the number of

department stores decreased (1987-45 stores, 1988-22 stores) (i.e., decrease in competition), and then rapidly increase in the following period, with additional peaks and valleys. To adjust for inflation, sales per store were recalculated with Consumer Price Index (CPI),

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

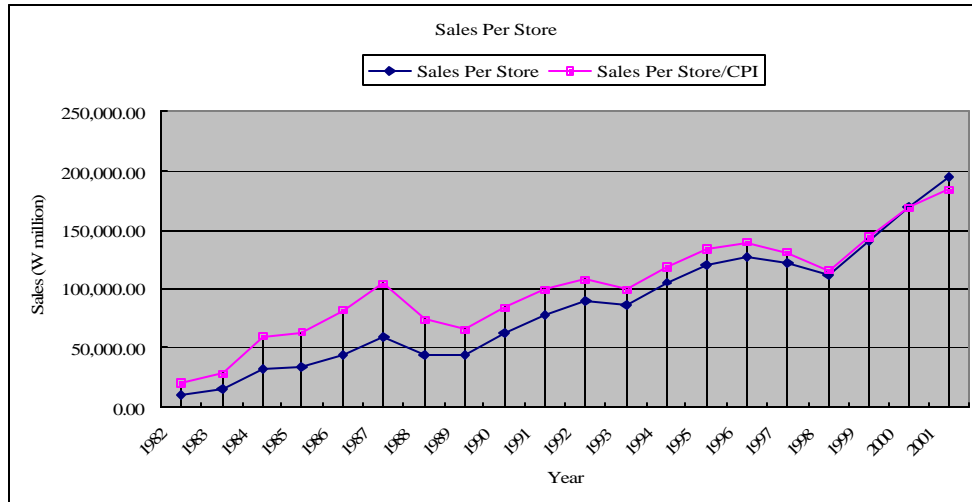


Figure 2. Sales per Store without and with the Consumer Price Index Adjustment

Sales per store based on CPI showed the same trend as sales per store without CPI. 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. Multiple environmental factors could be the reasons for the drop in sales. For example, a nationwide 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.

In 1993, another fluctuation is observed in the data (i.e., 1992-W90, 292 million vs. 1993-W86, 93million). This change also indicates some environmental (e.g., social/political) event/s happened and affected sales in department stores. After 1993, even though the number of department stores kept increasing (1993-92 stores; 1994-95 stores; 1995-98 stores), 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 due to an economic crisis (i.e., 1997-W122, 100 million vs. 1998-W112, 600 million). In addition, the increasing number of department stores, regardless of the economic crisis (i.e., 1997-99 stores; 1999-109 stores), and the increasing number of competitors (i.e., discount stores) are assumed to affect the decreasing sales volume per store. With the same reasons, department stores suffered a dramatic decline in growth rate of sales in 1997 and 1998 (1997: - 4.0 percent, 1998: -7.8 percent) (*The report for retail operation and trend 1998, 1999*). In addition, the market share of department stores in South Korea decreased from 14.2 percent in 1996 to 11.5 percent in 1998 (Lee 1996; Pak 1998). 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. In contrast, since 1999, the sales per store and the rate of sales in department stores have begun to increase again, as the South Korean economy has also started to recover. The initial CREM did not predict a potential rebound after a vulnerable phase.

The change of profit can be another indication of evolution in department stores. Although the profit rate did not increase as department stores matured instead maintaining an average 21.0 percent of total sales, the actual profit (i.e., amount of

money) increased; however, when environmental influences affected stores, the profit decreased in 1988, 1992, and 1997 as profit rates and sales volume decreased (see Figure 3). Again, profit was affected by environmental influences, as department stores matured. Interpreting this data with the initial CREM, the researchers propose that environmental influences were the primary base of the emergence of a new retail institution type, but the data show that changing environments continuously influenced the evolution of a retail institution after its emergence.

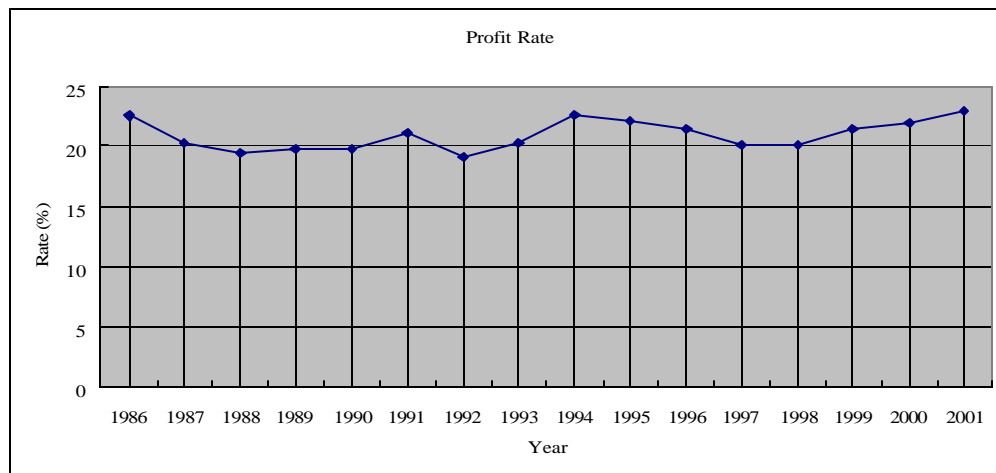


Figure 3. Profit Rate

In the initial CREM, upgrading of services and operations is an indication that the retail institution type is maturing and is spiraling to a higher level. For example, the number of point of sales (POS) terminals installed per store generally increased over time, which showed that department stores had placed more financial input in upgrading the operating system (1989-19.2/store; 2001-90.2/store, *The report for retail operation and trend 1990~2001*; *The yearbook of distribution industry 2002*). Department stores also increased in size over time, even though the land price of the center business district increased. 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 need training to be accustomed to the new system, which would increase operating costs accordingly. Until 1997, the growth rate of operating expense continuously increased (Figure 4). In general, department stores added an average 20.0 percent more to the operating cost from the previous year.

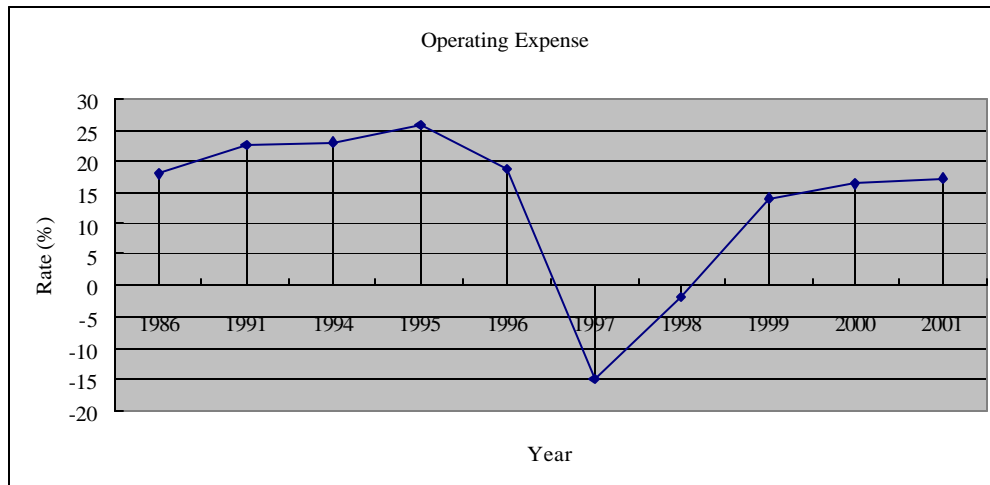


Figure 4. Growth Rate of Operating Expense

As noted with the dip in 1997 and specific yearly rate changes, upgrading practices have not happened at a consistent and continually positive rate, in contrast to the prediction of the initial CREM. The statistics showed that the number of POS terminals installed per store and the size of department stores decreased in 1997, perhaps due to increasing numbers of bankruptcies among department stores and the large decrease in sales. Therefore, operating costs coincided with changes in environmental influences and fluctuated rather than continuously increased over time as department stores matured, which contrasts to one process in the CREM. One possible explanation is that growth and maturity of the department store in South Korea has occurred over a short time period (40 years) in comparison to growth and maturity of the institution type in the United States (140 years). According to the data, the evolution of department stores in South Korea started from the second phase of the cyclical evolution (i.e., trade-up or mature phase) and did not follow the traditional cyclic pattern. In addition, environmental influences were not the same between the two countries in terms of the type of influences and the time when they occurred. Each 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 differences of lifecycles and regional environments, the spiral process of retail institution types might vary across countries, which justifies the aspect of the initial CREM for geographic differences across retail evolutions.

### Environmental Influences on Department Stores

#### *Social environment*

Since the 1970s, increasing population in metropolitan areas (see Figure 5) 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). 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. These stores had better and easier store environments in which to shop compared to old, small traditional stores. The prediction based on the environmental influence section of the initial CREM is supported.

As the change process continues, 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. The findings follow the prediction using the CREM of the entrance of the department store into the vulnerable phase. This evolution indicates that as mentioned previously, environmental influences not only affected store operation, when they were imported, but also continuously affected the evolution process over time.

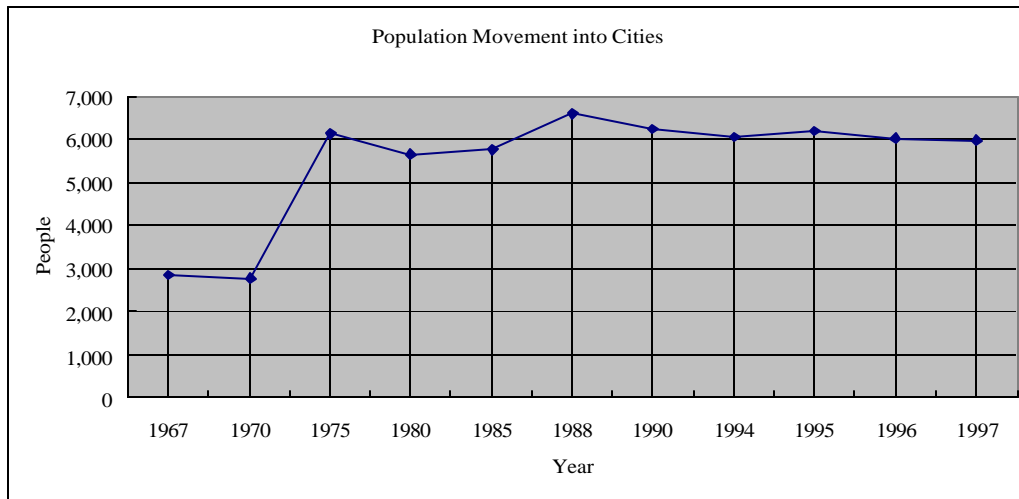


Figure 5. Population Movement into Cities

#### Technological environment

As the economy grew from the 1960s, transportation and communication systems have developed extensively in South Korea, and consumers' accessibility of these technologies increased in pace with the rapid technological development. For example, car ownership increased drastically (i.e., 1960-4,200 cars; 2002-13 million cars). Increasing car ownership provided easy access to stores for consumers and enabled consumers to shop often (Ji 1995). Therefore, this technological environment contributed to changes that consumers made in their shopping orientations. Use of the initial CREM did not predict this direct relationship between environmental influences and shopping orientation.

Advanced communication systems, such as TV, radio, and telephone, increased department stores possibilities to reach more consumers. For example, the number of home phones (1982-4080; 2001-22,725) (Korea seen by statistics 2000; Monthly

statistics of Korea 2002) and cellular phone registrations (1982-347; 2000-26,816,398) increased (Korea seen by statistics). A high accessibility of an advanced communication system has accelerated department stores' success by their promotions through these systems. In addition, technology growth affected internal operations and helped department store managers operate stores more effectively and efficiently, to achieve high sales growth. For example, development of POS systems paralleled the maturity and increased developmental level of the retail institution type; however, this technology increased operating cost. On the other hand, more automated operating systems should have reduced the labor cost. However, a positive relationship between the success of a retail institution and the technology environment 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

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continuously increased. Therefore, results indicated that technology can be a positive influence for the success of a retail institution but did not always parallel the spiral changes 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, using the processes in the initial CREM, to change consumers'

shopping behavior and then, positively influence sales in stores and ultimately initiate retail evolution. From the initial CREM, the researchers 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. For example, in South Korea, as the economy grew from 1960s to mid 1990s, consumers' income and living standard increased (Ji 1995). An examination of GNI per capita showed a continuous and five times increase between 1985 and 1996 (see Figure 6).

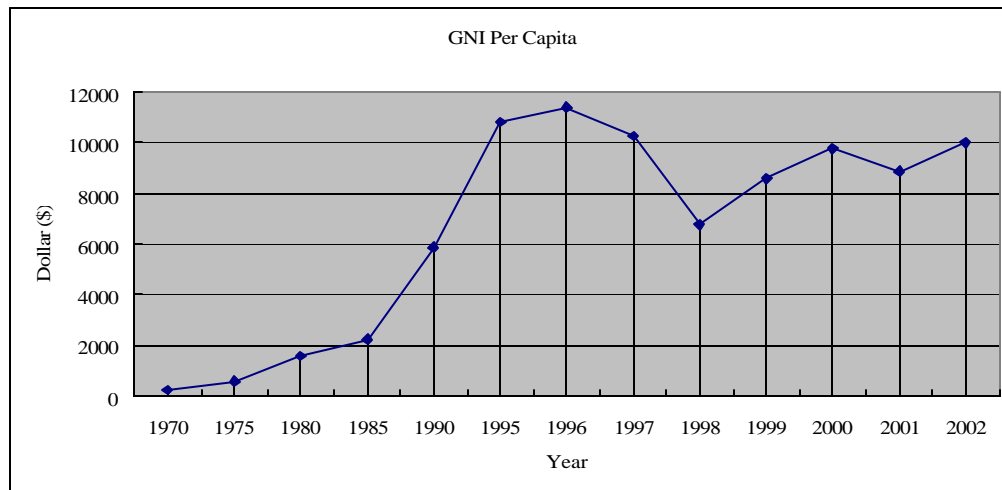


Figure 6. GNI Per Capita

Also, increasing salary in wholesale/retail/restaurant/accommodation industry supported the fact that people had more income. Salaries in the industry increased 3.7 times between 1985 and 1997. Household income also rapidly increased

since 1965 (see Figure 7). The statistics show that household income increased more than five times from 1985 to 1997. However, in 1997, South Korea encountered an economic crisis and all income indexes showed a decrease.

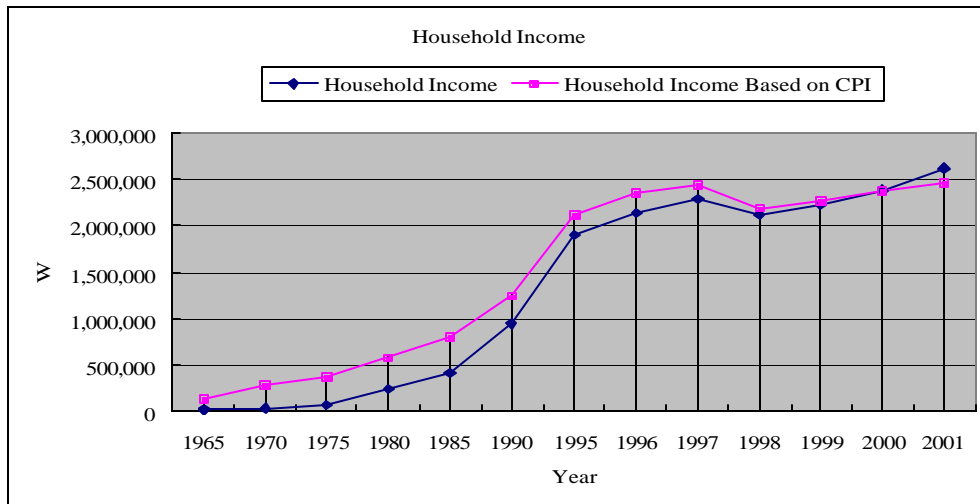


Figure 7. Household Income without and with CPI

The increasing unemployment rate (1997-2.0; 1998-6.8) paralleled the decrease in household income and sales in department stores (*Changes of Korean society and economy in 50 years* 1988). As consumers' income rapidly decreased, they became price sensitive and developed value-seeking behaviors (Cha 1998). Consumers could not afford to purchase products that they had bought previously at department stores. Reduced consumer spending resulted in a sales decrease of department stores. These findings provide support for the directional relationship, as predicted in the initial CREM, from economic influence to consumer's demographics, from consumer's demographics to shopping orientation, from shopping orientation to consumers' preference of store/product attributes, and from consumers' preference of store/product attributes to the evolution of department stores.

On the other hand, as unemployment rate increased, department stores could reduce their labor cost because supply exceeded demand in the labor market. This environmental influence should have directly affected the operation and subsequent evolution of department stores. This finding indicated that the direct relationship between the environmental influences to the evolution of department stores exists, which was not predicted in the initial CREM.

### *Political/legal environment*

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 to imported items and the wholesale 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 limit. As a final step, in 1996, the government opened the South Korean market to foreign investors no limitations, except for department store importation, because of the need for acquisition of foreign currency due to the economic crisis. As a result, many other retail institution types were imported (e.g., discount stores, warehouse clubs, hypermarkets, category killers), which created high retail competition (Cha 1998). Discount stores became the strongest competitor to department stores because they carried a similar product mix and one-stop shopping, with regular low prices (Jeong 2000). The legal environment negatively affected department stores in their evolutionary cycle. Therefore, a relationship between environmental influences and conflict was found, which was not proposed in the initial CREM, and

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the relationship between environmental influences and the evolution of retail institutions was found in the data, supporting the influences shown in the initial CREM.

*Consumer Influences on Department Stores*

Since South Korea’s liberation from Japan in 1945, the number of middle class people in South Korea increased, along with an increase in their income. Accordingly, more consumers were able to pay higher prices for higher value, and had the desire to purchase quality products (Ji 1995). 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). Until 1996, most South Korean consumers displayed strong patronage to department stores, regardless of their demographic differences (Gu 1998) and the interaction between consumer patronage and the evolution of department stores was indicated by previous research. This direct relationship between consumer and the evolution of department stores was not proposed by the initial CREM.

The relationship between changing consumers and the spirally developing department stores was confirmed by reviewing the data on consumers’ changes in

demographics, shopping orientation and preference for store/product attributes, and by comparing these to the changes noted in department stores. Before the economic crisis in 1997, consumers chose department stores as their major shopping store (53.7 percent); however, after the economic crisis, department store choice decreased to 40.3 percent (Cha 1998). Before 1997, consumers spent an average of \$250 per month at department stores. After the economic crisis, the majority of consumers (53.7 percent) spent less than \$250 per month and tended to postpone their purchase at department stores until products were on sale (Kim 1999; Lee 2000). The main reason for these changes in shopping orientations was the decrease in income due to the economic crisis (i.e., environmental influence -> demographics ->shopping orientation). Prior to 1997, the attributes that consumers considered most when they shopped at department stores were convenience (48.0 percent), credit (39.0 percent), fashion (38.1 percent), quality (33.6 percent), and price (15.7 percent) (Um 1998; Ji 1995; Kim; Lee).

Regarding apparel products, consumers were most concerned about brand names and design (see Table 1) (*The report for retail operation and trend 1991, 1992, 1993*). After the economic crisis, consumers changed their priority of attributes. Price became the most important attribute (Um 1998; Lee 2000).

Table 1. Consumers’ Preferences for Product Attributes in Percents

	1990	1991	1992	1998
Brand Names	34.8	42.9	53.4	9.0
Design (Fashion)	43.5	42.9	32.8	27.6
Price	19.5	11.9	13.8	30.6

Consumers changed their shopping orientation from brand loyalty to store loyalty. These data supported how changes in shopping orientation affected consumers’ preference for store/product attributes. According to Um, 41.7 percent of consumers reduced expenses for apparel,

and 37.3 percent 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 percent

compared to consumption prior to the economic crisis (Um). This relationship, although supported by the data, was not predicted in the initial CREM.

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

From 1997 to 2003 in South Korea, department stores took several paths to continue to evolve and to meet the challenges of competitors (e.g., discount stores), and the influences of environments and consumers, as noted in the initial CREM. Some of the mature department stores upgraded their out-of-date and traditional store characteristics and refocused away from their middle-class, target market and became up-scale apparel specialty department stores, offering exclusivity in products and services (e.g., consumer database marketing) (Kim 1998). On the other hand, some mature retailers focused on prices by reducing operation costs to survive price competition, and returned to a position similar but different and lower from its original position where their wheel of evolution started. They opened new discount department stores. This finding supported, in terms of operations, the spiral evolution described in the initial CREM; however, in terms of price level, spirals in the data examples evolve to a position below the original position. In other attempts to evolve and adjust, some department stores tried to find a niche

market and downgraded into a local mid-size department store. Some department stores expanded their business into a multi-format business (Im 2000; Kim). Other department stores, which could not response promptly to this changing environment and high-level of competition, had to go out of business. Therefore, the spiral wheel in the initial CREM was supported but four endings (i.e., upgrade, downgraded, transfer to a different type of retail institution, stay the same and eventually go out of business) were found instead of one ending (i.e., a higher position).

#### **Discount Stores in South Korea**

##### *Spiral Evolution of Discount Stores*

As proposed in the initial 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, as an innovative retail institution type, in South Korea became popular within a short time period, especially after the economic crisis in 1997. The data for total sales and the growth rate since 1997 (see Table 2) provide support for the popularity of discount stores (Kim and Chen-Yu 2005; Lee 2000). The number of discount stores increased dramatically (i.e., doubled, 1997-78 stores, 2000-160 stores) as this type of store achieved success.

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Table 2. Total Sales and Growth Rate of Total Sales

	Total sales	Growth rate of total sales
Year	Won (W)	%
1997	W3.4 trillion	137.0
1998	W5.5 trillion	63.0*
1999	W8.9 trillion	61.7
2000	W11.2 trillion	25.7
2001	W13.8 trillion	23.2
2002	W16.9 trillion	22.5
2003	W22.0 trillion	30.0

Note \*: Sales of apparel products rose 900 %, sales of do-it-yourself products rose 50%

Although the total sales of discount stores increased continuously from 1997, the statistics of sales per store showed a conflicting trend (see Figure 8). The decrease in per store sales for 1998 and 2001 when compared to previous years actually

became more significant with the CPI adjustment than the data without CPI. The reason for decreased sales per store might be a reflection of the general economic crisis and increasing competition.

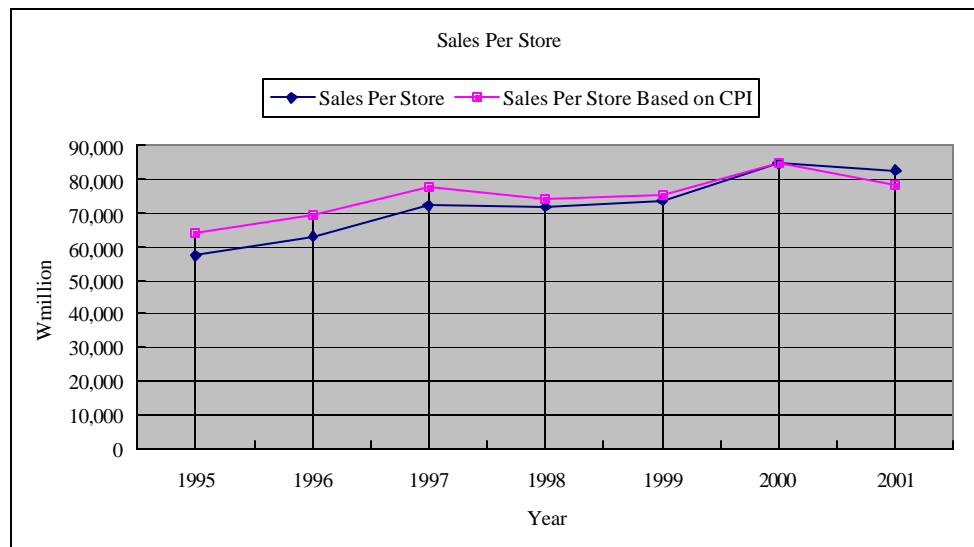


Figure 8. Sales per Store without CPI and Sales Per Store Based on CPI

The recovering economy corresponded with decreased sales in 2000 and subsequent years (see Table 2). According to Lee (2000), the slowed growth rate since 1999 shows the decreasing popularity of discount stores while the economy has gradually recovered. Therefore, while total sales increased as predicted from the initial CREM, sales per

store did not increase due to increasing competition and an improving economy. When examining the source of the competition, data show that not only domestic discount stores but also foreign discount stores added to the level of competition. Competition from department stores also affected the decrease in sales as some department stores lower their prices.



The data indicated that conflation and environmental influences have continuously affected the evolution of existing institution types.

In addition to sales and store growth, other measures of evolution of a retail institution type include profit, growth rate of profit, and operating costs (Gist 1968; McNair 1958). Although total sales continuously increased, the profit rate decreased in 1998 by 0.1 percent from 1997, and decreased by 0.3 percent in 2000 from 1999. The profit rate did not increase as discount stores grew and matured, contrary to the process described in the spiral evolution of a retail institution type within the initial CREM. As a simple measure of profit can be calculated by the subtraction between total sales and costs (Kincade, Gibson, and Woodard 2004), costs could be the reason for decreasing profit. The discount store began to exhibit characteristics of operational changes in the maturity phase. The increase in number of POS terminals installed per store (1997-27.1/store, 2001-35.0/store), the increase in the size of discount stores (1999-8,695.2 m<sup>2</sup>, 2000-12,622.5m<sup>2</sup>), and the increase in number of employees per store (1997-154.6, 1998-232) were examples of these increasing costs (*The report for retail*

*operation and trend 1996~2001; The yearbook of distribution industry 1996~2002).*

As predicted from the initial CREM, variables such as operating costs increased almost 250.0 percent within six years (W3.7billion in 1995 to W9.1billion in 2001). However, when operating costs were recalculated with CPI, a different trend was shown. The actual operating costs in 1998 and 2001 decreased (see Figure 9). In 1998, some costs other than operating costs or other factors might have also affected the decrease in profit. In 2001, the decrease in sales due to high competition and a recovering economy could be reasons for the decrease in operating cost and profit. For example, consumers with increasing incomes after the economic crisis could return to department stores and special shops. Therefore, while the discount store spirally evolved in South Korea, environmental influences constantly affected its retail evolution, which the initial CREM did not predicted. A further interpretation of this data is that discount stores entered the vulnerable phase as indicated by a drop in profit rate. As aging store formats, discount stores in South Korea began experiencing a vulnerability to other retail institution types.

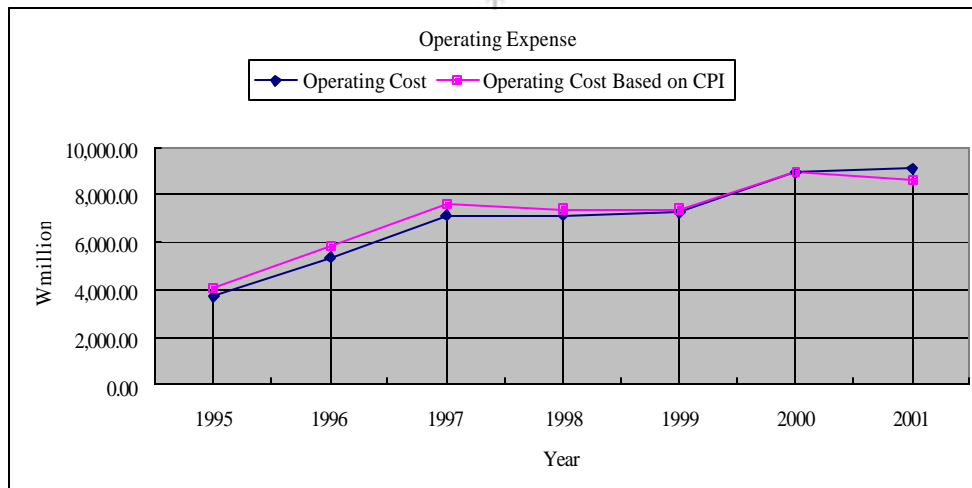


Figure 9. Operating Costs without and with CPI

## **Environmental Influences on Discount Stores**

### *Social environment*

At their introduction in the mid 1990s, discount stores opened in the center business district of cities. At that time, increasing population within metropolitan areas supported physically large retail institutions, such as discount stores in contrast to the traditional, small “street stores” or local department stores (Gil 1996; Lee 2000; Moon 1999). However, as the population movement into the cities started decreasing, discount store businesses quickly opened stores in the new growing suburban areas to achieve benefits of an innovative retailer (e.g., high market share and increased store patronage). In this examination of the data, the social environment was found to be related directly to the evolution process of discount stores (i.e., location decision, broader consumer coverage), a relationship not included in the initial CREM.

### *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. Discount stores could reduce the number of laborers and self-service became more acceptable when these conditions existed. Adoption of advanced technology (e.g., computerized production system, POS systems, electronic data interchange, computer databases) made effective and efficient management possible, in addition to price reductions (Gil 1996; Kim 1998). As proposed in the initial CREM, data showed that the technological environment provided a base for creation and operation of a new retail institution. Technology changes in transportation including increased car ownership and new transportation systems allowed consumers more easily to reach discount stores, located both inside and outside of metropolitan areas (Kim 2000). Therefore, the technological

environment also influenced retail institutions while discount stores were evolving, which the initial CREM did not predict. Although the technology environment contributed to increased operating costs and sales, it was not the major cause of unstable operating costs and sales because seemingly independent of increasing technology adoption and its cost, operating costs and sales decreased in some years.

### *Economic environment*

As a result of the economic crisis in 1997, the unemployment rate increased significantly in South Korea. In turn, consumer income decreased considerably. The GNI showed a slight decrease in 1996 and then, a steep decrease in 1997. Household income also decreased in 1997 (see Figure 10). With diminished incomes, consumers became highly sensitive to price and started looking for low priced products. Discount stores were accepted by South Korean consumers, as demonstrated in the growth of sales of these stores during this period (see Figure 10). Not only when household income decreased in 1997 to 1999 but also when household income increased in 1999 to 2000, the sales per discount store increased. The continued growth in sales past the economic crisis is possibly explained by consumers who withheld their spending due to uncertainty of the future economic situation (Engle, Blackwell and Miniard 1995) and did not go immediately back to pre-crisis shopping behavior (e.g., department store patronage, quality-conscious). In evidence of a lag in consumer response, sales per store for discount stores did start decreasing by 2001, while the economy was continuously recovering and household income kept increasing. The economic environment influenced one aspect of demographics (i.e., consumers’ income), which was not proposed in the initial CREM. In turn, income changes affected shopping orientation, although some lag is seen in this effect.

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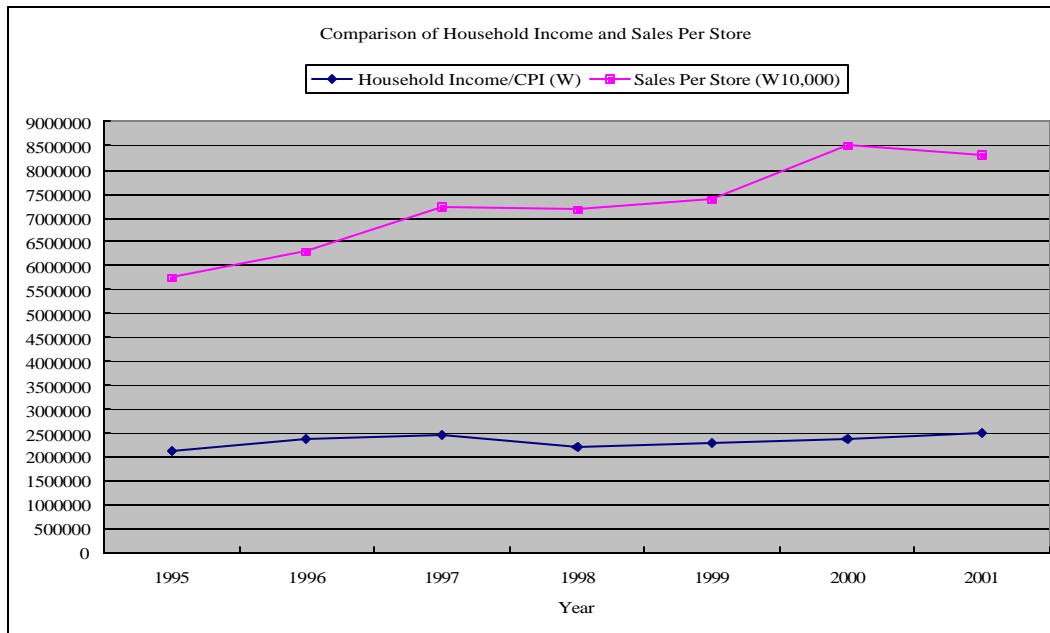


Figure 10. Comparison of Household Income and Sales per Store

### *Political/legal environment*

Prior to the late 1990s, foreign discount retail companies were restricted within South Korea in terms of store size, number of stores, product categories, and real-estate ownerships. 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 evolve or modify their characteristics, indicative of the trade-up (or mature) phase of evolution, to adjust to these changing environments. For example, some discount stores launched their own private brand products to differentiate themselves from other discounters (Lee 1997; Lee 2000). The influence from the political/legal environment to the conflict was not predicted in the initial CREM.

### **Consumer Influences on Discount Stores**

Prior to the economic crisis in 1997, consumers in South Korea were accustomed to shopping at supermarkets (35.0 percent) and at department stores (31.0 percent); whereas, only 13.0 percent to 22.4 percent

of consumers shopped at discount stores (Cha 1998; Kim 1999). Consumers mainly considered product quality (41.0 percent) when shopping in supermarkets and department stores. After the economic crisis, the discount store became the major retail institution type for shopping (87.0 percent) due in a large part to the significant reduction of consumer income (growth rate of income: 1997: 7.0 percent, 1998: -14.5 percent). The Consumer Consumption Index for South Korean consumers in 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 (Um 1998). In 1998, the decline continued and growth rate of consumer consumption decreased by -13.0 percent (Kim).

After the economic crisis, consumers began to seek lower-priced products as they became more sensitive to price. Consumers in many social classes became price-conscious regardless of demographic differences in income level, age or education. The discount store, with its characteristics differing from department stores, satisfied these consumers' needs. In the past, elderly shoppers, considered an economic risk for retailers, were the major consumer group for discount stores. In contrast, during and immediately following

the economic crisis, even the young age groups, who traditionally had a low level of economic concern, were shopping at discount stores (31 to 40 years old: 41.6 percent, 21 to 30 years old: 22.9 percent). The majority of these consumers (68.6 percent) had earned a college degree, and 40.5 percent of the discount store consumers were white-collar workers (Gong 1999). As the number of working women increased, marketing strategy for discount stores increasingly emphasized their ability to make shopping both timesaving and convenient (Kim and Kim 1995), which is supporting evidence that the target consumer focus of the discount store changed. 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 for the South Korean consumer (Koh, Park, and Lee 1997; Mammarella 1997; Park and Im 1996; Sul 2000). However, with the recovering economy, frequency of visit (1997 – 8 times/month; 2000 – 2~4 times/month) and amount of spending at discount stores (1997 - \$42~\$83/visit; 2000 - \$25~\$42/visit) decreased (Gu 1998; Sul 2000). As evidenced in the data reported in the previous environmental sections, continuously changing environments influenced consumers' demographics, which was not predicted in the initial CREM. In addition, consumers' demographics affect their shopping orientation, which was predicted in the initial CREM.

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

As many discount stores opened since the economic crisis in 1997, the South Korean discount retail market became saturated. High competition and recovering economic conditions negatively influenced the sales growth of discount stores. Operating costs increased except for a few years as discussed previously, resulting in an increase of retail prices for both imported and domestic products (Jeong 2000). This finding supports the relationships and processes in the initial CREM. As predicted by this CREM, discount stores, to be

competitive, needed to evolve and change their characteristics. For example, discount stores recently reorganized their merchandise assortment and offered more high-quality merchandise with up-to-date fashion products for a good value as well as lower-priced products and their own private brands (Kim and Chen-Yu 2005; Lee 2000). In contrast with the findings about department stores, only one spiral ending was found in the data for discount store types. Discount stores have not yet downgraded their prices. The price level that discount stores provide is already lower than other retail institution types, so more down-scaled discount stores, as happened with department stores, are not expected to appear but although possible are not probable. Transformation to either another retail type or a multi-format retail type is also not yet shown in the data, but remains as a possible spiral evolution, considering the findings for the department store spirals. In addition, a new, yet, undiscovered ending could occur.

### **Conflict between Department Stores and Discount Stores**

The initial CREM proposed that while two types of retail institutions individually and spirally evolve, they influence each other as competitors (e.g., conflict between  $R_1$  and  $R_2$  in Figure 1). In South Korea, department stores and discount stores have been competing with each other through variable differentiation since the economic crisis. 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, hospital, hair shop) to serve customers, who pay for both merchandise and services (Lee 1996). In addition, consumers expect high level of product 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

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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). These data show that two retail institution types can simultaneously exist and compete with differing characteristics.

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

#### *Spiral Evolution of the PBH*

Beginning in 1997, discount stores took over the popularity of department stores and became the most attractive retail institution in South Korea (e.g., conflict between  $R_1$  and  $R_2$  in the Figure 1), and department stores started evolving to adapt themselves to these changing environments (Kim 1999; Lee 2000). As the economy has improved since 2000, data in sales show that discount stores also started losing their attractiveness (i.e., price competitiveness) to consumers. At this point in the retail evolution process within South Korea, consumers were not finding their desired store/product attributes within one retail institution type. This unsatisfactory shopping experience and the aging of existing retail institution types opened a space for a new retail institution type to emerge, which is the PBH Type of Retail Institution in South Korea. This finding supports the evolution, conflict, and emergence of retailers through conflict as shown in the initial CREM (see Figure 1).

The PBH is the most recent retail institution type in South Korea and has achieved a higher sales growth rate than major department stores (e.g., in 2000: department store 20.1 percent versus the PBH 676.7 percent; in 2002: department store -3.8 percent versus the PBH 21.9 percent) (*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. According to the initial 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 yet begun.

### **Environmental Influences on the PBH**

#### *Social and economic environments*

The city of Seoul has one of the highest population densities in the world. In addition, the DDM area, within downtown Seoul, is the center of public transportation systems. These social environments helped the first PBH to reach consumers and for consumers to access the PBH easily. With the DDM's recognition as the center of wholesaling and retailing of the apparel industry in South Korea, a PBH in this area not only served consumers in Seoul but also serve as a middleman to businesses in cities nation wide.

An economic change (i.e., economic crisis) favored instant success of this PBH for many reasons. High unemployment from layoffs 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, and Jeon 2000). Although the 2002 household income, based on CPI, returned to its level prior the economic crisis (see Figure 10), GNI did not immediately return to the same level before the crisis, and consumers did not return to their identical shopping behavior before the crisis. This is the same environmental trend discussed as an influence on the success of discount stores. This post-economic crisis environment also supported the success of the PBH because a PBH provides quality and high fashionable items with low prices. Therefore, environmental changes influenced the emergence of a new retail type and influenced consumer demographics that in turn, affected shopping orientation. Changes in shopping orientation affected consumers' preferred attributes, which ultimately influenced the emergence of a new retail type.

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### *Geographic environment*

All segments of the industry, required to complete an apparel product, are geographically located in DDM. Through this close proximity and the associated QR system, the PBH greatly reduced lead-time and costs in the production process (Kim, Choi, Song, and Jeon 2000; Kim and Shin 2000). DDM was a traditional apparel wholesaling area and famous for its foreign buyers from Russia and Southeast Asia; therefore, it already had loyal wholesale and retail customers, which helped quickly to secure consumers' trust in product quality (Lee 2000). By allowing for QR and price reduction, this geographic environment was a primary influence to create the first PBH and to make the PBH unique and successful.

### *Political/legal environment*

A PBH provides highly attractive characteristics to both domestic and foreign consumers and achieves high sales success. Due to high popularity of PBH, the DDM area has become one of the most attractive tourism areas, with its unique traditional market characteristics. Accordingly, 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 visited the DDM area and accelerated its economic revival (Pak 2000). To respond to this changing environment, the PBH upgraded facilities (e.g., in-store announcements in five different languages) and established set prices for foreign buyers, who are not accustomed to bargaining for purchases ("Famous Tourism Areas" 2002). Therefore, success of retail activities and operation of the PBH directly affected the political/legal environment, and this political/legal environment influenced the evolution process of PBH. The reciprocal relationship, which is an influence of a retail institution on environmental changes and an influence of environments on the entry phase of the cycle, was not predicted in the initial CREM.

### *Consumer Influences on the PBH*

Prior to the economic crisis of 1997, consumers had a strong loyalty to department stores for high quality, fashion, and services. After the economic crisis, consumers were looking for value for money instead of high-priced products (Kim, Choi, Song, and Jeon 2000), and discount stores became the appropriate retail institution type for consumers. However, consumers were accustomed to high quality and fashionable items and services in department stores until 1997. Department stores could not offer low prices compared to the level of products and services they offered, and discount stores could not provide a high level of services and high quality fashion items compared to the level of price they offer (Lee 2001). The PBH emerged at the time, when consumers were looking for a new solution. The PBH provided a convenient shopping environment with quality, fashion oriented products with low prices and quality services (Lee 2000; Kim and Kim 2001). This finding supports the influence of consumers' behavior on the emergence of a new retail institution type as diagramed in the initial CREM.

In addition to income, family structure and population age profiles are consumer demographics with potential to influence a retail institution type ((Kim, Choi, Song, and Jeon 2000). As the number of full-time working parents increased, consumers preferred the one-stop shopping environment and extended open hours of a PBH. As PBH provides all apparel products in one place and opens from 9 am to 6 am (i.e., convenience), this retail type became a favorable shopping place. With this data, the influence drawn from consumers' demographics, shopping orientation and preference for store/product attributes in the initial CREM was supported.

### *Overview of Conflict and Evolution of the PBH*

Some modifications of other retail institution types were found as a result of their conflict with a PBH. This relationship

was described in the initial CREM in the conflict between  $R_4$  and either  $R_1$  or  $R_2$  or both. Many small and mid-size department stores could not compete with a PBH. In response, they renovated their stores in the style of PBH buildings, imitated characteristics of the PBH, and specialized only in apparel merchandise (Jeong 2001). Some traditional department stores opened a department within their stores for items similar to those in a PBH, or a department for discounted items and low-priced private-brand items to compete with PBH type products. Discount stores have tried to carry more fashionable items to respond to consumers' fashion interests and to compete with the PBH. As noted by this data, the new retail institution not only became a competitor for existing retail institutions but also influenced the evolution process of existing retail institutions, which the initial CREM did not predict.

Although the innovative PBH is relatively new and in the early phase of the evolution spiral, many retail investors, including owners of the PBH in DDM, opened a PBH not only in DDM but also in other areas in South Korea. Accordingly, the number of PBH type stores increased as was proposed in the initial CREM. Using this CREM to predict the outcome of future change and effects of influence, the PBH is predicted to be a prosperous retail institution type; and can be imported to other geographic regions, where labor and raw materials are easily accessible and channel members locate into one place to form a type of DDM.

### Model Refinement

Using a constant comparison analysis with the initial CREM (i.e., the proposed model) and data about the retail environment in South Korea, the CREM was refined. Many relationships among variables were supported by the results and were confirmed. The relationships that were partially supported or newly found were added in the final CREM. Relationships not supported by the results were removed.

Regarding the first principle of rhythmical patterns of spiral change, all indicators (e.g., sales, growth rate of profit, market share, operating cost) did not increase continuously as retail institutions mature but fluctuated whenever environmental influences interrupted the retail growth. This finding is in contrast to the process predicted in the initial CREM. In the vulnerable phase (see a cross on a circle in Figure 11), instead of one path, 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 principle of the effects of conflict in the CREM was supported. In addition, evidence was found that a new retail store also started competing with other retail stores within the same retail institution type as the number of stores increased. As time passes, this new retail institution type started competing with its own type, other existing retail institution types, and a new retail institution type. For the third principle, influences of retail environment were proposed to affect the emergence of a new retail institution type in the initial CREM. In the data, environmental influences affected not only the emergence of a new retail institution type but also the conflict among retail institution types (see **a** in Figure 11) and the evolution process of existing retail institutions (see **b** and **c**). Graphics to illustrate these new findings were added in the final CREM. In addition, evidence was found that a new retail institution in South Korea influenced retail environments (e.g., political/legal environment) (see **d**); therefore, a reciprocal relationship was identified between environmental influences and a new retail institution type, and added in the final CREM.

A direct relationship between environmental influences and consumers' preference for store/product attributes, as proposed in the initial CREM, was not found. In contract, analysis of the data revealed that environmental influences directly affected consumers' demographics

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(see e in Figure 11) and shopping orientation (see f). The CREM was revised to reflect these new findings of changes to previous relationships. Further describing the consumer influence, data showed that changes in consumers' demographics altered consumers' shopping orientations, which in

turn affected consumers' preference for store/product attributes, and directly influenced the emergence of a new retail institution. Therefore, the relationship in the initial CREM was supported showing consumers as an influence on the emergence of a new retail institution.

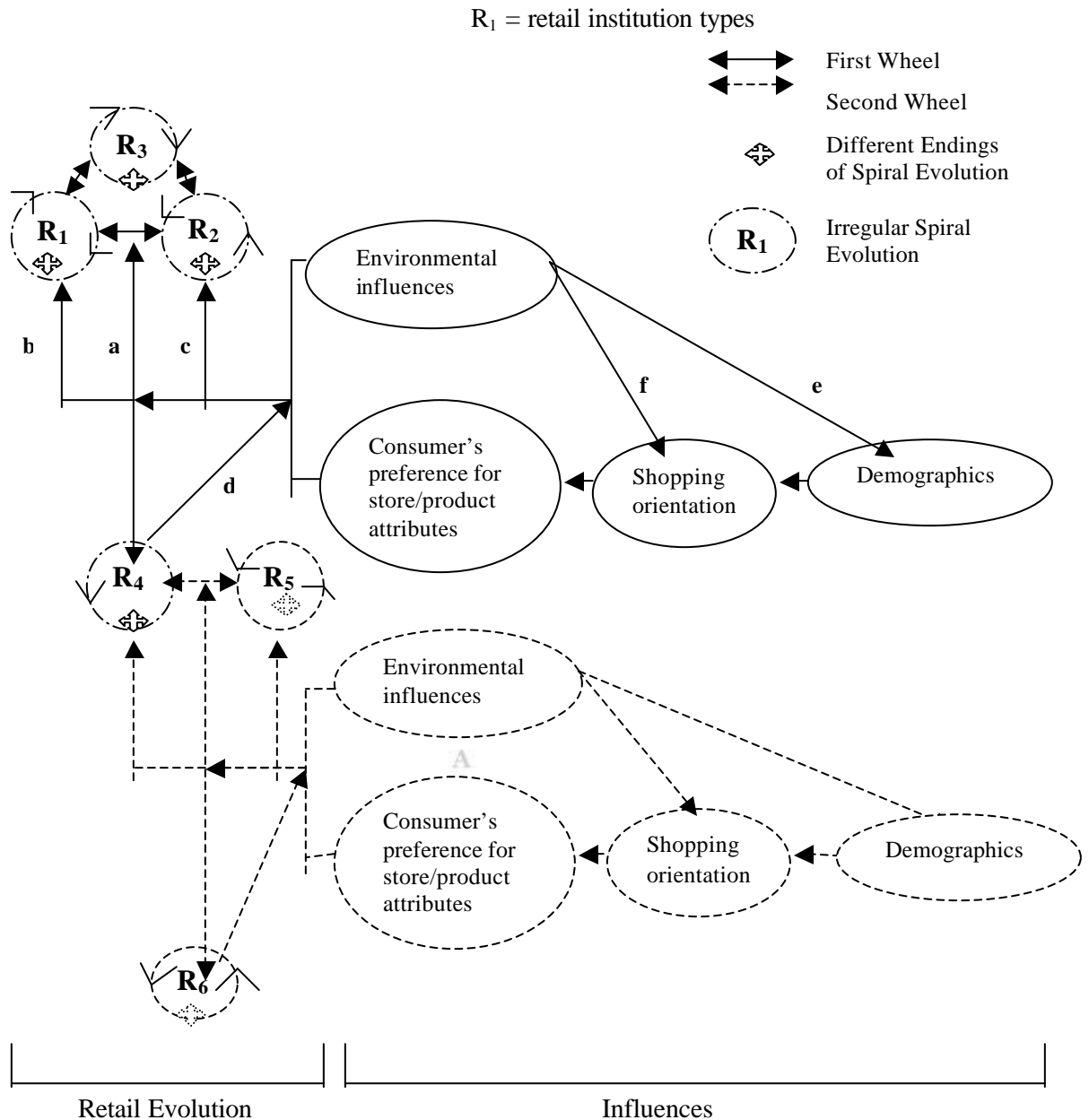


Figure 11. Final Combined Retail Evolution Model



Three new relationships involving consumer influences were found. Results of data analysis supported that consumers' preferences for store/product attributes originated the conflict between two retail institution types (see **a** in Figure 11) and influenced the evolution of existing retail institutions (see **b** and **c**). Second, the store/product attributes of a new retail institution type became 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 (see **d**). Finally, a new relationship that consumers' preferred store/product attributes influenced the evolution of existing retail institutions was added (see **b** and **c**).

## Conclusion

A final CREM was developed based on the revisions and confirmations found in the data (see Figure 11). For the spiral evolution of retail institution types, specifically department stores and discount stores, three main conclusions can be made from the 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 features predicted to belong to a new or entry phase retail institution type. Second, all types of retail indicators did not continuously increase but fluctuated whenever environmental influences appeared to interrupt growth. Third, fluctuations, as exhibited in the data, were not only in the vulnerable phase but also during the mature phase. In the final CREM, these are shown as an irregular spiral evolution (see circles with dashes and dots in Figure 11). The final CREM was also adjusted based on the finding of multiple spiral directions. Only the upgrading option was predicted in the initial CREM, but data showed that department stores took any of four options for a spiral ending. Although other retail institution types have yet to take

other ending options, these options remain as potential future endings.

Evidence was found that environmental influences could both negatively and positively affect retail evolution, depending on environmental characteristic and characteristics of the retail institution type. Depending on characteristics of a retail institution, a positive environment to one retail institution type could be a negative environment to another retail institution type. Within the same environmental characteristic, impacts differed based on the response by retail institution types. Depending on the environment and retailers' reaction to that environment, the institution type's spiral evolution pattern and lifecycle were decided. Normally, retail institutions respond to environments, not controllable by their managers, by adjusting their attributes that are controllable. However, the data showed that retail institutions could change, if not control, environments by providing attractive attributes. This influence was interpreted as a reverse relationship from a new retail institution type to environmental influences in the final CREM.

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 (e.g., income, technology, and price and fashion level of products). As shown from the data, consumers could also be manipulated by retail institutions. If a retailer provides and meets consumers' preferred attributes, a retailer can alter consumers' reactions, regardless of whether environmental changes affect consumers. This relationship was shown in the final CREM as an arrow from  $R_i$  to consumers' preference for store/product attributes (see Figure 11). These relationships were supported even though few previous researchers showed an interest in this relationship.

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## Implications

Differences were found between the initial CREM that was proposed based on the primarily Western theories and previous research and the data from South Korea. These findings may imply that the retail evolution process is geographically diverse as well as that the process has evolved since the theories originated. Some future variations may exist when 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 covers all major variables and relationships from previous research and includes new variables and relationships from the analysis of data in this study. The final CREM should be more usable as a model that could explain various retail evolution situations than previous, more narrowly focused models.

For retail businesses, especially in non-western countries, the relationships found in this study indicate that retailers 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, retailers could provide a more authentic prediction about the direction of evolution in terms of retail offerings. The ultimate goal of a retail operation 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. 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. With this information, the final CREM can be used to make predictions about the future possibility of a new retail institution type.

## Recommendations for future research

This study provides many possible research topics. As a first topic of study, the CREM is tested in only one nonwestern country in this study; therefore, future researchers can test the model in 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 of the model. 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, employing other statistical methods can be used, such as Chi-test or ttest, to examine potential statistical significance between values in the data. As a fourth topic, an explanation is needed as to whether a retail institution enters into the vulnerable phase because its sales volume starts decreasing, or if sales volume decreases because a retail institution enters into the vulnerable phase. The data did not clearly illuminate this cause and effect relationship. Lastly, in the near future, the PBH might begin to compete with other new retail institution types as the final CREM proposed. Although no evidence of this event was found in the data about the PBH, longitudinal studies are needed to verify the path of future retail evolution and to increase validity and reliability of the CREM.

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