[Editorial Review]

# Present and Future of the Korean Firms: Focused on the Traditional Market

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## Abstract

**Purpose** - This study aimed to explore and examine the government policies and supporting systems of the traditional market in Korea.

**Research design / data / methodology** - Recognizing these problems, the Korean government enacted three special legislations and adopted six support policies in support of the traditional markets.

**Results** - Those markets with modernized stores, parking lots, and arcades have certainly increased sales and the number of customers. However, this uniform modernization support policy was short of supporting strategies that could have developed characteristics and advantages of each market, so many markets and merchants lost self-sustainable ability and ended up with relying on government support.

**Conclusions** - The study indicates that Small & Medium Business Administration's role in implementing government policies including selection of the markets that needed to be modernized, developing commercial areas in connection with traditional market and neighboring shopping streets, customizing and improving distribution system, developing specialty stores, merchant college, merchants' self-sustainable ability, and creating convenient and safe shopping environment is vital to traditional markets' future success.

Keywords : Korean Traditional Market, Government Policies, Distribution, SSM.

JEL Classifications : L22, L25, M31, M38.

## 1. Introduction

### 1.1. Background and Purposes

The complete opening of the South Korean distribution market in January of 1996 to foreign countries and investors had a great impact upon the distribution business in Korea. The traditional market, supermarket, and department stores had played an important role in the consumption behaviors and patterns up to that time, but with this open market environment, the consumption pattern has changed and moved towards large-scaled discount stores and department stores that focus on the Everyday Low Price (EDLP) strategy. Such a phenom-

enon weakened the base of the traditional markets and small sized stores in the alleys and caused deterioration of local economy, threatening the livelihood of the market merchants. On the other hand, consumers enjoyed one stop shopping culture where the experience shopping was more convenient and comfortable and its shopping friendly environment. This behavioral changes in shopping led to the development and expansion of large-scaled discount stores as well as department stores. For instance, number of large-scaled discount stores increased from 273 in 2004 to 420 in 2010.

Furthermore, a new type of distribution business also emerged during the last decade as the society became more digitalized, e.g., e-commerce based on TV home shopping and internet. The number of SSM (Super Super Market) rapidly increased from 253 in 2004 to 699 in 2009, but the number of traditional markets declined from 1,660 in 2005 to 1,517 in 2010. This particular crisis, dwindling of the traditional markets, had significantly influenced the Korean society. The traditional market had played the role of commercial and physical distribution between production and consumption to stabilize supply and demand. Dwindling of the traditional market created reliance of distribution upon large-scaled distribution businesses and weakened distribution for small businesses. As a result, many small businesses and ordinary people who relied upon the inherent function of the local commerce and economy were significantly impacted. Many urban commercial areas were turned into empty spaces, especially in downtown areas, and obsolete buildings due to the closure of traditional markets caused the transportation and security problems. Furthermore, the cultural and historical aspects of Korean traditional markets were replaced by the culture of modern shopping stores.

Recognizing these problems, the Korean government enacted three special legislations and adopted six support policies in support of the traditional markets. These policies were designed to support and improve facilities and administration systems, develop a long-term restructuring plan for commercial areas, and strengthen self-sufficient system and competitive advantages. The government policies resulted in the expansion of the traditional market, but some of the markets we saved expanded. The purpose of the study is to explore and examine the government policies and the supporting systems of the traditional markets in Korea and identify and suggest the problems and recommendations to help the future growth of traditional market in Korea.

### 1.2. Methodology

The following methods were used to conduct this research and satisfy the research purposes:
- Investigation into secondary data to find out current situation of

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the market;
· Investigate the Government legislation and policies on the traditional market;

Collect and investigate literature to survey environment as well as commercial area.

## 2. Development of the Traditional Market

### 2.1. Current State of the Traditional Market

The total number of the traditional markets in the nation was 1,517 markets as of December, 2010 and recorded the sales of 24 trillion Won by about 200,000 stores  and 360,000 merchants. 46% of the traditional market had arcades and parking lots, 10% had customer help centers, and 9% had resting rooms for customers. The stores on average had floor area of 29m²and 1.6 employees, and 65% were the rental stores. The average age of merchants was 53 years old, and organization and service consciousness levels of the merchants were lower than those of their competitors. 77% of the merchants obtained their products from the wholesalers and 65% of the traditional market consumers were over 40 years old. Those traditional market consumers indicate that they favor a kind and friendly shopping environment of the traditional market over inexpensive and convenient discounter department stores. However, the consumers acknowledged that no or limited parking places, limited variety of the commodities, and old shopping stores and buildings were the problems of the traditional market.

### 2.2. Functions and Roles of the Traditional Market

The traditional market played the following market and societal functions and roles over the time. The traditional market was one-stop-shopping place for many consumers and the place for collecting and exchanging shopping information. Many small traditional markets were closely located to residential areas to make convenient shopping. The business startup cost was low and any businesses in the traditional market didn't require a sizeable investment; therefore, the market provided many entrepreneurial opportunities to Korean society.

Furthermore, the transaction of business ownership was relatively easy and simple, and the market was the place for consumers to enjoy local customs and tradition and share social and cultural values.

### 2.3. Characteristics of the Traditional Market

#### 2.3.1. Characteristics

The traditional market consisted of many different individual shopping stores, some markets are located close to residential areas and some big markets are located at downtown or commercial areas. The market is recognized as a neighborhood or city market and its shopping environment was safe, friendly, and social gathering. The market positively influenced the local economy. The market includes a variety of stores, perishable, food, meat, fish, home appliances, clothing,

industrial products and garments, etc. Bargaining price and negotiating commodity are typical business transactions between sellers and buyers. Many stores in this market were supplied by small local manufacturers, farmers, and businesses which allowed local economy to develop and expand.

#### 2.3.2. Needs for Development of Traditional Market

The emergence of competitors such as discount stores and specialty stores significantly impacted traditional markets and resulted in increasing number of vacant stores and decreasing overall sales. The continued stagnation pushed the market to the verge of disappearance. The needs for development of traditional market were recognized by local and federal government where the survival and development of the market would bring both social and economic advantages. The low cost and investment business opportunities are necessary for communities to self sufficiently sustain their economy, and the place of exchanging information and social and community gathering makes consumers to feel a sense of unity and belonging. Self-employed or family-employed businesses contribute to resolve local unemployment problems. The chain reaction of closing traditional market would devastate the national economy. The culture and history associated with traditional market would also disappear.

## 3. An Analysis upon the Government's Support Policies

### 3.1. Special Act on Development of the Traditional Market

#### 3.1.1. Special Act on Development of the Traditional Market (2005)

The purpose of the special act was to promote e-commerce and modern trading to develop goods, trademarks, and packing sheet jointly, to strengthen sales and support public relations, and to support modern administration such as management education. The special act has supported to improve facilities and administration of the traditional markets systematically.

#### 3.1.2. Special Act on Development of the Traditional Market and Stores (2006)

· Expanded objects of the government's policy from traditional market to shopping street and  market development area.
· To promote market development project, special act on construction for vacant areas was enacted.
· Agreement conditions of land owners of adjacent areas were alleviated when market development business promoted reconstruction including the adjacent areas.

#### 3.1.3. Special Act on the Traditional Market and Shopping Street (2010)

· Renamed traditional market.
· Alleviated rate of the agreement on the market development plan
· Nominated some areas as 'business promotion area', such asshopping streets, commercial areas, business districts with wholesale

stores, retail stores and service stores, and places where sales and commercial activities were likely to dwindle.

· Supplied material for revitalization plan of business district, and opened an organization of revitalization of business district and associated projects.

· Modernization of commercial buildings, use of national land and/or public land to modernize facilities, efficient layout of the stores, protection of merchants of storesrented as well as merchants of public market, promotion of commercial transaction, promotion of joint project, marketing channels & public relations, training of merchants and experts, industry and university cooperation project, and cooperation with large-scaled stores.

## 3.2. Changes of Support Policies

### 3.2.1. Measures for Small Business and Traditional Market (2004.3)

· Improvement of environment of the traditional market
· Developed special markets to produce special products, such as local special markets and theme markets.
· Supported reconstruction and remodeling.
· Supported marketing in connection with local industry and culture
· Developed autonomous consulting associations between traditional markets and other autonomous business innovation bodies.

### 3.2.2. Measures for Development of the Traditional Market (2004.12)

· Supported traditional market having potential consumer demand, developed traditional market having potential to become special market.
· Alleviated market registration processes and project promotion procedures and conditions.
· Expanded the Government's support to build up infrastructure.
· Revised regulations and improved procedures of the market.
· Established autonomy of local governments.
· Trained professionals to provide consulting service to the traditional market.

### 3.2.3. Measures for Development of the Traditional Market (2005.2)

· Supported e-commerce activities of the traditional market.
· Issued merchandise coupons to all markets in the nation.
· Remodeled buildings to make convenient and comfortable shopping environment.
· Remodeled farming and fishery product stores and developed design of packing container.
· Trained 5,000 merchants: trained young merchants separately and opened vocational school.
· Supported events: free gift events and other marketing activities.
· Built support system for development of the traditional market.

### 3.2.4. Policies for Development of the Traditional Market (2005.5)

· Made support program based on market characteristics.
· Remodeled buildings and modernized administration of the market.
· Developed not only traditional market but also neighboring shop-

ping centers at the same time by using local commercial area development system.
· Integrated not only selection procedures of project area but also modification procedures of urban plan facilities to shorten construction time.
· Allowed project promoter to sell national land by providing optional contract at remodeling.
· Trained merchants with customized training and consulting.
· Promoted joint projects by developing merchant organizations in each market.
· Supported opening of model stores by using vacant stores in the traditional market.
· Expanded government support for building modernization.
· Supported construction of cold storage, warehouse, delivery call center, operation yard, seawater supply for seafood market and other common use buildings.

### 3.2.5. Development Plan of the Traditional Market (In May 2006)

· Provided small merchants with competitiveness in niche market.
· Supported the markets depending upon size of commercial area, market characteristics and specialty.
· Investigated actual conditions of the market throughout the nation and evaluated outcome of government support.
· Local governments shared supporting responsibilities.

### 3.2.6. Development Plan of the Traditional Market (In December 2008)

· Investigated competitiveness advantages to increase and expand good businesses and decrease vacant stores.
· Made changes to support from hardware and volume-oriented to software and outcome-oriented.
· Developed market that had local specialty and tourism resources.
· Developed public markets with modern discount stores, parking lots, and air conditioning system.
· Combined traditional markets and shopping street and neighboring commercial areas to revitalize.
· Developed Namdaemun Market and Dongdaemun Market by modeling overseas markets. Expanded parking lots and other facilities and improved safety.

## 3.3. Supporting Traditional Market

### 3.3.1. Supporting Traditional Market

#### 3.3.1.1. Facilities Support

The Central Government, local governments, and privatesectors supported modernization of arcades and parking lots during early 2002 to the end of 2010. For instance, they invested 2.1 trillion Won to remodeled 835 markets including 628 arcades and 428 parking lots.

#### 3.3.1.2. Administration Support

From 2005 to 2010, 180.2 billion Won was spent to educate about 190,000 merchants on IT, marketing techniques, business and consum-
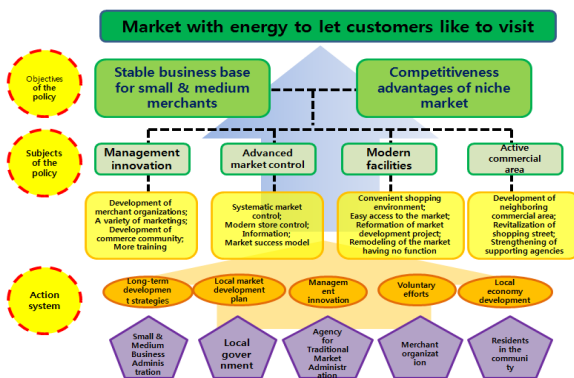
er awareness, and administration and operation procedures.

### 3.3.2. Evaluation of Supporting Traditional Market

The markets with parking lots and/or modern facilities generally increased sales by 4% and 5% respectively, but markets without parking lots and/or modern facilities saw about 20% to 24% decreases in sales. Number of the market with self-sustainable ability increased from 168 markets in 2006 to 264 markets in 2010. However, modern facilities were found to be insufficient to maintain traditional and cultural characteristics and advantages, and the markets were not developed based on the characteristics of market, merchants, region and residents. Finally, government support lowered merchants' self-sustainable ability and raised dependence upon the government.

## 4. Future-oriented Reformation Programs

### 4.1. Small & Medium Business Administration's Policy on the Traditional Market



Source: Traditional market development plan published by Small & Medium Business Adminstration.

<Figure 1> Policies of the Traditional Market
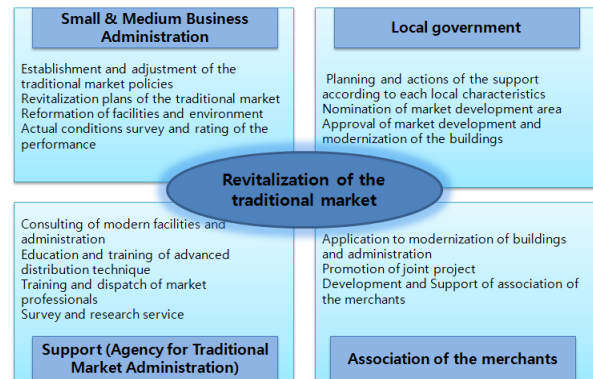
### 4.1.1. Management of the Policies

Development policies by each characteristics of the market through finding out factors of competitiveness disadvantage and give customized support, classifying market characteristics by each type and produce and expand success model, and supplementing disadvantageous factors of administration ability by performance analysis.

- Differentiate development strategies by each characteristics of commercial area.

<Table 1> Development Support by Characteristics of the Market

| Type | Customized support | Market concept |
|---|---|---|
| A type | Poor administration ability and facilities | Conventional market at alleys; local market |
| B type | Excellent facilities and location and poor administration | Central market at the community, market of the specialties |
| C type | Excellent administration and poor facilities | Large-scaled market |

Source: Traditional market development plan published by Small & Medium Business Administration.



Source: Traditional market development plan published by Small & Medium Business Administration

<Figure 2> Policies of Development of the Traditional Market

<Table 2> Support for Development of The Traditional Market

| Subject | State and problems | Action plan |
|---|---|---|
| 1. Management innovation and joint marketing | □ Low organized power of the association of the merchants;<br>□ No network between markets | ■ Merchants' self-supporting organization;<br>■ Various kinds of marketing activities;<br>■ Development of commerce community of nationwide markets;<br>■ Management innovation education and more training and education |
| 2. Market control and advanced store administration | □ Ineffective commercial area control<br>□ Pre-modern store control (low labor productivity) | ■ Attractive commercial area by systematic market control<br>■ Advanced store control<br>■ E-commerce and IT<br>■ Success model of store and merchants |
| 3. Modern buildings | □ Obsolete buildings and lack of convenience facilities for customers<br>□ Poor market development techniques | ■ Convenient shopping environment<br>■ Good access to the market<br>■ Reformation of market development system<br>■ Remodeling of the market having no function |
| 4. Revitalization of local commercial area | □ Limitation on commercial area<br>□ Equality of shopping street<br>□ Beginner's stage comparing with advanced countries | ■ Development in connection with market and neighboring commercial area<br>■ Development of shopping street<br>■ Strengthening of supports of revitalization of commercial area |

Source: Development plan of the traditional market published by Small & Medium Business Administration

Develop supporting system by competitiveness advantage through investigating actual conditions of the market in the nation and evaluated performance of the support every 2 years to give feedback to the market, and establishing development strategies by each competitiveness advantage considering market characteristics, competitiveness advantages, and local conditions. Table 2 depicts the government support for development of the traditional market.

## 4.2. Reformation of Support of the Traditional Market

On January 31, 2011, Small & Medium Business Administration evaluated support of the traditional market. It concluded that the supporting measures should be free from uniform support, meet characteristics of each market, and select and develop 500 markets with competitiveness advantage by the year of 2013 to bring back consumers to traditional market.

The measure was free from uniform selection of the market supported in the past to introduce selection by comprehensive diagnosis and to help merchants elevate competitive advantage by themselves and to create shopping conditions for recovery of energy of the market.

### 4.2.1. Selection of the Market Supported for Building Modernization

Small & Medium Business Administration planned to investigate actual conditions of 1,517 markets in the nation in order to increase efficiency of building modernization project as much as possible from that which was done in 2002 and to fund the markets having growth potential. They have investigated not by public officials but by professional consulting agents to establish differentiated strategy of each market and to supplement disadvantageous factors.

### 4.2.2. Customized Support depending upon Market Characteristics

A strategy of educating market was applied to develop 500 markets having competitiveness advantage by merchants, customers, local governments and central government by the year of 2013. Small & Medium Business Administration developed market with help of the

Ministry of Culture and Ministry of Public Administration and Security, for instance, 100 culture tourism markets, 100 local specialty markets, and 300 neighborhood living markets near residential areas of big cities. The actual conditions of the traditional market was investigated during the nine months period in 2010, and the total of 1, 517 traditional markets and its merchant organization, commercial area attractiveness, and facility and stored administration, joint marketing, and market operation were examined. The below figure shows the increase number of markets that are having competitive advantage throughout a four year period, 2006 to 2010.

### 4.2.3. Improved Distribution System and Developed Stores

· Good quality agricultural and livestock products supplied by Nonghyup to elevate competitiveness advantage of price and quality of the products.
· Cultivated food products on contracting by connecting merchants with producers and/or farmers.
· Made use of special price sales and regional cross sales.
· Compensated for losses and damages caused by abnormal weather conditions, food-and-mouth disease, avian influenza and other natural disasters.
· Selected hundred stores having history, tradition and knowhow to develop stores that could introduce customers.

### 4.2.4. Merchant College, Merchant Capability and Self-help

· Opened not only merchant colleges at 100 markets but also merchant graduate schools at 5 markets in the nation to train 'merchant leaders who could take the leadership role in the future traditional market.
· Supported association of the merchants at 16 cities and provinces by employing retired labor of distribution and administration, and transferred accounting and marketing technique and knowhow to strengthen administration and control of the association.
· Helped merchants to learn product display skills as well as customers relations.

<Table 3> Competitiveness Advantage by Year

(Unit : market, %)

| Classification | 2006 | | 2008 | | 2010 | |
|---|---|---|---|---|---|---|
| | number of markets | ratio | Number of markets | ratio | number of markets | ratio |
| Total | 1,610 | 100 | 1,550 | 100 | 1,517 | 100.0 |
| A class | 25 | 1.5 | 28 | 1.8 | 50 | 3.3 |
| B class | 143 | 8.9 | 157 | 10.1 | 214 | 14.1 |
| C class | 446 | 27.7 | 485 | 31.3 | 432 | 28.5 |
| D class | 560 | 34.8 | 536 | 34.6 | 544 | 35.9 |
| E class | 436 | 27.1 | 344 | 22.2 | 277 | 18.2 |

<Table 4> Competitiveness Advantage by Market Characteristics (2010)

(Unit : market)

| Classification | Culture tourism | specialty | Neighborhood living | Function conversion | Total |
|---|---|---|---|---|---|
| Total | 241 | 150 | 849 | 277 | 1,517 |
| A class | 12 | 8 | 30 | - | 50 |
| B class | 35 | 35 | 144 | - | 214 |
| C class | 56 | 85 | 291 | - | 432 |
| D class | 138 | 22 | 384 | - | 544 |
| E class | - | - | - | 277 | 277 |

Source: Development of 500 traditional markets having competitiveness advantage by 2013 published by Small & Medium Business Administration (2011. 13)

4.2.5. Onnuri Merchandise Coupons for sales promotion and convenience

· Expanded release of Onnuri merchandise coupons to increase convenience.
· Opened On-off line shopping systems, for instance, release of e-merchandise coupon and e-shopping mall.
· Lowered credit card payment commission for using Onnuri merchandise coupon and promoted Internet sales of the coupon.

4.2.6. Convenient and Safe Shopping Environment

· Plan to increase a parking lot ratio from current 58% to 65% by 2012, and allow parking at the roads near the market on holidays and on weekends.
· Improve utility, gas, fire fighting and safety systems of 933 markets to protect consumers and merchants from uncertain losses and damages.
· Support organic farming product stores and low carbon emission system used stores and strengthening education and consulting services for the merchants.

4.2.7. Public Relations of the Market by Consumers

· Organize and operate college student marketer based on SNS.
Open performance events by using college student group and develop smart phone applications of the market, stores and product information to make use of it for marketing;
· Produce a video of 100 traditional markets to use as a web-based promotion.
· Promote online sales.

## 5. Summary

This study examined current state of the traditional market and found out that modernization and reformation of the traditional markets were necessary in Korea. The study explored and examined government's support policies of traditional markets. The government enacted special acts on the market on three different occasions starting 2005 to 2010 to support revitalization of the market. These policies resulted in helping many markets to modernize facilities, buildings and administration. The government systematically supported facilities, buildings, and administration of the market with six different policies and time periods. The supporting policies were heavily focused on long-term restructuring, modernization of the buildings, and development and management innovation and technology, so the market could be self-sufficient once revitalization process is completed. Those markets with modernized stores, parking lots, and arcades have certainly increased sales and the number of customers. However, this uniform modernization support policy was short of supporting strategies that could have developed characteristics and advantages of the market, so many markets and merchants lost self-sustainable ability and ended up with relying on government support. The study in-

dicates that Small & Medium Business Administration's role in implementing government policies including selection of the markets that needed to be modernized, developing commercial areas in connection with traditional market and neighboring shopping streets, customizing and improving distribution system, developing specialty stores, merchant college, merchants' self-sustainable ability, and Onnuri merchandise coupons, and creating convenient and safe shopping environment is vital to traditional markets' future success.

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