

Consideration of Domestic Category Killers for Distribution Environment

Moon-Sook Kim* and Hyeon-Ju Kim†

*Professor, Department of Clothing Science, Seoul Women's University

†Graduate School, Department of Clothing Science, Seoul Women's University

Abstract

The category killer that has been rapidly growing mainly in advanced countries since early 1990's, is a new distribution model which aims for obtaining market controlling power by surpassing competing businesses in a specific area of products. The domestic situation of category killers is very different from that of advanced ones abroad since it has just been introduced into the Korean market. At the moment, there are only 10 or so companies operating in the market: Geopyung's (Toyland), Taeheng's (Tower Record), Midopa's (Power Station), (Sports Depo) of Sinsegye Department store, and (Office-One Superstore) of Yerim International.

The purpose of this study is to examine problems of domestic companies in the present market by analysing the operation status of category killers in domestic markets as well as foreign ones, and to suggest a counter-strategy of category killers for the distribution environment of the 21st century to improve the competitiveness of Korean distribution industry.

The competitiveness of category killers lies above all in products lines. Category killers are equipped with the greatest number of products lines among those of competing businesses due to maximized product selections in an limited range. Another source of competitiveness may be found in balanced strategy positioning. That is to say, category killers are in a position where they can adjust policies towards any of the three purposes while aiming at them altogether : prices of discount stores, products range of specialty stores, and customer service level of department stores. It is also necessary for efficient store operation to use information technology such as electronic data interchange(EDI), electronic pose system(EPOS) and electronic funds transfer(EFTPOS). As for the cost structure, category killers can gain an advantage over other business since operating cost of various sections can be saved.

There are, however, certain risks that category killers with strong competitiveness may influence on other businesses a great deal and even facilitate their decline. Yet it seems that the growth of category killers will be more viciously restrained by continuous challenges from other businesses. The distribution industry is supposed to develop through such competition and restraint.

Key words : new business, category killer, SPA(Specialty Store Retailer of Private Label Apparel).

* E-Mail: mskim@swift2.swu.ac.kr

† E-Mail: hyeonju@swift2.swu.ac.kr

I. Introduction

At present the domestic distribution industry is in the face of a new changing era. The distribution industry as a whole is required to change being confronted with a new environment it has not experienced for several years: that is, the spread of a new individualized and diversified consumption pattern; internationalization of distribution market and goods due to market-opening measures; relaxation of government regulations; arrival of localization period; and advent of various new businesses.

As for the growing process of the distribution industry in Korea, the domestic market was lead mainly by the manufacturing industry until early 1990's, but afterwards with fast growing department stores, distribution companies appeared as main players in retail markets. From early 1990's to late 1997, with increasing national income a new consumer class appeared and the purchase pattern of consumers became practical.

It is also noticeable that during this period new advent discount business grew fast while the main players in the distribution industry including department stores and supermarkets had a hard time in the market. Moreover, as for the new discount business various types of stores such as warehouse style membership clubs, hyper-markets, super centers as well as discount stores appeared in the market, and particularly huge foreign distribution companies including Macro, Carrefour entered vigorously into the domestic market. With the rapid growth of new discount business, enterprises become more interested in future changes of business models. Among them it is worth paying attention to a new discount business model called category kill-

ers which sell almost all items in limited products groups at low prices.¹⁾

Category killers offer very narrow but deep merchandise lines. They are not discounters, but instead have the entire category(e.g., books, toys, electronics, apparels) covered with a competitive price and vast selection.²⁾ The category killer that has been rapidly growing mainly in advanced countries since early 1990's, is a new distribution model which aims for obtaining market controlling power by surpassing competing businesses in a specific area of products. The domestic situation of category killers is very different from that of advanced ones abroad since it has just been introduced into the Korean market. At the moment there are only about 10 companies are operating in the market: Geopyung's <Toyland>, Taeheng's <Tower Record>, Midopa's <Power Station>, <Sports Depo> of Sinsegye Department store, and <Office-One Superstore> of Yerim International.

The purpose of this study is to examine problems of domestic companies in the present market by analysing the operation status of category killers in domestic markets as well as foreign ones, and to suggest a counter-strategy of category killers for the distribution environment of the 21st century to improve the competitiveness of Korean distribution industry.

For the purpose, we carried out both theoretical studies through relevant books and verifying studies by analyzing data and researches on new business models from various press materials of distribution firms, the Bureau of Statistics, research institutions, and distribution specialty institutions. And to ensure the consistency and reliability of statistics data we selected and showed mainly the latest ones from research centers of big companies, the Korea Chamber of Commerce and

¹ Byung-Soo Park. "The coming age of discount speciality stores", *The Weekly Economics*, 407(March 26, 1997), 23.

² Sternquist, Brenda. *International Retailing* (Fairchild Pub, 1998), 221.

Industry and the Bureau of Statistics.

II. The Background of Category Killers' Development

The distribution industry where competition was already severe with the spread of discount businesses and big enterprises' successive entrances into the market, has been suffered continuous stagnation due to the radical decrease of households' consumption resulting from highly increased unemployment and economic depression since the IMF economic crisis. And big firms who wish to enter into the distribution market are now more cautious in deciding their future operations as the investment environment has been much deteriorated with soaring interest rates by unstable financial market.³⁾

It is also expected that the growth rates of supermarkets and convenient stores are lowered because of decreasing consumption with continuous sales decline of department stores that lead the growth of distribution industry, resulting from weak domestic demands with the IMF economic hardship. This mixture of joy and grief among businesses brings changes in the existing distribution system.

A survey shows that 67% of Korean companies consider the new distribution system as an opportunity to be a market leader, and they preferences of store types are 23% for discount stores, 21% for membership discount shop and 20% for category killers.⁴⁾ The reason for their great interest in the new distribution system may be resulting from their various complaints about the existing one. Many problems in the existing distribution system have been pointed out: small-scale shops, unsystematic consumer management skill, and lack of products' variety, etc.

The general characteristics of the category killer are that in general it values quality of products rather than the range, deals in goods with high brand reputation, situates in suburban areas as huge stores, and puts emphasizes more on prices and product selections than on regional conveniences.

The category killer deals in such products as toys, clothes, car accessories, electric home appliances, computers, sporting goods, and office stationaries. And its store is structured in such a way that the process of placing orders and refilling products could be simplified a great deal, and the space could be used with maximum efficiency by integrating products' sales and storage place into one huge warehouse style store of about 600~8, 260m². It also situates in a suburban area where land price is low, and pursues self-service and chain store system. Category killer companies run a low cost operation by direct, cash-based, bulk amount buying of products through their franchises and direct suppliers.

Based on these features, the category killer can be defined as 'big specialty store' that kills existing businesses which deal with same kinds of goods by selling a great number of goods in limited categories at lower prices. The term 'category' first referred to 'a specific class of products', but now it covers not only specific products but also 'business status'. And with the word 'killer' attached to it, it refers to the business as a whole that kills competing factors regardless of products or business models. The category killer which was developed as 'specialty store' in the U.S. with advanced distribution systems, is operated as Korean style category killer according to the domestic situation after having adopted to the Korean market.

The domestic situation of category killers is

³ Byung-Soo Park "The distribution industry with a high degree of structural reforms", *The Weekly Economics*, 456(March 11, 1998), 23.

⁴ Jun-Bum Kim, "The competition points of a new distribution business", *The Weekly Economics*, 366 (June 13, 1996), 32.

very different from that of advanced ones abroad since it has just been introduced into the Korean market. At the moment, there are only 10 companies operating in the market: Geopyung's Toyland, Taeheng's Tower Record, Midopa's Power Station, Sports Depo of Sinsegye Department store, and Office-One Superstore of Yerim International. The three main differences are as follows. Firstly, stores are smaller compared with those of U.S. or Japanese companies, and are situated in a limited space in large-scale stores such as discount stores rather than operated as individual store. Secondly, goods are yet far behind of those of U.S. or Japanese companies in terms of their variety and assortment. Thirdly, most domestic category killers are situated in downtown areas where land values are high in contrast to U.S. or Japanese companies in suburban areas with lower land prices.

Based on the analysis given so far, we will try to suggest directions regard to the development of domestic category killers by examining and analyzing the present operational status of some advanced category killers in Korea and abroad.

III. The Present Status and Analysis of Domestic and Foreign Category Killers

1. The U.S.

Category killers started to develop in a market between discount stores with low prices yet limited selection of goods and department stores with higher prices but various selection of products available in late 1970's in the U.S. The leading firms in the U.S., where category killers are the most vigorously operated, include <Toys 'R' us> in children toy section, <Limited> in apparel, <Best Buy> in electric home appliances, <Circuit City> in computers and related items, and

<Office Depot> in office accessories.

Among them the study will examine and analyze the present stays of <Toys 'R' us> in children's toy section and <Limited> in apparel, leading U.S. firms that category killers are the most vigorously operated.

1) Toys 'R' us

<Toys 'R' us>, the worldwide retail shop that is considered as the representative of category killers, sells all kinds of goods necessary for growing children including confectionery, apparel, diapers, stationaries, sporting goods, and toys at unbelievably low prices.⁵⁾ <Toys 'R' us> is called the toy category killer because of its prominent sales force in toy section even though toys are just one of the product groups <Toys 'R' us> sells. At present it occupies about 20% of the U.S. toy market, and the scale seems huge when Wal-Mart, the world's biggest retail store, occupies 15% of the market.⁶⁾

The average size of <Toys 'R' us> stores is about 3,967m², where they deal in approximately 18,000 kinds of items. They adopt warehouse style stores rather than costly displaying stores to save display costs. In addition to that, <Toys 'R' us> obtains competitiveness by taking more cost saving measures such as a cash-and-carry method, concentrated purchases, and information management, placing orders and inventory controls using the POS system.

As for the store structure, there are <Toys 'R' us> that mainly sells children's toys, <Kids 'R' Us> with children apparel, <Babies 'R' Us> with baby goods, and <Kids World> the superstore of integrated kid related market with <Toys 'R' us>, <Kids 'R' Us>, and <Babies 'R' Us> all within one huge store. Among them there are 441 <Toys 'R' us> stores in 22 countries worldwide (except for the U.S. market) that are run by the U.S.

⁵ Kwang-Jong Lee, *The progress of distribution firms in the 21st century*, Vol. II, (Seoul: Korea Superchain Association Pub., 1997), 144-155.

⁶ Sternquist, Brenda, *op. cit.*, 226-229.

<Table 1> The operating status of <Toys 'R' us> by years (units: million dollar)

Contents	1998	1997	1996	1995	1994	1993	1992
Net sales	11,170	11,038	9,932	9,427	8,746	7,946	7,169
Net income	132	490	427	148	532	483	438
Total Assets	7,899	7,963	8,023	6,738	6,571	6,150	5,323
Total number of store	1,481	1,454	1,372	1,203	1,115	1,032	918
Toys "R" us(U.S.A)	704	700	680	653	628	581	540
Toys "R" us(International)	452	441	396	337	293	234	167
Kids "R" us	212	215	212	213	204	204	211
Babies "R" us	113	98	82	-	-	-	-

<Sources: <http://www.toysrus.com>>

and 215 <Kids 'R' Us>, 98 <Babies 'R' Us>, and 2 <Kids World> stores that are run only in the U.S. The sales of <Toys 'R' us> reached 9,932.4 million dollars in its 1,372 stores worldwide in 1996 with 5.4% increase compared to that (9,426.9 million dollars) of previous year (See Table 1).

As the U.S. market got saturated from early 1990's, <Toys 'R' us> started to march and enter into foreign markets including those of Australia, Belgium, the Netherlands, Portugal, and Switzerland. In 1996 its profit decreased due to the increasing cost of sales management with lowered market share by competition with Wal-Mart. Therefore <Toys 'R' us> proposed two measures, 'Concept 2000' and 'Kids World', to get through the hard situation. 'Concept 2000' is a plan to change the layouts and decorations within all existing stores in the U.S. to those of modern and consumer-conscious style until 2000. To meet the end, it removed previous inventory style stores, and adopted service improvement policies by which it provides customers with product wrapping and introduction services, and manages personal information through an information center of the store.

Moreover, <Toys 'R' us> deploys a strategy to increase impulse buying of customers by enabling them to pick up goods and to see

other products on other shelves easily by lowering ceiling-high shelves to the height of customers' shoulder. Until now a few stores have been changed to this layout, and as the result the length of customers' staying time in stores has increased by more than 30% and sales by 20%. Also the 'Kids World' business is carried out at the same time, in which <Toys 'R' us>, <Kids 'R' Us>, and <Babies 'R' Us> are all situated in one store. It may be interesting to see the future business deploy of <Toys 'R' us> when this may be seen as concept shift implying they will focus on image and service improvement instead of price competition with Wal-Mart.

2) Limited

<Limited>, the conqueror of fashion apparel market in the U.S., pursues <Toys 'R' us>, the first ranking category killer. <Limited> is doubtless an unique company in the apparel section. In 1996 with 5,633 stores it recorded 9.7% of net sales growth with 8,640 million dollars compared with 7,880 million dollars of previous year (See Table 2).

<Limited> Group consists of various unique brands with stead growth after its first store opened in Columbus, Ohio in 1963. With <Limited> as parent company, the brands include Express, Lerner New York, Lane Bryant, Hen-

<Table 2> The operating status of <Limited> by years (units: million dollar)

Contents	1997	1996	1995	1994	1993	1992
Net sales	9,189	8,644	7,881	7,320	7,245	6,944
Net income	217	434	961	448	390	455
Total number of store	5,640	5,633	5,298	4,867	4,623	4,425

<Sources: <http://www.limited.com>>

ri Bendel, Structure, Limited Too, and Galyan's Trading Company. <Limited> holds 83% of Intimate Brand(IB)' shares which consists of Bath & Body Works, Victoria's Secret Store and Victoria's Secret Catalogue, and 84% of those of Abercrombie & Fitch.

The nationwide <Limited> stores follow a standardized display system based on display instruction papers. Therefore, customers can find the same goods in the same place in any <Limited> store in the country. Store atmosphere, the number of sales people, store operation and service related duty are also completely standardized. This system is an imitation of the management system of McDonald. <Limited> alters the standardization contents slightly whenever the number of stores is increased. That is, it develops and improves the standardization system by comparing and analyzing advantages and disadvantages of each when opening a store. Making full use of the store standardization system, <Limited> could achieve the multi-store business. With rapid decrease of sales income in 1979, <Limited> employed professional executives and focused on the improvement of market competitiveness without opening additional stores. In 1979, <Limited> achieved a big success in the market with Hunter's Run, its first private label product by adopting so called 'volume-discount' strategy. This removes them from competition with the national brand name discounters.⁷⁾

⁷ Sternquist, Brenda. *op. cit.*, 191.

⁸ The Korean Chamber of Commerce and Industry, "The present operational status and development strategy of domestic category killers". *A Research of The Korean Chamber of Commerce and Industry*. (April 10, 1998), 17-20.

It is pointed out that one of the main factors of <Limited>'s growth is the marketing strategy in which it subdivided the target market according to customers' ages along with the basic principle of active response to customer environment and period of time. Other factors for its success may be the products development of their own brands, thorough management system in inventory and sales section using the POS system, and timely merger and acquisition(M & A).⁸⁾

With a series of policy changes, <Limited> has grown to be the biggest apparel specialty chain store in the U.S. and shows a potential for continuous development in the future with extraordinary ability of information collection.

2. Japan

With the term category killers used, 'specialty stores' used as a whole in Japan, main firms such as <Best Electrics>, <Kojima>, and <Sangsin Electrics> in electric home appliances rank the first to third company. In addition, there are leading firms in the sections of camera, car accessories, footwear and business suits. This paper focuses mainly on the analysis of present status of <Aoyama trading company> which runs as leading apparel category killer in Japan.

1) Aoyama Trading Company

<Aoyama trading company> is the biggest costume category killer that sells men's ap-

<Table 3> The operating status of Aoyama trading company (units: million yen)

Contents	1997	1996	1995	1994	1993
Net Sales	169,375	166,382	167,730	182,311	150,908
Net Income	21,851	20,211	18,173	30,680	30,211

<Sources : The Korea Chamber of Commerce and Industry, 1998>

parel mainly focusing on business suits. Until early 1980's the company was only a middle-sized chain store with sales of around 100,00 million yen sales. It however grew rapidly during the 1980's with sales growth rate of 30% yearly by selling products at astonishingly low price and at the same time satisfying various demands of customers with a wide range of product and convenient stores (See Table 3). Therefore, <Aoyama> has maintained its leading role as the biggest category killer in men's business suits section since 1991.⁹⁾

Aoyama Gojiro founded <Aoyama trading company> that mainly sold men's ready-made business suits as well as Hiroshima's specialties and groceries in Huzu city in 1964. With success after success in the market, it established the overseas business center and started to enter into aboard markets in 1993 starting from Taiwan and then Hongkong and China by setting its local corporations. Particularly in China it built a joint-venture manufacturing facility for export. The strategy of <Aoyama> is that it manufactures men's business suits in China factory and expands markets in China and other countries at the same time reimports them into Japan.

<Aoyama> obtained exclusive sales rights for three brands in Japan by coalition with J. C. Penny, a big department store in the U.S. in 1994. Based on that, its casual wear specialty store called CARAJA was entered in the market. Thanks to such aggressive business deploy <Aoyama> has built the biggest apparel store network in Japan with

its stores numbered 629 in Japan and abroad altogether in March 1997 with sales of 169,300 million yen in 1996.

The success of <Aoyama> resulted from a business principle described as 'For the Customers'. From its own survey on customers carried out in early 1970's, <Aoyama> found out that customers preferred stores with low prices, better services and products' quality, and a wide range of products in easy accessible places. Based on the information it set up six revolutionary marketing plans as follows: Firstly, refusing the inviable value added of fashions, the fashion revolution actually satisfies the realistic consumption pattern aiming thoroughly at the public. Second, the price revolution removes any cost increasing factor by making full use of private brand(PB) goods, placing orders in huge volumes, and purchasing whole quantities without returning. Third, the transaction revolution enables manufactures to maintain low delivery prices with <Aoyama> taking inventory risks and adopting the whole-quantity-purchase system at time of transaction with them. Forth, with the business status revolution, <Aoyama> displays a selection of various goods mainly focusing on general articles in big stores. It is a typical category killer which products include about 500 sets of dress suits, 1,000 pieces of jackets, and 1,500~2,000 sets of business suits with 50 by products. Fifth, the location revolution, forecasting the improvement of modernization, provides customers with convenient access to its suburban stores, and at the same

⁹⁾ *Ibid.*, 26.

time enables <Aoyama> to have huge stores with a large parking lot at low land prices. Sixth, the sales revolution builds strong sales power with the active use of educational manuals, and promotes the motive of sale through an incentive wages system.

Through these marketing revolutions, <Aoyama> has built a low-cost operational system that decreases both physical distribution cost and management cost with the standardization of store structure and its operation to carry out efficient cost management. Moreover <Aoyama> has lowered products' prices to the level the existing business world would never dreamed. It was possible because of building completely private brand based goods through SPA(Specialty Store Retailer of Private Label Apparel) which integrates the process of designing, manufacturing and selling of goods into one smoothly functioning whole, while maintaining stable relationship with its suppliers. The result was that <Aoyama> achieved rapid growth as well as big profits by gaining positive responses from its customers.

3. Korea

Recently, traditional department store anchors then will be forced to compete against the category killers inside their own mall. This means the department stores must rethink their merchandising and consider eliminating categories the big box retailers sell.¹⁰⁾

Category killers that run in Korea at present include Toyland(children toys), Sports Depot(sporting goods), Power Station(music store), Tower Record(music store), Saejin Computerland(computers), T-Zone Korea(computers), Office-one Superstore(office supplies), and Kim's Glasses(optical glasses). The paper will examine the characteri-

stics and present operational status of <Toyland> and <Sports Depot> among them.

1) Toyland

<Toyland>, a Korean style <Toys 'R' us> situated at 9th floor in Geopyung Preya Dongdae-moon started its business in September 1996. It sells approximately 10,000 kinds of various children related items such as toys, educational materials, video tapes, and books at 40~50% reduced prices of market price running three stores in Ilsan, Kwangju, and Seoul.

The operation characteristics of <Toyland> are self-service, cash-and-carry, after-service available all round the year, and returning goods within 10 days after purchase. The Seoul store, approximately 3,577m² of size, adopts the 100% direct management system and is equipped with parking facilities that can accommodate about 1,000 cars. A survey shows that its sales(in Seoul store) reached 21,500 million won with 23% margin of profit to sales and 7% operating income to sales in 1997(See Table 4).¹¹⁾

Its sales of imported goods on the basis of products' origin country records 5,300 million won reaching about 25% of its total sales. Its operating cost was 3,200 million won in 1997: as for each item, employment costs was the highest of 33%, sales promotion costs 20%, other employee benefits 15%, and rent payments 15%.

As for the products supply method, direct purchases from domestic manufactures was the highest of 50%, from domestic whole sellers 20%, and direct import from abroad 10%. It also stocks with about 15% private brand of entire goods it sells with an effort to develop private brand products.

<Toyland> adopts products purchase meth-

¹⁰⁾ Jannette Jarnow and Kitty G. Dickerson, *Inside The Fashion Business*, (New Jergey: Prentice Hall, 1997), 410-411.

¹¹⁾ The Korean Chamber of Commerce and Industry, *op.cit.*, A research of The Korean Chamber of Commerce and Industry. (April 10, 1998), 4.

<Table 4> Profitability index of <Toyland>
(Seoul store, 1997)

Percent total net sale	23%
Percent trading profit	7%
Percent product loss	1%
Percent Inventory Turnover	4

<Sources: The Korea Chamber of Commerce and Industry, 1998>

ods including direct from manufactures, in large quantities, cash-based, and conditional with no-returning goods so as to minimize the buying cost.

2) Sports Depot

<Sports Depot>, a sporting goods category killer, was opened in E-Mart Ilsan-store by Sinsegye department store in November 1996. It now runs four stores including E-Mart Ilsan store, Bundang store, Cheju store and West Busan store. <Sports Depot> deals in around 1,380 items with 300 kinds or so of sportswear and 420 leisure goods related to those of mountaineering, fishing, skiing and water sports.¹²⁾

The most prominent feature of <Sports Depot's> management is that it adopts policies of open year round, self-service, no-delivery service and payment with credit cards and merchandise coupons as well as cash, and a hundred percent direct management with warehouse style stores.

As for the sales in 1997, it recorded total of 24,248 million won in the four stores with Bundang store, the highest sales of 11,093 million won among them. <Sports Depot's> margin of profit to sales was 17.8% and operating income to sales 8.9%(See Table 5).

<Sports Depot> buys 51% of its products from domestic wholesalers, 42% from dom-

<Table 5> Profitability index of <Sports Depot> (1997)

Percent total net sale	17.8 %
Percent trading profit	8.9 %
Percent product loss	0.3 %
Percent inventory turnover	7.6

<Sources : The Korea Chamber of Commerce and Industry, 1998>

estic manufactures, 5% from outsourced foreign companies and 2% from subcontracted manufactures. It also uses methods of direct purchases from manufactures, purchases in large quantities, conditional purchases with no-returning goods and outsourcing to foreign companies so as to save buying costs for lower sale prices.

IV. Counter-Strategies of Domestic Category Killers for Distribution environment

The domestic distribution industry as a whole has come to a crisis with continuous economy stagnation as well as so called the IMF foreign currency crisis. Discount businesses including category killers, however, seem to have relatively brighter future compared to other businesses.¹³⁾ It is because customers tend to be attracted to low priced goods in the midst of extreme stagnation of customers' interest. Though category killers seem to suffer sales decline resulting from economy stagnation, yet they are expected to be leading players of the distribution industry who may succeed to march and enter markets between department stores and discount stores in the domestic market of the next generation. However it is likely that the domestic distribution market is given a terrible shock when

¹² *Ibid.*, 5-6.

¹³ The Korean Chamber of Commerce and Industry, "The results of survey for retailing in 1997", A Research of The Korean Chamber of Commerce and Industry. (July 15, 1998), 1-5.

large-scale domestic distribution firms and global category killers such as American (Toys 'R' us) and Swedish (IKEA) enter into the domestic market equipped with a wide range of goods and low prices.

Therefore, it seems necessary for fledgling domestic category killers to take the following measures to compete with advanced foreign category killers and to settle down successfully in the market.

First, economics of scale should be realized by expanding the sizes and numbers of stores through chain operation. For successful chain operation, it is required above all to standardize stores, and for that, store standardization manuals set by each firm should be established.

Second, the rate of employment costs in operating cost should be lowered. To lessen the burden of employment costs it would be wise to make full use of strategy which transfers fixed cost into variable cost by increasing part-time employees.

Third, products purchase methods should be differed from those of existing businesses. To gain an advantage over other competing businesses, they should achieve the lowest buying cost by adopting the methods used in some firms like (Toys 'R' us): direct purchases from manufactures, whole quantity purchases, placing orders in huge volumes and conditional purchases with no-returning goods. Apart from purchase from manufactures, domestic category killers dealing in other products groups, also need to adopt SPA system of (Aoyama) and to put much effort in lowering products prices by developing consistent private brand items with an integrated process from planning to sales.

Forth, products should be sold at low prices by opening stores in areas with lower land prices. Yet most category killers in Korea are concentrated in downtown areas. Even considering the differences of domestic environment conditions from those of advanced companies abroad, the location of store in

downtown are contradictory to their original concept of low prices.

Fifth, a wide range of products should be in stock, which is the most important feature of category killers. It is a crucial task for category killers to be successful in the domestic distribution market even though the business has certain weakness being in its early stage. To solve the problem, a variety of products should be available to customers for a blanket purchase by supplying goods through foreign company outsourcing, development of successful brands including private brand, and improvement of ability to develop new products aiming at customers.

Sixth, shopping atmosphere should be improved for customers with better customer service. Its importance was proved when faced with difficulties in increasing sales (Toys 'R' us) recently found a solution by shifting their management policy focusing on cost saving with warehouse style stores into service improvement for customers. Of course it should be accompanied with the development of various supplementary facilities such as parking lots and convenient equipments.

Seventh, integrated access is essential since the success in modern distribution market is influenced by the development of marketing ability. That is, all factors necessary for store operation such as development of new products, sales promotion, and store management, should be managed in one process. To meet the end, firms need to introduce business know-hows from advanced companies abroad.

V. Conclusion

The history of domestic discount business is rather short compared with that of Japan or the U.S. The discount business started 40 years ago in the U.S. and has been growing for 10 years in Japan. While new firms entered with quite an interval of time, compete with each other in the market achieving

steady growth in the U.S. and Japan, numerous discount firms entered in a short period of time and have competed with each other in the domestic market. With the appearance of category killers that have grown rapidly in developed countries since the 1990's, it is very likely for the domestic distribution industry to experience another big change.

The competitiveness of category killers lies above all in products lines. Category killers are equipped with the greatest number of products lines among those of competing businesses due to maximized product selections in an limited range. Another source of competitiveness may be found in balanced strategy positioning. That is to say, category killers are in a position where they can adjust policies towards any of the three purposes while aiming at them altogether : prices of discount stores, products range of specialty stores, and customer service level of department stores.

It is also necessary for efficient store operation to use information technology such as electronic data interchange(EDI), electronic pose system(EPOS) and electronic funds transfer(EFTPOS). As for the cost structure, category killers can gain an advantage over other business since operating cost of various sections can be saved.

There are, however, certain risks that category killers with strong competitiveness may influence on other businesses a great deal and even facilitate their decline. Yet it seems that the growth of category killers will be more viciously restrained by continuous challenges from other businesses. The distribution industry is supposed to develop through such competition and restraint. It is expected that the full introduction of category killers, that are classified as advanced business in developed countries, into the domestic market is delayed due to underdeveloped distribution infrastructures, and decline of income and consumption resulting from the IMF crisis.

This study is considered to have limits to

apply to the operation of all category killers since it suggests counter-strategies based on the research result on five specific companies that are estimated to operate successfully in terms of the present operation status including sales growth of category killers.

It would be desirable that further studies carry out to examine and compare business strategies by handled items, and to define operational characteristics of each store by the research of various category killers that deal in a wider range of goods.

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