

## Lessons from Haitai Distribution Inc's experience in Korea

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### Abstract

Owing to the rapid growth of hypermarket/discount store formats since 1996, Korean retailing has suddenly attracted the significant attention from researchers. Before the emergence of large scale retailers such as E-Mart, Lotte Mart and Tesco Korea, there were the two retail formats who led the Korean retailing in the modern retailing history: department store and supermarket formats. Nevertheless, there has been little literature concerned about the two retail formats as a case study, while some authors have paid their attention to hypermarket/discount store formats. In addition, when mentioning the development process of retailing history, it is less likely that authors have made an effort to illustrate supermarket retailing history.

In order to regard supermarket retailing as part of the Korean retailing, it is interesting to look at a representative supermarket retailer, Haitai, who was one of the subsidiaries of Haitai chaebol. Based on supermarket retailing, the company which was established as a joint venture in 1974 led a supermarket retailing in the Korean modernised retailing history. Before analysing whether Haitai failed or not, the definition of failure should be illustrated. With regard to the term, failure, in the academic world, authors have interchangeably used the following terms: failure, divestment, closure, organisational restructuring, and exit.

To collect research data as a case study, the author adopted an in-depth interview method. The research is based on research interviews with 13 ex-staff who left after Haitai went bankruptcy, from store management department to merchandise department. By investigating Haitai's experiences through field interviews, the research found that Haitai restructured organisational decision-making process at the early stage when companies started to modernise organisational charts, benchmarking sophisticated retailing knowledge through the strategic alliance with a Japanese retailer. In respect of buying system, the company established firmly buying functions by adopting central buying system, and further, outstandingly allocated considerable marketing resources to the development of retailer brands with the dedicated team of retailer brand development. In the grocery retailing, abandoning a 'no-frill' packaging concept, the introduction of retailer brand packaging equal to, or better than national brand pack-

aging design, encouraged other retailers to change their retailer brand development strategies. In product sourcing ways, Haitai organised for the first time the overseas sourcing team with the aim of improving the profit margins of foreign products and providing exotic products for customers, followed by other retailers. Regarding distribution system, the company introduced the innovative idea which delivered products ordered by stores directly to each store with both its own vehicles and its own warehouse in which could deal with dry foods, chilly foods, frozen food, and non-foods, and even, process produce.

In addition, Haitai developed many promotional methods to attract more customers like 'the guarantee of the lowest price', and expanded its own business to US in 1996, although withdrew, because of bankruptcy in 1997. Together with POS introduction in 1994, Haitai made a significant contribution to the development of the Korean retailing, influencing other retailers in many aspects.

As a case study, the study has provided a number of lessons from Haitai's experiences for academicians and practitioners, suggesting that its history should be involved in the Korean modernised retailing.

Keywords: Haitai, supermarket retailer, failure, retailing sector.

### I. Introduction

Except for a department retailing sector until 1997 when Korea experienced a serious financial crisis, it would be difficult to say that hypermarket/discount stores led Korean retailing market. There were three giant supermarket retailers such as Haitai, LG, and Hanwha. The two former retailers were based on supermarket retailing, together with department stores. In those days, they were a representative modernised retailer in Korea. In particular, in terms of chain store management, the retailers operating a supermarket format have established the headquarters in Seoul. The operation of the headquarters was an innovative idea, and then local Korean supermarket retailers followed its system. Before market liberalization in 1996, many large companies, so-called chaebol groups, were less interested in a retailing industry. Although some chaebols partially got involved in a retailing sector, they would invest in building department stores. As one of the reasons why they did not pay such attention to other retail formats, it would be expected that Korean tended to ignore merchants because of historical background.

In addition, the academic world has not been interested in identifying Korean retailing history. Since an innovative retailing format, hy-

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permarket/discount store format was introduced, most authors have paid considerable attention to large retailers, like E-Mart, Tesco Korea, and Lotte Mart (e.g. Coe and Lee, 2006; Cho, 2009). Before that, a retailing sector in the Korean academic community was ignored as Korean regarded retailing as a dead-end job. Accordingly, it has been difficult to find retailing-related articles, although a few authors have been interested in department stores. Furthermore, many researchers have overlooked a modernised supermarket retailing format. When it comes to Korean retailing history, it is worth illustrating the supermarket sector which led modern retailing over 1990s. In spite of these efforts to modernise a retailing industry, authors have not turned their attention into supermarket retailing. To my knowledge, there would be few articles identifying how a supermarket retailformat has grown.

Considering that modern retailing had been led by supermarket retailers over 1990s, to better understand Korean retailing, supermarket history should be reexamined in detail. Amongst supermarket retailers, Haitai was one of the largest retailers. Haitai was a pioneer to introduce the sophisticated retailing know-how and led modern retailing (Cho, 2001). Nevertheless, Haitai went bankrupt in 1997. By illustrating the reasons why this retailer grew so rapidly and had to file for bankruptcy, the research will help readers to understand Korean retailing contexts. Thus, this research aims to examine the growing processes of Haitai as well as the reasons for its bankruptcy, learn some lessons from the case, and further, make a contribution to the development of Korean retailing history from a researcher's point of view.

This paper presents a case study of Haitai's experience in Korea. The research starts with literature review, based on the existing articles focused on failed retailers, irrespective of international or domestic retailers, that is to say, the study will discuss the theoretical basis to define retail failures. Next, a research method will be presented, and followed by research findings. Finally, several conclusions and limitations are given, including future research directions.

## II. Literature review

Unlike failed retailers, successful retailers are more likely to attract author's interest (e.g. Coe and Lee, 2006; Cho, 2009). Interestingly, there is no case study of local Korean retailers like E-Mart, E-Land, Lotte Mart and Hanaro-Club, even though all of them have been doing well in Korea. Furthermore, it is very difficult to find articles identifying why a retailer fails in Korea. As a successful foreign retailer in Korea, Coe and Lee (2006) and Cho (2009) paid their attention into Tesco Korea. It should be kept in mind that their papers have been published or studied overseas. By contrast, there is a large body of literature concerned about multiple retailers as a successful case study over the world (e.g. Reynolds, 1988; Mukoyama, 1996; Palmer, 2005; Kent and Stone, 2007; Jonsson, 2008). In addition, much attention has focused on illustrating why international retailers failed in foreign markets (e.g. Burt et al., 2002; Wrigley and Currah, 2003; Burt et al., 2003; Etgar and Rachman-Moore, 2007).

It should be basically noted why there has been little attention to

the examinations of successful or failed retailers in Korea from a scholar's point of view, even though there have been many news or reports written by experts or professors, concerned with the withdrawal of Wal-Mart and Carrefour in 2006 on newspapers and trading magazines (e.g. Segye.com, 2006; Hankyoreh, 2006; Money Today, 2006). Surprisingly, when the world largest multiple retailers decided to leave the Korean market, many authors proudly commented through media that they obviously failed in Korea and local Korean retailers beat them with their gut feeling without mentioning their basic retailing strategies. Although many authors argued that foreign retailers did not consider the characteristics of the Korean retailing context and Korean customers, there has been very little literature associated with their withdrawal reasons. As pointed by Burt et al. (2003), however, it is a common feature around the world. In respect of the lack of the case studies related to failed retailers in international markets, they proposed the following reasons:

- 1) Successful retailers are more visible and then, many efforts have been made to identify a successful story.
- 2) Retailers are more likely to remove failed activities from both public and corporate memories.
- 3) Examination of a failed story would be more difficult than that of a successful story, because hearing the truth would be harder in research terms.
- 4) It is not easy to define failure in a retailing sector.

In addition, it is necessary to look at the development process of retail marketing in the Korean academic world. After a retailing sector was regarded as one of the growing industries over 2000's, Korean researchers started to get involved in retailing (e.g. Cho, 2001; Youn, 2004; Jin and Suh, 2005). Rather than publishing retailing-related articles, most authors would enjoy commenting on such Korean retailing situations through mass media. Before being shed light on a retailing industry suddenly, it is expected that they were less interested in retailing.

For this reason, it is very hard to look for the case studies of Korean retailers, irrespective of success or failure. Although failed retailers practically made considerable contribution to the development of the Korean retailing industry, they have not emerged in the Korean retailing history, due to authors' historical indifference. In order to develop retailing knowledge, it is worthwhile examining failed cases. Similarly, Wrigley and Currah (2003) stressed that there were many lessons from failure experience.

### 1. Definition of failure

Is it right to say that a supermarket giant, Haitai, failed in Korean retailing? Probably, it can be said that this retailer was merged by a large retailer like E-Mart, in terms of company ownership. The company has still operated its own business. The concept of failure is accordingly needed to be examined. There are many interchangeable terms: divestment, exit, withdrawal, closure, failure and de-internationalisation, regarding failure in terms of international retail marketing. Although these terms are seen similar each other, they are

differently used. From a point of an international retailing view, it is not wise to say that the withdrawal of Wal-Mart and Carrefour from Korea in 2006 is one of the failure cases. Nonetheless, many authors in Korea argued that they failed, rather than withdrawal or market exit. Much attention should be, thus, paid into the definition of failure. The above terminology frequently appears in the academic world of international retail marketing (e.g. Burt et al., 2002 Jackson and Sparks, 2005).

It is, therefore, necessary to look at how those terms are used. Concerned with international retailing, Burt et al. (2003) defined them as follows:

- 1) Failure: poor performance
- 2) Divestment: restructuring process of company resources
- 3) Closure: closing of retail units
- 4) Organisational restructuring: a change in the control of firm resources
- 5) Exit: complete withdrawal from a foreign market

As for Haitai case, it might be undesirable to adopt one of the above five terms, because the company has been merged by another retailer, E-Mart who is the number one retailer in recent. As a consequence, the concept of failure used here means that Haitai filed for bankruptcy, although Sheppard (1994) argued that the meaning of failure was problematic. In other words, the author regards the bankruptcy of Haitai as failure in this study. In addition, the terms, closure or failure will be used interchangeably, although there will be theoretical debates about the definition of the terms. Given several mergers and acquisitions, it would be difficult to say that it has failed.

## 2. Scope of research

Rather than looking at the whole aspects of the chain store administration of a case, it needs to identify research areas such as decision making process, organisational characteristics, buying systems, and the like, whilst corporate level researches made an effort to explore firms and store operations. To illustrate why Haitai went bankrupt, it is possible to approach from many different angles. As a simple example, it can be accepted that the company failed because of financial crisis, as a representative reason. This kind of view should be excluded, although is right, in order to take some lessons from failure experience.

Accordingly, rather than focusing on the reasons why Haitai failed to finance, the author will investigate many different aspects of its retail operation. In those days, the company invested considerable marketing resources in modernising a supermarket retail format to lead the Korean retailing sector, unlike Hanwha and LG. Analysing these efforts, the researcher will illustrate how Haitai developed the retailing know-how and how much this company contributed to the Korean retailing industry, as the key interest of this paper. By shedding light on these areas, furthermore, the relationship between the degree of the retail know-how development and failure will be examined.

## 3. Possible failure reasons

Although much literature concerned with the failure of a retailer is associated with retail internationalisation, it is essential to review why retailers fail, irrespective of domestic or foreign markets. As pointed out by Mellahi et al. (2002), the causes of retailer failure have been explored from at least two different perspectives: internal (e.g. Cameron et al., 1987 Bateman and Zeithaml, 1989; Zajac and Bazerman, 1991) and external backgrounds (e.g. Lippman and Rumelt, 1982; Frank, 1988).

It is more likely that failed retailers are regarded as the unfortunate victims of external business environment, whilst retailers tend to fail because of the lack of management vision, or ability to effectively respond to changing business environment (Mellahi et al., 2002). As evidence, Larson and Clute (1979) stated that common features shared by failed companies are closely associated with individual decision-based characteristics of decision-makers. Moreover, without considering external business situations, the fact that powerful or aggressive executives make an impulsive administrative decision is likely to lead companies to file for bankruptcy (Argenti, 1976). Also, managers have a tendency to avoid changing their own business mind because they believe that their business methods which led them to succeed in the past will constantly work (Starbuck et al., 1978). In other words, business confidence accumulated in the past tends to make managers ignore external crisis.

On the other hand, some authors stressed that retailer failure is a natural objective phenomenon (Balderston, 1972). Amongst many retail theories, 'the wheel of retailing' created by Hollander (1960) can be a representative sample. It should also be noted that the above internal or external environments are responsible for retailer failure at the same time (Levine, 1978), as reviewed earlier.

## 4. Haitai Distribution Inc: the context

Haitai was established as the subsidiary company of Haitai as well as Miwon chaebol group, that is, as a joint venture, in 1974 with the facia, so-called 'Kosco', although many senior managers within Haitai chaebol were not interested in retailing sector. This retailer was originated from 'Saemaul Chain' founded in 1771. This is the first chain store case found by a chaebol. However, in 1982, Haitai group bought the entire shares of Miwon and changed its store name from Kosco to Haitai Kosco. Furthermore, with the aim of modernising the retailing know-how, the company built a strategic alliance with Heiwatou, Japanese retailer in 1989. What the company acquired through its alliance will be mentioned later. In line with the appointment of new CEO in 1994, its facia was changed to Haitai supermarket and then, the number of Haitai supermarket stores rapidly increased from about 57 in 1993 to about 80 in 1997. However, even though the company operated in the black by 1996 (Retailing Yearbook, 1997), owing to the financial crisis in Nov 1997, the company had to rapidly close around 10 underperforming stores, as seen in Table 1. In addition, this company persisted in a supermarket format until hypermarkets started to appear in the mid-1990s.

&lt;Table 1&gt; Number of supermarket stores

| Retailer    | 1996 | 1997 | 2010 | Characteristics  |
|-------------|------|------|------|--|
| Haitai      | 73   | 69   | 43   | - Number of store was about 50 in 1994<br>- Merged by E-Mart in 2011 |
| LG          | 62   | N. A | 138  | - Changed from LG to GS  |
| Hanwha      | 50   | 48   | 190  | - Merged by Lotte in 2004  |
| Tesco Korea | 0    | 0    | 168  | - Tesco Korea has diversified retail format in 2004                  |

Source: Adapted from retailing yearbooks (1997, 1998, 2011)

N. A: Not Available

In terms of its sales volume, it reached to more than ₩ 350 billion in 1994 according to interview results, except for the sales revenue of a department store. With the increasing number of stores, the business had the retail sales of almost ₩ 400 billion, and traded from around 80 Haitai stores in 1997. Its performance was the top amongst retailers in the grocery sector in Korea, although the sales scale of department store retailers outweighed Haitai.

*"It was unbelievable that as a pioneer in modern retailing in Korea, its growth rate was higher than that of others."* (ex-director)

Since listed in the Korean stock market in 1990 as the first retailer, this company had experienced several administrative innovations to be recognised as a market leader in the Korean retailing industry. With the growing number of Haitai stores, its market share constantly went up until 1997. In line with saturated Seoul market, the company developed a new retail format which is larger than existing supermarkets and smaller than hypermarkets or discount stores, Haitai Mart in 1996, and turned its attention to local markets. Its performance was, however, lower than expected. Accordingly, this business format was abandoned after bankruptcy in 1997. As part of efforts to create a new retail format, the company established a convenience store format near to the headquarters in Seoul in 1995. After testing it over a year, Haitai decided to give up its format again, because of poor sales volume, rather than making an effort to improve store productivity.

Until bankruptcy, the retailer aggressively expanded its own business into local areas like Choung-ju, Cheon-an, and Kwang-ju with more sophisticated retailing knowledge than its counterparts and with an innovative retail format which was larger than existing supermarkets, while a few market leaders made a considerable effort to grab Seoul markets.

*"There was no room to open new stores in Seoul in those days, because it was too difficult to new sites, because of market saturation"* (ex-manager)

Regarding retailing internationalisation, Haitai strategically expanded its own business into US through direct investment with retailing knowledge developed in the Korean market in 1996, although its plan stopped because of bankruptcy, before E-Mart with 49% of the shares as a joint venture opened its first store in Shanghai, China in 1997. As an independent business form, Haitai's expansion means that the Korean retailing started overseas expansion in 1996. This will be

mentioned in more detail later.

After bankruptcy, the company experienced declining sales volume, falling market share, reduced profit, a share-price collapse, and further, delisting. Due to some uncertainty as to whether Haitai might be able to pay for product supply, furthermore, suppliers reduced their transaction size, and customers left stores. In the end, this caused a vicious circle until the acquisition by E-Land in 2005, even though a Haitai department store was sold to Shinsegae in 2001, in order to improve its finance structure. Haitai supermarkets finally became a part of E-Mart family in 2011 through several mergers and acquisitions.

### III. Research methodology

As Benito (1997) and Palmer (2005) stressed that collecting information concerned about retail failure was one of the most difficult jobs due to the limitation to access to the management of failed retailers, data gathering was a major point. Given that Haitai went bankrupt 14 years ago, the data collection issue is further complicated. It is, of course, expected that contact with the ex-employees of Haitai is difficult. Even though the author has interviews with them, how much they exactly recall its operation in those days should be considered. Nevertheless, rather than relying on a quantitative research technique, adopting a qualitative method in the research would be easier to get real information relevant to the failed retailer, Haitai, as many authors used (e.g. Shackleton, 1996; Palmer, 2002).

In order to explore how Haitai was operated before bankruptcy, in particular, to describe retail contexts, choosing an in-depth interview is considered as the most suitable method. By summarizing many stories described by ex-staff, how Haitai developed over the 1990s was illustrated.

#### 1. Research technique

As mentioned earlier, to map out how Haitai developed its own retailing knowledge and why it had to file for bankruptcy, the author had to have an interview with many ex-staff. Given that this research was not to quantify research information, a number of data collection techniques and research sources such as documentations and in-depth interviews were needed. Generally speaking, the research cannot help depending on the memory of ex-staff in those days. At the outset, this research devised to use a wide range of information sources with the cross-check of information.

Prior to field research, depending on interviewees' positions, the researcher prepared three different interview types of questions to effectively lead an in-depth interview. By interviewing with ex-staff who were employed in those days, the author gathered a huge amount of data. It should be mentioned that it is very difficult to look for secondary data concerned with Haitai, although there have been enough information as well as data related to current retailers after the introduction of information technology from the beginning of the 2000s.

Most information from its foundation to bankruptcy was collected by in-depth interviews. Also, while writing this paper, the author used telephone interviews and published information sources.

Owing to a variety of Haitai-related information, the researcher continuously cross-checked all data gathered to increase research validity and reliability. In order to avoid information distortion by interviewees, checking whether information given is right or not is an inevitable process, as conducted by Mellahi et al., (2002) and Cho (2009).

## 2. Data collection and populations

In adopting an in-depth interview method, how many and how correct populations the research selects is the key debate to gain the right information. Utilising my past contact and colleagues as ex-staff, the author grouped potential interviewees into largely three parts: administrative, merchandise and store department, taking interviewees' positions when leaving Haitai into account, as shown in Table 2. It should be kept in mind that the researcher worked as a buyer who developed retailer brands for about 3 years. The author had the in-depth interviews with 13 ex-staff consisting of the senior manager class who worked for more than 20 years, the ex-director, and the buyers. What is interesting is that all of the interviewees left the company and then, have currently been working in a retailing-related sector.

To cross-check information which will be collected by each interviewee, the research purposely selected at least over 3 populations at each category. During the interviews conducted, all of them favourably responded to questions. Each in-depth interview took more than 2 hours at their working place or outside from May to July in 2011. Although some interviewees at the manager class allowed the researcher to make their names public, the research decided to be based on anonymity principle, because others requested anonymity.

<Table 2> Research populations

| Category                    | No. | Class          | Etc.  |
|-----------------------------|-----|----------------|---|
| Administrative Department   | 1   | Director       | Class is categorized by positions before bankruptcy.<br><br>All of the interviewees left Haitai after bankruptcy. |
|                             | 1   | Senior manager |   |
|                             | 2   | Manager        |   |
| Merchandise Department      | 1   | Senior manager |   |
|                             | 2   | Manager        |   |
|                             | 3   | Buyer          |   |
| Store Management Department | 1   | Director       |   |
|                             | 2   | Manager        |   |
| Total                       | 13  |                |   |

## IV. Findings

As expected, there are many lessons from Haitai's experiences. This research found that the cause of making Haitai file for bankruptcy was simple, although the company introduced modernised re-

tailoring knowledge and further, renewed stores to attract more customers, prior to its competitors. Based on the interview results, findings will be analysed.

### 1. Organisational structure

Unlike other retailers who adopted traditional organisational structure, which required more than four stages to get the green light from CEO, Haitai aggressively restructured its decision-making process from 6 to 3 stages (team, division, and CEO), that is, made its organization slimmer. It was an innovative organisational improvement in 1994, as indicated in the following quote:

*"Some employees were against restructuring. Even, some people said CEO looked like a dictator. As you know, some managers lost their power. At first, I could not understand why he tried to change our organization. Although the company's decision was right, it did not consider their emotional phenomenon. However, its restructuring process was successful"* (ex-director)

It was the first time when a retailer introduced so-called, team leader system in the retailing sector. This kind of trend was extended to other retailers sooner or later, even to department store retailing, although is currently routine cross the retailing industry. In a word, it was an innovative idea. When it comes to the length of decision making process, Haitai was generally organized to quickly reflect the opinions of bottom class or customer responses to selling activities. By eliminating a long hierarchical system, the company restructured organization, in spite of the opposite opinions of staff.

In organisational terms, furthermore, the distinction between buying function and store management was a surprising challenge for retailers. Even though retailers established their own buying department at the headquarters, it was less likely at the initial stage that the roles of buyers was played better than expected, because of the power game between buyers and store personnel. Nevertheless, with the will to concentrate buying power on the headquarters, the new CEO separated store management from buying function. In the end, store managers lost their authority to buy merchandise in stores. By contrast, at the headquarters, buyers achieved an outstanding performance in purchasing products. The decision of the new CEO resulted in the profit margin improvement of purchased products. Compared to the time when store managers were concerned with buying activities independently, all they had to do was to manage their customers in stores, as quoted in the below passage:

*"Power shift from store managers to buyers at the headquarters changed our retailing industry. Store managers could not purchase products any more. Power in the transaction between us and suppliers was concentrated on buyers. With the increasing number of products provided by buyers, store managers had to attract and retain customers"* (ex-senior-manager)

By differentiating the roles of buyers and store managers, Haitai settled down a modern retailing system in the corporate level. In accordance with Sheppard (1994), the research found that organisational

characteristics are the important factors influencing company performance by improving decision-making process.

## 2. Buying system

As part of efforts to improve the profit margins of products purchased by store managers, as mentioned earlier, Haitai operated the headquarters like today's retailers. The restructuring of organisational functions was one of the paramount decisions from a retailer's point of view. Nobody was interested in central buying system, because there was not a retailer adopting such a system in Korea. Although retailers did not introduce it, they could have shown a good balance sheet, as noted by the following quote:

*"Nobody could be our competitor, as you know. We did not need such a system. Without distinguishing the functions between buying and store management department, we did very well."* (ex-director)

Nevertheless, Haitai actively reorganised buying functions. It seems that the company considered central buying as the best way to improve profits with the growing buying power. As evidence, it is necessary to look at turnover rates. The figure, 20.3 in 1994 improved to 16.4 in 1996, as the result of restructuring. In other words, the company reduced an amount of stock in stores, and further, enhanced cash flow. Given that most of retailers allowed store managers to make a decision concerned about product assortment and manage stock shelves, this was a serious challenge to Haitai, although resulted in a good performance.

On the other hand, Haitai made a considerable contribution to the evolution of retailer brand development in the Korean retailing industry. As a matter of fact, Shinsegae Department store developed a dress shirt amongst a fashion category as the first Korean retailer brand product in 1965, resulted from alliance with a Japanese department store, according to the interview conducted. In spite of an innovative idea in those days, however, its development resulted in failure. In the Korean retailing history, it was a great challenge from a retailer's point of view. After 17 years, amongst supermarket retailers, Hanwha for the first time started to develop a retailer brand

as a generic brand in the grocery sector, followed by Haitai in 1984 (Cho 2001). At the outset, those retailer brands were simply designed to be recognised as the cheapest product, as indicated in the following passage:

*"All we did was to change product packaging. We were not so much involved in retailer brand development process. Our top priority was to develop the cheapest product. Manufacturers did everything we wanted. The cheaper, the better. That's all. We didn't care about quality and product packaging design in the 1980s"* (ex-director)

Surprisingly, Haitai founded a dedicated team to develop new retailer brand products with a new concept and created a new retailer brand program, in order to attract new customers and achieve higher margin in 1994. As noted by Cho (2001), until Haitai introduced the new strategy of retailer brands, all of the retailers involved in retailer brand programs focused on no-frills brand development. It should be noted that Haitai allocated much more marketing resources to operate a retailer brand development program than its competitors (Cho, 2001). With the increasing interest in retailer brands, the CEO of Haitai in 1994 realized that existing retailer brand development policy could not attract more new customers, and further, developed retailer brands could not generate better advantages for current consumers. That is why Haitai made a decision to abandon the existing retailer brand program and introduced new concepts like better quality, better packaging and the like. Before the company changed a retailer brand strategy, it would be wise to say that retailer brand market was led by Hanwha. The author, in fact, worked as the main buyer who developed 'Pick & Save' brand which was launched in 1994. To my knowledge, the background which both Hanwha and Haitai actively got involved in developing retailer brands was due to alliances with Japanese retailers, as Shinsegae department store started to sell its own brand, as seen in Table 3.

Based on a new retailer brand program, Haitai stopped producing existing retailer brand products, analysed their performance and redesigned them. It is inevitable to mention the new strategy of the retailer brand program. Compared to the past strategy which retailer brands had to be seen as the cheapest product and cut additional

<Table 3> Korean retailers' strategic alliances with foreign retailers

| Retailer              | Foreign Retailer                    | Country                 | Year of Agreement          | Retailing formats  |
|-----------------------|-------------------------------------|-------------------------|----------------------------|--|
| Lotte<br>(Lotte Mart) | Daiei<br>Takashimaya<br>Seibu       | Japan<br>Japan<br>Japan | 1988<br>1988<br>1988       | Department, Supermarket<br>Convenience store Hypermarket |
| Shinsegae<br>(E-Mart) | Mitsukoshi<br>Price Costco<br>Seibu | Japan<br>USA<br>Japan   | 1982-86<br>1994<br>1989-92 | Department<br>Hypermarket<br>Supermarket                 |
| New Core<br>(E-Land)  | Sams Club                           | USA                     | 1996                       | Department, Hypermarket<br>Supermarket                   |
| Hanwha                | Seiyu                               | Japan                   | 1988                       | Department, Supermarket                                  |
| LG<br>(GS)            | Matsuya                             | Japan                   | 1995                       | Department, Supermarket Convenience store                |
| Haitai                | Heiwhatou                           | Japan                   | 1989                       | Department, Supermarket                                  |

Source: Cho (2011)

marketing costs like packaging development costs, advertising spending, in-store merchandising costs and so on, the new concept led customers to become aware that the retailer brands carried by Haitai emphasized product quality, safety, and trust, rather than cheaper prices, although their prices were slightly lower than manufacturer's brands, and other development costs were needed. In addition, the company used the name, Haitai, when designing retailer brand packaging, as a well-known brand in the Korean market.

The new strategy was benchmarked by competitors such as LG and Hanwha. They abolished their retailer brand programs which highlighted only lowest prices and diversified retailer brand names with sophisticated packaging design. As one of the very successful cases, the roasted salted laver with 'Pick & Save' brand achieved incredible sales volume. In the end, other retailers imitated its development strategy and succeeded. In this point, it can be said that Haitai made a considerable contribution to retailer brand market in Korea.

It should be, moreover, illustrated that Haitai was the pioneer of directly sourcing products overseas in the grocery retailing sector. Together with the retailer brand development team under the product development division, Haitai established an overseas sourcing team that consisted of 3 staff, including a team leader in 1994. In order to import products, staff needed a linguistic ability, that is, English. Until then, the company had to source overseas products through an import agency, while product margins were lower. As a result, Haitai made an effort to provide better foreign goods for customers, eliminating or reducing the margins of middle-men, as noted in the below quote:

*"We realized that import agencies gained higher margins than expected. Also, there was a limit to choose a suitable product, because of the limited product assortment provided by suppliers. To provide wider product selection for customers, we had directly to go into overseas market. That's why the company established an overseas sourcing team."* (ex-director)

Rather than considering customer preference or satisfaction, import agencies were likely to procure overseas products with higher margins at higher prices. Because of the lack of information concerned about foreign markets, buyers had to rely on importers. Prior to its competitors, thus, Haitai tried to directly import overseas products. In those days, without depending on import agencies, the fact that a retailer directly sourced goods overseas was an unthinkable decision in the grocery retailing. Although there were many problems associated with the stock management, such as dead stock, the import of damaged products, higher prices and the like, the company provided better and exotic products for customers.

Finally, this trend was benchmarked by other retailers, irrespective of retail formats. Hypermarket/discount retailers have competitively organized their global sourcing teams to import products by themselves and operated overseas offices (Cho, 2009). In a word, Haitai as a pioneer can be the good example that diversified sourcing methods, without doubt.

### 3. Distribution system

As part of chain store management, needless to say, delivery system plays a paramount role in making or creating additional profits, as pointed by Fernie and Sparks (2004). Before researching the distribution system of Haitai, it is necessary to investigate how Haitai stores were spread in Korea. Most of stores were concentrated in Seoul and Kyonggi province near to Seoul until 1993. Surprisingly, it was difficult to open new stores in other areas, because of its delivery structure, as indicated by the below passage:

*"Well, there was only one distribution centre near to the headquarters. It was difficult to cover the whole areas for delivery system. In the 1990s, road network was very poor. This reason did not allow Haitai to open new stores in province far from Seoul."* (ex-senior-manager)

For the reason, Haitai could not expand its own business to other areas.

Unlike other retailers, nevertheless, the company opened a distribution centre in Seoul, although centre scale was around 2,400m<sup>2</sup>. In the past, operating the warehouse controlled by the headquarters was an innovative idea, because suppliers directly delivered the amount of products retailers ordered to retail outlets. Nobody thought it was as an additional profit maker in the retailing sector. By contrast, most of retailers have currently run their own distribution centres, according to an interview.

What is important is that a distribution centre improved the effectiveness of delivery system, although it dealt with finished goods and some non-foods. Even though the company introduced a distribution centre system, renting land and building the centre on it, its operation system was in its infancy, as shown that chilly foods as well as frozen foods did not pass the warehouse. They were directly delivered by manufacturers to stores. It means that Haitai did not install any equipment and have vehicles for them. After realising that the operation of a distribution centre was a good technique to reduce stock-out rates and improve product profits in 1995, Haitai systematically approached to the construction of its own distribution centre and finally built it in Kyonggi province in 1997. After the top manager became aware that efficient delivery system was the best way to gain competitive advantages, through alliance with the logistic company called 'Cleland', based on Australia in 1995, the company started to build its own centre in which could carry dry products like finished foods and non-foods, chilly foods, and frozen foods, at large scale.

In respect of chain store operation, a distribution centre allowed retailers to improve operation profits, as seen in the following quote:

*"Haitai encouraged other retailers to operate distribution centres in their own right. Look at other hypermarket retailers! All of them have run their own centres. They learned from our case. As you know, without distribution centres, surviving in fierce competitive environment would be impossible. It is a basic rule."* (ex-staff)

From the Haitai case, other retailers have obviously learned many lessons. As evidence, the importance of distribution system was ex-

tended to hypermarket as well as convenience store retailing, as E-Mart established its own centre in 1997, although its function was limited to some product categories. The fact that retailers have considered delivery as an important part of modern retailing has resulted from the Hiatai's case.

With the enhanced distribution system, there were much more changes than ever before. By building a huge warehouse in which could deal with more than 90 % of the products distributed to stores, stock-out rates occurred by suppliers were for the most part removed, as one of the most important advantages resulted from establishing a distribution centre. Although it was difficult for buyers to require suppliers to pay from minimum 3 % to 10 % of product costs as delivery costs, its efficiency improved obviously, as pointed by the ex-director interviewed. Unlike Tesco Korea who has outsourced delivery service, Haitai regarded it as an additional profit maker. In other words, through negotiations with suppliers, Haitai buyers made an effort to charge a higher fee proportional to the costs of purchased products in order to generate additional profits, regardless of pure delivery costs, as the author did. Except for Tesco Korea, this trend has been followed by local Korean retailers (Cho, 2009). As indicated by the interviews, it was less likely that a distribution centre operation created extra margins. It would be expected that local retailers tried to offset the investment capital in building a distribution centre by making the charge of delivery costs, rather than by product margins or profits, as noted in the following passage:

*"In terms of product delivery, it worked very well. However, as you know, the company put considerable pressure on buyers to take higher delivery fees. Some suppliers really didn't want to use our centre, because of high commissions. It was silly. The company should have taken pure delivery costs, not extra profits."* (ex-manager)

Even though intention to create added profits was regarded as a wise way, it tended to provoke unnecessary conflicts between suppliers and Haitai, because buyers demanded excessive delivery fees with the growing buying power. That is why some market leader brands continuously delivered products Haitai ordered to each Haitai supermarket, rejecting Haitai buyer's proposal. As pointed by Cho (2009), in case of operating a retailer's own delivery system, particularly, distribution centres, negotiating trading terms and conditions including delivery cost with major suppliers was one of the difficult jobs from a buyer's perspective.

The fact that Haitai operated its own distribution centre to improve delivery effectiveness and efficiency, reduce stock-out rates, and enhance customer shopping satisfaction was accepted as a good example for local Korean retailers, although its system was problematic. In this respect, its contribution to the know-how development of Korean modern retailing should be illustrated.

#### 4. Promotion methods

As a market leader in the retailing sector in Korea, Haitai developed many different promotion techniques that nobody used in those days. These methods were benchmarked by other retailers, as in-

dicated by the interviews with the ex-staff of Haitai. Considerable efforts were made to attract more customers than competitors in the same geographic area. When expanding to an intensified trading area, the company tended to actively develop and employ many sophisticated promotions. In order to develop these promotion tools or marketing strategies, the company organised the Marketing Team which was involved in advertising, creating marketing vehicles, and researching markets in the beginning of the 1980s. Strategically, the CEO emphasised its roles and required Marketing Team staff to attend the meeting held by merchandise department, in which discussed how the company operated product assortment strategy, with the aims of increasing the cooperation between buyers and Marketing Team staff. In the grocery sector, it should be mentioned that the adoption of marketing concepts was at the initial stage, although department stores already run its own marketing team. Currently, most grocery retailers including hypermarket/discount store retailers have established a marketing team to utilize marketing mechanisms. As noted by Burt (2000), who found that grocery retailers in the UK actively made use of marketing concepts, Haitai took advantage of it in the 1990s, according to the interview. In this regard, Haitai should be recognised as the beginner used marketing in the grocery retailing sector in Korea.

Amongst those promotion methods created by the Marketing Team, as one of the most representative promotions, the company devised 'the guarantee of the lowest price' to beat its counterparts, opening a new store in a specific retail site in Kyoungki province in 1995. This promotion was successful to take customers away from competitors, while buyers paid significant attention to price management to sell products at the lowest price. It means that Haitai introduced a differentiated price strategy, that is, depending on the degree of price competition geographically, Haitai differently priced the same product. With respect to this promotion, 'the guarantee of the lowest price', nevertheless, it was found through field interviews that most of retail experts and reporters argued that E-Mart for the first time introduced it in Korea in 1997, in order to make Korean consumers favourable to the retailer, as quoted by the below passage:

*"It's nonsense. I don't know exactly, but 'the guarantee of the lowest price' was for the first time introduced by Haitai in 1995. Although many people know it was E-Mart, it's wrong. Just it's a fake. It would be interesting to look for when E-Mart introduced it."* (ex-manager)

By using this promotion, it was possible to make customers perceive that a retailer sells products at the lowest price in Korea. As a result, the retailer attracted more customers. What is interesting, nonetheless, is that this promotion done by E-Mart was abolished in 2007, because of the confidence that could maintain or attract customers without it (Kyunghyang, 2007). It has become apparent who firstly introduced it through the interviews during this research.

In addition, in terms of price-related promotions, retailers are directly more likely to use price reduction to provide cheap price image for customers. It was a routine method which most retailers promoted goods. Haitai needed to differentiate from its competitors. As



part of efforts to entice customers, the Marketing Team developed the new promotion technique that customers were given three, if buy two same products. By the same token, furthermore, grocery retailers have frequently promoted products through 'buy one get one free', so-called 'BOGOF', as one of the most popular techniques, as seen in oversea markets. Why the author mentioned promotion methods here is to explore the degree of the contribution of Haitai to the evolution of promotion forms in modern Korean retailing.

Apart from the above promotions, Haitai introduced membership card system, coupon issues, no question return policy, refund, and the like, thanks to the efforts of the Marketing Team, although these promotions have currently been propagated over the retailing industry, as indicated in the following quote:

*"Well, Many retailers imitated our promotions from mom and pops to giant retailers. There was no patent right concerned about promotion ways. It's easy to copy, although Haitai made a significant effort to develop an innovative promotion."* (ex-senior-manager)

## 5. Internationalisation

With regard to retailing internationalisation in the Korean retailing history, there has been a serious debate on who went overseas market for the first time and when it started. What is evident is that before local Korean retailers have expanded their own business into foreign markets such as China, US, Indonesia and the like, overseas multiple retailers previously entered the Korean marketplace. Until 1996, it was unthinkable to advance abroad with the retailing knowledge accumulated in Korea, regardless of retail formats, even though department stores had sophisticated the retailing skills transferred by their business partners. However, before market liberalization in the same year, there was a retailer who tried to go to US market with a supermarket format as well as the market entry mode of direct investment. First of all, it is inevitable to examine who expanded into foreign countries for the first time. As pointed by many interviewees, Haitai prepared for overseas expansion in 1996, based on the increasing interest of the CEO.

*"In 1996, the company decided to expand to US market independently, without cooperating with an American retailer. With the aim of opening a new store in 1997, 6 staffs were sent to America. They established the independent American retailer based on Korea. However, it was a vain effort, because of financial crisis in 1997. Although the company made a contract with landlord to borrow a huge site, we had to leave US, because of lack of money."* (ex-director)

Before a hypermarket format, E-Mart expanded its own business into the Chinese market in 1997, Haitai planned to go with a big supermarket format into US in 1996, as seen in the above quote. Compared to the market entry mode of a joint venture selected by E-Mart, it is worthwhile noting why Haitai decided to go to the overseas market, and further, why the company chose a direct investment type. Also, whether its motive was related to Williams's findings (1992) should be investigated. Considering Korean retailing con-

texts in the 1990s, it was less likely that the degree of retailing competition was fierce, although the government allowed foreign retailers to enter the Korean market without retailing regulations in 1996. As mentioned earlier, the CEO appointed in 1994 paid considerable attention to modernising and restructuring retailing administration skills developed before. Irrespective of Korean retailing environment, the CEO made a decision on overseas market expansion, as two of the interviewees noted as the following:

*"Not really, there was no particular reason. Probably, it's an impulsive decision with passion. You had to look at his background grown up. And he was interested in the niche market where Korean people lived collectively. At that time, the main target was Korean. Furthermore, we could deliver a supermarket format well, as you know."* (ex-senior-manager)

*"Without analysing our strength and weakness to go abroad, its decision was made by the CEO. In fact, it was an order. So, we developed an expansion strategy and prepared more than a year, after that, we went to US in the beginning of 1997"* (ex-director)

Even though Haitai missed its opening in the US market because of the financial crisis of Haitai chaebol group, it should be evaluated from many different aspects such as the first Korean retailer expanded an overseas market and the case which went abroad, regardless of domestic retailing contexts like competition or regulations. Interestingly, Haitai case has nothing to do with Williams's arguments (1992). It means that the foreign expansion of retailers was not always influenced by external environment, or target market areas were far from the home market geographically or culturally. The will of the CEO was a decisive factor in the case. This might be regarded as an exceptional case from a researcher's point of view.

Attention should be paid into a product sourcing strategy, that is, how to supply Korean products to Korean living in New Jersey in America. As noted earlier that Haitai set up the Overseas Sourcing Team in 1994, this team was going to organise products manufactured in Korea and export them by shipping regularly, whilst the rest of product assortments were projected to provide through American suppliers.

Before going to overseas markets, recruiting employees who had linguistic ability, educating how to buy products, and selecting suitable buyers were considered as part of efforts to succeed abroad. This provides a new insight to business expansion or good lessons for the potential retailers who want to go to foreign markets, given that local Korean retailers achieved poor performance in foreign countries, as reported by Hankyung (2011).

## 6. Modernised administration

There were many modernised retailing skills Haitai introduced, such as shelf allocation system and POS system, based on IT adoption, prior to its counterparts. It should be noted why the company made such an effort to develop and utilise modernised retailing knowledge. One of the interviewees had explained the background as

the following:

*"Well, you have to look at the decision-making context in those days. The retailing business of Haitai depended on Japanese know-how, because the former CEO was trained in Japanese retailing industry. Furthermore, the next CEO always emphasized IT or system" (ex-director)*

Thanks to the background, there were many opportunities for the company to easily access to modernised retailing environment through the sophisticated training courses developed by a Japanese partner. In line with alliance agreement, as shown in Table 3, Haitai sent employees to Japan, experienced Japanese retailing skills, and introduced them.

The alliances with overseas retailers were more likely to concentrate on sophisticating the department store administration, rather than benchmarking the chain store management for its supermarkets. By contrast, the strategic alliance areas of Haitai with a Japanese retailer were to actively introduce the retailing know-how of a supermarket format, whilst much retailing knowledge was transferred in the long term.

Regarding IT, Hanwha Distribution Inc amongst retailers introduced for the first time POS system in Korea in 1992 (Retailing Yearbook, 1993), followed by Haitai in 1994. In those days, this was an innovative payment system for consumers, suppliers and retailers. The introduction of POS by retailers influenced and renewed the existing distribution system managed by manual labour, as noted in the below quote:

*"The POS introduction changed our operation system as well as suppliers. In the past, we had to waste time to put price tags on each product after suppliers delivered. On the other hand, a few manufacturers attached bar-codes on products. Haitai put considerable pressure on suppliers to attach them. Even the company threatened them to stop trading if not cooperating with us. Together with Hanwha, Haitai significantly contributed to the innovation of distribution system. Owing to these retailers, there was a big change. Manufacturers started to use bar-codes to effectively manage their inventory. This change worked positively for logistics growth." (ex-senior manager)*

Consequently, product management system was automated. As a result, the encouragement of bar-code use by retailers saved the costs of both retailers and suppliers, that is, social-economical costs. In this respect, the degree of the contribution of Haitai should be evaluated higher.

In addition, Haitai developed the shelf allocation system which could control store spaces scientifically as a way to generate extra profits, in accordance with POS system. In other words, retailers used the system as a negotiation vehicle to take better trading terms from suppliers, while the product display of suppliers could be guaranteed, based on trading conditions. Depending on store sizes, the company created a few types of shelf allocation standards. Given these activities, the company started to adopt systematic management concepts to chainstore operation, taking advantage of the data collected through

POS system. Rather than relying on 'gut feelings', whenever making a decision, managers made use of POS data.

To sum up, the development and introduction of information technology allowed the supermarket retailer, Haitai to improve profits, gain competitive advantages, and further, contribute to the distribution management system of suppliers. Despite these sustainable efforts, why the company went bankruptcy should be mentioned.

## 7. Reasons for bankruptcy

As mentioned earlier, Haitai made considerable efforts to increase competitive advantages in many ways those days. Surprisingly, however, when the author asked all of the interviewees why the company filed for bankruptcy, their answers were much more straightforward than expected, as quoted by the below passage:

*"It's simple. It's for joint liability for the subsidiaries of Haitai chaebol, as you know. Internally, there was no problem. Amongst subsidiaries, the company was a cash cow. Its bankruptcy was for joint liability." (ex-director)*

Furthermore, one respondent added that the company overspent on modernising stores and introducing IT system, compared to generated revenue. That could be a reason, although it was not the major point.

What is important is that a supermarket giant, Haitai could have sustained its own business, if there was not joint liability. As a consequence, there is no direct relation between bankruptcy and business activities by Haitai. It should be, therefore, mentioned that the main reason for bankruptcy is joint liability, as demonstrated by the interviews conducted.

Furthermore, it was difficult to find out additional reasons for bankruptcy. Considering that business activities made contribution to the profit improvement of the company, as retailing yearbook (1997) has shown net profit in fiscal year 1996, it is wise to say that all of the business activities done by Haitai Supermarket significantly contributed to the company growth, rather than playing in making the company bankrupt.

## V. Conclusions

There are a few implications for academicians and practitioners. In terms of the contribution to the Korean retailing history, this research suggests that a supermarket retail format led the major part of Korean modern retailing, together with department stores until 1996, and has been in charge of today's retailing development, as a core pillar of Korean retailing. In this respect, academicians should re-examine retailing history from a different angle. When illustrating historical Korean retailing from 1970s to 2000s, supermarket history should be included. Compared to hypermarket/discount store format, the degree of its contribution should systematically be researched. The author also proposes that Haitai's case has provided new insights for researchers, when studying the Korean modern retailing history. Together with a department store format, researchers should regard

Haitai with supermarket stores as the retailer who made a significant contribution to both the development of the Korean retailing sector and the process of the Korean retailing modernization, as the retailing knowledge developed by Haitai was benchmarked by other supermarket retailers and further, hypermarket/discount stores, as indicated by the in-depth interviews conducted. Global sourcing, internationalisation, promotion methods, and the like are good examples.

The research implies that there was no exact definition of failure in the Korean retailing academic world. Based on the existing literature, the author summarized its definition. Rather than regarding retailers withdrawn from the host market or merged by other retailers as failure, it is necessary to investigate why they made such a decision in five aspects: failure, divestment, closure, organisational restructuring and exit. In other words, the author suggests that the word, 'failure' should be redefined from a researcher's point of view in Korea in order not to make readers confused. Given that Haitai has been finally merged by E-Mart, rather than regarding the company as failure, it should be, thus, considered as a case of organisational restructuring examples.

The retailing knowledge development and modernisation of Haitai as a market leader in supermarket retailing by 1996 should be also reevaluated in an academic society, given its degree of contribution to the growth of Korean retailing industry, as mentioned earlier. Many practitioners are able to learn various lessons from Haitai's experience, such as marketing activities, new knowledge development and so on. Associated with the fact that joint liability was the core reason for its bankruptcy, the case clearly discourages retailers to get involved in the liability of other companies, raising the problems of joint liability.

Like other literature, there are some limitations. Although the author made considerable efforts to prevent information distortion associated with Haitai by ex-staff, the research had to rely on their memories at least 14 years ago. Because of the lack of Haitai-related or supermarket-related articles, it was not easy to gather relevant information, and further, led the author to omit the double-checking process of information collected.

On the other hand, while illustrating Korean supermarket retailing, the research focused on only Haitai, although there were other giant supermarket retailers, such as Hanwha and LG. This worked to some extent as a limit during the research.

In the future, it will be essential to look at the Korean modern retailing history over the whole retailing formats. By examining the growth process of the Korean retailing, future directions will be suggested.

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