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The Entry Modes Strategy in FDI: Expansion of Korean Retailers into China and Indonesia*

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Abstract

Purpose - This study aims to explore the success of Lotte Mart in the global market, as well as examining the factors related to its entry methods.

Research design, data, and methodology - This study analyzed the differences between Lotte Mart and E-mart in terms of their market entry methods, based on references and secondary data. This study is based on qualitative research that analyzes actual cases. Based on the results, this study analyzed and discussed actual cases based on references and secondary data, including newspaper interviews on Lotte Mart.

Results - Lotte Mart succeeded in adapting to local markets it did this by ensuring the use of both mergers and acquisitions (M&As) and greenfield methods. In contrast, E-mart utilized only greenfield methods.

Conclusions - The findings of this study may not be generalized to all industries, as only Lotte Mart was examined using the case analysis method. Therefore, the successful market entry modes of various companies should be explored in terms of FDI.

Keywords: Foreign Direct Investment (FDI), M&A, Greenfield Method

JEL Classifications: M10, M13,M16, M20

1. Introduction

Foreign direct investment (FDI) is a method pursued most actively for international business(Griffith et al, 2008). It is also the most advanced method of foreign expansion of all corporations. FDI has been explained through the 'eclectic paradigm(Dunning, 1977)' in general: using a 'location advantage' based on 'internalization advantage' (Buckley & Casson, 1976; Rugman, 1981), along with 'monopolistic advantage'for foreign expansion(Caves, 1971). According to traditional FDI theories, corporate globalization starts with securing a monopolistic advantage. Thus, emerging countries striving to develop a particular industry tend to pursue FDI as an efficient method to gain a monopolistic advantage. FDI inflows provide the following benefits to a country of investment: contributing to capital formation (Dunning, 2003; Qi, 2007); enhancing the human resources(Aw & Tang, 2010; Ismail & Yussof, 2003); technology transfer; higher competitiveness(Bandick & Hansson, 2009).

There are various methods of FDI. In recent years, more and more Korean companies have entered foreign markets through M&A. In the past, 'Greenfield method'that builds new factories and establishes local subsidiaries was used mostly widely. These days, however, 'Brownfield method' is used as a new vehicle for foreign expansion; it makes it easier to secure the human resources, technology, and know-how of a new foreign market all at once through M&A. Therefore, this paper wants to discuss which method of FDI is successful in the overseas expansion strategy through Korean retail companies.

Meanwhile, since the 1990s, the strategic partnership between retailers become active and leading retailer companies has begin to enter the global market. As a result, retail companies in South Korea also began to enter foreign markets (Kim et al.,, 2013). Lotte Mart and E-mart, two major Korean retailers, pursued opposite strategies to enter the Chinese market. E-mart gained its commercial supremacy by securing lands and opening up new stores fast to beat competitors. Lotte Mart, on the other hand, entered the same market through M&A of local companies such as Makro and TIMES. The two opposite strategies led to the opposite results. Although E-mart has 27 stores in China, the retailer is set to close or restructure them due to rising annual deficits. As for Lotte Mart, however, it has established itself as a solid retailer in the market, operating 82 stores; it is a remarkable achievement, considering that it en-

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tered China 10 years later than E-mart did. In terms of FDI methods, this study will focus on market entry modes. In particular, the strategies and success factors of Lotte Mart will be explored in depth.

2. Theoretical Framework

2.1. Criticism towards Monopolistic Advantage Theory of FDI

Among the FDI theories, the most dominant and long-standing theory is 'monopolistic advantage theory.' It was created by S. H. Hymer (1960) and developed by Caves (1971). It explains the FDI patterns of the U.S. and advanced European countries properly. For instance, U.S. companies such as IBM and Coca-Cola were able to develop into multinational companies fast through FDI with monopolistic advantages based on outstanding technology and brands. Also, their studies proved that FDI has a higher level of positive correlation with intangible assets; it is linked to exclusive corporate capabilities, in other words, a core competence that provides a competitive advantage (Caves, 1971; Kogut & Chang, 1991).

However, the monopolistic advantage theory has the following limitation. Its hypothesis uses R&D intensity or advertising intensity as proxy variables to discuss substantial exclusive capabilities. The logic is rather superficial, which cannot verify the correlation of the factors with FDI performance. It is because the variables are firm-specific factors that cannot explain the FDI determinants properly in terms of correlation. Also, some developing countries with weaker monopolistic advantages than the ones of advanced corporations or nations have actively engaged in FDI. Thus, FDI cannot be fully explained by the monopolistic advantage theory. It is demonstrated by the example of Lotte Mart and E-mart. Although the latter is Korea's No.1 retailer with unrivaled status, its FDI in China has struggled or failed. As for Lotte Mart, on the other hand, it has performed far better in FDI, although it is ranked No.3 in Korea and entered the Chinese market much later.

2.2. Studies on FDI Entry Modes

There are three different methods of FDI in general: joint venture; green field investment; acquisition (Hennart, 1991; Hennart, 1993). This study mainly explores green field investments (creation of a subsidiary from scratch) and M&A, among wholly-owned investments, excluding joint venture.

In terms of FDI, the wholly owned subsidiary (a company whose shares are all owned by another company) is either based on green field investment or acquisition. Wholly owned green field investments have the following advantages: building and maintaining the right facilities for investment; optimal hiring; more flexible management. However, the following disadvantages also exist: time-consuming preparation until business operation; greater risks and costs; high 'LOF' (liability of foreignness: additional costs associated with foreign operation) (Zaheer, 1995). On the other hand, M&A with wholly-owned investments has the following advantages: It takes less time and costs for direct facility investment such as factory construction. As a result, it facilitates faster market entry, as existing facilities, brands, and distribution network are used. Also, it can secure intangible assets such as unique technologies of companies taken over.

There are various studies on the entry modes of green field investment and M&A. Caves & Mehra (1986) found that the latter is more preferred than the former. The reason is because M&A gives an advantage in securing insufficient resources, especially upon greater initial investments(Cho & Padmannbhan, 1995). Also, M&A method is popular for investment in advanced nations with fewer M&A regulations and more businesses in a single industry, according to Cheng(2006). On the other hand, green field investment is more preferred than M&A when particular technologies need to be transferred into overseas subsidiaries. In addition, companies that have developed innovative technologies through trial and error during overseas expansion prefer the green field investment, because they don't need to reply on foreign companies for their experience and technologies(Berkerma & Vermulen, 1998). However, many companies adopt a two-track strategy or more than one method among M&A, Greenfield method and other options. Since each option has its own advantages and disadvantages, there is no single method that is always better than the others. However, the choice of a foreign market entry modes is crucial, as it can lead to different results. Therefore, it should be explored thoroughly.

3. Case Analysis: Overseas Expansion Strategy of Lotte Mart

3.1. Reason for Overseas Expansion

Super-supermarkets (SSM) market is saturated and it is difficult to find densely populated areas (Kim, 2013). Due to the saturated domestic market and various regulations on large discount stores, Lotte Mart turned to overseas markets as a new growth engine and easier option for opening new stores. Specifically, the retailer made the plan of establishing 700 stores by 2018 globally, generating 25 trillion won in sales. When E-mart was engaging in full-scale restructuring including store liquidation in China due to deteriorating profits, Lotte Mart opened 20 new stores in the same country. Advancing with a 'chain store operation' strategy, the retailer plans to expand the number of its stores to 500 by 2018.

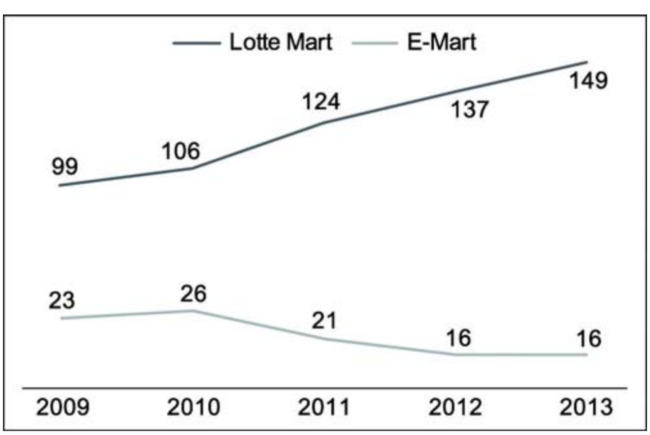
Vietnam and Indonesia, other foreign markets of Lotte Mart, are highly promising emerging markets. They not only offer high success potential, but also cheap labor, making them as ideal product sourcing bases.

"We plan to actively expand into emerging markets such as Indonesia, as well as VRIC's (Vietnam, Russia, India, China), our strategic expansion areas."

- Noh, Byung-yong, CEO of Lotte Mart -

3.1.1. Overseas Expansion Status of Lotte Mart

Currently, Lotte Mart is the most successful company in terms of overseas expansion, among all domestic retailers; it began with three foreign markets including China, Indonesia, and Vietnam. Amid stronger government sanctions including restrictions on operating hours and new store opening and prolonged slowdown in the domestic market lasting over 10 years, Lotte Mart embarked on its global expansion in 2006. The expansion revolved around acquisition of local companies. In December 2007, Lotte Mart acquired Makro in China, Macro in Indonesia in October 2008, and TIMES in China in October 2009. As a result, Lotte Mart developed into a global retailer. As of May 2014, it has 107 stores in China, similar to the number of domestic stores (108). Also, Lotte Mart has 36 stores in Indonesia and 7 stores in Vietnam. In total, the retailer has 258stores in 4 countries, attracting a million shoppers everyday on average. It ranks Lotte Mart as Korea's No.1 retailer in terms of domestic and overseas stores. Accelerating its overseas expansion, Lotte Mart is planning to develop into Asia's No.1 retailer in 2018 with focus on VRICs (Vietnam, Russia, India, China). In December 2007, the retailer completed the construction of its first branch in Ho Chi Minh City, Vietnam. In 2010, it opened the 22nd store in Indonesia called Festival branch.



<Figure 1> Overseas Expansion Status of Lotte Mart vs. E-mart, Source: CEO Score Daily (2014)

According to CEO Score Daily(2014), a corporate performance evaluation website, as of March 2014, Lotte Mart generated sales of 9.22 trillion won and operating profit of 233 billion won in 2013. As for E-mart, it generated sales 10.78 trillion won and operating profit of 759.2 billion won. The sales and operating profit of Lotte Mart declined by 1.5% and 2% respectively. However, analysts mostly agree that Lotte Mart is far superior to E-mart in terms of growth potential, as Lotte Mart has advanced beyond the domestic market that reached its growth limit. In fact, Lotte Mart is continuing its overseas expansion despite deficits, while E-mart is focusing on domestic business and downsizing its business in China, its key foreign market. Thus, Lotte Mart has greater growth potential as a global company. As a matter of fact, Lotte Mart has 149 overseas stores as of 2013, 107 of which in China. Thus, the retailer has more overseas stores than domestic ones. The overseas expansion is well worth it. In 2013, the global sales surpassed 3 trillion won for the first time, accounting for 30% of the total sales (The Korea Economic Daily, 2013). As for E-mart, however, it may liquidate its business in China in the future; it has reduced the number of stores in China from 27 in 2011 to 23 at the end of 2009 and 10 as of May 2014. Since the deficits are due to initial investment costs such as opening new stores, Lotte Mart is expected to turn a profit in the near future, once it enters rapidly-developing markets and perform well(The Korea Economic Daily, 2013).

3.1.2. Selection of Market Entry Modes with FDI

By comparing the overseas entry strategy of Lotte Mart and E-mart, this study will explain the importance of selecting the right FDI entry mode. E-mart, a top competitor of Lotte Mart, has maintained its No.1 status in Korean market for a long time. Its motto is 'low price, one-stop shopping,' reflecting the preferences and purchase habits of Korean shoppers. As E-mart decided to enter the global market, it adopted Greenfield method with Korean-style discount store model policy. Specifically, it purchased lands on great locations and pursued aggressive store expansion. However, all the profitable locations were occupied by other foreign companies earlier. Also, Chinese shoppers got the notion that E-mart is only for Koreans, due to its image as 'Korean-style discount store.'

On the other hand, Lotte Mart selected M&A as its FDI to succeed in the Chinese market. Among the stores operated by Lotte Mart, more than 80% (over 90) were secured through acquisition. To expand into the Chinese market, Lotte Mart preferred to acquire existing corporations or opted for a joint venture. M&A offered many advantages for Lotte Mart. It was able to establish itself in the Chinese market faster than E-mart did (E-mart chose Greenfield method that built everything from scratch). In addition, M&A made it easier for Lotte Mart to attract customers. Although it entered the market 10 years later than E-mart did, Lotte Mart was able to attract more customers by using the distribution channels or reputation of the companies taken over. However, Lotte Mart was flexible in selecting its entry modes. M&A was used as the initial option and afterwards, the retailer chose Greenfield method. In 2009, its Chengyang branch was established with Greenfield method. The FDI progress of Lotte Mart and E-mart is as follows.

<Table 1> China History in E-mart

Year	Main Subject
1996.12	Joint Venture in Shanghai
1997.01	Opening the 1st store "Quyang" in Shanghai
2004.05	Joint Venture in Tianjin
2005.11	Opening the 1st store "Aocheng" in Tianjin
2007.12	Opening Nanqiao store in Shanhai (10th store in China)
2008.06	Opening 1st store "Huaqiao" in Suzhou
2008.09	Opening 1st store "Yangchao" in Beijing
2010.05	Opening "Caobao" in Shanghai
2014~Present	Running only 16 stores in China

Source: E-mart Homepage

In 1993, E-mart began to explore Chinese market entry, mostly through its Hong Kong office. In 1995, E-mart was approached by 'First Shanghai Yaohan Department Store' in Shanghai to invest in China. In January 1996, E-mart began its investment in Greater China through a store rental method, the first attempt as a Korean company. What is noteworthy is that E-mart entered the Chinese market through a joint venture with 98% capital investment, while a Chinese counterpart invested only 2%.

<Table 2> China History in Lotte Mart

Year	Main Subject
2007.12	Lotte buys Makro China, acquire 8 stores
2009.10	Lotte buys China Times, acquire 81 stores
2014~ present	Lotte runs 107 stores in China

Source: Lotte Mart Homepage

Thus, it was a practically wholly-owned investment that allowed E-mart to engage in independent management. It is such a contrast to other foreign companies such as Carrefour and Walmart, the biggest competitors of E-mart; those companies pursued a joint venture at the ratio of 55 : 45. However, the expansion of E-mart in China was not successful. The major financial crisis that hit Asia in 1997 was a severe blow to E-mart and its total losses were soaring, even from a joint corporation established in 2000. It prompted E-mart to close down more than half of its stores faltering in China in 2011. As a result, 11 stores among 27 were closed (7 with share sale 2 with asset sale 2 with business closure), leaving only 16 stores as of 2014.

As for Lotte Mart, on the other hand, it used a totally different approach to enter the same market. Unlike E-mart, Lotte Mart took over large discount store chains in China to expand into the market. In 2007, the retailer secured the locations for 8 branches by buying Mkro, a Chinese company, for around 170 billion won. In 2009, Lotte Mart completed its contract to acquire TIMES, a large discount store chain in China. As a result, Lotte Mart took over approximately 72.3% of its shares through a takeover bid. TIMES is a large discount store chain that was operating 53 discount stores and 12 supermarkets in China after beginning its operation in Kiangsuin 1997. It allowed Lotte Mart to operate over 80 large discount stores in China. Such strategy offered the following benefits for Lotte Mart: being able to expand to areas accessed by Line #2 and #3 in the province; securing a distribution network and human resources, most urgent and challenging task, more easily and faster. Such M&A method enabled Lotte Mart to enter the Chinese market faster and more successfully. As of 2014, Lotte Mart is operating 107 stores in China alone, making it a global retailer with 258 stores around the world.

3.2. Lotte Mart's Two-Track Strategy for Store Opening

Entering two foreign markets, China and Indonesia, M&A strategy was adopted by Lotte Mart, which acquired or merged a few existing companies in the target market. Aware that promptly establishing a distribution network and boosting brand awareness is crucial in the retail industry where economy of scale is critical, Lotte Mart has pursued 'two-track strategy' for opening stores. It is based on Greenfield method, an independent venture, and Brownfield method that uses M&A (e-daily, 2012). In other words, Lotte Mart has initially used M&A strategy to achieve economy of scale and stabilized operation, switching to Greenfield method afterwards.

The first overseas operation of Lotte Mart began in China that has an enormous market with high growth potential. In 2007, the year when Lotte Mart embarked on its global operation, there was fierce competition in the Chinese retail industry among several global retailers such as Makro, WalMart, Carrefour, and Tesco. In the retail industry that requires economy of scale and prompt creation of distribution network and brand awareness, Lotte Mart entered the new market through 'M&A strategy' instead of 'Greenfield.' As a result, the retailer settled in China successfully as it acquired 8 stores of Makro, a Dutch-Chinese company, in December 2007. Afterwards, Lotte Mart expanded its business scale by acquiring 65 stores of TIMES, a 100% Chinese discount store retailer, in 2009. In addition, Lotte Mart continued to increase its retail network, opening Long Wang Xiao branch in southeastern Jiangsu province in September 2012. As a result, Lotte Mart became the first retailer in Korea that owned 100 stores in China. On January 17, 2013, Lotte Mart opened a new store in Hefei, the capital city of Anhui Province, the retailer's 103rd store in China. Thus, Lotte Mart had more stores in China than in Korea (102). The retailer is planning to establish itself as one of the top 5 global retailers - after RT-Mart, WalMart, and Carrefour - through active expansion until 2015.

Another feature of Lotte Mart's entry into China is 'dominant strategy.' It is a strategy of establishing multiple stores in a particular area. Lotte Mart established a number of stores around

Beijing, Shanghai and Shenyang, creating its distribution network in China. In particular, 80% of the stores were built in small and mid-sized cities (Line 3-5) with high growth potential.

In October 2008, Lotte Mart became the first Korean retailer to enter the Indonesian market, acquiring 19 Macro stores in the country. The reason Lotte Mart entered the market is because the massive market and high growth potential were highly attractive to the retailer. The following are the specific reasons: population of over 240 million; steady and solid annual economic growth of 6%; steady foreign direct investment. In particular, the middle class population is rising steadily, which is expected to exceed 100 million by 2030. It is significant, because the middle class has high purchasing power.

"At the time, Macro branch in Indonesia was suffering from low sales and operating profit. After Lotte Mart acquired it, however, the sales rose by 80%, boosting profits through store renovation, product innovation, and service improvement."

- In an interview with Yoon Joo-kyung, the subsidiary director of Lotte Mart -

Afterwards, Lotte Mart actively expanded through direct investment, including a branch in Gandaria City, Jakarta. Currently, Lotte Mart is operating 36 stores in Indonesia. The country now has a growth potential in the range of 10%. Since the country has the world's 4th largest population of 240 million, its retail industry is expected to grow significantly in the future. In particular, the annual growth rate of large discount stores stands at 30% on average(Seoul Economy, 2014).

3.3. Differentiated Localization Strategy

Another reason Lotte Mart succeeded in overseas markets is because of its proper utilization of localization and differentiation strategies, besides the FDI entry mode.

In an effort to outperform competitors, Lotte Mart is pursuing strong localization and differentiation strategies, reflecting the preferences of local customers. The key to succeeding in foreign retail markets is a strong localization strategy. Without addressing the needs of local customers, a business is likely to falter. Thus, global retailers can succeed only when they are aware of the characteristics of local customers, including their cultures, tastes and eating habits. Lotte Mart was able to expand successfully in China, because it pursued strong 'localization strategy,' unlike E-mart.

"Every aspect of our operation, ranging from hiring and product selection to packaging and display method, revolved around Chinese customers. So we tried to hire locals for our employees including our branch directors, since they are well-aware of the customer preferences and business environment.,"

- Interview with a Lotte Mart official -

For instance, we showed the process of preparing food and beverages to Chinese customers, who valued freshness. Also, fresh foods were displayed in bulk with no packaging. In terms of interior colors, we mostly used red and yellow, which are popular with Chinese people. As a result, Lotte Mart was perceived among Chinese customers as a store dedicated to them, reflecting their needs and preferences it is such a contrast to E-mart, which was perceived as a store only for Koreans.

In Indonesia, Lotte Mart pursued its localization policy based on various CSR(Corporate Social Responsibility) activities. For instance, there was a catastrophe killing over 1,400 people in the area of Padang due to a severe 7.9 magnitude earthquake in September 2009. Lotte Mart offered to rebuild a whole town, building 25 houses for free.

"Each of our store formed a Loving Hands Service Club, setting up sisterhood relationships with orphanages near our stores. Our employees spent time with the orphans, cleaned the facilities, and shared meals with them. Also, we offer full scholarships to 22 outstanding and underprivileged students at University of Indonesia, Bogor Agricultural University, and Bandung Institute of Technology, in collaboration with Lotte Scholarship Foundation."

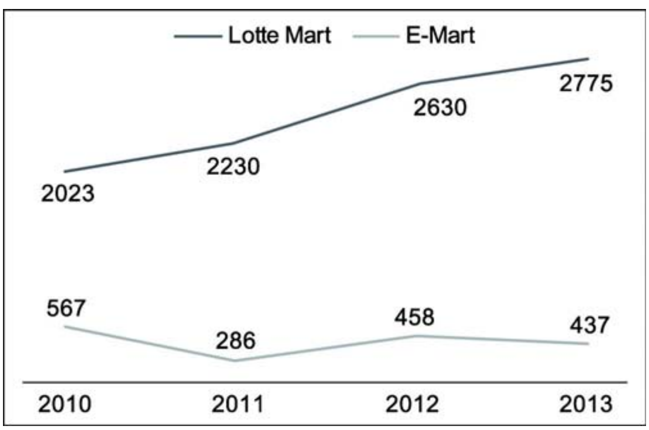
- Yoon Joo-Kyung, director of the local subsidiary -

Also, Lotte Mart has conducted a variety of CSR activities, including medical support projects, clear water projects, and poor children support projects. Lotte Mart has also shared its profits to renovate the public rest rooms in underdeveloped areas. As a result, the retailer was able to create a favorable image and confidence among the local residents. Thus, its strategy of assimilating into their community paid off. It is such a contrast to E-mart's strategy that only revolved around Korean-style operation and services. As a result, the retailer had to withdraw from the Chinese market after failing to recognize the importance of localization; it was inevitable, although it entered the market 10 years earlier than Lotte Mart did(Indonesian Korean News, 2012).

In addition, Lotte Mart pursued a differentiation strategy, partly by capitalizing on 'hallyu'(Korean wave: popular Korean culture and celebrities abroad). To stand out from its competitors in China, Lotte Mart established a 'Korean Product Zone' in each store, selling a wide variety of selected products such as soju (Korean alcohol) and ramen (Korean noodle). It was an attempt to appeal to Chinese customers, amid the heightened interest in Korea thanks to hallyu craze. The retailer also provided services that appeal to customers. The stores that attracted lots of children built a Young Children Zone(Lotte Company Newsletter). In addition, the retailer integrated its organizations divided into four regions into two, Huadong and Hwabuk divisions; it was a recent move to efficiently operate more than 100 stores in China. Also, 'Global Innovation Division,'a sub-organization dedicated to integrated purchase and management innovation in China, was established.

In Indonesia, Lotte Mart adopted a Korean-style marketing strategy, another approach to attract lots of local customers. For instance, the retailer attracted member customers, two months prior to store opening. Also, promotional flyers were used actively to boost its brand awareness, attracting lots of customers.

In addition, Lotte Mart made sure that all its stores are clean and have quality products in the right places, a strategy to maintain existing customers. In Indonesia, Lotte Mart has the reputation as a clean store with friendly clerks among the customers. Also, it is seen as a store with quality products and reasonable prices. In 2012, however, Lotte Mart struggled to supply quality fresh products, starting in October it was due to stronger import restrictions on horticultural products including fruits and vegetables. It was the result of Indonesian government's Domestic Industry Protection Policy. It prompted Lotte Mart to make extra efforts for a stable supply of quality products and to reduce distribution costs. For example, the retailer signed an exclusive contract with livestock farms to develop alternative products, a replacement of imported agricultural and animal products(Indonesian Korean News, 2012).



<Figure 2> Status of Overseas Sales (unit: one billion won), Source: CEO Score Daily (2014)

Compared to E-mart, the performance of Lotte Mart is astonishing. In 2009, E-mart began to withdraw from the Chinese market with the sales of 307.6 billion won and deficits of 59.5 billion won. As for Lotte Mart, however, its sales stood at 12.6 trillion won with the operating profit of 12.5 billion won in the same year. Steadily opening up more stores, Lotte Mart succeeded in outer expansion. However, the retailer began to face setback after 2010, running a deficit for the first time. Although it had operating surplus until 2010, its foreign subsidiaries have faced deficits, which rose 3-fold in 2013.

4. Conclusion

Lotte Mart is the only domestic retailer that has created a multinational store chain in Asia. Even though it entered the market ten years later than E-mart did, both at home and abroad, Lotte Mart has steadily expanded its store operation, unlike E-mart that has withdrawn from the Chinese market. Also, Lotte Mart was able to appeal to local customers through its unique localization strategy, along with M&A that enabled the retailer to acquire the location and resources of existing stores and quickly enter a local market. Lotte Mart was also flexible with FDI, adopting the Greenfield method used by E-mart extensively. Nowadays, Lotte Mart's active global expansion includes not only opening up new stores abroad, but also bolstering its foreign sourcing abilities to import quality products to Korea for lower prices and making a pathway for qualityKorean goods to be exported to foreign markets.

The Chinese and Indonesia market is getting more and more competitive as well. This year, Lotte Mart's current deficit is about three times larger than it was last year. It was because the excessive competition in China has worsened the finances of Lotte Mart, as it has opened up new stores rapidly. In order to deal with the threats, Lotte Mart should perhaps adopt a more differentiated strategy, including the following: offering more diverse and specialized products and better customer services. Thus, Lotte Mart should focus on maximizing the profitability of the existing stores, rather than opening up new stores, which requires a great deal of investment.

The comparison of Lotte Mart and E-mart has revealed the following results. First, selecting the right FDI entry mode is a critical factor, leading to the difference between success and failure. It is irrelevant to the fact that the company has an unrivaled status in its nation. However, opening up more stores doesn't necessarily lead to a success in the global market. Therefore, a strong localization strategy that appeals to foreign customers is indispensible to the success, amid rising competition in the global market. Thus, companies seeking overseas expansion need to explore unique localization strategies. It is more important than transferring their key strengths abroad — even if they have an unrivaled status in Korea.

However, Lotte Mart's revenue is still unstable state. Currently, the interests of domestic companies replace the net loss of overseas markets. In the future, the plan to make money from the local will have to be prepared. To do so, localization strategy such as local management, local sourcing should be further expanded. On the one hand, management strategies for the locals and deeply understanding of consumer habits and the culture of the locals should be a priority.

In this paper, we realized how important company's overseas expansion strategies with decision-making of entry modes and localization in the case of E-Mart and Lotte Mart. Korea's retailers have re-established their overseas strategies through the experience of failure and success of Lotte Mart and E-Mart. Through this paper, we provide practical implications for the companies when choosing their entry modes and localization strategies. In addition, we also provide academic implications that the company also could have various entry modes as two track strategy of Lotte Mart. And the initial entry mode selection is important and subsequent decisions come to proceed.

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