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# Pioneering the Distribution Industry in Korea: Dynamic Capability at Lotte Shopping\*

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## Abstract

**Purpose** – This case study reviews the development history of Lotte Shopping, which has played a key role in modernizing Korea's retail industry.

**Research design, data, and methodology** – Lotte Shopping's expansion to various channel types has been reviewed from the perspective of the resource-based view of strategy. The opening of Lotte Department Store in 1979 signaled the beginning of the modernized distribution system in Korea. Lotte Shopping expanded its business domains to various types of retail channels, such as discount stores, online shopping malls, TV home shopping, convenience stores, supermarkets, home appliances specialty stores and health & beauty stores.

**Results** – Lotte Shopping has been able to maintain high level of customer satisfaction with leading merchandising skills. It has developed mutually beneficial relationship with the partner firms. It has also been a leading firm in implementing corporate social responsibility activities and environment-friendly management. Lotte Shopping has applied advanced information and communication technology to provide customized goods/services.

**Conclusions** – This study summarizes the business environment and new challenges Lotte Shopping faces currently. Lotte Shopping is trying to reinforce the omni-channel strategy, which can create synergy among various distribution channels based on its core competences.

**Keywords:** Lotte Shopping, Lotte Department Store, Lotte Mart, 7-Eleven, Lotte Super, Omni-Channel Strategy.

**JEL Classifications:** D39, M31, N95.

## 1. Introduction

### 1.1. The Birth of Lotte Shopping

Rostow(1959) classified the stages of economic growth into five stages and defined the last stage as the age of mass consumption. Various types of retail stores such as department stores, discount stores, specialty stores, convenience stores, etc. symbolize the mass consumption era. As the economy develops, product diversity increases sharply due to diversification of consumers' desires, which makes the retailers' role more important. An efficient distribution system promotes innovation and productivity in manufacturing and thus the level of development of the retail industry is a measure of the economic level of a country.

Over the past several decades, Korea's distribution industry has developed greatly, improving consumers' purchase convenience and overall standard of living. To cope with rapidly changing market environment, distribution firms in Korea have had to continuously renew themselves(Teece, Pisano, & Shuen, 1997; Danneels, 2010). This study examines the development history of Lotte Shopping Co., Ltd., one of the leading distributors that led the development of Korean retail industry.

The founder of the Lotte Group, Shin, Gyuk-Ho, born in Korea, went to Japan to study abroad in 1941. In 1946, he founded the Hikari Chemical Research Institute in Japan, which produced products such as soaps and pomade cream. After a great success in chewing gum business, Lotte Co., Ltd. was officially launched in Japan in 1948. The name of the company was named after Charlotte, the heroine of the famous novel by Goethe, 'The Sorrowfulness of Young Werther.' In 1963, the Lotte Group grew into a large company with annual sales of 70 billion yen and a staff of 3,000. In 1967, when Korea and Japan normalized

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diplomatic relations, Lotte Group started to invest in Korea.

The company has laid the foundations for Korean business by establishing Lotte Confectionery. Since then, the company has either established or acquired firms such as Lotte Shopping, Lotte Hotel, and Honam Petrochemical, and has grown into a global company with numerous subsidiaries in the fields of distribution, tourism/services, construction/manufacturing, finance, etc.. Lotte Group is the fifth largest conglomerate group in South Korea in terms of sales in 2017, and Lotte Shopping is a representative affiliate that accounts for 41% of group sales. The company mission is 'to contribute to the affluence of human life by providing products and services that are loved and trusted.' The four management principles are transparent management, core competency enhancement, value management, and on-site management. In 2017, the Lotte Group celebrated its 50th anniversary with the vision of "Lifetime Value Creator," promising to deliver the best value to customers throughout their lifetime(Lotte Group, 2017).

The former organization of Lotte Shopping was the Shopping Center Business Division established within Lotte Hotel in 1975. In 1979, Lotte Shopping Co., Ltd. was established with the acquisition of this division by Hyupwoo Company, and Lotte Department Store opened in Myeong-dong, Seoul. Based on his business experience in Japan, Gyuk-Ho Shin has been leading the industry by changing the distribution structure in the country and creative advertising and promotional strategies. Until the 1970s, the Korean economy was dominated by manufacturing-oriented industrialization, and the distribution industry had not been modernized yet. In the United States, from the late 1940s to the 1950s, the focus of corporate management changed from manufacturing to distribution and sales(Shell, 2009), and such a transition has started in Korea in 1980s. The opening of Lotte Department Store has woken up the importance of the tertiary industry, the service industry, and it has become a turning point for domestic distribution industry to take a leap forward.

## 1.2. Overview of Lotte Shopping Businesses

According to the Wheel of Retailing Theory(Hollander, 1960), when a new type of retailer appears, it operates at low margins, low prices, and low service levels at first. However, increased value-added services make the price raise gradually, which in turn creates new opportunities for low-priced, low-margin companies to enter the market. Through such a process, creation and destruction of new channel types is repeated. In the case of Japan, convenience stores and drugstores have emerged as the main players in the distribution market, as department stores and general retailers, which once had led the retail industry, are on the verge of declining. Recently, these markets have become saturated, and now specialty retail chains such as consumer electronics, casual clothing, and furniture interiors

have become leaders in the industry.

Over the past 30 years, new forms of retailers such as discount stores, convenience stores, specialty shops, and online shopping malls have continuously emerged in Korea. Recent advances in the Internet technology and mobile devices have greatly improved consumers' information search and purchase convenience. Furthermore the development of technologies such as big data, artificial intelligence, and internet of things(IoT) is changing the landscape of the distribution industry. The distribution industry is now entering the era of omni-channel, where the boundaries between different channels types are disappearing (Verhoef, Kannan, & Inman, 2015; Piotrowicz, Cuthbertson, & Guest Editors, 2014).

The history of the distribution industry in South Korea is interwoven with the development history of Lotte Shopping. Although Lotte Shopping started out as a department store business, it has continually expanded the business domains to new forms of distribution channels. As a result, the company has grown into a comprehensive retailer that includes department stores, discount stores, electronics stores, convenience stores, supermarkets, and health and beauty stores. As of June 2017, the number of employees is 25,979, with 2016 annual sales of 24.1 trillion won, and net profit of 246.9 billion won. As of August 2018, the enterprise value is about 5.2 trillion won, which is about 57th rank of the listed companies in the KOSPI. As of 2016, department stores accounted for 27.2% of total sales, while discount stores accounted for 27.8%, electronic specialty stores 13.3% and convenience stores 12.5%. Table 1 shows the sales portion by division.

Lotte Shopping owns a total of 75 companies, of which 24 are domestic and 51 are overseas, with a total of 26 subsidiaries. As of the end of 2017, Lotte Shopping operates 35 department stores, 20 outlets, 120 Lotte Mart (overseas 174 stores), 90 LOHB's(health and beauty store), 1,540 Lotte Super, and 112 Lotte Cinema(41 overseas). Global growth is also prominent, and stores such as department stores and discount stores are operating in various countries including China, Vietnam, Indonesia, and Russia as well as Korea.

<Table 1> Sales by Business Segment

Business Division	Sales(unit: billion won)	Proportion
Department Store	8,030	27.2%
Discount Store	8,201	27.8%
Finance(Credit Card)	1,787	6.1%
Electronic Shops	3,939	13.3%
Home Shopping	897	3.0%
Convenience Store	3,704	12.5%
Supermarket	2,189	7.4%
Others(Cinema, H&B, etc.)	779	2.7%
Total	29,526	100.0%

Lotte Shopping occupies the largest market share in the

department store industry, but the growth of the department store industry is expected to slow down due to the contraction of consumer sentiment, changes in consumer purchasing patterns, and intensifying competition. The stagnation and decline of Lotte Shopping's core business, the department store, has challenged the company to exercise dynamic capability, the ability of a firm to renew itself in the face of a changing environment (Danneels, 2010; Teece et al., 1997). Lotte Shopping has been trying to renew its resource based in such ways as leveraging, creating, accessing, and releasing resources (Eisenhardt & Martin, 2000). It has leveraged its resources such as the brand, distribution/logistics system, customer information, etc. to expand its business domain. Lotte Shopping has also tried to create new resource base such as its own customer/logistics information system, quality control system, and research and educational institutions. It has accessed new resource by strategic alliances or acquisition of the firms in such areas as TV home shopping, credit card, and home appliances stores. It has often dropped existing businesses such as convenience store business (later resumed), discount stores in China, Krispy Kreme Donuts, etc.. More detailed discussions will follow in the subsequent sections.

## 2. Development History of Major Businesses

### 2.1. Lotte Department Store

Lotte Department Store, which opened in Myeong-dong, Seoul, in 1979, led the improvement of the distribution structure in line with the changes in the economic situations and consumer lifestyle in the 1980s. The company aimed to differentiate itself from the existing department stores by providing the best facilities, services, and various best-in-class products with a middle-class customer base. The company focused on customer-centered merchandising to select the best quality products and marketing them in accordance with thorough analysis on consumer purchasing tendencies. Introduction of fixed-price system, operation of consumer center, implementation of after-sales service system were new to the country at the times. In 1981, Lotte Department Store surpassed competitors and achieved sales of 100 billion won for the first time in the distribution industry, and has maintained its leading position since then. Thanks to rapid economic growth in the mid-1980s, the department store sales in Korea grew at an annual average rate of 25.6%. In addition, Lotte Department Store could be deeply engraved into consumers' hearts by being designated as the official department store of the Seoul Asian Games in 1986 and the Seoul Olympics in 1988.

Since the opening of the head store, Lotte has opened a multi-store era with continuous opening of new stores in such areas as Jamsil, Yeongdeungpo, Cheongryangri, etc..

Lotte Department Store has pursued a local differentiation strategy in store size, merchandise assortment, marketing, and service through a thorough market research on candidate sites before opening new stores. The company opened Lotte Town, a comprehensive shopping mall that renovated and expanded its main store in Myeong-dong in 2005. Lotte Town is a comprehensive shopping mall featuring Lotte Department Store, Avenuel (a luxury brand that handles premium brands), Young Plaza, Lotte Hotel, Lotte Duty Free Shop, and Lotte Cinema. Korea faced a serious financial crisis in 1997, and became in need of support from the International Monetary Fund. Large-scale department stores and small-medium retail stores collapsed and meanwhile large foreign distributors entered the Korean market. Lotte Shopping succeeded in increasing number of stores through successful M&A's at that time. Such M&A's enabled the firm to acquire necessary resources for implementing market dominance strategy at a relatively low price (Barney, 1986; Wernerfelt, 1984). Half of the 14 department stores that Lotte opened at the time of the financial crisis were due to M&A. As of 2017, there are 35 department stores and 20 outlet stores in Korea. Overseas, there are two department stores in Russia, one in China, one in Indonesia and two in Vietnam. In 2016, the company recorded 830 billion won in sales and 614.4 billion won in operating profit, up 19.7% from the previous year.

In 1984, Lotte Shopping established the Lotte Quality Standard to strengthen its quality control, which changed the inspection process to a more accurate and quick one. Lotte Department Store has been evaluating supplier fairly and rigorously by recognizing that it can attain high levels of customer satisfaction only by enhancing product quality and diversity by selecting superior suppliers. Lotte Shopping has been trying to develop and expand top-end luxury brands at all times. It has also launched a variety of private brands and has pursued differentiated merchandising to satisfy the needs of target customers. Lotte Department Store has tried to keep up with the changes in consumer trends. Lotte Department Store launched The 'El Cube,' a specialty store of the concept of a mini-department store, which sells the brands preferred by customers in twenties, such as fashion, cosmetics, and daily necessities. Lotte Department Store opened Salon du Charlotte, the first fashion rental store in Korea. This is a strategy to cope with the newly emerging sharing economy systems. In order to enhance the efficiency of store operations and to enhance the quality of the store, Lotte Department Store has established a supervisor team in the sales division. Major competitors of Lotte Department Store include Shinsegae Department Store and Hyundai Department Store.

### 2.2. Discount Store: Lotte Mart

A discount store is a type of distribution channel that sells at a lower price than the market price by combining

self-service and mass sales. In the mid-1990s, as Korean distribution market became fully open to foreign companies, specialty shops handling household appliances, as well as convenience stores and discount stores, appeared to be leading to price wars. After three years of preparations, Lotte opened the first discount store called 'Magnet' in Kwangjin-gu, Seoul in 1998. In order to raise brand awareness, the original brand 'Magnet' was changed to 'Lotte Mart' in 2002. The combination of operational know-hows and credibility gained from local-based merchandising and department store management made the company earn an average of 200 million won per day and monthly sales of 5.9 billion won. After the financial crisis in 1997, discount stores have emerged as the dominant players in the domestic distribution market with the changes in consumers' purchasing behavior.

As the store location is an important resource and has an crucial impact on sales(2007; Huff, 1964; Ghosh & Craig, 1983), there has been a fierce competition for geographical position preemption. Recently, discount store companies are refraining from opening additional stores due to the government policy for protection of local, small-sized retailers. Despite fierce competition, Lotte Mart exceeded 1 trillion won in sales in 2000, and began to operate separately from Lotte Department Store in 2003. In order to strengthen its competitiveness, it changed the store concept since 2003 and have pursued a larger store, and introduced a multiplex movie theater within the site. The LOTTE Complex, a discount store with the concept of a complex shopping center, which includes fashion malls, discount stores, and convenience facilities, was introduced. Lotte started to develop its own private brands from 2003. They developed the brand called "Wiselect" in cooperation with Daymon. Lotte Mart also entered the online business by opening an online shopping mall in 2007. Lotte Shopping's diverse distribution channels, including Lotte Mart, are also developing and improving omni-channel services that allow consumers to shop across online and offline boundaries. In addition to smart-pick service, drive & pick service, smart-scan service, and smart-beacon service, Lotte Mart introduced a gas station pick-up service that can receive online order goods at Happy Dream gas station within the mart.

In 2016, Lotte Mart recorded sales of 8.2 trillion won, a slight decline from the previous year, and accounted for the highest portion of sales in Lotte Shopping. The company saw a loss of about 97 billion won in operating profit due to an increase in rents, an increase in investments to innovate fresh food quality, and low sales and business restructuring in the Chinese market. Lotte Mart is expanding special stores such as kitchen appliances, clothing, and underwear through store renewal, promoting fresh food quality innovation, and developing PB products and strengthening global sourcing. Based on its core competence, Lotte Mart has devoted its efforts to overseas market development. In

2006, Lotte Mart received permission to invest in Vietnam and opened the first branch in South Saigon in 2008. At about the same time, the company took the Chinese market by acquiring the Dutch-based distribution company Makro. Lotte has also acquired 19 Makro stores in Indonesia. As of 2017, there are 122 discount stores in Korea, 46 in India, 13 in Vietnam, and over 100 in China. Major domestic competitors of Lotte Mart are E-Mart and Homeplus.

### 2.3. Convenience Store: 7-Eleven

In 1982, Lotte Shopping opened Lotte Seven, the first convenience store in Korea, in Shindang-dong, Seoul, followed by the opening of the second store at Seogyo-dong and the third at Nonhyun-dong. Lotte temporarily exited from the business, but since the 1990s, starting with the acquisition of 7-Eleven Company, Lotte re-entered the market. Lotte's convenience store business was merged into Lotteria business, a subsidiary of Lotte Group, in 1997, and was established as Korea Seven in 1999. Korea Seven acquired 248 stores of Lawson, and was re-acquired by Lotte Shopping in 2002. Korea Seven has grown in size by acquiring additional domestic convenience store brand, Buy the Way, in 2010. 7-Eleven, which was launched in the US in 1927 and is currently the largest chain store in the world with about 40,000 stores, and in 2005, Japanese company Seven&I Holdings acquired a 100% stake of the company. However, 7-Eleven in Korea is being operated by Korea Seven Co. independently from overseas business.

Despite slowing growth in the overall distribution industry, the domestic convenience store market exceeded 18 trillion won in 2016, a year-on-year increase of more than 16%. The rapid increase in convenience store sales is attributable to neighborhood consumption due to an increase in single-person households, changes in consumption patterns such as small purchases. Convenience stores have been diversified in handling items such as medicines. As of 2016, sales at 7-Eleven grew 11.7% year-on-year to 3.7 trillion won and operating profit grew 8.4% year-on-year to 49.5 billion won. Korea Seven currently hold 8,556 7-Eleven stores nationwide, accounting for 27% of the market. Currently, 7-Eleven is competing with GS25, CU, Ministop, and WithMe. It is expected that the convenience store market will continue to grow by new consumer trends such as the increasing number of Honbapjok(eating alone people).

Based on Lotte's strong market research and new product development capabilities, 7-Eleven has focused on developing new products responding sensitively to consumer needs. Seven Cafe, which provides automatic drip coffee, has expanded its operations to 4,200 stores. 7-Eleven, with its large number of stores, plays an important role in Lotte Shopping's omni-channel strategy, by allowing the items ordered online to be picked up or returned at local stores. 7-Eleven has launched a smart beacon service, an online payment service, and a cross-pick service that enables

consumers to pick up products ordered at online stores of Lotte Department Store, Hi-Mart, etc.. SPA brand Uniqlo's online store also offers a smart pick service that consumer can pick up items at 7-Eleven stores, a reverse-pick that allows you to return items purchased through online or TV home shopping through 7-Eleven stores.

#### 2.4. Supermarket: Lotte Super, Lotte MySuper, etc.

In the aftermath of the financial crisis in Korea in 1997, the market of large discount stores has expanded rapidly. Meanwhile, the possibility of a new retail store type called super-supermarket(SSM), which is the concept of a large-sized supermarket, has surfaced. Lotte Shopping launched the Lemon Business Division in 2000, which was the forerunner of the supermarket business division. In 1999, Lotte Shopping organized a team for analyzing the feasibility of SSM business and embarked on a strategy to tap into the niche market between traditional supermarkets and discount stores. Lotte Lemon opened its first store in Jeonnon-dong, Seoul in 2001, due to the delayed initial plan due to the opposition of the small-sized store owners who oppose the large firms' entry into the supermarket business.

In 2004, Lotte Lemon enlarged its size by acquiring the supermarket division of Hanwha Distribution and changed its name to Lotte Super. In order to recover deficits in the early stage of the business, Lotte Super restructured the internal systems to improve operational efficiency and product quality. Lotte Super diversified its sourcing routes, strengthened competitiveness of the products based on the new products development capabilities, and made area-oriented sales promotions tactics and locally responsible management. As a result, the company turned to surplus in 2006, and ranked number one on the number of stores in the supermarket industry in 2008. In 2016, Lotte Shopping's supermarket division recorded sales of 2.19 trillion won, about 7.4% of Lotte Shopping's total sales, and a total of 577 stores were opened. Lotte Super's major competitors in the SSM market include GS Super, E-mart Everyday, and Homeplus Express(Lee & Kim, 2017). In 2007, Lotte MySuper opened its first store, which is a new channel type of downtown small store differentiated from the traditional supermarket.

Lotte Super focused on continuous new product development and introduced its own fresh food line and private brand products. Based on Lotte's brand assets, it launched a new premium food line called 'Choice L Gold,' a premium private brand line developed in cooperation with Lotte Food. Omni-channel services have also been expanded to include not only smart-pick, drive-and-pick, and smart-beacons services but also the rental smart-pick service which combines smart-pick and car rental services. Currently, Lotte Super, Lotte MySuper, Lotte 999, Lotte Premium Food Market and e-Super(online shopping mall) are

the major business areas of the Supermarket Division. With continuous efforts to respond sensitively to customers' desires, Lotte Super has been awarded Grand Prize in the overall customer satisfaction category the Korea Management Association in 2017 together with 7-Eleven (Korea Seven).

**<Table 2>** Start Years of Major Businesses of Lotte Shopping and Major Contents

Major Business Area	Year of Business Launch	Major Information such as the Number of Stores (2017)
Department Store (Lotte Department Store)	1979	55 domestic store(including outlet stores), 9 overseas stores
Discount Store (Lotte Mart)	1998	122 domestic stores, 174 overseas stores
Cinema (Lotte Cinema)	1999	112 domestic theaters, 40 overseas theaters
Online Shopping Mall (Lotte.com)	2000 (Lotte.com)	an average of a million visitors per day
Supermarket (Lotte Super)	2001	1st place based on number of stores and sales, market share of 46%
Convenience Store (7-Eleven)	2002 (Aquisition of Korea Seven)	market share of 28%
Finance (Lotte Card)	2002 (Acquisition of Dongyang Card)	5th place in credit card market
FRL Korea	2004	domestic distribution of Uniqlo
TV Home Shopping (Lotte Home Shopping)	2006 (Acquisition of Woori Home Shopping)	Baro TV, Baro TV Talk, Lotte OneTV, StudioShop, etc.
Specialty Store (Lotte Hi-Mart)	2012 (Acquisition of Hi-Mart)	1st place based on market share in home appliance store, 460 domestic stores
H&B Store(LOHB's)	2013	87 domestic stores

#### 2.5. Home Appliances Specialty Store: Lotte Hi-Mart

The expansion of specialty stores such as IKEA(furniture), Uniqlo(a low-end casual clothing), etc. has been one of the major trends in the global distribution industry. To achieve maximum economies of scope(Teece, 1980), Lotte Shopping acquired Hi-Mart, which ranked the first place in consumer electronics market in 2012. However, the company failed to show the level of performance it had originally expected because of consumption shrinkage due to the economic downturn, sluggish growth of telecommunication market, and stagnation in the penetration rate of major home appliances. In 2016, the company recorded sales of 3.939 trillion won, similar to the previous year, and operating profit grew 9% year-on-year to 174.5 billion won. In 2017, operating profit is recovering as new home appliances and online sales strategies are in effect.

One of the major recent trends is the increase in the number of 'showrooming' customers, who buy products

online after browsing at offline stores. BestBuy, the largest consumer electronics retailer in the United States, initially attempted to use its own bar-code system to prevent showrooming, but eventually failed. Since then, BestBuy has turned to omni-channel strategy and has been responding to price competition with online shopping malls such as Amazon, with a strategy to allow customers to experience product freely, compare prices, and then purchase products at the lowest price. Hi-Mart is also responding to such trends by continuing efforts to expand the range of items, and strengthen online shopping and omni-channel service. As of the end of 2017, the total number of stores has expanded to 460. The online business also grew, expanding the number of items handled at 'Hi-Mart Online Shopping Mall' to about 40,000, and started the same-day delivery service. Smart pick, smart beacon, omni-sales and other omni-channel services are also expanding. Lotte Shopping also implemented a cross-pick service that allows online orders to be picked up at Hi-Mart stores as well as at 7-Eleven stores. As a result, online sales grew by 112.9% year-on-year.

## 2.6. Other Businesses

### 2.6.1. Online Shopping Mall(Lotte.com) and TV Home Shopping(Lotte Home Shopping)

In 1996, Lotte Shopping opened the online department store for the first time in Korea. To expand and strengthen the Internet shopping business, Lotte Internet Department Store became a subsidiary of Lotte.com, which later became a subsidiary of Lotte Shopping. Lotte.com has been trying to maximize the synergy that combines online and offline services by utilizing cutting-edge information and communication technology on the basis of Lotte's high brand awareness and distribution know-hows(Teece et al., 1997). Lotte Shopping entered the TV home shopping market by acquiring 53.0% stake in Woori Home Shopping in 2006. The home shopping business changed its name to Lotte Home Shopping and became a subsidiary of Lotte Shopping. Lotte Shopping has established an extensive distribution infrastructure with internet shopping malls and TV home shopping added on the basis of various off-line routes.

Lotte Shopping has been concerned that its competitiveness as an integrated shopping platform can be weakened by operating separate online shopping sites for various distribution channels. To solve this problem, the five shopping sites of Lotte.com, El Lotte, Lotte I Mall, Lotte Mart Mall and Lotte Hi-Mart Mall, have plans to integrate the software modules to share the same programs related to ordering, delivery and design. Currently, Lotte Home Shopping, GS Home Shopping, CJ O Shopping, and Hyundai Home Shopping are fiercely competing in the TV home shopping market. Lotte Home Shopping's main business portfolio includes TV/WebTV, catalog, mobile

shopping mall, internet shopping mall, and T-commerce. Lotte Home Shopping is strengthening its product competitiveness by developing new products for each media such as TV, Internet, mobile, and T-commerce, fostering license brands, and expanding exclusive products. In 2016, Lotte Home Shopping achieved sales of 3.56 trillion won and operating profit of 80.9 billion won. As a result of the increase in mobile sales, online shopping mall increased by 22.7%.

Recently, TV home shopping companies have been struggling with the aggressive expansion of the online open market companies. But they are focusing on securing new growth engines such as online business, T-commerce, private brand line expansion, and overseas market entry. T-commerce refers to a service that enables users to search for product information and make a purchase using a remote control while watching TV through digital data broadcasting. In 2015, Lotte Home Shopping launched Lotte OneTV, a T-commerce channel, and has been growing more than 100% annually with its continuous efforts to offer exclusive products. In addition, they are promoting interactive communication with customers through TV applications, Lotte Home Shopping applications and Lotte One-TV applications. With TV apps, consumers can watch live broadcasts on smart phones, and order products directly. Lotte Premium Outlet opened Lotte Home Shopping Studio Shop in Incheon and Paju stores to enable consumers to experience and purchase products sold on the air. Through such efforts, omni-channel service linking TV, Internet shopping mall, T-commerce, and offline promotional service, has been strengthened.

### 2.6.2. Financial Service : Lotte Card

The credit card business can be combined with the retail business to generate high synergy effects. Lotte Shopping acquired Dongyang Card in 2002 and re-launched it as Lotte Card. In 2003, Lotte Shopping absorbed the credit card business of Lotte Department Store as well. Lotte Card focused on converting its existing members(department store membership) into Lotte Card members. In six months, it exceeded 2 million subscribers, resulting in total revenues of 223.1 billion won and net profit of 15 billion won. Despite the long-term economic downturn, credit card usage grew 11.8% year-on-year to 770 trillion won in 2016 due to the generalization of micro-payments and the increase in online shopping. Operating profit stood at 137.8 billion won, with about 7.5 million subscribing members and a market share of 9.1% with 5th rank in the market.

In 2016, Lotte Card was the first in Korea to launch a post-paid transportation card, Sticker Card. It also launched Quick Order service, a life-friendly O-to-O platform service, which offers a variety of affiliate services such as discount coupons, additional points, and discounts, focusing on industries with high usage frequency such as reward

shopping, airline ticket payment, quick service, substitute driving, etc.. By applying 'Knock' platform, a big data service platform developed in-house, it is recommending the most suitable benefits and products for each member. In cooperation with BNK Finance, Lotte Card launched 'Mobile Thumb Bank', an internet banking model that combines distribution and finance, and launched 'Thumb Bank Card', which earns 2~5% of the card usage as points. In order to prevent illegal use of credit card, it introduced blockchain based fingerprint authentication system for the first time in Korea.

#### 2.6.3. Lotte Cinema

Running retail stores along with the movie theater can make people stay longer within the premises. The Cinema Division(Lotte Cinema) decided to set up and operate a multiplex system at all department stores that are scheduled to open. In October 1999, Lotte Department Store at Ilsan opened 6 multiplexes, resulting in 144,000 visitors and 800 million won in sales in the first year. CGV, Megabox, and other multiplexes already existed, but as a late entrant, Lotte Cinema successfully differentiated itself with the concept as a cinema within a department store. Lotte Cinema's sales grew 9.2% year-on-year to 690.7 billion won and operational profit grew 12.9% year-on-year to 34.6 billion won in 2016, thanks to continuous new store openings, aggressive marketing, and growth in overseas business. By the end of 2016, Lotte Cinema occupied 112 movie theaters, and 793 screens.

Lotte Cinema also established an entertainment company, Lotte Entertainment, in 2003 to strengthen its position by producing high-quality contents and at the same time to preserve stable supply of movies to Lotte Cinema. Lotte Entertainment was able to enter the market steadily through Lotte Cinema's theater network in spite of the high entry barrier of the market. Lotte Cinema has continuously developed new services such as an automatic ticketing system by which an audience can select the seat she wants and 'High Pass Service' which eliminates the need of getting tickets at the theater after ticketing online. As a result of these innovations, at ShoWest, the world's largest film industry exposition in 2006, Lotte Cinema was selected as the world's leading theater of the year. In 2008, Lotte Cinema won various awards such as the first place in Customer Satisfaction Index evaluated by the Korea Management Association. In addition, the company has opened a 'Silk Road Theater', the first Chinese movies hall in Korea, at Jamsil Lotte World Tower in 2016. The company also entered the overseas markets and entered Vietnam in 2008 for the first time as a domestic multiplex. Currently, there are 11 theaters in China and 29 theaters in Vietnam. Lotte Cinema competes with CJ CGV, Megabox, etc. in the multiplex theater, and Lotte Entertainment competes with CJ E&M, Showbox, and NEW in the movie

investment and distribution market.

#### 2.6.4. Health & Beauty Store: LOHB'S

Despite the long-term economic downturn, the number of health and beauty(H&B) Store has continued to grow rapidly, expanding into a market worth 1.3 trillion won, and the number of stores exceeding 1,000 stores causing fierce competition. Since opening its first store in Hongdae in 2013, LOHB's has steadily expanded the number of stores and has operated more than 90 stores as of the end of 2017. In 2016, sales grew 99% from the previous year to 92.3 billion won. LOHB's is third in the health and beauty store market, following Olive Young and Watsons. Olive Young, the market leader, is close to one-thousand-store openings. LOHB's opened more than 50 stores with aggressive expansion in 2018, and plans to open 150 stores by the end of 2018. LOHB's seeks to maximize synergies with the other large sized distribution channels owned by Lotte Shopping, and by differentiating store contents.

#### 2.6.5. FRL Korea

FRL KOREA was established in 2004 by Lotte Shopping and Fast Retailing, a Japan-based global fashion company, and distributes clothing of UNIQLO. UNIQLO operates a total of 180 directly managed stores nationwide and has grown into the top brand in Korea SPA fashion market. In 2016, FRL Korea's domestic sales were 1,182.2 billion won, with an operating profit of 107.3 billion. Lotte Shopping owns 49% of FRL Korea shares and Fast Retailing owns 51% of the shares.

### 3. Management of Mutually Beneficial Relationship with Key Stakeholders

#### 3.1. Customer Satisfaction Strategies

Long-term experiences in various business areas enabled Lotte Shopping to accumulate intangible resources and capabilities that could be transformed into its competitive advantage(Dierickx & Cool, 1989). Among these assets, the most important ones are the strong relationships with the customers, partners, and general public(Teece et al., 1997). How Lotte Shopping has been developing the mutually beneficial relationship with the major stakeholders will be reviewed in this section. To become a customer-oriented company, such corporate culture and management philosophy should be supported by and deeply rooted in the beliefs of the CEO. The fact that Lotte Shopping has established itself as a leader in the distribution industry is often attributed to the philosophy of the founder, Shin, Gyuk-ho. The principle of customer-centricity was shown in the remarks of his: 'if you make products that are absolutely

necessary for the customers, all the other problems are to be solved,' 'we have our business because of the customers,' and 'we should do what our customers like' (Lotte Shopping, 2009).

Service quality has a major impact on customer satisfaction (Sivadas & Baker-Prewitt, 2000; Kim, 2005). Service quality is generally divided into five sub-dimensions: reliability, tangibility, responsiveness, empathy, and assurance (Parasuraman, Zeithaml, & Berry, 1988). Dabholkar, Thorpe, and Rentz (1996) suggest that the service quality of retail stores consists of five dimensions: physical environment, reliability, human interaction, problem solving, and policy. Lotte Department Store listens to various opinions of customers and the opinions received in the online customer's voice (VOC) system are immediately sent to the responsible person so that they can be handled quickly. Through the VOC sharing system, customers' opinions are shared also with employees and partner companies so that improvement plans can be jointly established. In the newly constructed VOC system, statistical and analytical functions have been dramatically improved so that customers' opinions by branch and channel type can be grasped and responded in real time.

Lotte Shopping introduced the Lotte Customer Satisfaction Index (LCSI) in 2015, restructuring its service quality evaluation system into a customer satisfaction oriented system. It is a system that assesses satisfaction of customers' shopping experience by evaluating human services, contact management, product and marketing, and shopping environment. Lotte Department Store ranked the first place in the National Customer Satisfaction Index (NCSI) (department store category) for 15 consecutive years till 2017. It is important to cultivate service talents continuously. In 1994, Lotte Shopping introduced its educational accreditation system and self-development process and established and started operating Lotte Distribution University. In 2002, the Lotte Department Store operated a retail MBA. Lotte Shopping also entered industry-academia cooperation with the universities with excellent service education programs. The service master award introduced in 2007 was created to improve customer service and raise pride for the best service personnel.

Another reason why Lotte Department Store has been able to maintain the leading position in customer satisfaction rankings is its strong purchasing and merchandising capabilities. Lotte Department Store plans merchandising with a new concept called 'New MD,' focusing on differentiation of merchandising according to the age groups compositions of each store, and differentiation by branches specializing in locally popular products. Lotte has strengthened the system so that merchandisers can work in the field more than three times a week in order to nurture their field sense. Since more than 80% of the department stores' sales is related to fashion goods, Lotte Department Store had to fulfill the role of leading fashion trends and proposing new lifestyles. Lotte

Department Store is attempting to differentiate itself by launching luxury brands and imported bridge-brands, private brands, and introducing multi-brand stores to secure superiority over other department stores and discount stores. In order to differentiate from other channels such as discount stores, Lotte is expanding product lines such as casual clothing and leisure, sports wear and those for the customers shopping with their family. It is also transforming the shopping site into a space with various pleasures, such as movie theaters and family restaurants.

### 3.2. The Efforts for Mutual Growth with Partner Companies

The survival of an organization ultimately depends on its ability to obtain resources and support from its external coalitions (Anderson, 1982). To maintain a high level of customer satisfaction, the activities of the organizations involved in the entire supply chain must be coordinated as a single organization. In recent years, many scholars have emphasized that mechanisms for coordinating and controlling cooperation between manufacturers and distributors are shifting from power, or contract to shared values, norms, devotion, and trust (Weitz & Jap, 1995). For a successful relationship between a manufacturer and a distributor, both should have the beliefs that they can grow together through the long-term relationship. Lotte Shopping is currently operating a variety of mutual growth programs with the partner firms (Lotte Shopping, 2009). In 2010, the company embraced mutual growth action plans in the group's main policies and created a dedicated organization for the purpose. Lotte Shopping has published the "Mutual Growth Report" and completed the "Shared Value Creation and Mutual Growth Agreement" with the Mutual Growth Committee in 2015.

In the past department store industry, unfair transactions were often forced by department stores, which have greater bargaining power compared to small and medium-sized vendors. In 2006, Lotte Department Store settled three practical rules (1. Think first of the partner company's position, 2. Serve the partner company sincerely, and 3. Humbly learn from the partner company) and held a conference with partner companies. At the conference, Lotte has provided practical plans of implementing a tie-up margin adjustment system, drastically reducing cost burdens and unnecessary promotional events, and abolishing unfair regulations. Lotte provided financial support to partner companies in affiliation with financial institutions, joined group insurance for partner companies' employees, and provided scholarships. Evaluation and entry/exit processes of vendors were also improved, and customers' opinions were also considered in the process to enhance transparency and fairness of the processes. In 2016, Lotte Department Store operates a mutual growth fund of 100 billion won which can support up to 400 million won for each company, and a 105 billion won joint growth fund to support interest rate cuts at



financial institutions.

Lotte Shopping has also supported small- and medium-sized enterprises(SME)' overseas expansion. In 2014, Lotte Department Store opened the 'Dream Plaza', the exclusive sales agency for SMEs, the first in the industry. Currently, Dream Plaza operates four stores. In 2017, Lotte opened 'Global Dream Plaza' in Weihai, China to help small and medium-sized enterprises to pioneer overseas market by financially supporting initial transportation, customs clearance and interior cost. In 2016, Lotte Department Store will utilize overseas operation stores to conduct 'Korean Products Fairs' for five times in Shenyang, Tenjin, and Weihai Center in China, thus providing excellent domestic SMEs with opportunities to promote their brands and products to overseas customers. In addition, Ho Chi Minh in Vietnam and Jakarta in Indonesia held 'Overseas Buying Fair' which helps small and medium-sized business partners to open up overseas markets in those countries. In addition, Lotte has concluded win-win agreements with the agricultural sector to support the export of domestic agri-food products as well as domestic consumption by utilizing the distribution infrastructure of Lotte. In 2005, Lotte Department Store operated the contract farm for the first time in the department store industry. The contract farming system was designed to make product suppliers concentrate only on production and processing, and to provide financial support, quality control, and employee education in department stores. In 2004, Lotte introduced a production record management system whereby consumers can check production and distribution information.

Lotte Shopping also offers a variety of educational programs for partner companies. The R.I.S.K. education program which includes the contents on right to work, information protection, sanitation, and knowledge is one example that Lotte is sharing its know-hows related to legal compliance management for small business partners. In addition, Lotte runs the 'Mutual Growth Academy' for employees and executives at partner companies, and provide short- and long-term service training and job training to help strengthen the competitiveness of suppliers. Lotte Department Store, Lotte Mart, and Lotte Super have established a Mutual Growth website for close communication with partners, and providing information on the programs such as funding and education support. Due to these efforts, Lotte Mart has been selected as the top distributor in the Mutual Growth Index evaluation for the four consecutive years since 2011. In 2015, Lotte Department Store received an excellent rating in the same index.

### 3.3. Activities on Corporate Social Responsibility(CSR) : Social Contribution, Environment Preservation, Ethical Management

Firms' ethical management and local service activities have a positive effect on consumers' purchase intention,

word-of-mouth effect, and corporate image(Su, Jeong, Choi, & Kim, 2014). By declaring the principles of ethical management in 2000, Lotte Group began to strongly implement ethical and socially responsible management. Lotte Shopping has also pursued sustainability management in environmental protection, customers service, social responsibility, ethical management, and employee relations. Local contribution, or even social return to wealth, was also the belief of the founder, Shin, Gyuk-Ho. He has been investing more than 5 billion dollars(constant value) in Korea for the past years. When Korea faced an economic crisis at the end of 1997, for the first time as a business person, Shin invested 20 million US dollars and introduced foreign capital of 500 million dollars. He once said, "For a company to develop itself by producing high quality products under the good partnership between labor and management is a way to serve the society and country."

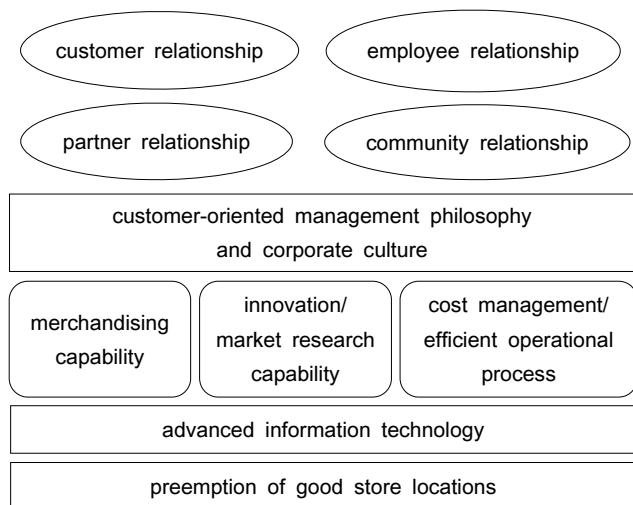
Lotte Shopping organizes its own volunteers' groups consisting of the executives and employees, those of the partner companies, and the customers for each store nationwide. They are carrying out various volunteer activities such as supporting deficient families, helping elderly people living alone, and cleaning the surrounding environment. Some examples are the 'Charlotte Volunteers' of Lotte Mart, which supports the underprivileged children, and the 'Happy 3 Generations Campaigns' of Lotte Hi-Mart, which provides emotional and financial support to children being taken care of only by their grandparents. From 2014, Lotte Department Store carried out the 'Lovely House' project remodeling children's and elderly welfare facilities that require maintenance and renovation. Lotte Department Store, along with Plan Korea, has also established Lotte School, a kindergarten/elementary school in Vietnam, to improve the educational environment in the underdeveloped area. By the end of 2015, four Lotte Schools have been built to help children receive education in a healthy and safe environment. In Vietnam, Lotte Distribution & Service School was established to provide vocational education to vulnerable groups. From 2014, it will be able to supply about 1~3 liters of drinking water per day to about 1,000 local residents by supporting 20 tons of rainwater drinking water facilities in Hanoi and Ho Chi Minh area, respectively.

Lotte has implemented local community serving activities for women by introducing the "Mommy Comfort" project, which is an integrated brand for CSR activities for women and children. For example, Lotte Confectionery, Lotte Chilsung Beverage, and Lotte Hi Mart are jointly remodeling the idle space of military residences near DMZ to build 12 'Mommy Comfort Co-parenting Zone.' Lotte Department Store has been running the "Children's School of Lotte Department Store", which selects elementary school students to travel to China and Japan and learns the importance of East Asian history, culture and the importance of preserving natural environment.

Lotte Shopping is taking the lead in environment-friendly

management. In 2004, Lotte Department Store declared Environmental Value Management first in the industry. The headquarters, Myung-dong main branch, and Jamsil branch acquired international certification, ISO 14001, in 2005, and in 2006 for the first time in Korea, all branches acquired the certification. The ecological park on the roof floor not only provides natural ecological resting space for customers and employees, but also prevents the heat island phenomenon of the city and enhances the energy efficiency of the building. Lotte also joined A Ten Thousandth Club run by the Environmental Foundation. The club is a group of companies that return one-ten thousandth of their sales to society. Lotte is carrying out environmental campaigns in partnership with Environmental Foundation, such as donating environmental funds through environment gift certificates, fostering environmental education for children, and protecting endangered species.

Lotte Shopping declared the environmental management policy consisting of six items. In addition, the slogan 'Green Lotte' was established with the intention of spreading environmentally friendly consumption and the value of environmental preservation. Lotte Shopping is expanding the number of environment-friendly stores. Voluntary Agreement of Green Purchasing with the Ministry of Environment was signed to set environmentally friendly procurement as the major management policy. At In addition, the eco shop, which is a eco-friendly multi-brand store, is operated at the head office and Jamsil store in cooperation with the Environmental Foundation. In 2016, Lotte Department Store's eco-shop sales amounted to 457 million won. Lotte Shopping's strategic direction for sustainable management is summarized as shown in <Figure 1>. In the subsequent part, we will discuss the use of information and communication technology by Lotte Shopping.



<Figure 1> Lotte Shopping's Capabilities for a Sustainable Competitive Advantage

## 4. New Challenges for Lotte Shopping

### 4.1. The Use of Advanced Information and Communication Technology(ICT)

#### 4.1.1. Distribution Industry and the Fourth Industrial Revolution

Rapidly changing marketing environment requires firms to develop new capabilities for survival and growth. One of the most important capabilities the firm should obtain is the knowledge and process of managing data and information (Barney, 1991). In order to become a successful market-oriented company, it is important to have market-sensing and customer-linking capabilities(Day, 1994). In securing such capabilities and attaining sustainable competitive advantage, appropriate use of information technology plays a pivotal role(Stalk, Evans, & Shulman, 1992; Jayachandran, Sharma, Kaufman, & Raman, 2005). Lotte Shopping has been developing its capabilities in managing product- and customer-related information. Recent innovations in technology in various fields such as the Internet of things (IoT), electronic sensors, artificial intelligence(AI), big data, 3D printing, and blockchain technologies have led to an overall transformation of almost every industry(Kim & Shim, 2018). Such dramatic changes are often called collectively the fourth industrial revolution. This change places data at the heart of all operational processes, not physical resources, in any industry(Schwab, 2016). The retail industry is at the center of this shift because it is an information-based service industry.

McKinsey Global Research selected five representative areas where the big data technologies would bring about a major transformation, one of which was retail distribution (Manyika, Chui, Brown, Bughin, Dobbs, Roxburgh, & Byers, 2011, p.54). According to the McKinsey Reports, the areas where big data will be utilized importantly for marketing are cross-selling, location-based marketing, in-store behavior analysis, customer micro-segmentation, sentiment analysis, and improvement of multi-channel shopping experience. In addition, the areas where big data can be important in merchandising include optimizing product assortments in stores, optimizing prices, and optimizing product displays and designs.

As consumer purchases have been shifted from offline to online, consumers' efforts to search product-related information and to share their experiences and opinions also have increased. The reduction of production fixed costs will increase the diversity of products by allowing small-scale products to survive in the market(Anderson, 2006; Won, 2013). This change creates an environment favorable for online stores to grow, which have few restrictions on the type and number of products they handle. In addition, online shopping mall market is close to perfect competition due to low entry barriers. Such fierce price competition can pose a serious threat to offline retailers. New online shopping malls

are taking away the share of existing offline retailers. For example, Coupang, an online shopping mall company with an enterprise value of more than 5 trillion won similar to Lotte Shopping, has not been established in 2013 and as of December 2016, the number of its employees is 6,174 and sales are only 1.91 trillion won (Lotte Shopping is about 29 trillion won). The department store industry, which had once led the retail market, has been struggling to maintain its market position in both domestic and overseas market (Wahba, 2017). Off-line based retailers that have successfully overcome such difficulties, like Macy's department stores in the US, are leading the way especially in omni-channel services that utilize cutting-edge IT (Kim, 2018).

Most of the existing stores based on offline stores have expanded their online channels, while those that started online are expanding their business into offline stores. Whatever the starting point was, all retailers will compete in on- and off-line combined omni-channel markets in the near future. In 2014, Lotte Shopping established the Omni-Channel Promotion Committee, which has established three strategic directions: "big data utilization," "IT-based marketing and sales," and "customer experience upgrades." It has also settled 9 detailed execution task plans including establishment of online distribution center and mobile payment system. Now it has become more important to create new market rules with 'destructive innovation' than simply being the first entrant in the market (Tellis & Golder, 2002; Golder & Tellis, 1993; Christensen, 2000). In order to sustain a competitive advantage, firms should balance between exploitation of existing resources (capabilities) and development of new ones (Penrose, 1959).

The winner in the emerging sharing economy systems will be a company that better serves as a platform for mediating producers and consumers with information and data, rather than those with more physical assets (Parker, Van Alstyne, & Choudary, 2016). The success or failure in the distribution industry will be determined by the firm's ability of processing and analysis of customer information, and creating the best customer service by combining technology and consumer needs. In addition, companies will be fiercely competing on providing superior and differentiated shopping experiences by utilizing technologies such as augmented reality, virtual reality, global positioning system (GPS), beacon, near field communication (NFC). Effective coordination of diverse distribution channels can enhance market performance such as customer satisfaction and market share (Berman & Thelen, 2004). In doing so, the role of information technology and communication technology will become more and more important in the future.

#### 4.1.2. The History of ICT Utilization of Lotte Shopping

In 1983, Lotte Department Store completed the first stage computerization system along with the reorganization of IT

department. In 1998, Lotte Department Store launched a Web EDI (electronic data interchange) that connects existing VAN systems to the Internet and enables them to share orders, sales information, and sales information between department stores, discount stores, and partner companies. Since 2000, Lotte Shopping made a contract with Lotte Logistics (LLC) to integrate all the logistics services and improve the efficiency of shipping through outsourcing. In 2004, Lotte built a new CRM system to consolidate the scattered customer information. Through the introduction of CRM and Apartment Map Solution (AMS) system, it became possible to forecast potential purchasing power by analyzing customer information by branch.

In 2005, Lotte Department Store introduced the membership system for the first time in the industry and utilized it to provide personalized services. In order to integrate existing on-line and off-line membership information, Lotte Group Members was established as an independent corporation in 2015, which had been a department within Lotte Card. Lotte Group's integrated customer points system, 'L.Point' was also launched. At present, the number of L.Point members is about 37 million, and actual users are 5.5 million. Personal information protection became one of the most important issues retailers are facing. In order to protect the privacy of the customers, Lotte has established a privacy policy and have acquired the ISO 27001, the international standard for information protection, and the Information Security Management System certification of KISA.

In the case of Lotte Mart, Lotte Information & Communications and Microsoft Korea introduced a new information system in 2005 to optimize business processes and speed up the work process. This provides more detailed business data to support rapid decision-making. By processing all business information with the single system called the Electronic Payment System, Lotte Shopping eliminated the usage difficulty of the traditional SAP system. In 2006, for the first time in the industry, Lotte introduced the system for automatic fare settlement to shorten the processing time and eliminate settlement errors. In 2006, Lotte Shopping launched the U-catalog system to identify real-time product information and inventory quantities using smart shelves equipped with RFID readers. Lotte Mart also completed the largest logistics center in Asia in 2007 in Osan, Gyeonggi Province, and could cut down logistics cost and supply products to the nationwide stores quickly. It also developed Vendor Information Sharing System, so that it could share information with partner companies and reduce the amount of unpaid items and lost items, simplify ordering work, and efficiently manage inventory.

The omni-channel service is designed to improve the quality of customer experience by organically combining various distribution channels (Verhoef, Kannan, & Inman, 2015). The examples are delivering products ordered online through offline shops or ordering products not available in

offline stores directly online. Such a strategy can maximize the distribution resources that Lotte Shopping has (Danneels, 2010). Smart pick service is Lotte Shopping's leading omni-channel service, which allows you to find products purchased at an online shopping mall in an offline store and is being provided by Lotte Department Store, Lotte Mart, Lotte Supermarket, and Hi-Mart. The smart-pick usages have been constantly increasing, so that the number of item orders is 175,614, with sales of 17.4 billion won in 2016. There are 4,632 7-Eleven stores and 457 in Hi-Mart stores where the omni-channel service is available. In addition, Lotte Shopping also offer pick-up desk, cross-pick, drive & pick service, and more. Lotte Shopping also strives to provide a differentiated shopping experience by utilizing cutting-edge information technology. The examples are 3D virtual fitting whereby clothes can be worn virtually by applying augmented reality (AR), smart shopper shopping with only the handheld device in a food shop without a cart, a food scanner that can measure foot sizes in three dimension, and BaroCoupon Service (meaning direct coupon) that offer coupons by means of sonic communications.

Amazon, one of the most innovative companies in the world, leading the downfall of traditional retailers, recently unveiled the world's first unattended store to operate without employees. In Korea, Lotte Shopping introduced '7-Eleven Signature' store, the first unmanned convenience store at Lotte World Tower in Jamsil. 7-Eleven Signature has introduced a hand-pay system, which is a bio-payment system. Lotte Shopping launched a mobile department store, Mo.D, in virtual space in 2017, and provided customized recommendation services. In the offline stores, Lotte introduces 'L.bot', a talking and moving robot shopping assistant, to help users on how to use omni-channel services and providing store locations information. Lotte.com is providing style recommendation services based on artificial intelligence, and Lotte Department Store also introduced artificial intelligence shopping guide chatbot 'Rosa.'

#### 4.2. Business Environment Analysis

Based on the previous discussions, let's summarize the strengths and weaknesses of Lotte Shopping, and the opportunities and threats the company faces in the current business environment. The first strength of Lotte Shopping is its strong brand equity based on high brand awareness and customer loyalty. In addition, it has accumulated operational know-hows through long history, and has a large number of diverse distribution channels that span both online and offline. In this regard, Lotte Shopping has an advantageous infrastructure to provide omni-channel service. Customer-

oriented culture and management style rooted in the beliefs of the founder and in the corporate culture is also an important strength of the company. In addition, Lotte has accumulated strengths such as advanced customer information system and customer data, efficient logistics system, and long-term win-win relationship with excellent partner companies. These strengths are knowledge, technological, reputational, and relational resources the firm can utilize in order to attain sustainable competitive advantage (Barney, 1991; Wernerfelt, 1984; Teece et al., 1997).

Some of the firm's strengths may become its weaknesses or rigidities in a rapidly changing environment. Cannibalization among the various channels may offset the economies of scope in running them. Lotte Shopping's having maintained its business structure centered on offline stores may be a hindrance in times when consumers' purchases being shifted to online and mobile shopping (Teece et al., 1997). Competition in the fast-growing online and mobile shopping markets can make the offline-based company lag behind the firms specializing in online business only. Traditional retailers' core competences such as merchandising capability and preemption of good store locations are being substituted by new capabilities such as customer data processing. However, the omni-channel strategy can be achieved more effectively by the companies with the off-line stores.

The fungibility of Lotte's brand asset should be carefully examined (Danneels, 2010). Retailers also have their own personality and image, and the consumer chooses a store with the personality that fits well with his or hers (Martineau, 1958; Helgeson & Supphellen, 2004). Since Lotte Shopping became successful from the department store business, the brand of Lotte is strongly associated with the image of luxury department stores. However, Lotte Shopping has extended the brand to discount stores and supermarkets. Such brand extension strategy has the risk of possible dilution of the original brand identity and can cause confusion to consumers (Ries & Trout, 2000; Park, Milberg, & Lawson, 1991; Keller & Aaker, 1992). According to Herr, Farquhar, and Fazio (1996), 'a strong category-to-brand association is both a blessing and a curse. Strongly category-dominant brands have widespread customer recognition and often enjoy substantial market share. But this strength in the parent category may also limit the brand's direct extendibility to other product categories.' Consumers' cognitive dissonance may arise when discount stores, supermarkets, and department stores use the same brand, which may incapacitate the accumulated brand equity.

**<Table 3>** SWOT Analysis of Lotte Shopping

Strengths	Weaknesses
<ul style="list-style-type: none"> <li>• Operational know-hows accumulated through long history of running retail businesses</li> <li>• Retention of various types of off-line channels in good locations</li> <li>• Customer-oriented corporate culture</li> <li>• Strong brand equity and well-established loyal customer group</li> <li>• Advanced information system and accumulated customer data</li> <li>• Strong buying(bargaining) power and outstanding merchandising capability</li> <li>• Long-term relationships with excellent partners</li> <li>• Efficient distribution and logistics system</li> <li>• Support of various business areas within Lotte Group such as hotels and construction</li> <li>• Accumulated business experiences in overseas market</li> <li>• Strong human resources (fast execution capabilities)</li> </ul>	<ul style="list-style-type: none"> <li>• Traditional off-line store-based company</li> <li>• Cannibalization effect between its own distribution channels</li> <li>• Difficulty in sustaining a balance between image consistency and differentiation among various types of distribution channels</li> <li>• Negative view of group including complex group governance</li> <li>• Relatively low information and communication technology(ICT) competitiveness compared to new ICT-based distributors</li> <li>• Organizational rigidity(military-like organizational culture)</li> <li>• People's perception of the company as a Japan-based company</li> </ul>
Opportunities	Threats
<ul style="list-style-type: none"> <li>• Global expansion opportunities, including growing Southeast Asian markets</li> <li>• Dramatic increase in online and mobile shopping</li> <li>• Increase in the amount of customers data</li> <li>• Increased demand for omni-channel services</li> <li>• Expansion of private brands market</li> <li>• Women, senior market expansion and increase in single-person households</li> <li>• The fourth industrial revolution with revolutionary technological development in such areas as big data, artificial intelligence, blockchain, robots, and internet of things</li> <li>• Growth of platform companies that mediate producers and consumers with information and data</li> </ul>	<ul style="list-style-type: none"> <li>• Weak consumer sentiment caused by the long-term recession</li> <li>• Competition with strong domestic and global distributors</li> <li>• Retail market saturation and department store industry slowing down</li> <li>• Changes in fashion industry with growth of SPA brand and decline of luxury designer brand</li> <li>• Proliferation of Japanese style, small discount stores such as DAISO</li> <li>• Uncertainty surrounding the Chinese market</li> <li>• Increase in consumer direct overseas purchases</li> <li>• Strong IT-based firms entering the online retail market</li> <li>• Resistance of small retailers to the expansion of large retailers</li> <li>• Government regulations disadvantageous to larger corporations</li> <li>• Revolutionary technological development in such areas as big data, artificial intelligence, robots, and internet of things</li> <li>• Customer information security and privacy issues</li> </ul>

Lotte Shopping faces many environmental threats currently. Especially in 2017, various external environmental factors were very disadvantageous to Lotte Shopping. Complicated political situations between Korea and China played a major threat to Lotte's business in China. Due to the Chinese government's retaliatory policy following the U.S.'s deployment of THAAD(high-altitude missile defense system) in Korea, Lotte's discount store business in China suffered a severe loss and sales at Chinese Lotte Department Store declined. Distribution companies' expansion into overseas markets has both advantages and risks. As seen in the failure of foreign major distributors in Korea, foreign expansion without precise localization strategy is destined to fail(Baek & Wang, 2018). Domestic political variables and government regulations have also been disadvantageous to large retailers recently. In accordance

with the government's policy to restrict new opening of large shopping malls, the execution of opening Lotte Shopping Mall in Sangam-dong is also disrupted. These government policies and regulations are also seen as a side effect of the rapid growth of large retailers. It is also a threat to the corporate image that the group's major figure is involved in a political scandal recently. There is negative public sentiment about the complexity of corporate governance structure of Lotte Group. Lotte Holdings was launched in 2017 in order to restore market confidence and efforts are being made to simplify the corporate governance structure.

Consumer purchasing sentiment has been shrinking for many years due to the long-term economic downturn. Furthermore, Lotte Shopping is facing severe competition in all of its business areas. Even if a company has grown with the mission of customer satisfaction and social contribution,

when faced with a fierce competition, its management style becomes competitor-oriented(Moon, 2010; Gatignon & Xuereb, 1997). Such a change causes reciprocal imitation in terms of products and strategies, and makes the differences between competing brands disappear, which ultimately eliminates customer loyalty. All the competing firms fall into a situation often called the 'red ocean'(Kim & Mauborgne, 2005). The existing firms can be annihilated by the emergence of a more efficient and innovative competitor from outside the traditional market boundaries(Wernerfelt, 1984; Tellis & Golder, 2002). Lotte Shopping should keep on building technological and relational assets to keep the lead in the industry.

## 5. Conclusion

The distribution industry in Korea has undergone dramatic changes for the last 40 years. As the distribution market was partially opened in 1981 and as a result of the Uruguay Round negotiations in 1996, foreign large retailers, especially discount stores, advanced into Korean market. Since the mid-1990s, the number of Internet shopping malls has increased rapidly and the new retailing methods such as TV home shopping and convenience stores have grown greatly. Rapid change in the distribution environment has contributed to rapid technological innovation and productivity improvement in domestic distribution industry, and efficiency has been improved due to economies of scale and expertise in logistics. Lotte Shopping has been leading the industry in the times of revolutionary changes in Korean retail business.

Lotte Shopping has been through the period of external, quantitative growth, but is now faced with a period of internal and external coordination and re-leap, which must be regenerated as an information-intensive business by organically integrating its various channels. In order to sustain a competitive advantage in distribution industry, the firm should further reinforce its core competence. External expansion of business without strengthening the non-imitable, core competencies will surely jeopardize the whole business. The core competencies of distribution firms often lie in such areas as customer data analysis, logistics and store management system, merchandising practice, vendor relations, etc. Especially, the abilities to interconnect various on- and off-line channels to improve customer experiences and to analyze customer data will be the most important capabilities a distribution firm should hone(Day, 1994; Teece et al., 1997).

Korea has embraced Confucian values for a long time, and there has been a negative view of businessmen. Especially, the Confucian occupational values made the distribution business lower than the manufacturing industry. However, the development of the retail industry plays a pivotal role in raising the standard of living of the public and

achieving economic development. Lotte Shopping has played a leading role in expanding the boundaries of the retail business in Korea. Lotte Shopping has pioneered diverse distribution channels including department stores, discount stores, convenience stores, supermarkets, online shopping malls, TV home shopping, etc., and led the development of distribution industry through domestic and global competition. In the early days of investing in Korea, Lotte Shopping acted as a channel to transfer advanced distribution systems of Japan and the United States to Korea.

Lotte Shopping has improved its customers' lives by providing superior quality products and customer services based on customer-oriented corporate management and organizational culture. It has also played an important role in spreading such customer-centric management not only in the distribution industry but also in other industries. Recently, it has become a customer-oriented company that provides the best customized service by utilizing advanced information technology. Innovation using advanced ICT has been practiced in the area of distribution, logistics and advanced management of customers and suppliers. In recent years, omni-channel has been implementing various innovations to maximize the synergy between its channels and its distribution channels. In addition, Lotte Shopping has been at the forefront of environment-friendly management leading to environmental protection, social responsibility management that contributes to the local community, and ethical management that emphasizes trust with customers and society. The Korean Society of Business Administration has established eight representative companies that contributed to the economic development of Korea from 2016 to 2017 in the Hall of Fame, among which Lotte Shopping is the only company to be recognized as a distributor in recognition of its contribution to the development of the Korean retail industry.

The rapid growth of large retailers has also had some negative effects, such as depriving the market share of traditional small-sized distribution channels, thereby lowering the income level of workers in this field. It is important for the government to make the environment where the traditional retailers can coexist with those run by large corporations. Along with the advancement and modernization of the distribution industry led by large corporations, voluntary efforts of the companies for win-win relationship are also important(Kim, Kim, Jung, Youn, & Kim, 2014). In a complex business environment, managers must strive for various goals including a timely balance between the long- and short-term profit, customer satisfaction, social contribution, employee satisfaction, mutual growth with suppliers, innovation and differentiation. do. Without losing sight of this balance and with continuous innovation to develop dynamic capabilities, Lotte Shopping will continue to be able to open up a new path for distribution industry.

## Appendix

**<Table A-1>** A Brief History of Lotte Shopping

1975	Establishment of Lotte Hotel Shopping Center division (Establishment of Hotel Lotte in 1973)
1976	Official Launching of the Shopping Center Business Division of Lotte Hotel Co., Ltd.
1979	Hyupwoo Company's acquisition of Lotte Hotel's Shopping Center Business Division and establishment of Lotte Shopping Co., Ltd. Opening of Lotte Department Store (head branch) in Sogong-dong (Myeong-dong), Seoul
1982	Start of Selling by Telemarketing Opening of 'Lotte Seven' in Shindang-dong, the first convenience store in Korea
1983	Establishment of Lotte Distribution Business Division
1985	Lotte Department Store Being Designated as '86 Asian Games and '88 Olympic Official Department Stores
1988	Expansion of Lotte Department Store at Myeong-dong Opening of Lotte Department Store in Jamsil
1989	Opening of Lotte World Adventure in Jamsil
1991	Opening of Department Store in Yeongdeungpo Achievement of the company sales of 1 trillion won
1994	Opening of Lotte Department Store in Cheongryangri Achievement of department stores total sales of 1 trillion won Acquisition of Korea Seven
1995	Opening of Lotte Department Store in Busan
1996	Establishment of Distribution Information Research Institute Opening of Lotte Internet Department Store(lotteshopping.com) Achievement of department store sales of 2 trillion won
1998	Establishment of Lotte Mart and start of discount store business Opening of 'Lotte Mart' Gangbyun store Expansion of Lotte.com as an independent corporation
1999	Sales of Myeongdong Lotte Department Store reaching 1 trillion won Establishment of Lotte Cinema and Opening of Lotte Cinema in Ilsan, Gyeonggi-do
2000	Lotte Mart's sales exceeding 1 trillion won
2001	Start of supermarket(SSM) business with establishment of Lotte Super Opening of Lotte Super in Dongdaemun-gu, Seoul Introduction of Voluntary Fair Trade Compliance Program
2002	Acquisition of Dongyang Credit Card (currently Lotte Card) Establishment of 1st generation AMS(Apt Map Solution) system. Change of discount store brand 'Magnet' to 'Lotte Mart'
2003	Separation of credit card business and establishment of Lotte Card Ranking 1st in the National Customer Satisfaction Index (department store category) Opening of the first store of YoungPlaza Establishment of Lotte Entertainment Business Division
2004	Establishment of CRM system and 2nd generation AMS Lotte Super's Acquisition of 25 Hanhwa Mart & Hanhwa Store
2005	Opening of the first Avenuel store in Myeong-dong and opening of Lotte Cinema at Avenuel Ranking 1st in the National Customer Satisfaction(department store) (3 consecutive year).
2006	Being listed in domestic and London stock market concurrently Acquisition of Woori Home Shopping (now Lotte Home Shopping)
2007	Opening of Lotte Department Store in Moscow, Russia Lotte Mart's acquisition of Makro chain in China Opening of mobile department store in affiliation with SKT and KTF Establishment of Research Institute for Distribution Industry
2008	Lotte Shopping sales exceeded 10 trillion won Opening of Lotte Department store in Beijing, China Opening of Ho Chi Minh Lotte Mart in Vietnam (first overseas discount store) Ranking 1st in the National Customer Satisfaction Department Store (6 consecutive year)

- Launching of Lotte Cinema Arts Center(Arte)
- 2009 Being included in the DJSI World Index as the first Korean distributor.  
Separation of food business division  
Opening of the 1st Lotte School in Vietnam  
Acquisition of 68 stores of Times, a Chinese distribution brand
- 2010 Being selected as the No. 1 department store in the World Competitiveness Award  
Acquisition of GS Retail Co., Ltd. (3 stores) and Mart (14 stores)  
Acquisition of convenience store brand, Buy the way  
Acquisition of a stake in Lucky Pi Home Shopping in China  
Acquisition of fashion brand NCF
- 2011 Ranking No.1 in the National Customer Satisfaction Index(NCSI) for 9 consecutive years
- 2012 Establishment of health and beauty store, LOHB's  
Acquisition of Hi-Mart(currently Lotte Hi-Mart)  
Ranking 4th place in the global department store ranking by Forbes.
- 2013 Merger of Lotte Midopa  
Being selected by the Forbes as the third largest department store  
Opening of Lotte Shopping Avenuel in Jakarta.
- 2015 Opening of Lotte Home Shopping 'Lotte OneTV'  
Start of smart-pick service.
- 2017 Lotte's transition to holdings company  
Establishment of integrated holdings company for Lotte Shopping, Lotte Confectionery, Lotte Chilsung Beverage, and Lotte Food Co., Ltd.  
Start of Mo.D service to provide department store service on mobile  
Lotte Shopping Ranking the first place in National Customer Satisfaction Index(NCSI) (department store category) for 15 consecutive years

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