

# New Distribution Strategies of Korean SMEs in Post COVID-19 Pandemic Era: Focusing on the Innovation of Official Distribution Channels

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## Abstract

**Purpose** – In this study, we aim to explore new distribution strategies for sustainable growth in the era of the 4th industrial revolution, focusing on SMEs (small and medium-sized enterprises) in Korea, and suggest ways to upgrade the government's official distribution channel to the next level.

**Design/methodology** – First of all, this paper explored the prior research, the current status of sales support for SMEs, and the changes in the distribution industry due to COVID-19 pandemic. Based on Moon (2016)'s ABCD strategic model – Agility, Benchmarking, Convergence, and Dedication, the study then derived directions in which official distribution channels should move and the new distribution strategy for Korean SMEs to secure competitive advantage.

**Findings** – First, in terms of 'Agility', in order to upgrade official distribution channels, which are currently at some competitive disadvantages compared to private distribution companies, we must quickly introduce technologies for the 4th industrial revolution, such as AI, Big Data, etc., and establish precise strategies to strengthen the capabilities of SMEs. Second, in terms of 'Benchmarking', the use of "Chamelezones" has been increasing to enhance the competitiveness of offline stores in line with recent ontact trends. Therefore, official distribution channels should also benchmark such cases, strengthening their competitiveness by utilizing offline spaces more efficiently and effectively. Third, in terms of 'Convergence', in line with the rapidly changing trend of the times, official distribution channels should also promote active partnerships with media commerce, e-commerce and ICT platforms, as well as cooperation with private retailers, and focus on creating synergy effects through them. Finally, from the perspective of 'Dedication', digitalization should be promoted step by step, finding the sector that can accelerate digital among the value chains of official distribution channels, and continuing to discuss how to digitize it realistically.

**Originality/value** – Based on this analysis, we have presented strategies and implications for innovating official distribution channels for SMEs, which will contribute to enhancing the competitive advantage of official distribution channels in the post COVID-19 pandemic era.

**Keywords:** ABCD Model, Korean SME, New Distribution Strategies, Official Distribution Channels  
**JEL Classifications:** M20, O14, O31

## 1. Introduction

The recent rapid spread of the "ontact" trend caused by COVID-19 pandemic is triggering huge changes and innovations throughout the industry (Pedersen and Ritter, 2020). In particular, for the distribution industry, which is closely related to daily life, a larger paradigm

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shift is required than ever before to secure a platform-based ecosystem advantage based on contact life (Greeven and Yu, 2020). In other words, advances in information and communication technology (ICT), called the 4th Industrial Revolution, and the proliferation of platform businesses are creating a “smart distribution” business models that go beyond both time and space constraints, and direct-to-customer (D2C) methods, in which manufacturers omit intermediate distribution steps and sell directly to customers through online shopping malls, are rapidly increasing (Calder et al., 2018; Schlesinger et al., 2020). As a result, sales of traditional retailers centered on offline, such as department stores and hypermarkets, have declined significantly, but platform-based online retailers have continued to grow.

For example, traditional offline distribution chains with more than 100 years of history, such as JC Penney, the largest retailer in the United States, Germany’s Galeria Kaufhof and Britain’s Debenhams, have filed for bankruptcy protection in a row due to poor performance. On the other hand, online retailers such as Amazon, Falmstead and Alibaba are seeking to expand their products due to a sharp increase in sales despite the situation at COVID-19 pandemic. Meanwhile, in Korea, total sales of major offline retailers such as department stores, large discount stores, supermarkets and convenience stores fell 1.2% from 134 trillion won (2018) to 132 trillion won (2019), while the total sales of online retailers increased 13.2% compared to 2018 to 79 trillion won, showing a high growth trend. The growth of these consumers’ explosive contact trends is changing the consumption paradigm, requiring traditional retailers to innovate their online business models (Lee Eun-Jae, 2020; Lee Wan-Hyeong, 2019).

Therefore, major retailers are making various efforts such as live commerce<sup>2</sup>, providing customized services based on big data, and virtual reality (VR) stores to create innovative business models that combine digital transformation and contact trends using the 4th industrial revolution technology. In other words, it is enhancing the convenience of providing and distributing customized services that reflect personal consumption characteristics by introducing big data and AI, and overcoming the empirical limitations of online stores by utilizing augmented reality (AR) and virtual reality (VR) technologies. For example, virtual mirrors that help purchase clothes from Nordstrom department store, and virtual shopping malls implemented by Alibaba for Macy’s department store in the United States are still in their early stages, but they are receiving great response from retailers (Ministry of Trade, Industry and Energy, 2017).

Also, COVID-19 pandemic is acting as catalyst for rapidly expanding online consumption. In particular, if active consumption was found among young people in their 20s and 30s, now active online consumption has expanded to all age groups, and online purchases are spreading in various categories. As such, the progress of the 4th industrial revolution and the spread of contact trends are transforming the competition structure of the distribution industry into competition between traditional distribution companies and platform-based companies (Parker et al., 2016). For example, Alibaba, a Chinese e-commerce company, is aggressively acquiring offline distributors to secure distribution networks and connect them with online platforms to create innovative services.

Meanwhile, Korea’s distribution industry ecosystem is still insufficient to accommodate the innovative changes of the 4th industrial revolution, but as business models using disruptive technologies such as AI and big data are increasing, domestic retailers are also moving away

<sup>1</sup> Smart distribution means providing practical value and experience to both by creating a contact point in all distribution areas of companies and consumers using ICT technology. This is a more advanced concept from Dell’s business model that supplies products through direct contact with consumers without simply going through an intermediate agency.

<sup>2</sup> Live Commerce is a newly coined term that combines live streaming and e-commerce, which means introducing and selling products through real-time video streaming like TV home shopping.

from intermediaries in offline commodity trading to become an online-oriented distribution company. In other words, how offline retailers will shut down their existing offline stores and transfer resources to newly launched integrated online shopping malls is becoming a key challenge. As such, COVID-19 pandemic has changed the distribution ecosystem, requiring improvements in constitution and strategic investment efforts for survival in the era of ontact, whether offline, online, or large or small businesses.

In particular, in terms of small and medium-sized enterprises (SMEs), which are relatively less resourceful than large companies, the government's customized support is more urgent along with its aggressive innovation efforts.

Since the domestic distribution market was opened in 1996, Korea's retail industry has seen a slowdown in small and medium sized retailers due to large-scale and commercialization, the rapid growth of corporate-type distribution (Kim Sook-Kyung, Kim Chun-Gon, Kim Ki-Hwan, 2011). As such, the policy focus was previously on expanding the size of the market and increasing productivity through commercialization to enhance the competitiveness of the distribution industry (Lee Jung-Hee, Ju Ah-Reum, Hwang Sung-Hyuk, 2014). However, various study and policy discussions are also taking place in the distribution industry to promote small and medium distribution channels as the role of SMEs has been highlighted by the limitations of large-sized business-led growth, job creation, and revitalization of the local economy (Lee Min-Jae and Jung Jin-Sup, 2020; Yang Ji-Yeon and Roh Tae-Woo, 2015).

Park Jeong-Eun and Ji Se-Yun (2016) explored ways to expand the joint overseas expansion of domestic distribution conglomerates and small and medium-sized enterprises in terms of shared growth and drew policy improvement directions. Liu Yu, Liu Hui-fang and Jung Jin-sup (2020) presented strategies for improving exports and distribution of SMEs using the 4th Industrial Revolution technology platform through an empirical analysis targeting SMEs in Shandong Province, China. In addition, Jung Soo-Jung (2020) proposed the enactment of a special law for the protection and promotion of SMEs to systematically support SMEs.

Accordingly, the government has established official distribution channels (<https://www.sbdc.or.kr>) and strives to revitalize the management of SMEs to enhance product competitiveness and expand sales channels of SMEs, but there is a limit in responding to the rapidly changing market environment. Looking at the field of distribution-related research in the past, it is hardly finding the studies in terms of marketing, changing business conditions, management and management skills at the corporate and industry level. Therefore, this study aims to explore new distribution strategies for sustainable growth in the era of the 4th industrial revolution, focusing on SMEs, and to suggest ways to upgrade the government's official distribution channels to the next level.

The composition of this study is as follows. First, we will explore the status of prior research and support for domestic and foreign SMEs' sales, and examine the changes in the distribution industry due to the spread of the ontact trend. Then, using the ABCD strategic model, we will analyze official distribution channels and derive new distribution strategies for Korean SMEs to secure competitive advantage. Finally, we would like to present implications for upgrading official distribution channels and SMEs.

## **2. Pre-research and the Status of Official Distribution Channels for SMEs**

### **2.1. Review of Previous Research**

In Korea, after the opening of the distribution market, the policy stance focused on the promotion of the distribution industry centered on modernization, scale, and globalization,

and large company with capital and information power entered the distribution market in earnest. The entry of large companies into the distribution industry has had a positive effect of enhancing consumer convenience, revitalizing the distribution market, and enhancing competitiveness through a variety of products and services that satisfy consumer needs. However, the reorganization of the retail market centered on large retailers has driven small and medium-sized retailers, which have long been a major player in the Korean retail industry, into a crisis of survival and abolition, causing polarization of the retail industry and creating problems such as unfair trade due to the power superiority of large companies. In addition, many SMEs are still having difficulty in securing a monopoly advantage in the market due to the lack of technical independence required to provide products or services and lack of available internal capabilities and resources (Yang Ji-Yeon and Roh Tae-Woo, 2015).

As such, the following is a summary of the problems facing SMEs in the distribution industry. First of all, the distribution industry is hard to escape from low profitability because of its low entry barriers, high number of competitors, and weak relative bargaining power in terms of market structure. Second, due to lack of funds, most of them are having difficulties in investing and experimenting with technologies such as the 4th industrial revolution, which has recently become an issue, which eventually weakens their competitiveness, resulting in structural problems in which a vicious cycle takes place. Third, the small-scale disadvantage (or liability of smallness) makes it difficult to acquire resources and difficult to gain a cost advantage through economics of scale, so it tends to rely on niche markets or marginal survival. Fourth, there are limitations in expanding sales and generating profits due to lack of marketing capabilities to diversify distribution channels.

Accordingly, recent research is focusing on strengthening the distribution capacity of SMEs in response to changes in the distribution environment caused by technological developments such as the 4th Industrial Revolution. Kim Gwang-Seok et al. (2017) argued that as technologies based on the 4th industrial revolution such as AI, IoT and VR have been recently used in the distribution industry, it is necessary to build a new value chain suitable for changing characteristics and reorganize the business centered on customers. Hur Chung (2020) suggested the government's policy support plan for technical partnerships between ICT companies and SMEs' distributors and linkages among them.

In particular, it analyzes the use of digital new technologies in the retail sector and suggests the government's role in supporting various areas, including supporting the creation of a policy environment and seeking ways to link startups with SMEs, in order to revitalize them in Korea. Kim Jeong-Sim (2020) examined Alibaba's growth process and strategy from the perspective of finance and distribution, and emphasized the role and support of the government to build a creative business model that combines finance and distribution. Lee Wan-Hyung (2019) analyzed success and failure cases of digital transformation, and emphasized that for success, digital transformation should be approached at an enterprise-wide level, away from the narrow view of approaching from a technical perspective.

As such, existing research has established various distribution channels to sell excellent SME products, and emphasized inter-company linkage and government support for this purpose. In particular, SMEs have traditionally had a high proportion of offline distribution, but as consumption behavior gradually shifts to online, it is becoming important to open a market for online. In addition, with the recent emergence of a new distribution channel that maximizes efficiency and effectiveness through online and offline links, it is required to come up with comprehensive support measures for SMEs to explore the market.

## 2.2. Current Status of SMEs Sales Support in Korea

Next, we will look at the official distribution channels that the Korean government is pushing to strengthen the capabilities of SMEs. Official distribution channels currently supported by the Korean government to explore and expand the market for SMEs can be largely divided into “offline” and “online”.<sup>3</sup>

First, on the offline side, there is a “Happy Department Store”<sup>4</sup> established to provide a place for sales to outstanding SMEs that have difficulty in developing markets. Happy Department Store was established in Mok-dong, Seoul in December 1999 with the goal of serving as a distribution incubator for SMEs, and currently has a total of 2,600 SMEs. In particular, on the fourth floor of the department store, an exclusive store for small and medium-sized products called “IM Shopping”, which is installed to support smooth market entry and sales promotion of SMEs’ products. In addition, various sales opportunities are provided to SMEs through offline special sales exhibitions using large retailers, local governments, and multi-use facilities. On the other hand, Happy Department Store was established for the public interest of supporting SMEs’ distribution, but the utilization rate of consumers has been low compared to private retailers due to their business size and brand power, etc.

On the online side, the company operates integrated distribution platform “IMSTARS<sup>5</sup> (or I’m Stars)”, “DONGBANMALL<sup>6</sup> (or Shared Growth Mall)” and “Online Market Advancement Support Project” to comprehensively support SMEs in exploring market, distribution, and marketing.

First of all, IMSTARS utilizes a distribution support platform that is built to allow SMEs to view and utilize distribution-related information smoothly. When SMEs register their products, they support entering the market into various distribution channels through excavation and linkage systems.

DONGBANMALL is an online shopping platform built to allow executives and employees of large companies, public institutions, SMEs and small business owners to purchase products of excellent SMEs by utilizing welfare points and credit cards. This is helping to expand the market for SMEs, increase the scope of use of welfare points and improve the welfare of executives and employees of related agencies. In other words, SMEs can secure new online channels for selling and promoting their products, and large companies, public institutions, SMEs can improve the welfare of their employees and support sales of SMEs without additional budget.

In addition, through the online market advancement project, various promotions such as holding sales planning exhibitions and promotional sales of V-commerce are provided by selecting ideas products from SMEs that have difficulties in entering and selling the online market. It supports online shopping mall entry and sales through integrated sales management solution, IMSELL (or I’m Seller).

Furthermore, it is operating a home shopping broadcasting sales agency business for SMEs that have difficulty entering home shopping, and a V-commerce platform called “Gachisapsida (or it means ‘Let’s live together’)” to explore online markets for small business owners and strengthen their self-sustaining power.

<sup>3</sup> For official distribution channels, refer to the Small & Medium Business Distribution Center website (<https://www.sbdc.or.kr>).

<sup>4</sup> Refer to Happy Department Store website (<https://www.haengbok.com>)

<sup>5</sup> Refer to IMSTARS website (<https://www.imstars.or.kr>)

<sup>6</sup> Refer to DONGBANMALL website (<https://m.dongbanmall.com>)

**Table 1.** Overview and operation status of official distribution channels

| Division | Name   | Overview  | Operation status  |
|----------|--|---|---|
| Offline  | Happy Department Store                           | Provide a place for sales to outstanding SMEs that have difficulty in exploring market  | <ul style="list-style-type: none"> <li>– Founded in December 1999</li> <li>– 2,600 SMEs have entered (as of 2019)</li> </ul>  |
|          | IM Shopping                                      | Established a sales center in excellent commercial areas in order to facilitate market entry and sales promotion of SMEs' creative and innovative products                        | – Operation of external sales stores (duty-free stores, large distribution stores, transportation facilities, etc.)   |
|          | Offline Exhibition                               | Providing various sales opportunities to SMEs through offline special sales exhibitions using large retailers, local governments, and multi-use facilities.                       | – Holding exhibitions in connection with large distribution networks and multi-use facilities of public institutions  |
| Online   | Home Shopping Business                           | Implementing a home shopping broadcasting sales agency for SMEs which have difficulty entering home shopping due to lack of experience, funds and manpower in home shopping sales | – Sales support in connection with 7 home shopping companies and 10 T-commerce companies  |
|          | Operation of DONGBANMALL (or Shared Growth Mall) | A customized shopping mall built so that corporate employees and consumers can purchase excellent SMEs' products  | – Operation of employee welfare system where large corporations and public institutions can purchase excellent SMEs' products at the DONGBANMALL using existing welfare points  |
|          | Online Market Entry Support                      | Develop a new sales channels for SMEs' idea products and promote substantial sales competitiveness through online shopping mall planning exhibitions, etc.                        | <ul style="list-style-type: none"> <li>– Operate planning events and promotions using the main pop-up banner of online shopping malls such as open market and social commerce</li> <li>– Provides online shopping mall store and integrated management function through IMSELL (or I'm Seller)</li> </ul> |

### 2.3. Status of SMEs' Market Support in Major Countries

Japan, through the Small and Medium Business Administration, has carried out various policies to support distribution channels for SMEs.<sup>7</sup> First, the market development support

<sup>7</sup> 中小企業庁(2019), 「平成 31年度中小企業施策」, 『小規模企業白書』.

project implemented in 2019 uses the know-how and network of private businesses to discover new businesses, improve products, and provide opportunities to participate in exhibitions, and support the development of new products and market of SMEs.<sup>8</sup> The market development coordinator project is designed to help SMEs with excellent new products to develop new markets by supporting marketing planning and test marketing through market development experts from large companies, and aims to find clues about new markets and gain market exploration experience (Korea Chamber of Commerce and Industry, 2014).

In addition, Japan has established and supported partnerships between small and medium-sized Japanese companies and domestic and foreign companies through J-GoodTech, an online business matching platform operated by the SME Infrastructure Maintenance Organization. Japanese SMEs can provide information such as company introduction and products through J-GoodTech, and can meet business partners through keyword search.

The United States values the principle of “free competition in the market” and supports small and medium-sized businesses in the public procurement sector through the Small Business Administration (SBA) (Park Jae-Seong and Lee Yun-Bo, 2014). Representatively, there is a “Small Business Saturday” event. Small Business Saturday is an event launched by American financial company, American Express in 2010 to support SMEs. American Express promotes Small Business Saturday through social media and advertisements, while introducing small shops and small businesses in the region. It induces consumers to visit and purchase, and contributes to vitalizing the local economy. In 2015, the U.S. Small and Medium Business Administration officially decided to support the event, and it provides free promotional posters, press announcements, and SNS promotions to SMEs.

Influenced by the United States, the UK supports SMEs only in the public procurement and export sectors, and stipulates that a certain percentage of the public procurement bidding market is allocated to SMEs (Park Jae-Seong and Lee Yun-Bo, 2014). In particular, the UK government provides information for free to suppliers seeking new procurement opportunities through the “Contract Finder” site, which companies can use through business registration on the site.<sup>9</sup>

Meanwhile, in response to digitalization, major countries around the world are reinforcing non-face-to-face export support by improving the e-commerce law and establishing public online platforms, while expanding e-trade infrastructure such as customs clearance and reinforcing multi-faceted support for domestic companies. China has reorganized its e-commerce laws and holds major fairs combining online and offline. Japan is building a public digital exhibition platform and expanding virtual exhibition halls using VR. In addition, India is rapidly introducing non-face-to-face measures in import and export processes such as electronic customs clearance.

### 3. The Spread of Ontact Trends and Changes in the Distribution Industry

Recently, due to COVID-19 pandemic, contactless consumption culture is spreading widely. With the network as the center, various circulation services that can meet the ontact needs of consumers have emerged. In this process, 4th Industrial Revolution technologies

<sup>8</sup> “About J-GoodTech” jgoodtech. Accessed June 12, 2020. <https://jgoodtech.jp/pub/en/>

<sup>9</sup> Cabinet Office & Crown Commercial Service (2019), Public Contracts Regulations 2015: Lord Young reform frequently asked questions.

such as 5G, AR, and VR are being actively applied, and distribution trends are changing from O2O (online to offline) service oriented to O4O (online for offline) service.

Typically, 'Live Commerce' is a new concept that combines 'streaming video' and 'e-commerce.' E-commerce can also provide services similar to the experience of meeting and communicating directly in a physical store, so it has received a warm response from customers. Live Commers was first launched in the Chinese fashion industry, but with the explosive growth of the e-commerce market, it has expanded to IT, automobiles, and real estate. Now it has become important marketing tool for the online shopping industry. In addition, with the emergence of COVID-19 pandemic, ontact consumption has increased. The transition to an e-commerce system is accelerating and efforts are being made to provide various Live Commerce services.

For example, Lotte Department Store has opened a live broadcasting channel on its online shopping mall and broadcasts it once a day, while Hyundai Department Store has partnered with 'Naver Shopping' to open a live commerce, "Department Store Windows Live," to expand the company's sales. In addition, 'Shinsegae International' is attempting various forms of live commerce through Shinsegae TV Shopping, Shinsegae Department Store and Starfield.

Recently, "retailtech", which combines the distribution industry and ICT, provides consumers with more diverse services. In other words, by using AR and VR technologies to provide customers with a sense of reality in virtual stores and using big data to provide customized promotions in real time, it is possible to show customers and sell products in a novel and innovative way. For example, Amazon Go uses many cameras and weight sensors to identify purchased items and uses just walk out technology to improve consumer convenience. IKEA has adopted the AR application "IKEA Place" which can place furniture imaginary in the space, before buying furniture, consumers use AR technology to observe furniture of various styles and colors, and use 3D to configure products to provide services for purchasing the products they want. Hyundai Department Store plans to use the VR development platform "Amazon Sumerian" to provide VR experience halls and virtual try-on services. Lotte Department Store uses IBM Watson, AI-based, and analyzes consumers' past purchase trends through consultants, and tailor-made products are tailored to different consumers. In this way, offline distribution companies that have stalled due to ontact use the 4th industrial revolution technology to provide differentiated services to customers, stimulate interest, induce purchases, and improve customer satisfaction.

In addition, manufacturing companies are beginning to circulate innovations through D2C (Direct to Consumer). D2C is a way for manufacturing companies to directly sell face-to-face with consumers without going through intermediate distributors, offline stores, online platforms, etc. If the products produced by manufacturing companies in the past are distributed through online and offline wholesalers to the final consumers, then D2C directly communicates with customers through Facebook, Instagram, YouTube and other SNS, and leads to the company's sales platform, and complete the sale. In particular, with the clothing industry as the center, the application of D2C is increasing, which is both a potential competitor and a risk factor for offline circulation companies in traditional sales channels. In this way, manufacturing companies can compress the circulation stage through D2C, which can improve price competitiveness, through direct communication with consumers, they can quickly grasp consumption trends and improve their competitive.

For example, Warby Parker, an American online glasses sales company, started an online sales model to reduce circulation and sell glasses at a low price. However, in order to overcome the purchase limitation of glasses that must be worn in person, consumers are provided to choose 5 products on the website, and after they are delivered to customers,

customers choose the products they want, and the rest can be returned Home Try On service. Through this reform, the existing offline glasses with a price of \$500 are available online at a price of \$95, realizing price innovations. Warvey Park ranked No. 1 among the innovative companies in 2015 selected by the American business magazine “fast company”. As such, the growth of global platform companies is rapidly emerging amid the spread of non-face-to-face economies, and Amazon and Alibaba are realizing economies of scale by combining the strength of marketing payment support and logistics networks with the world's largest consumption production base.

Therefore, in order to cope with the changes in the circulation market in the contact era, it is necessary for companies to consider how to transform from face-to-face to non-face-to-face services in the industry they operate. In the post COVID-19 pandemic era, offline commerce will rapidly transform around the network, and the application of the 4th industrial revolution technology will further spread and popularize. In conclusion, traditional distribution companies must not only deal with customers, but also incorporate contactless technology in a variety of business activities, providing customers with differentiated services and then providing themselves with new development opportunities.

#### **4. Innovation Strategy of Official Distribution Channel by ABCD Model**

The official distribution channels currently supported by the Korean government to develop and expand sales channels for SMEs can be largely divided into offline and online, and can be upgraded through the following strategies. First, the offline market support project should focus on how offline stores can secure some competitive advantages in non-face-to-face environment. Currently, offline official distribution channels such as Happy Department Store and IM Shopping are lagging behind in competition with private retailers and are shunned by consumers. Therefore, in order to overcome these, it is necessary to change the systematic strategy and thinking that can break the framework of the existing operation method.

In addition, the online market support project provides various promotions such as conducting sales planning exhibitions and promotional sales of V-commerce by selecting ideas products from SMEs which have difficulties in entering and selling the online market. However, the construction and support of intermediary platforms that simply connect producers and consumers is bound to be less competitive than private companies that operate on the basis of capital and execution. Therefore, SMEs should consider new ways to reduce distribution costs and increase added value through new distribution channels, such as direct trading methods based on relationships and trust, and official distribution channels should also evolve from a simple platform to a platform that creates new added value.

Therefore, based on insights on the new and changing business models, this study tries to propose comprehensive and strategic analyses to innovate official distribution channels using the ABCD model. The ABCD model was based on past studies of Korea's economic and corporate growth strategies, and the “The Art of War”. This model consists of four elements: Agility, Benchmarking, Convergence, and Dedication, and is useful in presenting “how to achieve strategic objectives” (Moon, 2016).

In particular, the ABCD model can provide a comprehensive perspective on the role or function of the official distribution channel, which is the subject of this study. In other words, the situation of deriving a new strategy for small and medium-sized enterprises that lack

capital and manpower in the current distribution structure centered on large corporations is very consistent with the logical concept premised in the ABCD model. In addition, the model can be more persuasively described in four aspects: agility, benchmarking, convergence, and dedication for any successful performance creation.

First, “Agility” should be added with precision based on speed. In other words, the government should quickly introduce technologies for the 4th industrial revolution, such as AI and Big Data, to official distribution channels and establish precise strategies to strengthen the capabilities of SMEs. Recently, as shopping using digital devices such as smartphones has increased rapidly, a business model has emerged that increases efficiency by analyzing customer data through big data and increases the sense of reality of shopping by using AR and VR. In order to cope with such environmental changes, official distribution channels should not only provide a place for sales to outstanding SMEs that have difficulty in exploring markets, but also consider ways to create a new shopping experience by combining offline distribution with IT. In particular, in order to break away from the old image of Happy Department Store and the fixed image of IM Shopping, it is necessary to spread the technology of the 4th industrial revolution, transforming ordinary consumers into more sophisticated images. For example, by organizing algorithms that enable judgement, rather than simply utilizing the data, and by using the block chain, information about the distribution process can be shared among stakeholders to provide consumers with unmodifiable historical data. In addition, through unmanned self-checkouts, augmented reality (AR), and virtual reality (VR), it is possible to promote high-tech image and mood renewal.

Second, “Benchmarking” should develop its business model not only by benchmarking leading successful distribution business model cases, but also by improving (adaptation) and developing best practices for the enterprise. The use of “Chamelezone” is increasing to strengthen the competitiveness of offline stores in line with recent contact trends. Chamelezone is a combination of ‘chameleon’ and ‘zone’, which means an offline store that breaks away from its existing use and transforms itself into a new place according to the situation, and the key point is to target consumers who prefer consumption online rather than offline stores and provide experiences that cannot be enjoyed online.<sup>10</sup> In other words, consumers can be lured to offline stores, offering a space where they can experience and feel various things, away from simply selling products. For example, “Amore Seongsu”, which was opened by Korean cosmetics company Amore Pacific, is emerging as a hot place, achieving a cumulative 24,000 visitors within two months of its opening through an unusual operation that allows users to freely experience 2,300 cosmetics but does not sell them on site. As such, the distribution industry is focusing on opening an offline experience-type store to create a space where each brand can experience the products featured by each brand, and is focusing on imprinting the positive image of the brand to customers, and then establish benchmarking strategies for areas where offline distribution channels can attract customers.

Third, “Convergence” means synergy creation through mixing, and its importance is growing even more in the modern society that requires various technologies as the flow of development is fast. Therefore, the official distribution channels should promote active alliances with media commerce, e-commerce, and ICT platforms as well as cooperation with private distribution companies, and focus on creating synergies through them. In recent

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<sup>10</sup> Just as a chameleon changes its color according to the surrounding situation, it means transforming the space newly according to the situation. For example, it changes from a space selling goods to a space where you can experience brand and enjoy play, and transform into an exhibition space at a specific time.

years, the integration of distribution and logistics has led to fierce competition, and a structure in which the leader has everything is becoming visible. In addition, with the growth of online channels, the concept of the distribution industry began to rapidly expand to not only offline channels but also online channels, and the concept of omni-channel emerged. “Omni-channel” is a strategy that satisfies the shopping experience of consumers, whether online or offline, and provides integrated values such as convenience of online channels and experiential elements of offline channels. On the other hand, the official distribution channel has a clear goal of supporting the distribution of SMEs, but due to the exclusion and regulation of cooperation with department stores and private companies, sales growth and growth are limited. Therefore, it is necessary to find various new ways to overcome limitations of existing sales through collaboration and innovation. Eventually, the distribution of SMEs’ products must also change in this direction of omni-channelization, and it is necessary to seek a direction of omni-channelization through innovation and integration of the function of the official distribution center, which was conducted separately from the existing online and offline. In particular, cooperative networks and platform cooperation with the private sector is essential, but rather than competition with private nets such as Coupang and Amazon, we must choose cooperation and seek ways to cooperate with them to create mutual synergy.

Fourth, “Dedication” should be constantly changed with object-orientedness. When considering how official distribution channels operate, the opinions of ‘policy makers’ are stronger than ‘experts’, and the opinions of policy makers at the time rather than efficiency and expertise tend to be influenced. To overcome these limitations, continuous efforts are needed to establish mid- to long-term strategies and to value expertise and efficiency. Currently, digital transformation in all industries is accelerating, and official distribution channels that support distribution of SMEs are also facing global environment that cannot be evaded. In other words, it is necessary to carry out a continuous digitalization strategy in response to the 4th industrial revolution and upgrade to create a cutting-edge innovative distribution ecosystem. Therefore, it is necessary to find a part of the distribution center value chain that can accelerate digital, continuously discuss how to digitize it realistically, and promote digitalization step by step. After all, good performance cannot be achieved without a consistent strategy and philosophy.

Based on the ABCD model, the innovation strategy is described in detail as follows: First of all, offline distribution channels should seek new ways to maximize consumer utility by giving various values and functions to the same space, and create a competitive edge for offline stores only. In other words, it is difficult to ensure continued survival in the era of smart consumers if offline stores are recognized only as a space for selling goods and services for visitors and adhere to the method of competing with online channels. Therefore, it is necessary to upgrade the offline store to a multi-space that carries out various purposes, such as a pick-up place for items purchased online, an exhibition hall for online purchases, and a place where options derived through online information collection and analysis are experienced (checked) with hands and eyes and then finally decided on the purchase. In particular, in order to effectively respond to smart consumers, offline stores should be implemented by breaking down barriers between online and offline and integrating the unique features and benefits of both channels.

Meanwhile, by utilizing IoT technology, distributors can improve efficiency by acquiring and analyzing key information related to supply status of products being delivered to their own companies in real time and effectively utilize it for in-store operations. In addition, major information related to internal customers can be recognized and analyzed in real time through the use of IoT technology-based smart devices, and customized shopping support and purchase recommendations can be carried out that reflect the characteristics of individual customers. In this way, with the development of digital technology, distribution

stores after omni-channel need to be changed to 1:1 personal stores in the form of online-offline convergence, and various wearable devices other than smartphones in official distribution channels make online channels easier to access. It should further increase the possibility of linking with online channels within the customer's offline shopping cycle.

**Table 2.** Innovation of official Distribution Channel Using ABCD Model

| Division     | Contents  | Innovation strategy  |
|--------------|---|--|
| Agility      | When accompanied by faster performance and accuracy, it means faster and more efficient production or business processes than competitors.                | Quickly introduce 4th industrial revolution technologies such as AI and Big Data, and establish precise strategies to strengthen the capabilities of SMEs                    |
| Benchmarking | To acquire existing skills and upgrade them further, which means to achieve the best  | By benchmarking such cases as Chamelezone, making more efficient and effective use of offline space, small and medium-sized enterprises are more competitive in distribution |
| Convergence  | This means that in a modern society where development is fast and requires a variety of technologies, 'creating synergies' through 'mixing' is paramount. | Promote active alliances with media commerce, e-commerce, and ICT platforms, as well as with private distribution companies, and create synergy effects                      |
| Dedication   | practice faithfully with a clear purpose and diligence.   | Continuous change through digital transformation with the aim of achieving professionalism and efficiency  |

Next, online distribution channels should evolve from a simple brokerage platform to a platform that creates added value. Building and supporting intermediary platforms that simply connect producers and consumers will inevitably be less competitive compared to private companies that run the market based on their capital and execution power. Therefore, it is necessary to consider new ways to reduce distribution costs and increase added value through new distribution channels. For example, the D2C method is well received by consumers as it allows manufacturers to communicate directly with consumers through the platform and sell products at relatively low prices by minimizing intermediate intervention in the distribution process. As such, it is important to create an ecosystem through official distribution channels so that SMEs can easily establish a sales network in response to the rapidly increasing online demand caused by COVID-19 pandemic, and provide product delivery, promotions and services across mobile, online and offline platforms. We should build such a comprehensive operating model that makes it possible.

## 5. Conclusion and Implications

Then, what strategies are needed for SMEs to effectively respond to rapidly changing distribution environments and ontact trends? Currently, "advanced technologies and platforms" are at the center of changes in the distribution environment. The 4th Industrial Revolution is bringing about a variety of technologies that can innovate traditional businesses. And online and offline are converging through the platform.

From a business perspective, a platform can be defined as a space where various sellers and various buyers can be met and transactions be created. In that sense, commerce is essentially a platform. However, only the basic function of a platform that connects sellers and buyers cannot secure a competitive advantage for a company. Porter, a guru of management strategy, emphasized the two fundamental strategic foundations of “low cost” and “differentiation” for a company in order to achieve competitive advantages (Porter, 1980). Therefore, in order for SMEs to create some competitive advantages, they should realize low cost and differentiation by utilizing the 4th Industrial Revolution technology and distribution platform, and strengthen their capabilities to manage the production, distribution, and sales systems more efficiently.

To this end, this study uses the ABCD model to explore the development direction of official distribution channels. First of all, in terms of “Agility”, ‘precision’ should be added and emphasized based on ‘speed’, and in order to upgrade official distribution channels, which are currently more competitive disadvantages than private distribution companies, the government should quickly introduce technologies for the 4th industrial revolution such as AI, Big Data, etc., and establish precise strategies to strengthen the capabilities of SMEs.

Second, in terms of “Benchmarking,” it is necessary to develop business models by benchmarking leading successful distribution business models and improving them according to the company’s situation. Recently, the use of ‘Chamelezone’ is increasing to strengthen the competitiveness of offline stores according to the ontact trends. Therefore, official distribution channels should also benchmark such cases and use offline space more efficiently to strengthen competitiveness. Third, in terms of “Convergence”, in line with the rapidly changing trends of the times, official distribution channels should also promote active partnerships with media commerce, e-commerce and ICT platforms, as well as cooperation with private retailers, and focus on creating synergy effects. Finally, in the aspect of “Dedication”, it is necessary to constantly change through ‘digital transformation’ with the aim of achieving expertise and efficiency. Therefore, official distribution channels should also seek digital acceleration in the distribution center's value chain, continue to discuss how to digitize them realistically, and promote digitalization step by step.

Based on these analyses, the implications for innovating official distribution channels are as followings. First of all, offline distribution channels must move away from the existing places where small and medium-sized businesses sell products, and change into a space that can deliver the technologies and ideas of small and medium-sized businesses to customers. In other words, offline distribution channels should seek new ways to maximize consumer utility by giving various values and functions to the same space, and create competitive advantages for offline stores only. Therefore, it is necessary to upgrade offline stores to multi-spaces that carry out various purposes, such as pick-up locations for items purchased online, exhibition halls (showrooms) for online purchases, and places where options derived through online information collection and analysis can be experienced with hands and eyes before making final decisions on purchases. It is also necessary to break down barriers between online and offline by utilizing ‘Omni Channel’, which is emerging recently, and to provide benefits by integrating special features and benefits unique to both channels. In particular, it can also be considered to use it as a test bed space to test the capabilities of SMEs using retail techniques. In the end, it is necessary to switch to a “total place”, where SMEs show the present and future through offline distribution channels such as Happy Department Store, and collect and analyze related data on how customers react and view them.

Next, online distribution channels should evolve from a simple relay platform to a platform that creates added value. In other words, the method of reducing distribution costs and increasing added value through new distribution channels should be considered. Looking at

the recent changes, the D2C method minimizes intermediate intervention in the distribution process while communicating directly with consumers and provides services similar to the experience of face-to-face and communication offline using live commerce. In addition, it has emerged as a key competitive factor in the distribution market as it can be easily accessed and used through mobile apps and provide differentiated services through personalization and customization. As such, the true value of the distribution platform is not just whether or not it provides online functions, but the core of the new distribution strategy is for companies to secure competitive advantages in low cost and differentiation based on the platform, establish their own unique ecosystem, and continue to expand services.

In particular, as the COVID-19 pandemic has rapidly changed the competitive factors surrounding the distribution environment, retailers are scrambling to find ways to innovate for survival and prosperity. In the process, the distribution market, which has been developing around offline, is rapidly moving online, and a new distribution business is emerging that combines platform and 4th industrial revolution technology. On the other hand, SMEs, which lack capital and manpower, were unable to seize opportunities in the existing distribution process centered on large companies, but the emerging business model uses the 4th industrial revolution technology to eliminate physical and time constraints connected to consumers and create new consumption channels online. In this respect, an innovation strategy based on the ABCD model derived from this paper could present a basic framework, which could create competitive advantages through low cost and differentiation.

On the other hand, in terms of market development through exports of SMEs, Korea has built digital infrastructure such as an electronic trade system and online B2B platform early, but remains in a subsidiary support for offline exports. Therefore, in order to digitize trade and to preemptively respond to non-face-to-face online demand, a more fundamental digital transformation of the export support system is required along with the innovation of official distribution channels.

Therefore, based on this analysis, policy implications for official distribution channels are as follows. First, as the society changes to a contact society, more information acquisition and purchase behavior of consumers is carried out in online distribution channels than in offline, so official distribution channels should further strengthen cooperation with online platform companies. Second, since SMEs are still conducting business centering on offline rather than online, it is necessary to make full use of a strategy that makes the most of O2O (Online to Offline) for official distribution channels. Third, as purchases through new media are expanding, mainly for young consumers, businesses such as “live commerce” and “Media Commerce” should be strengthened for official distribution channels. Fourth, as distribution business models using big data and AI are increasing rapidly, related official distribution channels must be expanded.

Finally, the limitations of this study are as follows, which could be an important research topic in the future. First of all, since this study is a deductive study through analysis of the current situation and existing research, there are limitations in methodology to some extent, and it can be supplemented through relevant empirical studies in the future. In particular, if a multi-case study that selects and compares successful cases for each part based on the ABCD model presented in this study is conducted, it will be a more effective study using the ABCD model. In addition, due to the characteristics of the distribution industry, there may be areas where it is difficult for example companies and government policies in Japan, the United States, and the United Kingdom to apply equally to Korea. Therefore, if an in-depth review of the applicable areas is made, meaningful implications for the development of the Korean distribution industry can be drawn.

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