

[Field Research]

A Study on the Collaboration Development between the SSM and Traditional Markets in Korean Government Policies*

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Abstract

Purpose - This study aims to suggest policy directions for small retail markets in Korea by statistical analysis, which would help small retailers who are facing various difficulties.

Research design, data, methodology - This study diagnoses the problems faced by small retail industries in Korea based on government statistics. In addition, this study identifies three areas for successful collaboration between the SSMs and traditional markets—information distribution, products, and fair trade.

Results - This study makes three recommendations—information distribution, products, and fair trade. This includes activation of the existing mutual collaboration efforts, channels, CSR report writing and publicity, ethical management cooperation seminars, contract systems of no return, establishment of staff outsourcing standards, and support for suppliers' organizations.

Conclusions - Our suggestions for a collaborative system (based on the three suggestions) show that collaboration rather than confrontation between large and small markets can lead to a sales increase of 2,258.2 billion Won, which is equivalent to the sales loss in 11 traditional markets in one year in Busan.

Keywords : Collaboration, Traditional Markets, SSM, Small Businesses, Korean Government Policies, Suggestion, management, performance.

JEL Classifications : M11, M16, M31.

1. Introduction

1.1. Research purpose and background

In recent Korean big marts are expanding their businesses into the areas of small corner stores with the different name, SSM(super super market), with the size of less than 1,000m² because their current markets have become mature. Local governments in each province began to take this as a serious issue because big

marts' dominance in the markets can cause negative impacts on the local retail stores and economy. While taking into account of the current situation for the diffusion of SSM and the economic impacts on conventional markets, and maximizing the benefits for consumers, we would like to explore ways for small and medium-sized merchants including those who work in traditional markets to achieve mutual partnership in harmony.

This study is to come up with policy directions including suggestions on small retail markets in Korea by analyzing statistics with the hope that it could contribute to the benefit of small retailers who are suffering from various difficulties.

1.2. Review of Previous Researches

Meanwhile, governments, academia and practitioners have developed and applied the various ways of recovering and strengthening the competitiveness for traditional markets and small to medium-sized merchants. When it comes to domestic traditional markets, a variety of existing researches can be summarized as follows By the Lee and Bae(2009). First, the research focusing on the ways to revitalize the specific areas of traditional market (Noh et al., 2006; Kim, 2002; Gang et al., 2001), Second, there are studies which presented the implications of activation ways, based on the particular cases, (Shin & Mun, 2004; Huh, 2004). Third, the studies presented by the general ways to revitalize the traditional markets (Lee, 2005; Shin, 2000; Lee, 2000) and, a study on the traditional market tourism (Park, 2000), and research on influence and competitive strategy in connection with SSM (Park, 2003; Jeon & Choi, 2003). Especially, the study on the four-step-development strategy produced the meaningful results by looking at the characteristics of small and traditional market traders in South Korea. The contents are as follows (Noh et al., 2006). The typical way to identify the characteristics of the founder is to divide them into four groups of age, gender, education, and experience, and they can be analysed separately.

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First, it is regarding the impact of gender on business performances. As a result of research of the correlation of psychological characteristics, such as conformity, passion, interpersonal emotion level, risk propensity, and the value assigned to the autonomy and change, social talent, and dependencies based on the characteristics and experience of founder, Sexton and Bowman (1990) has found out that there were significant differences in business performances according to the characteristics and experience of founder. However, Buttner and Rosen(1989) said there was no difference in experience or desire, as a result of a comparison between men and women. Smith and Miner(1984) said that men, who are risk sensitive, are advantageous in opportunity pursuing business while women, who are excellent in providing a variety of products and services, are more advantageous in autonomy in master artisan-style companies. Yoon and Suh(2003) said that there were significant differences in management performances according to the gender difference as a result of research on individual characteristics and marketing awareness of the founder of small business in South Korea, focusing on business success and failure.

Second, it is regarding the age and its impacts on business performances. A study on the age has shown conflicting results. Birley and Norburn(1987) said the young tended to be more innovation-oriented and excellent in risk sensitivity. Thus, this tendency has impacts on the performance in technology-oriented businesses. However, Cooper (1985) claimed the old founder had more possibility of survival and earned more income, compared to the young founder. Yoon and Suh(2003) revealed that there was a difference in business performances according to the age difference.

Third, it is regarding the impact of education on business performances. The mostly mentioned characteristic of the founder's education levels. Cooper et al. (1994) and Cooper and Gascon (1995) believed that the educational background of the founder had something to do with knowledge, skills, problem solving ability, motivation and confidence and higher education and made it easier for them to cope with a wide variety of issues that arose in the course of foundation and management. However, Cooper (1985) and Sanderberg and Hofe (1987) claimed the education level of the founder and management performance could have negative correlation. As the characteristics of the founder represents entrepreneurship and independence, it has nothing to do with the accumulation of academic ability, and whenever they have their own business opportunity, it is likely for them to quit the schools. On the other hand, As for high technology industries with high innovation, the higher level of education of the founder can enhance the business viability. It is revealed that higher education played an important role in these industries. State-of-the-art technology and biotechnology venture businesses are showing similar phenomena in Korea. Yoon and Suh(2003) revealed that the results of entrepreneurship were different according to the age.

Fourth, it is regarding the impact of experience on the performance. As a successful elements, experience has brought attention to the many existing researchers. Experience have been considered as a knowledge for foundation and operation to be acquired through their own experience and has impacts on the performance by making right decisions based on it. Cooper(1985) and Cooper and

Gascon(1995) said that experience in the industry provided the founder not only with the knowledge of the market and products, but also with a knowledge of contacts in business relationship. Stuart and Abetti (1987) and Buttner and Rosen(1989) revealed that the gender and the difference in education and experience had significant impact on the performance as a result of research of 24 technology venture CEO and general entrepreneurs. Lee and Jang(1998) and Noh et al.(2003) claimed that the logistic information system, as well as the needs for achievement of the founders had impacts on the performance and success. Also, Suh(2004) revealed that the education, gender, personal experience of the founder of the small business was not related to the entrepreneurial success, but the practice of marketing strategies was an important factor of successful entrepreneurship.

The results of previous studies taken together, as business environment improvement project in terms of the hardware, market redevelopment, reconstruction, and renovation and in terms of software, innovation for management ability have been considered in various ways. But researches on the direct relationship between conventional markets and SSM haven't been socially accumulated that much until recent.

2. Theoretical Reflections Foreign Country Policies on SSM and the Implications

2.1. Policies of Germany and France

In the case of Germany, under of City Construction Law, for stores of more than 1,200 square meters of the store, the Government's permission is needed. In the case of Paris, France, about 62,000 small businesses are thriving and 70,000 of self-employed would be expected to thrive in the future. In the case of France, stores of more than 1,000 square meters have to be reviewed by local committees consisting of residents, civil servants, merchants in the region.

2.2. Policies of Japan

As for Japan's restrictions on large stores, the direction to regulate negative impacts has changed from direct regulation to indirect regulation by Large Stores Location Law. The law(June, 2000) includes the procedures for declaration in case of opening large-scale retail stores with more than 1,000 square meters. Motomachi located in the region of Nigaku is one of the examples that has succeeded in revitalizing shopping area by renovating conventional markets for ten years.

2.3. Policies of United States

In the United States, if it is completely compatible with the zoning restrictions, the store can be freely opened. If new zoning is necessary, they can apply to urban planning department. The department surveys and disclose the environmental issues and the impact on sur-

rounding retail business. And Community Board reviews it. Finally, it is decided by voting in urban planning committee. One example of restrictions is in the city of Des Moines, Iowa. The city Council is now making city law on business hour in certain areas. The city Council of Washington D.C is now trying to regulate the proportion of shop floor size of certain products in case of bigger stores.

2.4. Other Cases

In the United States, large and small to medium businesses including manufacturing and parts suppliers have not shown mutual cooperation because of their different interests. Due to the difficulties of parts suppliers in difficult situations, mutual collaboration has seldomly been activated. For example, the global auto parts makers, Visteon Co. can participate in the development of new cars with the car company and adjust the prices by participating in the process of setting price of new cars. Ford is operating mutual partnership programs with suppliers and keeping friendly relations by long-term contract. Accordingly, the friendly relations have helped to reduce the costs.

In Japan and Taiwan, the cooperative relationship between large and small to medium companies is considered as an activity to be governed and performed by the terms & conditions of the contracts. For Taiwan businesses, although cooperation is highly recommended, small businesses accept the fact that support can be achieved by supplying right products meeting the specifications of orders from large companies, through their efforts rather than getting helped from large companies. In the case of Sweden, because the wage gap between large and small businesses are not big, the cooperation in the areas of funding, staffing etc, is hard to find. Cooperation is mainly centered around the development of technology indirectly with equal relationship. In the case of Finland, they shows the world highest level of cooperation in terms of the efficiency. All the firms in Finland have equal opportunities in global outsourcing and there is no exception for domestic companies. But there are many small companies maintaining long-term relations mainly based on mutual trust. In Germany, companies take advantage of fair competitive bidding system and avoid unfair deal from the beginning in the first place if the unit price is not acceptable. To actively respond to competitive threats of globalization, small and medium sized enterprises cooperate well with one another in relation to large companies and bid jointly by collaborative Consortium depending on their needs. In Italy, the source of the competitiveness of fashion industry consists of well developed regional cooperations between large and small to medium enterprises, export-oriented industry structure, traditional, trendy design and quality. The Government is operating Special Committee for enhancing the competitiveness of the fashion industry.

3. Development of Mutual Partnership Supporting Systems

3.1. Competitiveness analysis of the mutual partnership

This study is to diagnose the problems of small retail industries of Korea based on the government statistics. In this regard, the surveyed data for 26 markets from Daejeon Development Institute to revitalize the traditional markets and to seek mutual development of SSM(Lim et al., 2002) and a survey report(Small to medium Business Association, 2009) on the effect of SSM opening on the small and medium distribution businesses, which surveyed 300 target retailers located near (within radius of 1 km) the top three companies, including GS supermarkets, Lotte Super, and Home Plus, clearly showed the impacts of SSM opening on the traditional markets. The details are shown in the <table 1> to <table 7>.

<Table 1> Changes in sales and numbers of customers before/after SSM opening

Number of respondents 300	The average sales revenue (million won)			The average number of customers (person)		
	before	after	Chg(%)	before	after	Chg(%)
	129.3	85.2	-34.1	127.8	80.8	-36.7

It is shown that small retailers are suffering a decrease of revenue by 34.1% and number of customers by 36.7% when SSMs are in the market in their region.

<Table 2> Overall economic forecast before and after SSM opening

Number of respondents	Very much improved	Somewhat improved	Similar to before	Somewhat worse	Very aggravating
300	-	0.7%	20.3%	38%	41%

In general 79% of small retailers responded that market situation would be changed negatively if SSM open in their region.

<Table 3> Average sales per day as per conventional market

Classified	Less than 50,000 won	50,000 - 100,000 won	10,000 - 20,000 won	20,000 - 30,000 won	30,000 - 50,000 won	50,000 - 1,000,000 won	More than a million won	Number of stores responded
	16.4%	25.4%	24.8%	13.3%	10.5%	7.0%	2.6%	100%

More than half of small retailers(50.2%) sell their commodities between 10,000-100,000 Won a day.

<Table 4> Future plans for stores management as per conventional market

Classified	Business expansion	Maintaining the status quo	Downsizing	Considering changing to other business	Others	Number of stores responded
	25.9%	40.5%	6.0%	23.0%	4.6%	100.0%

A majorities of small retailers haven't had proper future plans for their stores while only 29.5% of retailers have their plans for their future by expanding their sizes when SSM enter their market.

<Table 5> Reasons for avoiding SSM

Classified	Bad environment of stores	No price labelling	Not friendly service	Bad quality of the goods	Inconvenience of Transportation	Others	Number of stores responded
	30.5%	4.8%	11.5%	0.8%	45.6%	6.8%	100%

Main reasons for changing their shopping from traditional small retailers to big markets are the inconvenience of transportations (45.6%), the underdeveloped shopping environment (30.5%).

<Table 6> Advantages of traditional markets in comparison with SSM

Classified	Convenient Transportation	An assortment of various items	Convenient parking Facilities	Good quality of products	Low prices	
	5.5%	17.4%	5.7%	11.4%	41.8%	
Location of merchants	Good market position	Commerce order established	Various convenience facilities	Others	Number of stores responded	
	3.0%	8.8%	4.2%	1.1%	1.0%	100%

Main strength of traditional small retailers compared to big markets is the lower price of traditional markets(41.8%).

<Table 7> A weakness of traditional markets in comparison with SSM

Classified	Inferior quality of goods	Parking problems	Expensive prices	Street vendors	Outdated facilities	
	1.1%	40%	0.7%	7.8%	10.4%	
Unfriendly merchants	Inconvenient transportation	Lack of amenities	Poor product assortment	Others	Number of stores responded	
	3.3%	11.6%	18.7%	5.5%	0.9%	100%

<Table 9> Development directions for collaboration specific-projects

Practice areas	Practice programs		Major cases
Hypermarkets	<ul style="list-style-type: none"> ◦ E-Catalog Business ◦ POS Data services business ◦ Project of spreading SCM such as VMI ◦ Jointly-advancing & expansion of overseas business ◦ CSR Report writing and publicity ◦ Ethical management cooperation seminar program ◦ Contract system for no return ◦ Reasonable staffs outsourcing standards establishment - Specialized project: CSR promotion results contest SSM and traditional markets 	<ul style="list-style-type: none"> ◦ Regional product sales Expansion (for example: more than 30% of compulsory local purchase) ◦ Operation of stores for local specialties ◦ Expansion of recruitment of local personnel ◦ Planning events for local goods ◦ Joint promotions ◦ Participation in regional distribution education program. ◦ Region revitalization program support (shopping malls, markets, commercial district) ◦ Local-based incorporation ◦ Regional financial utilization ◦ Positive cooperation for large stores overseas entry 	<ul style="list-style-type: none"> ◦ TASC0 reflected the CSR KPI indicators into overall management by objective
Small to medium sized merchants	<ul style="list-style-type: none"> ◦ PB Product development business (technology) ◦ Joint marketing project (outlets) ◦ Induction and support for suppliers organization - Specialized project: consortium as per industry (precious metals, shoes, fashion, textiles, crafts) - Specialized industry: Industry-University Collaboration for distribution improvement (College designated as per industries) 		<ul style="list-style-type: none"> ◦ Germany AKKU Association

By contrast, main weakness of traditional small retailers compared to the big markets is the lack of parking facilities of cars(40%).

3.2. Presentation of Supporting Policy Direction for Collaboration

In this study, supporting policies for collaboration, which is divided into three different areas, will be presented as follows. This is referred from Kim et al. (2012). The reason why we separate areas by three is because the performance of collaborations is highly depending on these three areas; information distributions, products and fair trades.

<Table 8> Cooperation areas for collaboration

Cooperation areas	Cooperation programs	Major cases
Information distribution, sharing & spreading	<ul style="list-style-type: none"> ◦ E-Catalog Business ◦ POS Data services business ◦ Business of spreading SCM such as VMI 	
Product development & expanding	<ul style="list-style-type: none"> ◦ PB Product development business(technology) ◦ Joint marketing business(outlets) ◦ Network loan business(funds) ◦ Product Expo inviting Small merchandise suppliers ◦ Jointly-advancing & expansion of overseas business 	
Fair trade	<ul style="list-style-type: none"> ◦ Activation of the existing mutual collaboration channels ◦ CSR Report writing and publicity ◦ Ethical management cooperation seminars ◦ The contract systems of no return ◦ Establishment of staff outsourcing standards ◦ Supporting suppliers organization 	

3.3. Development directions for collaboration-specific project as per merchant

In this study, development directions for collaboration-specific project as per merchant will be divided into four areas as below. This was referred from Kim et al. (2012). The reason why we separate

Traditional markets	<ul style="list-style-type: none"> ◦ PB Product development business (technology) ◦ Joint marketing project (outlets) ◦ Induction and support for suppliers organization - Specialized project: credit card use by street vendors - Specialized project: 100% participation in Busan city traditional market onnuri gift certificate (Currently 68%) - Specialized project: revitalization project for local commercial districts, culture & tourism specialized market project - Specialized project: Selection of local small-business craftsmasters 	<ul style="list-style-type: none"> ◦ Finland's stalls ◦ Italy's cart bar
Local Government	<ul style="list-style-type: none"> ◦ Activating existing collaboration consultation channels ◦ Induction and support for suppliers organization ◦ Network loan business(funds) ◦ Products Expo inviting small merchandise suppliers - Specialized project: supporting registration of overseas purchasing site such as Alibaba, etc. - Specialized project: Opening the local distribution University mutual for collaboration education (To be selected among the local universities) - Specialized project: corporate entitlements to industry consortium organized groups and Government grant support ◦ Award for Distribution Collaboration Development ◦ Signing on the agreement for distribution collaboration 	<ul style="list-style-type: none"> ◦ entitlements of corporation for Italy "fashion cluster"

areas by four is because each of four is influencing mutually each other and in Korea public sectors are involved by controlling or supervising them.

3.4. Analysis of the expected effects of the collaborations

In this study, part of three suggestion by the expected effects of collaborations in Busan was analyzed. The two aspects of collaboration have been reviewed. The qualitative and quantitative effects of collaboration are in the <table 10> & <table 11>. This was referred from Kim et al. (2012). <Table 10> is showing that collaboration rather than confrontations between big and small markets can cause sales increase by 2,258.2 billion Wons. This number is the equivalent amount of sales loss of 11 traditional markets in Busan for 1 year, shown in <table 11>.

<Table 10> The qualitative effects of collaboration in Busan

<p>[Models 1] Expected sales loss prevention effect of small to medium sized distribution and traditional markets</p> <ul style="list-style-type: none"> ○ Total retail sales 132.37 trillion won x SSM growth rate 0.124% x Busan area ratio 12.1% = 2,250.2 Billion won x 0.121% = 272.2 billion won sales loss prevention effect
<p>[Model 2] Expected effects of large stores sales increase</p> <ul style="list-style-type: none"> ○ Total retail sales 132.37 trillion won x SSM growth rate 0.124% x Busan area ratio 12.1% = 16.4138 Billion won x 0.121% = 1,986 billion won increased sales maintaining effect
<p>[Model 3] The total expected effect of collaboration</p> <ul style="list-style-type: none"> ○ Small to medium distribution and traditional market sales 272.2 billion won + large stores sales 1,986 billion won = 2,258.2 billion won

<Table 11 > the quantitative effects of collaboration in Busan

<p>[Model 4] Traditional market sales loss estimation mode in contrast to SSM</p> <ul style="list-style-type: none"> • Currently approximately 12.4% (380, 000M2) of large-Mart area increased and the market share of small-medium distribution reduced by 0.017% and the decrease in sales is estimated about 2,250.2 billion won. This is equivalent to the sales reduction of about 92 traditional markets.
<p>[Model 5] Traditional market sales loss estimation model in contrast to SSM</p> <ul style="list-style-type: none"> • Due to opening of SSM near traditional markets, the sales before and after SSM reduced from average daily sales of 171.3 thousands to 145.7 thousands, resulting in reduction of 14.9% and the number of customers is reduced from 22.5 to 20.3 people, i.e, 9.6% decrease. The influence under opening of SSM appears to be severe.
<p>[Model 6] Traditional market sales loss estimation model in contrast to SSM</p> <ul style="list-style-type: none"> • As the expected effects of collaboration of quantitative analysis, given that the ratio of traditional markets in Busan is 12.1% of the ones in Korea, prevention of sales loss of eleven traditional markets every year can be estimated.

4. Conclusions

4.1. Findings

In this study, we have analyzed the ripple effects of the contribution of collaboration and presented policy directions for Busan area. As a part of three suggestion result of the analysis, for example, the important role of collaboration is the protection of the ordinary people's human rights associated with eleven out of 160 traditional markets in Busan area annually and mutual development of one another. According to Suh's study(2007) on the activation of small merchants, it is pointed out the self-endavors and organization activities of small merchants in traditional markets are more important than collaboration

By mentioning the phenomena that there are performance differences by the stores within the markets and by the characteristics of merchants. The study of Noh et al. (2006) has provided the theoretical frameworks for the theory of traditional markets development in this study; in other words, they have to go through each of four

steps - the value of goods in step 1, an assortment of goods in step 2, active promotion of distribution in step3, and brand promotion in step 4. This was introduced as a problem-solver for management improvement and overcoming recession, which is still in the basic level in that regard. We have expanded the existing theories so that it can derive the correlation between revitalization of the markets and stores achieved by individual merchants' consciousness and internal merchandising, distribution logistics, and brand promotion and explain the phenomena that derive the management performance, and when these developments strategy is combined with the entrepreneurial spirit and voluntarily organized endeavors of the merchants, the real collaboration can be achieved. In this regard, this study plays meaningful roles. Based on this soil, various supporting policies for collaboration should be utilized as presented in this study. In conclusion, because SSM and traditional markets have great potentials to maximize mutual benefits through a mutual partnership, it is a prerequisite to continue promoting various collaboration programs to help the participants change the perception of collaboration by themselves.

4.2. Limitations and Future Studies

While focusing on mutual collaboration of SSMs and traditional markets there are several limitations in this study. Some of previous studies quoted in this study have limitations in their surveys in terms of variety of regions, contents of questionnaires etc. It can mislead the directions of studies. In the future studies more regions can be added in the survey and new factors be included in the questionnaires. Thus we can easily generalize the results of studies.

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