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Making East Asian Consumers:  
Market Formation and Evolution of Demand in Japan, South Korea, Taiwan, and China

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**Abstract**

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This dissertation examines the rise of organized retailing in East Asia. It pays attention to the roles of market makers as intermediary market players who act between the producers and consumers, especially in the contexts of national retail organization and expansion activities of multinational retailers. Theoretically, the dissertation combines the national business systems literature with a market power perspective to examine the contexts in which different national economies organize their retail sectors and incorporate retail innovations. Empirically, it asks what roles the domestic and global retailers played in building contemporary consumer markets in Japan, Korea, and Taiwan, and mainland China. It also asks, to what extent the development of consumer markets in Asia and the activities of multinational retailers have brought convergence or continued divergence between the different national markets, retail structures, and cultures of consumption. To answer these questions, the dissertation first pays attention to the links between national and global firms and retail markets, and second, to the links between national firms and products, and lastly, how the structure of global and regional production and national

cultures of consumption are mediated by a set of intermediaries. Comparative case studies of standardized retailing, entertainment and fashion industries, and individual consumption are included to illustrate the roles of market makers.

The dissertation finds support for the idea of increasing convergence in retail technologies and formats during the course of the Asian retail revolution, but also identifies how locally specific characteristics have mattered in three crucial ways; first, historical trajectories of business development and nationally institutionalized ways of conducting business led to different capacities of the newly appeared domestic retailers, and resulted in divergent patterns of competition against, or coordination with, the expanding multinationals; second, local organizational logics crucially shaped business strategies adopted for product development; finally, locally formed meaning systems and methods of making status claims play crucial roles informing individual consumption as well as the activities of intermediaries that actively monitor and strategize based upon local-demand.

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## CHAPTER ONE: EAST ASIAN CONSUMER MARKETS

### 1.1 RISE OF CONSUMPTION IN KOREA AND ASIA

Like many other Asian countries in 2014, Korea overflows with consumerism. If one walks through the central neighborhoods of Seoul, she will encounter an endless array of goods and retail spaces as well as people seeking those items and shops. Take *Myeongdong* for example. This tiny district is spread over only 0.99  $km^2$  of northern Seoul, but it is one of the most popular shopping destinations for Seoulites. *Myeongdong* offers a portrait of shoppers in contemporary Korea and a good starting place to discuss the economic changes in consumption and retail across East Asia.

An estimated 1.5 to 2 million people visit *Myeongdong* each day. Among them are high school and college students busily shopping for the new “it” gadgets, businessmen in suits checking out the *Izakayas* or wine bars which are popping up all over the city, Chinese or Japanese tourists looking for the *Hallyu* celebrity-endorsed fashion brands, and people who are just roaming. Some are window shopping and educating themselves about the new seasonal trends. Whether looking for the imitation goods carried by the street vendors, for coffee from Starbucks, for fast fashion products from H&M and Uniqlo’s, or for a high-end Gucci purse, everyone seems to be searching for something in *Myeongdong*.

In *Myeongdong*, change is constant. New types of consumer goods and retail stores are introduced each and every day. Retail’s turnover is rapid. The average store stays in business for only a year or two. For most business owners, it is a tough struggle to stay competitive amidst the constant change in trends. New challengers emerge daily. A

business owner, who experienced large profits by selling the trendy graphic T-shirts and printed leggings that everyone wore yesterday, can see today's fickle customers flocking to the neighboring competitor's store for the newly popular Oxford shirt instead. Any miscalculation of current fashion, customer preferences, or failure in business strategy can bring a rapid end to a once flourishing business.

For consumers, the district's shops provide a promise for the future, and a shortcut to better life possibilities, through the acquisition of various quality and non-quality goods and services. While practical "needs" can lead to purchase of goods or services at times, more often consumers' desire for representation is at the core of consumption today. As the wisdom of Goffman (1959) informs us, a misrepresentation of the self can lead to failures in getting business deals, failures in recognition of a peer or a love interest, or misunderstandings in one's social status. Seoulites, or any other modern individual, are well aware of the potential consequences of misrepresentation and take them seriously. In contrast, a "correct" representation of the self can bring respect, signify one's taste in culture and sophistication, indicate one's status and knowledge of trends, and serve as a proof of one's deserving group membership. Whether one is going for the trendy, professional, or carefree fashion-look, the modern or classic home decorations, or the Samsung or Apple cellphone, contemporary life in Seoul has become a feast of representation, with consumption its central medium.

Overall, the daily hustle and bustle of hundreds of thousands of shoppers, retailers, and fashion-filled streets demonstrate how rapidly consumption itself has become a central aspect of the lives of twenty-first century Seoulites. However, this contemporary

hyperconsumerist world Koreans live in, where a vast variety of goods are readily available for consumption, is one that is hardly recognizable even from the relatively recent perspective of the 1990s.

Just two decades ago it was hard to predict what life in Korea would turn out to be. The early nineties were a time when optimism permeated the country as the political turmoil of the previous decade has finally come to an end. Individual activities became gradually less restricted with the ending of the night curfew in 1982 and liberalization of foreign travel in 1989. The June Democracy movement (yuwöl hangjaeng) of 1987 led to direct elections and democratic reforms. The Great Worker's Struggle (nodongja dae-t'ujaeng) later in the year resulted in significant improvements in working conditions and wage-levels for industrial workers. The successful hosting of the 1988 Seoul Olympic Games symbolized, to Koreans, the beginning of an era where the past struggles and sacrifices made for democratization and economic development would finally pay off.

While these political and economic improvements have certainly paved the way for broader changes in both the domestic economy and daily lives of Koreans soon to come, the overall level of consumption of the early 1990s was still considerably lower than a few years later. College campuses, which had been centers for democratization and reunification activism for the past couple of decades, still retained the ideological flavor of the past (albeit with diluted goals) and consumerism was not entirely embraced as the path to future. The focus of life for middle-class teenagers was getting into the right college. They eschewed "wasting time" on other non-school related matters. There were objects of desire for grade school children, like Nike sneakers or Guess jeans, but only a

few affluent kids actually possessed any of those goods. For the businessmen, there was the occasional joy of sharing bottles of *soju* after work at a *pojangmacha* with coworkers and friends, singing *karaoke* or drinking beer at *Hofs* (pubs), but nothing much fancier.

While domestic environments for individual lives centered around leisure and consumption were just starting to develop, the previous decades of economic development led households, the basic units of consumption, to quickly obtain various big-ticket items which have now become Korean household necessities. By 1991, virtually all Korean households owned a television set, a refrigerator, and 80.9 percent a washing machine, up from 99.1 percent, 71.1 percent, and 26.0 percent in 1985 respectively [See Figure 1.1].

[Figure 1.1 About Here]

Although the early nineties were the starting period for the rise of consumption, the consumption of goods other than the daily necessities of life, such as food items, basic household items, or occasional family dining-out, was not yet a regular event characterizing the daily lives of typical middle-class families. A survey of the rather underdeveloped retail structures of the time attests to this claim that consumption had a much smaller role in the overall economy and in family lives compared to today. In 1990, many residential neighborhoods had traditional markets where middle-aged (mostly) women would lay out seasonal vegetables and fruit, red pepper powder, prepared snack meals like *kimbop*, *sundae*, or tofu along the streets and sell to people heading home for

dinner. There were additionally the more modernized, yet typically family-run, supermarkets occupying small spaces in multi-story commercial complexes called *Sang-ga* (shopping arcade), where branded prepackaged food items or basic cooking supplies could be purchased at a fixed price. The same *Sang-ga* complex would typically include a small stationary store, a snack store, and perhaps a bookstore, all modestly sized around 30 to 50  $m^2$ . Purchases for manufactured commodity goods would happen in various family-run specialty stores, but the larger markets, such as the traditional wholesale distribution points of South Gate (*Namdaemun*) market would be also frequented by retailers, intermediary wholesalers, and shoppers alike. Approximately twenty-five department stores in Seoul were reserved for the affluent or the special days with customary gift exchanges like *Ch'usŏk* (Thanksgiving) or *Sŏllal* (New Year), and a small number of convenience stores were just starting to open up around the city. As for food service locations, majority of food service locations remained small, local, and family-run. An increasing number of Western fast food and family restaurant chains such as Burger King (first entered Korea in 1982), KFC (1984), McDonalds' (1988), T.G.I. Friday (1992), and Denny's (1992) started popping up across the city.

Fast-forward once again to *Myeongdong* and Korea today, we can see that the environment for shopping has changed drastically over the last two decades. Streets, once full of small, family-run retail structures, transformed into locations where large supermarket chains, hypermarkets, convenience stores, discount marts, department stores, and chain restaurants are lined up one after another. Alongside the structural transformations in retail, how people relate themselves to that world of goods has

changed. Shopping, which was once a relatively minor, infrequent activity, became organized as a central pastime during roughly the same time span that the changes in retail structures were taking place.

This 21<sup>st</sup> century vignette of organized consumption and organized retail systems leads one to wonder about the “origins” of such system. While an examination of Korean shoppers and chain stores in *Myeongdong* might provide some particular details of consumer culture in contemporary Korea, some might say that these images of contemporary living need not necessarily be exclusively that of a Korean or a resident of Seoul. The descriptive passage of Korean shoppers and chain stores could easily pass as a description of what happens in Taiwan or Hong Kong. In other words, we can ask, how much of the current landscapes for consumption in Asia and the origins of these landscapes are location-specific or “global.” Relatedly, are the trajectories of changes in consumer markets locally specific or are they uniform across national contexts?

While there are different sides to this debate, this dissertation hopes to examine these two broadly contrasting claims. On the one hand are the theoretical claims of convergence that would emphasize the high level of uniformity in the organization of retail structures and the all-consuming lifestyles. Proponents of convergence might point to the flourishing cultures of capitalism that transcends national borders, the increasing presence of transnational firms, uniform impacts of global ideas, practices, and influences that make different locations more alike and less distinguishable from one another. They would point to the goods and services sold and consumed that no longer convey a uniqueness with locational origins.

On the other hand, there are proponents of continuing divergence, many of whom emphasize the location-specific characteristics of local or so-called “glo-cal” (Robertson 1992) consumption. Despite the ways that globalization of production and activities of transnational firms can lead to levels of uniformity, glocalization proponents would argue the processes and meanings that inform consumption stay characteristically local. The goods and objects of consumption are imbued with different meanings formed within the specific contexts of consumption as well as the physical locations where consumption takes place. Location-bound institutional characteristics keep consumption separate and local despite the many globalizing changes that are happening today.

We can thus ask, how valid are claims of convergence or divergence? How much of the contemporary system of organized retailing and consumerism are in fact “global” and homogenizing, or “local” with consistently divergent characteristics?

The primary goal of this dissertation is to participate in this debate with East Asia as the setting. This dissertation analyzes consumer market development of the three Asian societies of Japan, Korea, and Taiwan, but also includes observations on the currently-developing mainland Chinese case when appropriate. These economies of interest are often grouped together for similar process of export-driven growth and for falling under the Buddhist-Confucian cultural zone (Aoki, Kim, and Okuno-Fukiwara 1996; Rozman 1991; World Bank 1993). Despite those similarities, they show large differences in levels of consumer market maturation as well as in the firm structure that influences retail. It will soon be clear that these economies, despite all having developed flourishing consumer economies in the twentieth century, involved different players who

emerged as “market makers” through trajectories of growth contained in an inertial system.

## **1.2 RETAILERS AND DEMAND GENERATION**

While many have started an inquiry into the dynamics of contemporary consumption by selectively employing a certain micro or macro level for analysis, this dissertation jointly examines individual level consumption and larger social macroeconomic characteristics of societies as they form an interrelated system of consumption. Following Petrovic (2005) and Petrovic and Hamilton (2012), this dissertation takes a perspective that views the market place as a fundamentally social space that is actively constructed by interested and powerful players working to bring supply and demand together. This perspective argues that the development of organized retailing is at core of the system that links production and consumption, and retail intermediaries are “market makers” and core organizers of the consumer markets. Thus, from the perspective of “market making,” demand, unlike what the conventional economic theories would inform us, does not naturally occur as a function of automatic price mechanisms, but instead has to be created, legitimized, and systematically incorporated in people’s daily lives as an organized and normalized life pattern. The focus on retailing and retailers as market makers is beneficial because it avoids the common pitfall of explaining markets as functions of abstract equilibrium models and, thus, differentiates itself from the existing theories of demand generation.

The existing economic theories, however, conceive of demand by linking it to the supply function as a natural result or by making supply the cause of demand. Neither perspective considers the active sociological process of market creation and the development of consumer demand as a historically specific event. In classical economics, demand is generally explained as a product of supply functions, as Keynes summarized Say's Law as concerning how "supply creates its own demand" (1936: 19). Any excess supply of goods is associated with shortage in demand and the competitive market would eliminate this excess supply by inducing a fall in its market price. In this perspective of demand, supply-side factors operate as a cause of the demand-side outcomes.

In contrast, theorists who oppose the idea that the market self-corrects situations of excess supply and high employment insist that an "effective demand" operates as the foundation for stable economies, thus reversing the causal order of what the proponents of Say's Law would argue. According to this group of macroeconomists, low levels of demand result in excess supply, leading to diminishing production and income, and therefore unemployment. Demand is the foundation that creates supply and levels of ensuing production activity, according to this perspective. By the same token, strong demand will result in the shortage of supply, increase in production, employment, and incomes.

It is characteristic of both these perspectives, which prioritize either demand or supply, to automatically equate the two factors and analyze one as a natural result of the other. This reflects a deeply rooted belief in the discipline of economics that the market itself is fundamentally asocial and also reflects the tendency of economists to rely on

abstract equilibrium models to conceptualize the functioning of the marketplace. Not much can be sociologically understood through this perspective, or any view that presumes an automatic response in one variable as a result of a change in another as specified by rules of equilibria, without grounding the factors within the realm of society.

An alternative perspective might be found within the domain of economic sociology. Embeddedness, a celebrated concept that has been at the center of the field of economic sociology for the past three decades since Granovetter (1985), might seem to provide a hint at how to incorporate a socially-grounded perspective in studying economic phenomena by bringing in, and emphasizing the importance of, analyses of social relationships. However, many studies that do just that tend to implicitly operate along a constructed continuum of domains that range from the purely asocial, Smithian market places to the domains that are “completely embedded,” without a necessary re-conceptualization of the market place as fundamentally social. For example, Chandler (1977)’s large organizations, Uzzi (1997)’s “market relationships” and “embedded ties,” Powell’s (1990) “network forms of organization” all operate somewhere along the “pure market” to “organization” continuum, where market and organization are seen to directly oppose each other where more of one means the less of the other (Petrovic and Hamilton 2011). As Krippner (2001: 795) points out, this led to a perverse consequence of keeping the “pure market” construct intact, “as a residue of social activity that is not itself social.”

Analysts of consumer markets will benefit from viewing the market as a fundamentally social sphere, created and shaped as a result of deliberate activities of powerful players and their interaction with the existing socio-cultural environment and

institutions, rather than using conceptual devices for measuring the degree of “society” in neatly demarcated realms that can be called “market,” “organization,” or something in-between. The market-making perspective provides an alternative, a way of seeing markets as a concrete realm of both economic and social activity where different players with various interests and beliefs participate, trade, compete, cooperate, which dynamics bring organized and patterned responses that are resilient yet open to change.

*The Organizers of the Market: Market-making Perspective*

In examining the development of organized consumption in East Asia, this dissertation pays attention to the role of the intermediary market players who act between the producers and consumers, in viewing how demand is created in the market place. Petrovic (2005)’s and Petrovic and Hamilton’s (2012) idea of market makers and market making activities in creating and organizing market places is particularly relevant. According to these authors, market making “refers to all activities oriented toward creating and reproducing opportunities for trade, from pricing and contracting, to finding and retaining trading partners, to getting the products into and through the market” (Petrovic and Hamilton 2006: 108), or in other words, “to the activity of creating and maintaining markets (that is trader opportunities) for oneself and one’s trading partners” (Petrovic and Hamilton 2012:32). For organizing the US consumer market and domestic and foreign supplier markets, the group that played crucial roles not only include the retailers of Wal-Mart, Costco and Target, but also various brand-name marketers and assemblers, such as Nike, Dell, and Hewlett-Packard among many others.

These market makers played a crucial role in the historical development of the U.S. consumer market beyond buying products and distributing them. They have also “organized and rationalized global supply chains, established trade standards and logistics solutions, and even ventured into product development” (2012:111), effectively shifting the center of today’s economy from manufacturing to the retail sector. Most importantly, they *made* consumer markets through creating and introducing new retail formats and organizing the production of goods that consumers will actually buy. Relying on various new information technologies, these retailers have devised ways to track the point-of-sale data and instantaneously reorder the type of goods that need to be replenished in stores.

The theoretical implication of the market-making perspective is undeniably germane to explaining development of consumer markets in other locations, including East Asia, as many of the key retail innovations and introduction of new formats that characterized the United States’ and Western retail revolutions also take place outside of those locations. However, in accounting for the development of the East Asian consumer markets, it is important to pay attention to the local organizers of Asian markets, who often, in tandem with the global market makers, have defined the playing field for domestic retail organization. The complex dynamics of competition and coordination between domestic business groups and producers, local retailers, and foreign multinational retailers thus complicate the task of analyzing the developments in Asian retail markets. This next section sets out to work on such analysis. Prior to examining the actual locations of the market organizers and innovators in Asia, I will conduct a

preliminary analysis of the retail market dynamics of the Asian markets to establish the full scope of the Asian retail revolutions.

### **1.3 DEVELOPMENT OF ORGANIZED RETAILING IN EAST ASIA**

As examined earlier in section 1.1, the rise of consumption as an organized activity in Asia simultaneously proceeded with increasing systemization of various retail structures and a widespread adoption of successful retail formats and innovations. Today, Japanese, Korean and Taiwanese consumers can all shop in modern shopping malls, department stores, discount stores, and supermarkets as well as franchise food-service chains of international and local origins. These structures show a large contrast from the traditional markets and family-run stores that accounted for the majority of the retail landscape prior to the development of organized retailing. The development of these retail structures revolutionized the consumption behaviors of Asians and increased the level of centrality shopping has in their lives. It also heightened concentration in the domestic service economies in the hands of a smaller number of firms.

The following table summarizes the entry periods of some of these major formats in the four Asian markets.

[Table 1.1 About Here]

As visible in the table, there are major “waves” of format entry into East Asia, with modern department stores being the earliest to emerge in the first half of the 20<sup>th</sup>

century. Convenience stores and hypermarkets, the latest formats, appeared in the second half. It is also noteworthy that Japan sets itself apart as an early modernizer from the other three, while China's development, for the most part, comes later and after the Chinese market reforms during the Deng Xiaoping era.

While Asian department stores have generally done little to systematize the consumer markets, and therefore have little meaning as market makers, there are already extensive studies documenting their cultural importance as the first modern retail institutions in Asia (e.g., see MacPherson (1997) for an overview of Asian department stores; Creighton (1991), Hatsuda (1993), Chizuko (1998) for Japan; Chang and Sternquist (1993) for Taiwan; Kim and Chu (2006) for Korea). For this reason, department stores will only receive passing notice in this dissertation.

Other formats – most notably, convenience stores, hypermarkets, and chain supermarkets—have been crucial to the organization of East Asian consumer markets and therefore will be given considerable attention. The development and expansion of these standardized retail structures, as well as the retailers' adoption of technology and supply chain practices, happened dramatically over a short period of a few decades. In Japan, these major changes in retail development occurred from the 1960s, in Taiwan and South Korea from the late 1970s to late 1980s, which were followed by developments in China during the most recent decades.

Consider a few examples of rapid standardized retailer expansion in Asia. Convenience store chain 7-Eleven, which first opened a store in Japan in 1971 and 1,000 stores by 1980, now runs 12,925 stores in Japan. The same retail chain entered Taiwan in

1980 and now operates over 4,700 stores in that country (as of January 2010). JUSCO, now run by Japanese retail giant AEON, has opened almost 170 hypermarkets and 560 regional chain-run supermarkets and superstores in Japan since 1979. For food service providers, McDonald's opened more than 3,500 locations in Japan since 1971, and 350 locations in Taiwan since 1984. The effects of the rapid expansion of standardized retail structures, and the sheer scale of them, have led to a fundamental transformation of domestic economies of Asia.

China is currently in the midst of transformation, as their retail organization is happening on a large scale. With the domestic economic reform, large numbers of major global retailers started entering the billion-person market, keenly interested in China's potential for rapid future growth. Foreign and domestic retailers started expanding throughout the major urban areas and introduced standardized retail formats all over the country. The most striking transformations have been in the food-retailing sector. The global retailer Carrefour, for example, entered China in 1995 and opened up 456 stores all over China by the end of 2008, including 134 hypermarkets and 322 discount stores. Their revenue has been increasing at a rate of 20 percent annually since 2004, amounting to \$5.38 billion in 2009. Wal-mart, Carrefour's primary competitor, entered the Chinese market a year later in 1996 and established 180 stores across 94 different Chinese cities by April 2010. These stores include four Sam's clubs, two Neighborhood Markets, two Smart Choices, and 172 Supercenters (Ibis World 2010). These global retailers are also competing for market share against prominent domestic supermarket giants such as *Lianhua* Supermarket or *Wumart*, which are also expanding at a rapid pace. These rapidly

expanding standardized retail structures have collectively redefined and transformed the retail landscape of these economies.

The accompanying transformations in the supply chain processes have also been revolutionary. The traditional wholesale points were connected by convoluted multi-layered distribution structures that used to link large numbers of wholesalers, regional and producer-designated dealers, and specialty suppliers with the manufacturing and retailing ends. Now they are typically bypassed as retailers have replaced these intermediary functions with direct purchasing with manufacturers and centralized distribution centers run by professional logistics companies or by the chain retailers themselves. Instead of various producer firms pushing mass-produced products into the markets with only loose estimates of demand, retailers' adopted POS (Point-Of-Sales) systems that instantaneously monitor demand. These have reorganized the supply-chain processes backwards to enlarge the participation of the retailer in designing and ordering the products and controlling the flow of goods.

Prior to analyzing the key dynamics among central players in the Asian retail revolutions, the following section will summarize the large trends in the retail markets in order to establish the scope of the phenomenon. Using mainly data from Euromonitor International, the section will display measures that quantitatively reflect on the changes which have occurred in the East Asian retail sphere: trends in the introduction of and standardization in retail formats, trends in the levels of market concentration, and the trends in retail density.

*Cross-cutting Patterns of Retail Organization: Introduction, Standardization, and Concentration*

One outcome of the introduction of these new retail formats and their consistent expansion has been the standardization in both the formats and the accompanying business methods and strategies. The chain store was a Western invention whose format was replicated in the Asian markets. Through replicated store logos, interior designs, product assortment, and presentation, the stores increased predictability and also helped with the achievement of economy of scale by running hundreds of uniform retail stores across various geographical areas. In Asia, the format was most extensively applied to the consumer foodservice sector in the earlier days of retail modernization. According to Euromonitor International (2011) [see Table 1.2], in the consumer foodservice sector, chained food retail accounted for around or more than one-third of the overall foodservice sales in Japan, Taiwan, and Korea in 2009. Although only 7.8 percent of all foodservice sales are in chain stores in China, the figure is rapidly increasing [Table 1.2]. That one third of restaurant sales in these countries (except China) come from chained food restaurants is in itself a striking fact and alludes to a large degree of standardization.

This type of format standardization and replication has made it easier for retailers' large-scale expansion. Retailers have adopted various modern retail technologies and market information that help them overlook the entire decision-making process of selling from production, delivery, pricing, to retail location selection, and branding. In some cases, they effectively manage hundreds of outlets at a time. For the successful, the large-scale store management has helped their influence to go beyond the immediate regional

market to reach consumers nationwide. Some of them have become so successful as to not only dominate a large share of their respective market, but also change the behavior and strategies of the other retailers, and eventually the market place by setting the standards for doing business. Others, such as Japan's Ito-Yokado, Korea's Lotte Mart, and Taiwan's RT Mart, have not only revolutionized their own markets, but also started expanding abroad to participate in the retail organizations of other developing countries (mainly Southeast Asia and mainland China) alongside other global retailers.

The Euromonitor data from 2011 show the level of market concentration by the top retailers. The top 5 retailers in Japan, Korea, and Taiwan accounted for 16.2%, 32.4%, and 15.6% of the entire store-based retailing sector respectively in 2009. These numbers increase to 21.5%, 41%, and 21.5% when the top 10 retailers' market shares are combined [see Table 1.3 below]. These overall figures suggest the increasing level of market domination by a small number of top players in retail and the high level of concentration within the general retail sphere.

The market making activities of the few top retailers consolidated the retail sector on the top-end and resulted in dislocation of the traditional, family-run, independently owned businesses. The total number of retail outlets has declined sharply in markets where organized retail expansion has been under way. This is especially true in the Korean and Japanese markets, where, the rapid expansion of chain stores have been tied to the dramatic decline in the total number of retail outlets in both the grocery and non-grocery sector. Similarly in Taiwan and China, there has been striking reduction in the number of grocery outlets throughout the last decade as shown in Figure 1.2.. The

displacement of small local businesses happened alongside the expansion of top retail firms, increase in their average outlet size, and number of employees.

The current picture of a small number of large retailers forming an oligarchy is in stark contrast to the 1990's image of a few modern retail structures positioned in key areas in the midst of hundreds of thousands of small (semi-) traditional and local, family-owned businesses, as discussed earlier in the introduction about the retail sphere in Korea. Similar discussions of local structures are also found elsewhere, as in De Mente and Perry (1968:15) quoted below.

[in Japan before the 1950s] There were several large department stores in the most important cities, and a few lines such a patent medicines, ceramic tableware, textiles, and rice wine were distributed more or less nationally. But for the most part the market was composed of over one million tiny retailers, wholesalers, and other distributors who served only their own areas with locally or regionally produced merchandise. .... This fantastic proliferation of interlocking wholesalers and tiny retailer, who often operated more under personal and family obligations than on the basis of business considerations according to the Western rationale, was in itself a tremendous barrier to the growth of a mass-consumption society.

The numerous small, independently owned businesses once served as lifelines for a large number of families. These were also firms that were once tied to convoluted and unstructured wholesale sectors. Now many of them have been replaced with large businesses of standardized and organized chain stores that rely on the science of supply chain management to source, distribute, and price, and even design products. This retail revolution has been a process of significant restructuring of the domestic Asian economies. The economy changed from one that is centered around the activities of manufacturers to one that relies on a system of coordination between the manufacturers

and retailers, and their interaction with and responsiveness to the newly emerged Asian consumer.

#### **1.4 SOURCES OF INNOVATION: COUNTRY-SPECIFIC STRUCTURES AND MARKET MAKING**

The overall rise of consumerism and development of retail economies all across Asia have been truly revolutionary and brought a “creative destruction” (Schumpeter 1942) of the prior system of retail trade. Schumpeter’s conception of capitalistic process of growth as characterized by constant changes and turmoil is useful in an examination of the Asian retail revolution.

Economic growth, according to Schumpeter, is not merely a function of capital accumulation or continuous business activities; nor is it due to external changes in the environment. Instead, he believes a combination of factors such as business expansions, heightened competition, and increases in wages will work to cyclically undermine and devalue wealth and profit. Thus factors that enable the functioning of the system are constantly, and paradoxically, eliminated by the very working of the system (1942: 49). Schumpeterian growth occurs through a series of innovative practices that disrupt and destroy the existing system, and bring revolutionary changes.

These revolutions periodically reshape the existing structure of industry by introducing new methods of production- the mechanized factory, the electrified factory, chemical synthesis and the like; new commodities such as railroad service, motorcars, electrical appliances; new forms of organization- the merger movement; new sources of supply- La Plata wool, American cotton, Katanga copper; new trade routes and markets to sell in and so on (1942: 68).

Introduction of new methods in production, new forms of organization, new models of supply by capitalist entrepreneurs, these are the processes that “incessantly revolutionize the economic structure from *within*, incessantly destroying the old one, incessantly creating a new one” (1942: 83). This is the process he labeled “creative destruction.”

However, the Schumpeterian model of entrepreneur-driven growth, while placing innovation and entrepreneurial activities at the center of capitalist dynamics, does not quite elaborate on the source of those innovations. The changes that are brought forth, become incorporated into the new system, and destroy the old are conceived as truly “revolutionary,” with origins completely divorced from the structures in which they were created.

One recent reworking of his ideas provides a clearer conception of innovation and its sources. Abernathy and Clark (1985: 4-5) developed a framework to categorize various innovations. They argue that innovations are not unified, and while “some innovations disrupt, destroy, and make obsolete established competence [in a Schumpeterian way, by completely redefining the requirements needed to gain competitive advantage]; others refine and improve [by providing continuous advancements, efficiency, solutions to existing problems].” However, what they see crucial in the firms’ capacity to innovate is the “fundamental internal reality” of the firm, which “rests on a set of material resources, human skills and relationships, and relevant knowledge.”

In examining the US auto industry, Abernathy and Clark point to factors that exist within the firms, their internal reality, as well as its interaction with the immediate outer environment as providing foundations for innovation. However, to examine entrepreneurial innovations in the cross-national Asian settings, we will have to situate them within the context of divergent economic structures and competition, where there are high levels of variation in not only the firms' internal capacity, and structures, but also in how competition is structured economy-wide. Therefore this theory of innovation requires further reworking if we were to consider innovation and entrepreneurship in cross-national contexts.

The main insight we can rely on to incorporate the ideas of innovation with system continuity is that of a "package" (Becker 1995). The idea is that even revolutionizing ideas and innovations need to use elements from, and build on, the existing platform to gain traction within the system, especially to become incorporated as standard practice. Acknowledging this continuity of innovation within the system of its origination does not in any way to deny the "newness" of the ideas and practices that were introduced. Rather it is to situate the practice within a larger context, in which the practice is perceived as new and appealing to those who are accepting them. Socially advancing innovation is not devoid of context, but rather happens as the entrepreneur grapples with the available ingredients surrounding him, while referring to the elements within the system to come up with new ideas.

Becker (1985) makes this point clear by referring to the available set of interconnected practices and relationships in a given system as a "package." Giving an

example of the music world, he discusses various codependent elements of the system, such as systems of musical notation, instruments, music theory, artists, composers, audiences, concert halls, and recording studios. He also mentions that since “each piece in the package presupposes the existence of all the others” (Becker 1985: 304), when one chooses to use one of the elements in creating music, it is easy to take other elements within the system. This way, the package exerts a kind of an inertial force, a type of hegemony that maintains a certain level of stability in the social world.

It is extremely difficult to start from scratch when bringing innovations in a world where there are already well-established ways of doing things. Consider Becker’s example of Harry Partch, a composer who developed music for a forty-two tone scale. Because no forty-two tone scale had previously existed, along with inventing the scale, Partch had to invent musical instruments to play it, as well as train a generation of Partch instrumentalists. The training time for a two-hour concert for these students averaged months, compared to six to nine hours a major orchestra will put in for similar amounts of music. Despite how unconventional Partch’s work seems, he still had to rely on various social elements to continue his work: he relied on conventional music halls and distribution channels for performing and selling his products.

The point here is that it is extremely expensive and difficult to bring innovations that do not relate to the existing social context. It is also difficult to make a novel practice gain wide acceptance. Most innovations, and in particular the successful ones, are incremental in the sense that they happen through processes of reworking existing elements within the context of, and in reference to, what is already in place. Not only is

this approach to innovation less expensive than starting completely from scratch, but also it is relatable to the recipients who are already well positioned in the current configuration of the system. So the most successful innovators are most likely not Harry Partches, but active participants within the system, perhaps on the periphery looking in.

This insight regarding incremental and contextual innovation relates to the Schumpeterian idea of “creation destruction” in ways particular to the experience of Asian retail. Even if the entrepreneurs referred to, and built on, the existing elements within each system for innovation, multiple elements of the old system ended up being destroyed as the practices become incorporated in the system. Innovative entrepreneurship incrementally builds on elements of the system it occurs in. As adopters of the new practice restructure their behavior surrounding the new practice, the changes are the “revolutionary” transformations in the system as Schumpeter predicted.

To understand how new innovations relate to the existing social contexts in Japan, Korea, and Taiwan, we can follow Becker to think of the combination of elements and practices contained in the business world of the three countries as a kind of “package.” Inside each package of demand-driven capitalism, we see entrepreneurs, producers, suppliers, distributors, consumers, retail infrastructure, as well as other common behaviors such as building relationships, getting supply-deals, assembling products, and running and structuring a business. There are also pronounced inter-country differences in what is contained in the “packages” of different economies. Using Whitley’s words, we can also think of the differences in terms of “Asian business systems” (Whitley 1992a).

At the center of the business systems' literature is an examination of how variations in institutional contexts differently affect market practices. Particular combinations of authority structures, firm types, and inter-firm relations produce a set of differences that structure both the organizational forms of dominant businesses, but also the strategies on the individual participants' level. This means that managerial practices and recipes for achieving economic success vary, as well as how entrepreneurs and business people in different contexts "achieve control over major economic entities and so the ways in which they understand the business world and set priorities" (Whitley 1992a: 5). It will be beneficial to briefly summarize the specific inter-country differences, especially the variation in forms and capacity, in order to examine how the recent innovations in retail have built on the system characteristics that have already been in place.

The most prominent differences that affected the three countries' retail market developments revolve around the organization of the dominant production sector firms. While there are undeniable within-country variations in Japanese, Koreans, and Taiwanese economies, the dominant businesses of the three countries show a level of coherence and cohesion in how they are structured as well as how they control and coordinate their activities (Whitley 1992a; Hamilton 1996). The differences in the configuration of business groups, as well as practices of these groups, clearly distinguish one economy from another (Hamilton 1996; Hamilton and Biggart 1988). The distinctions have developed concurrently as the firms gradually defined their core activities and how to coordinate them.

For example, in Japan, business groupings called horizontal *keiretsu* dominate the industrial sectors. *Keiretsu* are clusters of firm networks, where the affiliated firms cluster themselves coherently across various markets from finance and capital, production of component parts, as well as general trading (Gerlach 1992; Lincoln and Gerlach 2004). Unlike the Korean and Taiwanese business groups, Japanese *keiretsu* are not family-owned groups. Instead, the *keiretsu* are jointly owned and characterized by high level of mutual dependence and subcontracting relationships between the individual firms that belong to the given group cluster, without clear delegation of authority between firms (Lincoln and Gerlach 2004). The network of firm relationships operate beyond these formalized groupings and pervade much of the Japanese industrial economy through subcontracting relationships, making production a largely cooperative process between affiliated and networked firms with various capacities.

Despite their overwhelming presence in the Japanese economy, the recent growth prospects of these horizontal *keiretsu* have been stunted. Webs of tangled relationships without a central authority structure have made diversification and business expansion a slow and conflict-laden process. Their relative rigidity in structure and slow decision-making speed has allowed firms which are structurally able to make faster decisions to enter underdeveloped sections of the Japanese economy.

In Taiwan, while there are diversified business groups with a capacity to work across multiple sectors, the most representative form is the Chinese family firm. These overwhelmingly small and medium size enterprises (SME) are the backbone of Taiwan's export-oriented manufacturing economy and are responsible for majority of consumer

goods produced in Taiwan for exports. Over time these firms have formed highly specialized and flexible production networks while maintaining their relative small size and centralized-decision making structure (Feenstra and Hamilton 2006).

As small and medium sized family firms, most Taiwanese firms lack cross-sector abilities, but are apt for highly flexible and specialized production of a component part. Since it takes collaboration between multiple firms that each specialize in different parts of a product to produce a final product, the overall export driven-manufacturing system is highly dependent upon external collaboration between the various firms with different specialized capacities.

Contrasting sharply with Taiwan, the firms that dominate the Korean economy are highly diversified and large family-run business groups called the *chaebol*. These groups control a large number of subsidiaries, which, for the case of the largest groups, total in close to a hundred. A small number of the top business groups are involved in virtually every industrial sector and show high levels of concentration within each sector. The top *chaebol* fiercely compete against each other for a larger share of the overall market, and each group attempts to vertically control the entire production process. Inter-group collaboration is rare and business groups show high levels of diversification, and vertical-integration.

These internal patterns of coordination and control of production activities in the three Asian economies became a foundation on which the subsequent economic changes built upon. As a result, retail innovation in East Asia has varied by location, and how it varied has depended upon the institutionalized ways of conducting business and the

historical trajectory of economic development. In the course of respective retail revolutions, activities of global retailers have undeniably intersected with the activities of domestic firms. However, global retailers' level and extensiveness of participation also depended upon the previous firm structures and has varied within different contexts.

This difference in institutionalized firm structure of the East Asian economies, and its effect on organized retailing as well as consumption patterns, will be a core subject of analysis throughout the dissertation. To provide a glimpse of the effects of firm structure on retail organization, the following section displays some information on the variation in market share of the top retailers by country.

Summary analysis of market share information in the four Asian markets suggests revealing differences in the composition of major players in their respective retail sectors. Using Euromonitor International's Trade sources/national statistics showing market share data which list companies with market share 0.1% or higher in the four economies in 2009, I coded each company in the dataset on the basis of their geographic origin<sup>1</sup> (Western-based, Domestic, Japanese (for China, Taiwan, and South Korea), or Other Asian company)<sup>2</sup> and looked at the relative makeup of companies in each consumer market. For the companies with market share of 0.1% or higher, the preliminary coding

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<sup>1</sup> Geographical origin denotes where the original company is headquartered. It might or might not coincide with the body that is actually operating the retail store in each locale (For example, Korea Seven is coded as a Japanese company), or obviously the ownership or source of funds of the retail operations.

<sup>2</sup> This coding results in a total of four categories for China, Taiwan, and South Korea (Western-based, Domestic, Japanese, or Other Asian company), and three categories for Japan since Japanese companies will be categorized as "domestic".

results for the four markets show revealing differences in the compositions of the market players. Figure 1.3 displays the result of this coding.

[Figure 1.3 About Here]

In Japan's store-based retailing sector, only six companies out of the 69 companies with a market share larger than 0.1% were Western-based. The remaining sixty-one were Japanese. Foreign branded retailers had a slightly larger market share in Korea in 2009. This can be mostly accounted for by the presence of a single company, Tesco, with its 6.1% market share. Although domestic retailers dominated South Korea's and Japan's store-based retailing sector, foreign companies had a much stronger presence Taiwan's retail sector, and relatively more visible in China. Japanese companies such as Seven & I holdings (4%) and Isetan Mitsukoshi (2.8%), Western-based companies such as Carrefour (2.6%) and Auchan Group (1.7%) accounted for 54% of the sales for companies with market share larger than 0.1% in Taiwan.

The following list displays information of the ten largest retailers in each market. It provides additional information to the chart above as it displays the actual names of the top retailers. Consistent with the coding results above, the list of top firms of Taiwan (and to some extent, mainland China) include larger number of foreign-based companies, whether Japanese or Western. In contrast, the top ten companies in Japan and all but two top South Korean top companies are domestic.

[Table 1.4 About Here]

Whether domestic or foreign, as Schumpeter's idea of creative destruction would predict, the new retail structures adopted necessarily brought destructions to the old structures that ruled the previous systems. In all three countries, traditional wet markets, mom-and-pop stores, and various wholesale and distribution points disappeared as the locus of distribution and retail shifted to the new structures that were introduced.

However, the process of innovation itself has been contained in an inertial system. Within each country, the entrepreneurs utilized established ways of going about doing business, as well as the readily available capacities of their businesses to introduce innovations. These respective patterns of innovation and entrepreneurship are not merely coincidental. They reflect long-standing organizational principles that are socially embedded and historically constructed, which guide the actions of even the most innovative entrepreneurs and businesses. The rest of this dissertation will delve into this theme and explore how divergent firm structures in different countries facilitated changes in the business and social fabric of these societies.

## **1.5 CHAPTER CONCLUSION**

This section examined the rising levels of consumerism in East Asia and argued for an adoption of a "market making" approach that emphasizes the role of retail intermediaries in organizing and making the market for consumption. It additionally provided a preliminary survey of changes in the retail environments of Japan, Korea, and Taiwan by

highlighting the overarching trends of retail format introduction, standardization, and concentration to establish the scope of the phenomenon of the Asian retail revolutions. It has further argued that despite the increasing standardization of retail structures that seem to make consumption uniform across borders, the main organizers of the different markets, and the innovations they brought, were contained in an inertial system that stemmed from the structure of the larger production economy.

The remainder of the dissertation will comparatively analyze how the structure of the production economy and the activities of the main business groups have intersected with the expansion of global retailing. First, this dissertation will analyze how retail intermediaries form and rise within specific contexts of national firm structures and how various players are involved in the process of national retail revolutions. Second, it also explores the sources of variation in the lineup of successful products and asks how product development and consumption occurs within specific contexts of national firm structures. This parallel between the retail market and product market as well as the success of foreign and domestic retailing and products in Japan, Korea, and Taiwan are large themes running throughout this dissertation.

To suggest the large level of contingency of existing structures of organizations is, however, not to emphasize the path dependent nature of growth in Asian retailing. Instead, along with studying the roles of domestic business groups, the dissertation simultaneously pays attention to the increasing cross-border activities of multinational retailers. It also explores how diffusion of Western technologies and formats has been crucial in reshaping the activities of Asian businesses and their shifting focus on the

domestic markets. The entrant foreign retailers have interacted and sometimes cooperated with, and competed against, local retailers to organize the markets and bring variant outcomes.

This approach of examining the domestic structure conjointly with the activities of foreign retailers emphasizes how the localized structures of economic control and coordination either give a platform for foreign retailers' expansion and success or pose grand challenges to them. To explore the local sources of this variation is to acknowledge the fundamental changes that cross-border economic activities of transnational corporations bring to individual societies and economies, but without seeing globalization as an un-discriminatory homogenizing force as the pundits of McDonaldization (Ritzer 2009) or similar themes of convergence pronounced.

The ensuing chapters will be organized as follows: Chapter 2 outlines the theoretical framework that guides the entire dissertation. The theory of retail transition emphasizes the necessary examination of the firm structure of the production economies that helps predict the possibility of their diversification into retail, and the level of market power they will have vis-à-vis foreign entrants. Chapter 3, utilizing this theory of retail transition, provides empirical surveys of the retail revolution in Japan, Taiwan, and Korea, and also predicts the direction that the retail revolution will continue to unfold in mainland China. It also seeks to explain the variation in the overall success rates of foreign retailers. Chapter 4 will transition to examine features of product markets and its developments, which are also contained within the system of national firms. The section examines the production model that brought the global success of K-pop, as an example

of product development. Chapter 5 explores the link between production, intermediary distribution and retailing, and final consumption by examining the market making activities of the various intermediaries in the apparel sector of Japan, Korea, and Taiwan. Their activities are analyzed as they are structured in relation to (1) the global system of apparel production, (2) varying patterns of local integration into the global production system and (3) the local variations in status competition and claims-making that drive consumption.

This study is macro-comparative in nature and the empirical analysis is primary driven by a typology of business systems, whose theoretical dimensions are presented in Chapter 2. To rely on a single conventional sociological method, whether survey research, interviews, ethnography, or content analysis, in illustrating comparative workings of whole economies that are structured differently is nearly impossible. Most existing data that inform organizational level dynamics<sup>3</sup> are not gathered cross-nationally but rather within national boundaries, leading to inconsistencies in not only what is measured but also in the dimensions that are actually represented in the data. In addition, the ambiguity of Taiwan's political status makes it harder to find data sources that would allow for an analysis of Taiwan as a separate case. Comparative surveys that include aspects of Asian consumption (e.g., AsiaBarometer) or sources of comparative economic indicators (e.g., data issued by UN and World Bank) either bypass Taiwan altogether or

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<sup>3</sup> For the Asian cases, the most systematic sources are the country-specific data such as the national business censuses as well as the Dodwell consulting's series on the Japanese industrial groupings and the Korean Free Trade Commission's annual survey on the top *chaebol* groups.

lump the island together with the mainland, making the researcher unable to examine Taiwan as an independent case.

Due to the limitations in available data sources as well as the inherent difficulty in relying on singular methods to emphasize divergent organizational dynamics that shape different cases, this dissertation relies on a mix of available data sources that help construct the narratives of each case and elucidate the core dynamics that support the market and organizational structure of each society. The most important data source that has been used throughout the dissertation came from Euromonitor International, a marketing research firm that provides detailed statistics and analysis for consumer markets of 80 countries and over 300 consumer industries around the world. Throughout the dissertation, I especially relied on Euromonitor's longitudinal market share data of the general retail sectors of different countries, the list of brand owning companies associated with each retailer, data and projections of trends in outlet numbers of grocery and non-grocery retailers, data on food sales by chain stores, as well as their data on the apparel sectors of different Asian countries.

Thus, a brief discussion of Euromonitor's methodology is in order. The company combines desk research of reports from national statistical offices and other official statistics, national and international trade associations, as well as company financial reports, with trade survey and company level analysis conducted by their internal team of analysts located around the countries that are included in the data. The locally and globally collected data are then crosschecked for their internal validity and international comparability at the local, regional, and global levels. The sheer amount of data and the

level of disaggregation that go down to sub-industry levels enable a detailed analysis of consumption trends as well as comparative and longitudinal dynamics of businesses within Asia.

In addition to Euromonitor, a number of other sources were used as needed. In Chapter 3, I partially relied on regional business censuses to examine the trends in sales by retail formats, self-reported retailer history and store numbers as well as organizational charts on retailer websites to examine trends in retail diversification, and a large number of English and local news reports to find supplementary information. Various newspaper reports on business partnerships and merger activities were also used. In Chapter 4, I have used historic data on music charts as well as financial reports of the major Korean entertainment groups. In Chapter 5, I have used various marketing reports on consumption trends, information on retail diversification of intermediaries published on their own websites, as well as newspaper reports on contract manufacturing of apparel products. Through combining a number of nationally and internationally published statistical data sources, newspaper articles, market reports, market analyses, and retailer case studies, the dissertation provides detailed narrative of the individual cases with support from objective numeric indicators that show larger changes in the Asian markets.

Finally, here are a few caveats as to what this dissertation *does not* intend to do. First, as a sociological study of Asian consumer markets, it does not intend to provide comprehensive historical accounts of consumption and consumer market developments. Instead, it focuses on the specific rise of the system of standardized and organized

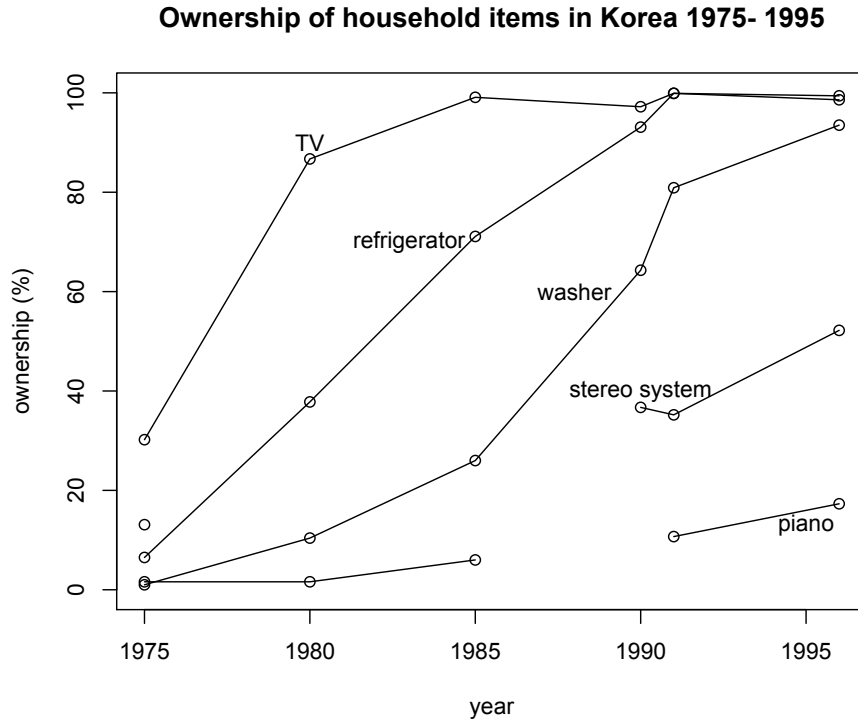
retailing and an analysis of the players that structured the contemporary retail markets as we currently see in the beginning of the twenty-first century.

Second, although the dissertation often interchangeably uses the terms “modern retailing” with standardized, or organized retailing, this is not to promote a false dichotomy of local/tradition and modern markets. Such a portrayal would be simplistic and inaccurate. The modes of Asian consumption changed through a series of local adaptation that stems further back in history, with gradual exposure of the local dynasties to Western and foreign objects, thoughts, and modes of capitalism. What the dissertation intends, instead, is to provide an account of one particular, and thus far the most thorough, stage in this transformation to modern consumption, which is the revolutions in retailing.

Third and relatedly, I do not intend to portray rise of consumption as a sign of simple “Westernization” of Asian cultures. While pundits such as Ritzer (1999) would argue that globalization is a culturally standardizing force and thus induces Westernization, this dissertation will demonstrate that capitalism and consumption were in fact indigenized to fit the different regions. Throughout the late nineteenth and early twentieth century, many Asian societies adopted what they called “western-style” dresses. However, these were in fact largely different from the styles donned in the West, and rather indigenized to fit the local contexts. We can say the same about the version of consumption currently practiced in Asia. Though influenced by Western modes of capitalism and are structurally standardizing, the actual practices still carry local signs,

which are evident in the structures of firms, localization strategies of transnational firms, and ways individuals consume, as will become clear in the following sections.

Figure 1.1 Ownership of Household Items in Korea (Percent Household)  
Source: Statistic Korea (1991, 1997)



Retail Types x Year	Japan	Korea	Taiwan	China (mainland)
Department Stores	1904 Mitsukoshi	1930 Mitsukoshi	1949 Huayang	1917 Sincere <sup>4</sup>
Supermarket	1953 Kinokuniya	1971 Saemaul Super <sup>5</sup>	1969 PX stores <sup>6</sup>	1981 Guangzhou Friendship Store
Convenience Stores	1969 (1973, 7-Eleven)	1989 7-Eleven	1980 7-Eleven	1996 Lawson (Shanghai)
Hypermarkets	1953 Aoyama <sup>7</sup>	1993 E-Mart	1989 Marko	1995 Carrefour, Walmart

Table 1.1 Entry Periods of Major Retail Formats into East Asian markets

Country	Combined share (%) in 2009
Japan	43.6
Taiwan	34.2
Korea	30.6
China	7.8

Table 1.2 Chained Consumer Foodservice as a Percent of Total Foodservice Sales  
Source: Euromonitor (2011)

<sup>4</sup> MacPherson (1997: 1)

<sup>5</sup> Choi (2003: 51)

<sup>6</sup> Trappey and Lai (1997: 214)

<sup>7</sup> Francks (2009: 159)

Combined Share (%)	Japan	Korea	Taiwan	China
Top 5 Companies	17.3	33.1	14.5	4.7
Top 10 Companies	23.7	39	20.8	7.2

Table 1.3 Combined Market Shares of the Top 5 and Top 10 Retailers (Entire Store-based Retail Sector, 2009)

Source: Euromonitor Passport (2011)

Figure 1.2 Total Retail Outlets in Grocery and Non-grocery Sectors  
 Source: Eutomonitor Passport (2013)

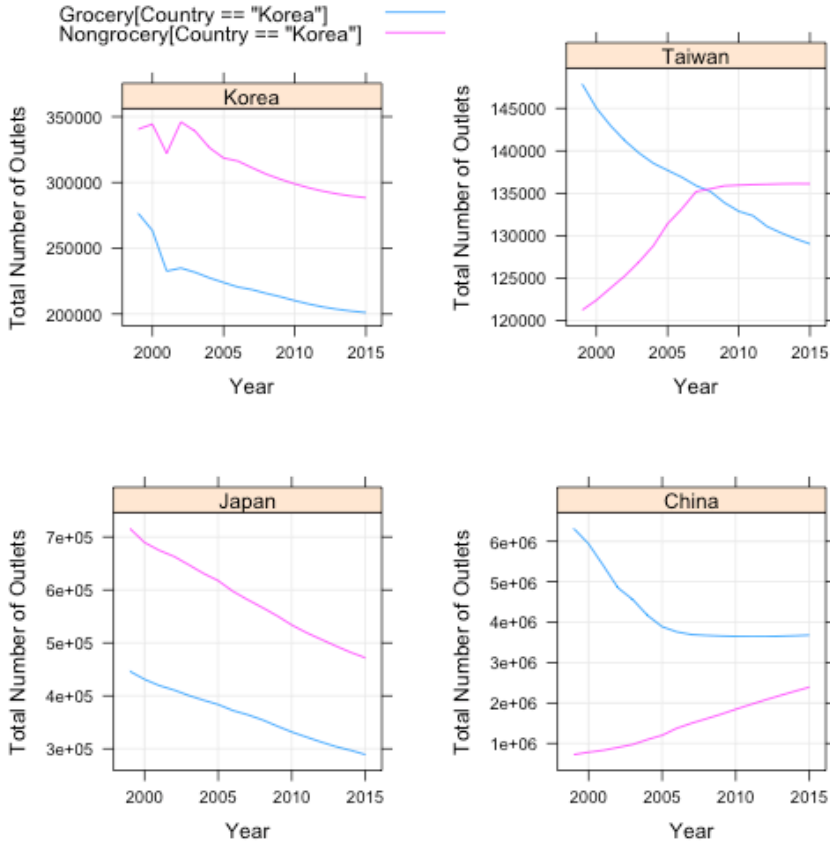
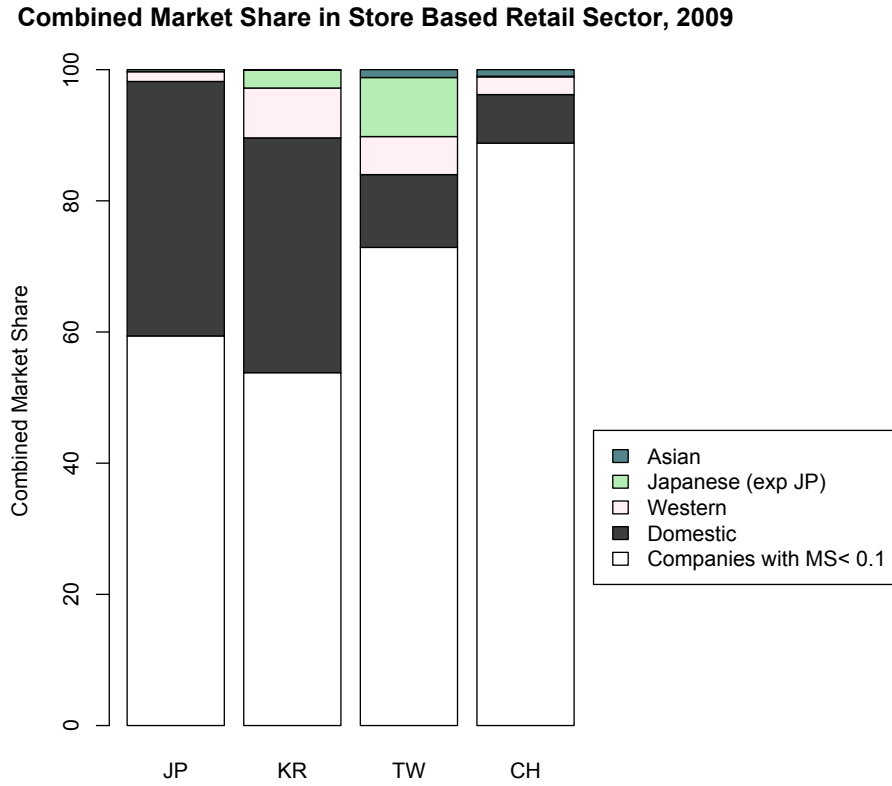


Figure 1.3 Market Share by Country and Retail Brand Origin  
Source: Euromonitor Passport (2011)



Rank	Japan	Korea	Taiwan	Mainland China
1	Seven & I Holdings Co, Ltd	Lotte Group	Seven & I Holdings Co, Ltd	GOME Appliances Holding Ltd
2	AEON Group	Shinsegae Co Ltd	Far Eastern Group	Suning Appliance Store Co Ltd
3	Uny Co Ltd	Tesco Plc	Isetan Mitsukoshi Holdings Ltd	China Resources Enterprise Co Ltd
4	Edion Corp	Hyundai Dpt Store Co Ltd	Carrefour SA	Auchan Group SA
5	Yamada Denki Co Ltd	GS Holdings Corp	Chyuan Lien Enterprise Co Ltd	Wai-Mart Stores Inc
6	Lawson Inc	EUGENE Group	Auchan Group SA	Brilliance Group Co Ltd
7	Itochu Group	Itochu Group	Itochu Group	Carrefour SA
8	Isetan Mitsukoshi Holdings Ltd	E Land Corp	Tsann Kuen Enterprise Co Ltd	Dashang Group
9	Daiei Inc, The	LG Group	Costco Wholesale Corp	Bright Food Group Co Ltd
10	J Front Retailing Co Ltd	Costco Wholesale Corp	Kuang Chuan Dairy Co Ltd	Belle International Holdings Ltd

Table 1.4 Top Ten Retailers of the four markets in 2009<sup>8</sup>  
Source: Euromonitor Passport (2011)

<sup>8</sup> Foreign-owned companies are shaded in the Table.

## CHAPTER TWO: THEORY OF RETAIL TRANSITION

### 2.1 CONVENTIONAL EXPLANATIONS OF THE SUCCESS AND FAILURE OF GLOBAL RETAILERS

The earlier chapter provided a justification for a focus on retail and emphasized the utility of the market making perspective that focuses on the roles of retail intermediaries in organizing the market for consumption. It also examined how, within the structures of the East Asian economies, existing structures of firms can complicate the activities of global retailers as they may pose competition to their entries or cooperate with the entrant retailers to organize the markets. That the structure of the basic playing field of different markets and how competition will unfold depends on the organization of the production economy is the basic insight that informs the organizational theory of retail transition, which will be outlined in this chapter.

This organizational perspective, as will be examined later, contrasts with a set of conventional explanations generally utilized to explain the success or failures of global retailers in varying host economies. Instead of examining how entire economies are organized, conventional explanations as to why global retailers succeed in some countries but fail in others tend to separate out factors related to host economies as explanatory variables that “cause” retailers’ success or failure. Most notably, analysts point to idiosyncratic or “cultural” factors, economic factors, and/or policy-centered factors. Idiosyncratic explanations emphasize the presence of unique factors within the host location that leads to the failure or success of the global retailer. In idiosyncratic or

“cultural” explanations, failure is attributed to distinctive qualities of a place- loosely called “culture” in everyday language- that are seen as fundamentally incompatible with the newly introduced retail model. Economistic explanations emphasize the lack of competitiveness of the entrant retailers vis-à-vis local businesses. Explanations of this variety might emphasize the failure in various aspects of competition such as price cutting strategies, procurement of products, failure in managing categories, or poor customer service that might have turned potential customers off. Lastly, policy centered explanations suggest some action taken by national or local government as a key reason behind the failure. The explanations might emphasize the role that restrictive national or local governments’ policies--zoning laws, anti-trust laws, tax codes, or other protectionist entry barriers--might have had on the retailers. These varieties of cultural, economistic, and regulatory explanations are reviewed below.

*Cultural Explanations: Emphasis on Idiosyncratic Local Qualities*

Examples of cultural or idiosyncratic explanations abound. Wal-Mart’s failure in Germany is often attributed to the mismatch between Wal-Mart’s corporate culture and the German culture. It is said that the smiles and greeting by the employees, morning cheers, and the Ten Foot rule, have left the customers feeling uncomfortable and left Wal-Mart with unimpressive sales (Landler and Barbaro 2006). Carrefour’s divestment from Japan is also understood as a cumulative result of its failure in cultural and competitive aspects-- idiosyncratic explanations point to the promotions that backfired (e.g., giving out sewing machines), retail models that were culturally incompatible (e.g.,

weekend bulk buying), and the mismatch between Carrefour's low pricing strategy with Japanese consumers' expectations that a French retailer would focus on luxury branding and give consumers a "flavor of France" (Aoyama 2007). Wal-Mart's lukewarm performance in Argentina is also attributed to the fact that Wal-Mart tried to follow the standardized blueprint too closely and that "most of the ... decisions [were] made at headquarters", with little or no localization (Bell, Rajiv, and Salmon 2004: 299). Wal-Mart's heavy reliance on the standardized retail model is said to ignore the "cultural habits" of the locals and led to failure and management overhauls.

Explanations of successes also point to cultural factors as core reasons for success. In Mexico, the ease that Wal-Mart had in recruiting managers and clerks from the recently advancing "market-friendly" evangelical Protestant denominations are pointed out, and the nature of weak state-controlled unions (Lichenstein 2007: 190).

To what extent is it valid to separate out the cultural idiosyncrasies as explanations for retailer performance? Idiosyncratic dimensions, or "culture" as some call it, for start, seem too vague, too broad, or sometimes too specific a factor to be a convincing explanation. Nonetheless, they have been cited over and over again as explanations for retailer failure or success. As one business school professor says,

"Large firms like Wal-Mart have gone to countries like Brazil and failed -- the same way they've gone to countries like Korea and failed, the same way they've gone to countries like Germany and failed -- mainly because of not understanding the local culture..... Little details do matter....If a country like Germany doesn't like to smile, then don't smile when you say have a good day. Little details are what usually kill American companies that forget to pay attention." (Blackman 2010)

Reviewing the case studies, one can see the contradictory tendency in pointing to “consumer culture” as a relatively unchanging and resilient dimension that brings retailer failure in some cases, while in others, an end-goal in itself of the pioneering retailers to create “new consumer cultures” in host markets. The “cultural preferences” often discussed –brightness of the store lighting, layouts of the floor plan, individual or bulk packaging, methods of greeting, – seem to be *proximate* factors, than factors that ultimately shape the overall *system* in which retail operations fail or succeed.

Cultural factors, despite playing a role in performance, when equated as core explanatory factors, more often than not blur the ultimate forces in operation. Sole focus on the factor disguises the overall *system* concerned in the generation of the failure, as the final prescription to the failure of the retailers becomes to correct the factor, which is said to go against the local “culture”, whether smiles, lighting, or selling ice skates in Mexico.

*Economistic Explanations: Emphasis on Universal Rules of Market Competition*

Another common explanation taps the economistic. Unlike idiosyncratic explanations that point to the mismatch between the universal retail model and the local behavioral tendencies, economistic explanations stress the universal aspects of competition that the entrant retailers failed (or succeeded) to achieve. For the case of Wal-Mart Germany, the explanation centers on the fact that there were already mature discount channels in place by the time of Wal-Mart’s entry and that Wal-Mart failed to further destroy the price levels. Others point to the mistakes of Wal-Mart’s management: its flawed entry-by-acquisition strategy, which prevented them from positioning against the stronger

competitors and gaining leverage vis-à-vis the suppliers. Still others point to Wal-Mart's failure in supplying the stores adequately (Christopherson 2007: 459). Explanations of successes also adopt the same factor-based logic of highlighting economic dimensions: Wal-Mart's success in Mexico is explained as stemming from the first-mover advantage they had through the acquisition of Cifra, and their successful introduction of retail innovations in pricing, supplier, and inventory management technologies (Tilly 2005). The central idea is that they succeeded by closely following the tried and proven recipes for successful competition, derived from universal principles of business and market competition.

Wal-Mart's power is changing Mexico in the same way it changed the economic landscape of the United States, and *with the same formula*: cut prices relentlessly, pump up productivity, pay low wages, ban unions, give suppliers the tightest possible profit margins and sell everything under the sun for less than the guy next door (Weiner 2003).

When universal economic factors are given as core reasons for success or failure, the analyst, analogously to the cultural explanations, risks pointing to the proximate cause as core explanatory factors, this time, by prioritizing the general rules of profit-making over socially and culturally specific expectations regarding business operations. The other side of the question, the overall *structure of competition* within the economy, in which such business strategies of price-cutting, increasing profit margins and productivity, pressuring supplies were either successful or failed, is left unexamined.

*Policy Centered Explanations: Emphasis on Government Regulation*

Lastly, some analysts emphasize the “unwelcoming” regulatory context of the host economy. As Lichenstein (2009: 181) writes, in Germany,

Wal-Mart has been stymied in nations where either politics or a tough regulatory environment robs the company of the capacity to slash labor costs or build a new generation of suburban stores.

Unfavorable land use regulation in Germany has been the focus of many writers. Lichenstein argues that “rigorous planning and zoning regulations... prevent.. firms ..from developing edge-of-the-city, auto-friendly sites upon which to build big-box stores” (Lichenstein 2009: 188). The lists of regulatory hurdles that appear in these analyses, however, go beyond planning and zoning laws to include regulations regarding anti-trust and fair-trade laws, tax codes, as well as shopping hours laws. Some analysts take even further steps to argue that Wal-Mart’s lean retailing strategy, centering around cheap labor, firm-centered competition, vertical production networks, and flexible investment strategies, specifically developed within the US and provides a retail “ideology” incompatible with the German corporatist context (Christopherson 2007).

These explanations separating out regulatory factors as main causes again run the risk of focusing on the proximate. Whether protectionist or open market, hands-off or restricted, government placement of regulations are not isolated decisions, made prior to and independently from market dynamics. Pointing solely to regulatory frameworks as core causes of retailer failure or success results in the overemphasis of the effectiveness of the government measures in dictating market development, and prevents an analysis that incorporates regulation as a partial feature of the institutional structure in question.

## **2.2 ECONOMY-WIDE VARIATIONS IN THE SUCCESS AND FAILURES OF FOREIGN RETAILERS**

As a more comprehensive framework to examine the successes or failures of global retailers, this dissertation proposes an organizational perspective that places the factors of competition, regulation, and culture as *part* of the institutional structure of the production economy, into a systematic framework for understanding how businesses are integrated into the whole economies.

Prior to outlining the framework, I first examine the cross-country performance of foreign retailers to get a sense of the variation in foreign and domestic retail activities in different market contexts. I again use Euromonitor Internationals' market share data (2012) to chart the relative presence of domestic and foreign brand-owners in twenty developed and developing countries. These data include the market share of top companies (by owner of the retail brand) of each country in the store-based retailing sector as well as non-store based retailing (includes internet, direct, and catalogue sales) that have a total market share above 0.1 percent. There are a total of 1,127 companies in the data. The spread in origins and sizes of countries leads to a large variation in the overall share of the market explained. For example, the sample includes 72.2% of the total retail sector of the United Kingdom as explained by the top 102 companies, and on the other extreme, captures only 2.2 percent of the Indian market. This variation is partially a function of total market size but also reflects the overall level of retail market organization, as markets in the early stage of retail transformation will likely be filled with traditional and family-run retail structures too small to be accounted for in the data.

Within each country, I have coded the origin of the brand-owner company<sup>9</sup> into a dichotomous variable of domestic or foreign-based, similar to the coding scheme in Figure 1.3, but without discriminating the regional origins of retailers. Looked at from the vantage point of each country, most retail companies have clear local or foreign origins. However, this coding strategy can complicate coding in a number of ways. For example, in Taiwan, President Chain Store Corporation is the licensed operator of Seven-eleven and a minority stakeholder in Carrefour. However, because the global brand-owners of these retailers are Seven & I holdings and Carrefour, I code both instances as foreign, which can lead to an underestimation of local companies' activities. Likewise, if the global retailer enters a market by minority stake acquisition of an existing local brand, the overall local share will be underestimated. However, this is not a problem for majority stake acquisitions by global companies, since the data set would list the actual owner (i.e., the multinational). For example, in Korea, Tesco is listed as Samsung-Tesco's brand-owner, and hence would be accurately coded as foreign. For brand-owning companies registered in regions other than the main country of operation, the country of actual operation was assumed to be the origin. For example, the X5 group, registered and headquartered in the Netherlands, will still be considered a Russian company since it primarily operates in Russia. Trader Joe's, despite sharing the same owners as the German Aldi, is coded American because it operates as an independent American firm.

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<sup>9</sup> The global brand-owner lists the global company that owns the brand name. In locations outside of its origination, the brand-owner might or might not directly be in charge of operating the brand. Often the brand-owner licenses rights to local companies to operate in select regions.

Despite the complications in coding, the total number of cases that show the above-mentioned problematic is a small portion of the total. It would not change the totals by a large margin if I opted for a different coding strategy.

[Table 2.1 About Here]

Table 2.1 lists the foreign brand share of each country out of the explained top share of the market. The large inter-country variation in the breakdown is noteworthy. On the one end of the spectrum is the United States, where only 11 out of top 93 brand owners are of foreign origin, accounting for less than six percent of the top market share. The other end is Malaysia, where close to seventy percent of the top share is accounted for by foreign brand owners. Occupying the middle is a range of countries that include China, Indonesia, Mexico, and Spain. The highly variable results provide support to the idea that the whole economies themselves should be examined as the primary units of analysis.

In the next section, I outline my theoretical counterargument and provide an empirical examination of the consumer market-building processes in Taiwan, Korea, Japan, and mainland China. These four Asian cases show high levels of internal variation and can be seen as subsets of larger economic types, generalizable to other economies.

### **2.3 ORGANIZATIONAL THEORY OF RETAIL TRANSFORMATION**

Understanding the varying success rates of global retailers necessitates a systematic framework for understanding how market competition is structured within host countries. Proposed here is a framework that builds on the business systems' literature that analyzes, with national firms or systems of firms at the center of analysis, how different societies exhibit variant institutionalized patterns for internally coordinating or controlling economic activities (Whitley 1992a; Whitley 1992b; Whitley 1999; Morgan and Whitley 2012). This framework places emphasis on two main firm characteristics that are dominantly observed economy-wide, thus providing the bases for market competition within given markets: First, the level of business group or firm concentration in the overall economy; second, time since industrialization. Time since industrialization serves as an indicator of the overall level of corporatization of the main businesses as well as the overall level of independent retail sector development.

This framework emphasizes examining the organizational characteristics of the dominant groups or firms within each economy to establish a set of hypotheses that predict how retail markets will become organized. I first present a typology based on the dominant institutionalized firm structure prior to the national retail organizations. Then I present a set of hypotheses that predicts how domestic and foreign retailers will be positioned within the competitive structure of each economy. The formulated typologies and hypotheses are based on how, first, the production and retail functions will be jointly organized within economies. This in turn predicts how such differences will have an effect on the cognitive retail format that gains dominance among the consumers, as well as the possibility of multinationals' success within the host economies.

In utilizing this framework, I take the view that multinationals *strategically localize* (Coe and Lee 2006; Wortmann 2011) their operations to different contexts, instead of using a singular approach to management. These localization processes do not reflect only an adjustment in entry strategies but an “interactive process that shapes, and is shaped by, market conditions in host economies” (Coe and Lee 2013: 332). Despite these strategies being context-dependent, the generalized types can provide assessments of the possible strategies that will be observable within different economic contexts.

Figure 2.1 outlines a typology of business system characteristics that cross-tabulates the level of business group concentration in the economy and time since industrialization. In this typology, the two dimensions, *level of business group concentration* and *time since industrialization*, are presented as discrete types, although they are continuous variables in nature. The cross-tabulation creates four ideal-types that will be especially fitting for economies with extreme levels of concentration or de-concentration and levels of industrialization. Countries with types of competing business system are expected to exhibit mixed characteristics seen in more than one of the predicted types.

[Figure 2.1 About Here]

In utilizing this typology, I argue that two dimensions are of particular importance. First, the *firm or business group concentration* indicates the share of the market that is accounted for by the activities of the top business groups and firms. In utilizing firm or

business group concentration as a dimension of economic organization, I build on Whitley's (1992a; 1999) conception of business systems as institutionalized arrangements of hierarchy-market relations. However, rather than operating from a business group or firm-centered view, I focus on the *overall* dominance of a given coordination and control mechanism within an economy. The degree of domination by large or small firms shows the overall reliance of the economy on hierarchies or inter-firm based coordination.

This aligns my use of this dimension closer to Feenstra and Hamilton's (2006) market power model, where they rework Saxenian's (1994) empirical examination of the industrial systems in Silicon Valley and Route 128 into a model of business groups that explains market structures of Korea and Taiwan. They consider two divergent models, one where a small set of very large vertically integrated business groups crowd out other competition in the economy and another characterized by decentralized networks of firms. In these two models, individual business groups establish their market power differently, which would make "entrants... face a very different lineup of authority and market power and would need to adapt their own strategy of action accordingly" (Feenstra and Hamilton 2006: 84). In the first setting, the companies fiercely compete to enhance their own market power in the entire economy. They internalize most of the production steps and deal less with competitors. In the second setting, individual firms jointly collaborate for the final product while handling different aspects of the production process. Firms occupy specialized niches and "establish monopolistic control over a

single link in the commodity chain” (Feenstra and Hamilton 2006: 84) instead of wielding power across the links.

The model that Feenstra and Hamilton lay out provides clear implications for the dimension: In highly concentrated economies, nationally influential large business groups fiercely compete for more market control. They show a high level cross-sectoral diversification, where they compete against similarly structured large firms or business groups. These economies show highly oligopolistic structures where a few dominant business groups or firms control a large share of the total market. In addition, there is an overall incentive for the business groups to become self-sufficient, whose tendency leads to an overall preference for vertical integration to inter-group deal making.

On the contrary, economies characterized by small levels of concentration exhibit a fragmented and dispersed structure, and are filled with multiple small firms. The total market power of main firms or business groups here is considerably less than the market power of large firms or business groups in concentrated economies. This type of economy exhibits a dispersed structure that incentivizes high-level specialization and niche domination rather than monopoly control of the entire market. Market competition here structures around competition between firms aiming to fill niche specializations or a “node” within given supply chain processes.

The second dimension, time since industrialization, is linked to two different aspects of markets and organizations that serve to organize competition differently; the overall level of corporatization of the main businesses and the overall level of retail sector development. First, time since industrialization of an economy is directly tied to

the overall level of corporatization of firms and business groups. Firms in industrialized economies of North America and Europe tend to be highly corporatized and jointly owned and run by professional managers. Industrializing economies of Asia and Latin America show lower levels of corporatization and higher levels of centralized ownership and control (Young et al. 2008). This level of corporatization is directly tied to the decision making pattern within firms and business groups. Firms in highly corporatized economies tend to exhibit dispersed structure of control and decision-making than in less corporatized economies.

The decision-making structure has consequences for how fast firms can make central decisions. Baum and Walley (2003) test the idea that firms tend to make faster decisions when the authority to make strategic decisions is centralized within the top management. They hypothesize that greater centralized strategic management reduces negotiation and need to achieve consensus. This lowers potential for conflict among board members and increases strategic decision-making speed by letting “strategic decision makers...move through the ‘attention,’ ‘option-generating,’ and ‘option-valuing’ phases more quickly than they would otherwise.” In addition, it encourages executives to “use intuition and other... fast-thinking processes” since they “do not have to justify personal thought process beyond top management” (Baum and Walley 2003: 1113).

The second dimension, time since industrialization of an economy, is directly tied to the overall level of retail sector development. Countries that have industrialized for a longer time can be expected to have a more developed domestic retail economy as the general income level is higher and domestic markets have been organized for longer.

Many developed economies will have strong local retailers who already systematized the retail markets with modern logistics facilities and distribution channels. In retail economies already well developed, competition is tougher for the multinationals with later entries. The advantages they have in developing countries in introducing modern retail formats, bringing in superior retail technology, and revolutionizing previously unorganized channels are hardly present in developed countries. Thus, the main concern of the foreign retailers here are not so much in revolutionizing the retail infrastructure and introducing formats to open up new host markets, but carving out a share of the existing marketplace against the strong local competitors.

The overlapping of these two dimensions, then, creates four possible distinct business system types. Following will be a discussion of these system types and how domestic retail will develop with each type as a starting point for retail sector organization. I set hypotheses that predict the relative possibility of success of foreign entrants and their operating strategies within each type.

*Type 1: Network Economy with Low Corporatization and Low Retail Organization*

Type 1 posits a small firm economy where majority of the firms or business groups are centrally managed and family-owned. The agglomeration economies of Taiwan, Italy, and Mexico fit this type of system where multiple small firms jointly coordinate their economic activities (Orru 1991; Lazerson and Lorenzoni 1999). In these economies, small levels of concentration are tied to high levels of specialization in firm activities. The low level of corporatization in Type 1 systems means the firms or business groups

centralize their decision-making processes, which allow for the top management to make quick and mobile business decisions. However, majority of these business groups and firms exhibit low-level affinity for vertical integration and diversification, and instead work to increase horizontal control within the sector they occupy.

These industrializing economies have relatively unorganized and traditional retail sectors. Specialized concentration of firms in production will leave a relative void in the retail economy, where foreign retailers have relative ease in entering and gaining influence. Flexible tie-ups between local and global firms are preferred since domestic firms have limited expertise in retail. Thus, all else being equal, we can expect the highest likelihood of foreign retailers' success in this type of economy. Joint venturing and M & A activities will be a pronounced method of market entry, and retail competition will more likely occur between foreign retailers rather than between local retailers.

*Hypothesis 1: Possibility of multinational retailers' success is high in economies characterized by small business group concentration and centralized ownership and control structure.*

The relatively weak development of the retail sector also has a set number of implications for the operational strategies of foreign retailers. Compared to economies with strong domestic retailers, the lack of competition will lead to a higher level of susceptibility of the locals to foreign formats that are differentiated from traditional formats. Thus, there is a higher likelihood that foreign retailers will use their own brand names rather than extensively localize operations. The retail know-how, global market power, and channeling strategies of the foreign retailers will serve as important

guidelines to the blueprint of the venture. Larger number of products will be sourced from the global distribution channels of the retailers, making the markets more international than the concentrated and primarily domestic economies (Type 2 and 4).

A number of empirical cases support this hypothesis. For example, in Mexico, with the exception of the largest Grupo Carso with diversified operations in unrelated sectors, most of the top domestic business groups show a relative focus in one or two activities, majority of which are in the production or upstream sectors (Hoshino 2010). The retail sector has been largely overlooked before Wal-Mart's entry. Wal-Mart's success did not happen through an extensive localization effort, but instead through heavy use and sharing of their global sourcing operations. Over time, Wal-Mart increased its share of imports from 20 percent in 1997 to 55 percent in 2002 and 2003, and especially increased the high percentage of imports from China, where majority of Wal-Mart's suppliers are located (Durand 2007). Likewise, in specialization economies, global retailers can be expected to be relied on for domestic market development. Taiwan as a case of a Type 1 economy will be examined below.

*Type 2: Concentrated Economy with Centralized Control and Low Retail Development*

Type 2 posits a concentrated economy characterized by a high level of business group concentration and centralized control and ownership. In highly concentrated economies, large proportions of economic activities are coordinated internally to the business groups. As small numbers of formidable business groups compete for more market control, groups prefer to internally coordinate the groups' activities rather than rely on external

deal-making. Continuous internal coordination of groups' activities reinforces the large-business dominated structure of market competition, where groups show high levels of vertical integration and internal transactions between affiliated firms.

In this type of economy, the structure of market competition incentivizes diversification of business group activities. Diversification becomes a common firm strategy to extend market power to previously unoccupied sectors of the economy. The central decision-making structure also expedites the process of diversification.

In cases of foreign entry, these nationally domineering business groups will rely on their central and flexible decision-making and already extensive market power to prevent the spread of intruding independent firms, and thus overwhelming success of foreign general merchandisers will be rare. We can expect the possibility of multinational retailers' success to be the lowest in the Type 2 system. South Korea, examined further below, provides the case in point.

*Hypothesis 2: There is a low possibility of multinational retailers' success in economies characterized by large business group concentration and centralized ownership and control structure.*

*Type 3: Highly Corporatized Specialization Economy with Developed Retail*

Type 3 posits an economy where core firms operate within sector and exhibit dispersed structure of control and ownership operated by salaried managers. Individual firm activities are highly specialized, and the non-core functions tend to be externally coordinated through outsourcing, or flexible cooperation with outside firms. The Type 3 system appears to be characteristic of a number of already well-developed economies, where numerous firms crowd highly specialized and competitive markets. Multinational

retailers can stand an equal chance of making it as the domestic firms, but success will likely depend on how successfully they compete within the context of the given market.

The U.S. is an example of a Type 3 economy.

*Hypothesis 3: There is a mixed possibility of multinational retailers' success in economies characterized by small business group concentration and dispersed ownership and control structure.*

*Type 4: Highly Corporatized, Large Firm Dominated Economy with Developed Retail*

Lastly, Type 4 posits an economy where large clusters of firms are jointly owned and managed. Similarly to Type 2 systems, the structure of the oligopolistic competition incentivizes internal-coordination of group activities since the groups are large and diversified with significant market power. However, the jointly owned structure of these business groups poses limits to the groups' ability to rapidly diversify and spin-off business lines. As a result, the groups will show relative structural stagnancy as to whether and how fast they can expand cross-sector. The Japanese *keiretsu* exhibiting heavy reliance on external firm relations show a dispersed structure of control where no clear central authority delegates the decisions for the cluster. Germany is another case of a Type 4 economy that, despite the limited cross-sectoral spread of business groups, possesses high level of market power and form sector-based oligopolies.

In this type of concentrated economies, the possibility of multinational success will be highly contingent upon the level of retail sector development. Given the relative stagnancy of the national business groups, the retail sector might or might not become equally concentrated by the same set of business groups. If the business group structure extends over to the retail sector, these economies will show a high level of retail

domination and make it challenging for foreign retailers to compete. It is also equally possible that independent retailers that developed over the course of longer industrialization crowd out the domestic markets. In the unlikely case of an absence of either systematic business group or independent retailer crowding of the retail sector, multinational retailers will be able to carve out their space within the retail sector.

*Hypothesis 4: Possibility of multinational retailers' success is dependent upon the structure of retail markets in economies characterized by large business group concentration and dispersed ownership and control structure.*

In the following chapter, I analyze retail market development of Taiwan, South Korea, and Japan, based on the proposed business system framework. I also add a brief section on China and offer predictions on how the market will continue to develop.

Country	Explained Market Share (%/Total N ) (1)+(2)	Domestic Share (%/ Total N) (1)	Foreign Share (%/Total N) (2)	Proportion Foreign Share (%) (2)/((1)+(2))
United States	55.3 (93)	52 (82)	3.3 (11)	5.97
Japan	41.3 (82)	37.5 (67)	3.8 (15)	9.2
India	2.2 (10)	1.9 (7)	0.3 (3)	13.64
Germany	62.3 (87)	52.4 (62)	9.9 (25)	15.89
United Kingdom	72.2 (102)	54.8 (75)	17.4 (27)	24.1
Korea	50 (39)	37.8 (23)	12.2 (16)	24.4
Russia	21.9 (53)	16.1 (35)	5.8 (18)	26.48
France	60.1 (70)	44 (45)	16.1 (25)	26.79
Indonesia	9.5 (18)	6.6 (12)	2.9 (6)	30.53
China	14.2 (48)	9.7 (33)	4.5 (15)	31.69
Italy	37.7 (55)	24.7 (32)	13 (23)	34.48
Spain	40.5 (44)	25.6 (19)	14.9 (25)	36.79
Mexico	45.4 (48)	27 (34)	18.4 (14)	40.53
Canada	60.1 (58)	30.1 (44)	30 (14)	49.92
Singapore	47.2 (79)	23.1 (32)	24.1 (47)	51.06
Brazil	31.2 (57)	14.4 (44)	16.8 (13)	53.85
Argentina	25.4 (39)	10.1 (22)	15.3 (17)	60.24
Taiwan	31.4 (54)	12 (30)	19.4 (24)	61.78
Thailand	34 (34)	11.4 (21)	22.6 (13)	66.47
Malaysia	35.5 (57)	11.4 (27)	24.1 (30)	67.89

Table 2.1 Share of Domestic and Foreign Retailers in Select Countries in 2011  
Source: Euromonitor International Passport (2012)

Figure 2.1 Typology of Business Systems

Low .....High <b>Business Group or Firm Concentration</b>		Late .....Early <b>Industrialization</b>
1. large total number of specialized firms and business groups  e.g., Taiwan, Italy, Mexico, Thailand	2. small number of large business groups  e.g., Korea, India	
3. conglomerates with dispersed ownership and control  e.g., U.S., England, Canada	4. small number of large jointly-owned corporations  e.g., Japan, Germany, Russia	

## CHAPTER THREE: ASIA'S RETAIL DEVELOPMENT

Taiwanese, Korean, and Japanese retail markets provide excellent empirical testing grounds for the business systems-based model of retail development. These three economies demonstrate how divergent business systems led to different paths to the retail transition. In each case, the structure of the larger production economy and of the market competition had consequences for the role of foreign retailers in the process of retail market organization. This section will empirically examine the transition to organized retailing in Taiwan, Korea, and Japan. Afterward, a short section will discuss mainland China and cover the processes of the ongoing transition in the food and general retailing sector as it has unfolded so far. I will then make predictions of how the competition between foreign and domestic companies will continue to progress in that country.

### 3.1 RETAIL REVOLUTION IN TAIWAN [Type 1 Economy]

Prior to 1970, a few standardized retail formats had been in place in Taiwan, albeit they were limited in scale. The local department stores of Da-Hsin, Hsin-Hsin, Hsin-Kuang, Lai-Lai, Sesame and Evergreen operated locations in urban areas, but with only one or two outlets per store (Chang and Sternquist 1993). Far Eastern Department Store had been the only large-scale listed department store since 1978, and the role of department stores in Taiwan to this date has been fairly marginal.

In the 1960s, the government and military introduced a number of supermarkets known as provisional stores or PX stores (Trappey and Lei 1997). These had a limited presence in Taiwan and therefore were not fully incorporated into the everyday

consumption patterns of the Taiwanese. Instead, wet markets and mom-and-pop stores dominated Taiwan's retail sector.

Major transitions to organized retailing began in the late 1970s. Neighborhood corner stores, wet markets, and supermarkets systematized through the introduction of foreign convenience stores and hypermarkets. As previously discussed, in 1979, 7-Eleven was introduced to Taiwan through a technology transfer between Uni-President group and Southland Corporation (Liu 1992). In the following years, other business groups, such as the Kuang Chuan group (FamilyMart and Hi-Life) and Taisun Group (FamilyMart), entered the convenience store sector by introducing Japanese and locally developed stores (Chung 2008). In the absence of competition from other firms or formats, the introduction of the convenience store format quickly transformed the food-retailing sector. In only a few years 7-Eleven was the highest grossing retailer in Taiwan, and Taiwan became the country with the highest density of convenience stores in the world. Only nineteen 7-Eleven stores operated in all of Taiwan in 1980. By 2009, the top three convenience store retailers (7-Eleven, FamilyMart, and Hi-Life) had more than 8,000 locations between them [See figure 3.1].

Further accelerating the retail revolution, Taiwan's government liberalized the retail market in 1986 (Hitoshi 2003). Once foreign direct investment was allowed, global retailers entered the market one after another through local tie-ups. Hong Kong and Japanese companies showed the most interest in the department store sector. Sincere of Hong Kong was one of the first foreign department stores to enter Taiwan. It was followed by a number of Japanese department stores, most notably Pacific Sogo in 1987,

but also Shin Kong Mitsukoshi, and Dayeh Takashimaya. In addition to the formerly mentioned joint-ventures, Japanese department store companies also engaged in technical cooperation with Taiwanese companies, notably FIT Today, Ming Yao, and Tuntex (Hong Kong Trade Development Council [HKTDC] 1997).

More sweeping changes occurred in the hypermarket and food retailing sector with participation of reputable Western and regional retailers. In the hypermarket sector, Holland-based retail group Makro entered in 1989 through a tie-up with Holmsgreen Holdings. Carrefour entered in 1989, through a joint venture with Uni-president Enterprise Corp. French retailer Promodès entered in 1993 through a joint venture with department store retailer Far Eastern Group, and Costco entered in 1997 through a joint venture with President Group [for information on the trends in number of outlets of top hypermarket retailers, see Figure 3.2]. In the supermarket sector, Hong Kong and Japanese firms showed the most interest. Hong Kong's Dairy Farm Groups' supermarket chain Wellcome entered through an acquisition of a local chain DingHao in 1987, becoming Taiwan's largest supermarket chain with 166 outlets as of 2006. Park'N'Shop of Hong Kong, and Japanese run Sung Ching and Yumaowu have also entered, albeit smaller in scope than the domineering Wellcome<sup>10</sup> ([HKTDC] 1997). During this period, a limited number of local chains have additionally developed. Some of these have been

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<sup>10</sup> Wellcome is often credited for most successfully introducing elements of Western style supermarket retailing into Taiwan. They were the first to run a centralized distribution system (Trappey and Lei 1997) and pursued an aggressive expansion strategy. They acquired multiple outlets of declining local retailers, such as Meichun and Huey-Yang, as well as opened a large number of new outlets. They introduced "Wellcome Plus" outlets Jason's Marketplace, a high-end market with an emphasis on imported goods and organics (Chinoy 2006).

exceptionally successful, notably, RT-Mart by Ruentex Group (founded in 1996).

Together, these convenience store, hypermarket, and supermarket retailers opened up new cultures of consumption and introduced a host of retail formats [See Table 3.1 for information on the format and lineup of the Taiwanese retail groups],

Though a number of domestic retailers developed once the new retail formats gained traction, tie-ups with foreign retailers have been the main mode of entry into general merchandising and food retailing for Taiwanese business groups. Domestic business groups and global retailers organized Taiwan's retail sector through licensing and technology transfers at first, and later through joint venturing. This transformation process revolved around the collaborative effort between global retailers and domestic business groups. As a result, rather than domestic business groups focusing on developing their own retail brands, they directed their energies to assisting the high level visibility of foreign consumer goods and retail brands in Taiwan. This collaborative effort contributed to the overall success of the foreign retailers in Taiwan, especially relative to foreign retailers in Japan and Korea. Thus, the overall dominance of foreign retailers such as Carrefour and 7-Eleven in Taiwan needs to be analyzed within the context of the entire Taiwanese economy and, in particular, the activities of its main businesses.

The particular characteristics of Taiwan's business system have contributed to the overall dominance of foreign retailers in a number of ways. First and foremost, the Taiwanese economy developed disproportionately around export-oriented manufacturing, a sector in which the majority of the country's large number of small and medium sized enterprises (SME) are invested. These highly specialized SMEs typically take part in

flexible “satellite assembly systems,” where each firm makes different component parts for a final product that will later be assembled (Feenstra and Hamilton 2006). The joint activities of these SMEs led Taiwan to develop into a demand-responsive export driven economy (Hamilton and Kao 2007). These firms’ focus on manufacturing, and the incentive Taiwanese manufacturers have, to horizontally control product areas while maintaining collaborative relationships with partners, has meant that firms are not incentivized to vertically integrate or to diversify cross-sector.

Second, because the Taiwanese economy is a specialization economy where the majority of the SMEs occupy the manufacturing sector, the task of developing the domestic economy is left to a small number of remaining firms, which are the domestic business groups, if not independent retailers. However, even the largest of the Taiwanese business groups have developed only a limited cross-sectoral ability and their activities account for only a relatively small proportion of the total output of the economy. Many of the earliest business groups, set up in the 1950s and 1960s, operated in the Taiwan’s first wave industries such as textiles, chemicals, food, and plastic (Chung and Mahmood 2010). In the 1970s and the 1980s, a new wave of groups emerged, almost all of whom operate in the electronics sector and led Taiwan to become a leading global provider of computer chips, LCD monitors, LAN equipment, and PDAs (Chung and Mahmood 2010).

These business groups diversified somewhat between the 1980s and the 1990s as a result of the government’s privatization of state-owned firms and monopolized sectors, but this trend was minimal at best. The mergers and acquisitions of the state-owned firms

and monopolized businesses were only in select industries, such as aviation, banking, transportation, and television (Chung and Mahmood 2010). Business groups in electronics, plastics, and textiles also expanded, but these expansions were piecemeal or into closely related industries. These developments did not suffice to bring them control of a greater portion of the economy. Even with diversification, Taiwanese business groups are significantly smaller in size and operational capacity than the Japanese or Korean counterparts. Only a handful of groups have ever tapped into the retail sector, albeit with limited cross-sector capacities and experience in modern retailing. These groups have their origins in the light manufacturing of food (Uni-President, Kuang Chuan, and Wei-Chuan Group), textile (Far Eastern Group) and department store retailing (President, and Mercuries & Associates Group).

As these business groups possessed relatively low-level specialty in retailing, technology transfers and direct tie-ups with foreign firms have proven to be beneficial strategies for developing the domestic market. The resulting operations directly reflect the collaborative dynamics in how information sharing and mutual learning advances the partnership between the multinational and domestic business group. This is well-illustrated through the case of Uni-President Group's development into the largest retailer in Taiwan.

Taiwanese retail market dynamics revolve around inter-firm coordination between firms that possess a set of mutually complimenting strengths. For example, Uni-President Group's partnership with Seven & I, the firm the owns the 7-Eleven convenience store chain, not only allowed Uni-President Group to solve issues with its traditional

distribution channels by vertically integrating the operations (Liu 1992), but it also allowed the group to introduce modern food retailing in a market where large-scale chain retailing was unprecedented. Uni-President group grew 7-Eleven into the largest retailer in Taiwan as it simultaneously developed its knowledge of retail operations and Taiwanese consumers. It used its own subsidiary President Chain Store Corporation (PCSC) to start the production of private-label lines with higher profit margins under brand names including 7-11, Zuoxuan sucai, Yuanwei juexing, and City café<sup>11</sup> and set up its own distribution center to vertically-integrate the issue of food production, distribution, and retail.

Uni-President Corp's prior retail experience and its position as the largest food manufacturer in Taiwan inspired Carrefour to choose it as their local partner upon their first entry into Asia in 1989. While the Uni-President could share the knowledge it gained from prior retail experiences in its new partnership with Carrefour, it could also double up as a local supplier of food items. Carrefour's expertise in hypermarket retailing opened up new opportunities for Uni-President Corp to expand into a new format. Uni-President Corp relied on its new partner's already well-established reputation as the world's leading hypermarket retailer.

The partnership between the two companies resulted in further blending of each party's expertise. They operated under the globally recognizable Carrefour brand name, and introduced a new store concept, the "shops-in-shop." This format combines the shopping area with specialty vendors and food service businesses. Management know-

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<sup>11</sup> Currently, PCSC's product mix includes about 6-7% private-label goods, all of which are supplied by Uni-president.

how for this style of business originated from France (Chinomona and Sibanda 2013). The vendor mix was determined by the local partners. They have also used a mix of global and locally inspired promotion strategies. They retained their “Everyday Low Cost” pricing strategy, “global promotion strategies,” foreign product promotions, and the coupon system. They decided to delegate the decisions of the exact mix of promotions to local managers. The partnership relied on locally-produced electronic gadgets to conform with the Government’s call for promoting power saving electrical gadgets (Chinomona and Sibanda 2013: 54). They also relied on Uni-President and local suppliers for sourcing.

These joint ventures between Taiwanese business groups and global retailers crucially relied on information sharing and expertise-blending collaboration in opening up Taiwan’s retail market. This resulted in both the current organization of the retail sector and a retail economy with the largest presence of global retailers in Asia. It is crucial to emphasize that during this process, the economic system was filled with domestic firms that were highly specialized and overwhelmingly concentrated in manufacturing with limited cross-sectoral capacity. Therefore, the most viable option for retail sector development had to be international partnerships between domestic and global retail firms as the domestic firms were unprepared to undertake such a task alone.

With local competition almost nonexistent, global retailers could use their standardized store formats and branding strategies with relatively minimal localization effort to dominate the local markets. Consumers did not yet have an experience to serve as a comparison standard. As a result, the country’s strongest retailers, the 7-Elevens,

Carrefours, and Costcos, developed into retail locations that look and feel just like the successful 7-Elevens, Carrefours, and Costcos abroad. The stores operate under the foreign partners' names and rely on the formats guided by foreign firm's operations.

In Taiwan's retail market, competitive strength depends less on mimetic diversification and creation of format-spanning retail empires (as in the case of Japan and Korea, which we will examine later), but more on retailers successfully occupying previously underdeveloped and un-crowded sectors. The competitive dynamics are between the different global brand-owners with local partnerships, rather than being between local and global firms. The low level of domestic business group concentration in retail results in relatively low concentration of the retail sector. Business groups' and retailers' operate in isolated, select retail formats with only a small degree of diversification. The limited competition allows higher-level uniformity of retail operations with global standards, and allows for a high level of foreign retailer penetration.

Foreign retail failures, then, do not result from the strong market power of domestic retailers. They are the result of competition between the retail chains, which are often foreign themselves. Both Makro's and Tesco's divestiture were the consequence of the retailers losing out on the hypermarket battle against the dominant global retailers Carrefour and Costco, rather than due to the strong market power of domestic firms that competed against the retailers' international expansion.

### **3.2 RETAIL REVOLUTION IN KOREA [Type 2 Economy]**

As recently as in 1996, mom-and-pop stores with fewer than 5 employees accounted for almost 80 percent of Korea's retail market (Kim and Kim 2003). Since then, the domestic economy has transformed into a consumer economy with a variety of modern store formats and organized retailing. Leading this transition was some of the largest *chaebol*, who used their centralized decision-making structure and large market power to dramatically transform the once highly inefficient and traditional food-retailing sector.

Over the two decades starting from 1993, the *chaebol* developed and expanded their retail operations, which were once marginal to their diversified set of activities. In 1993, Shinsegae group opened Korea's first hypermarket, E-Mart, and in the following year launched discounter Price Club through a technology transfer with Costco. Other *chaebols* followed suit in opening retailing businesses. In 1996, LG opened the first LG mart. In 1997, Samsung opened Homeplus. In 1998, Lotte started operating its hypermarket chain LotteMart. By 2011, the leading hypermarket retailers E-Mart, LotteMart, and Homeplus each had, respectively, 135, 92, and 123 outlets nationwide. As shown in Figure 3.3, these changes led to a dramatic increase in this format over a short period of time.

As the hypermarket sector became saturated by the late 1990s, the retailers increasingly struggled to secure large enough real estate to open new stores. The same set of *chaebol* started systematizing neighborhood corner stores, previously the territory of

mom-and-pop shops. As Shinsaegae opened their first SSM<sup>12</sup>, E-mart Everyday in 1999, other retail *chaebol* immediately followed suit. Lotte started to operate LotteSuper the next year, followed by HomePlus Express in 2004. This format, which was almost nonexistent before the 2000s, expanded to over 1,100 locations by the end of 2012, as seen in Figure 3.4. Since 2000, the same set of *chaebol* retailers introduced a number of other retail formats, including non-store retailing (catalog, TV, and e-commerce sales), food outlets, and category killers.

This dramatic change to organized retail intensified during the decade after 2000. During that decade, total traditional nationwide market sales halved from 40 trillion won to 20 trillion won (Cho 2012), displacing a large number of traditional distributors, wholesalers, and merchants. While traditional structures declined, discount stores overtook department stores as the largest format in the 2000s and by 2009 accounted for 35% of all formal retail sales [Figure 3.5] (Coe and Lee 2013).

A number of trends are particularly noteworthy for the Korean case of retail revolution. First, the primary modernizers of the Korean retail sector are the subsidiaries or spun-off *chaebol* groups, the same groups or groups tightly linked (by sharing common roots and often owned by members of the same family) to the *chaebol* groups that dominate the export-oriented manufacturing sector. These retail *chaebol* emerged after an extensive corporate restructuring in the aftermath of the 1997 Asian financial crisis, during which process the largest *chaebol* groups were pressed to reform and liquidate their “non-viable” subsidiaries and affiliates. The financial crisis caused the

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<sup>12</sup> SSM stands for “Super Supermarkets”; chain-food retailers measuring between 1,000 and 3,000 square meters.

bankruptcy of half of the 30 largest *chaebol*, while the top groups were pressed to reorganized through voluntary business division swaps and disposing unprofitable and non-core business lines. In turn this restructuring produced a number of *chaebol* spinoffs that became the core retail groups. Ironically, though the measure was meant to reduce the overall dependence of the Korean economy on the *chaebol*, the group reform has not corrected the issue of concentration. Instead, it led a host of “new” groups to emerge in the top *chaebol* ranks alongside their former parent groups, leading to further concentration of the domestic market.

The most notable among the spinoffs created include Shinsegae (spun off from Samsung Group), Hyundai Department Store group (spun off from Hyundai Group), and GS holdings (spun off from LG Group). These were once relatively marginal subsidiaries of their parent groups. Now, they operate first and foremost as retail businesses, and so they channel their energy into retail development and expansion. In addition to these spinoffs, Lotte, a Korean-Japanese company that managed to keep their group structure relatively intact through the crisis years, also has been successful diversifying beyond their main business lines of food manufacturing, department store and hotel operations into retailing to compete against the others [For their specific store names and formats, see Table 3.2].

Second, the strategies the retail *chaebol* have utilized for domestic market domination resemble their predecessors’ - the manufacturing *chaebol*- in many ways. They have flexibly expanded and diversified to dominate multiple sectors of the domestic

economy over a brief span of time, and they compete fiercely against their competitors using vertical integration and strategies of market domination.

The competitive and almost simultaneous format development of the *chaebol* retailers demonstrates the high level of competitive pressure in the Korean market. Retail *chaebol* try to increase their respective market power by monitoring their competitors closely and quickly following them into the same sectors that they enter to ensure they do not lose out. Competitors spin out stores mimicking the first mover within a year, if not months. This trend in mimetic diversification was pronounced throughout the formative years of the production industries. It has also been seen in the retail sector with the consequence that large numbers of traditional wholesalers and mom-and-pop stores were displaced.

Information sharing between *chaebol* groups is rare. The competitive market environment is characterized by a lack of trust between retailers. Thus, coordination in activities tends to happen within each *chaebol*. Each *chaebol* retail group has focused on increasing their market power vis-à-vis competitors by opening stores in larger numbers and newer formats by equipping themselves with internal distribution and logistics infrastructure. The tendency to resist collaborative supply chain practices is revealed in the fact that only 46.3% of retailers and suppliers in Korea responded to ever have used third-party logistics systems, compared to Japan where 80% of companies used third-party logistics in 2008 (Kim 2009a). Most Korean retailers have worked to establish their own distribution centers to enhance supply-chain practices. It was noted during the 2012 Ministry of Land, Transport, and Maritime Affairs audit that out of the 12 logistic

companies that belong to the largest 47 business groups, five companies show an internal transaction rate<sup>13</sup> above 90%<sup>14</sup> (Ch'u 2012).

As these firms depend heavily on their internal capacity for logistics and distribution practices rather than on inter-firm coordination, there also exists evidence that the *chaebol* retailers give preference to suppliers within trusted network ties or with affiliate status. For instance, in October 2012, the Korean Fair Trade Commission fined Shinsegae group and its affiliates over 4 billion won on the charge that the retailers unfairly discounted the surcharge for commissions on affiliates' products (Kim 2012). Lotte retailers also have been accused of boosting their own sales by promoting their manufacturer's products over competitors' and renting out hypermarket retail spaces exclusively to their affiliates like Lotte card, Lotte capital, Uniqlo (Japanese fast fashion brand which Lotte is licensed to operate in Korea) and natuur (Ku 2013). Similarly, 16.87% of Hyundai Department Store groups' total sales from 2012 derived from transactions with its affiliates (Lee 2011b). Most recently *chaebol* retailers have been in the middle of public outcry as the daughters of various group owners used individual stock to launch bakeries where the affiliates provided retail space (Kim 2012d).

These exclusive market practices of relying heavily on business groups' internal hierarchies and networks are characteristic of the competition structure that systematized the Korean market. Therefore, when analyzing foreign retailers' performance, it is

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<sup>13</sup> This rate reveals the extent to which a *chaebol* is doing business entirely within their own business network.

<sup>14</sup> For example, 100% of STS Logistics's sales come from the transaction with GS groups' subsidiaries, 97.1% of Lotte Logistics's sales come internally from Lotte Group, and 92.9% of Samsung Electronic Logitech's sales derived from intra-group activities within Samsung Group (Ch'u 2012).

important to place their experience within this context of domestic competition. It is in this light that upon comparison, the reasons for the failures or successes of retailers are illuminated.

Wal-Mart, Tesco, and Carrefour entered Korea after the government liberalized the retail sector in 1996. Carrefour entered through acquiring the Bu Cheon store in 1996 and Wal-Mart through acquiring Makro Korea in 1998. In contrast, Tesco opted for a merger with Samsung's distribution unit (Samsung C&T Co.), which had been operating the discounter Homeplus since 1997. Samsung-Tesco was established in May 1999 after Tesco invested \$200 million for a 51 percent stake in the company, which it gradually increased to wholly-owned by 2011. By 2005, Samsung-Tesco grew to become the number two hypermarket retailer (after Shinsegae's E-Mart) in Korea with a 17% share of the market, while Carrefour and Wal-Mart only claimed 8.3% and 3.7% of the hypermarket sector (Euromonitor 2012) prior to announcing their exit.

Wal-Mart's and Carrefour's failures in Korea have been studied from the conventional viewpoints that utilize idiosyncratic and economic explanations. Gandolfi and Strach (2009) believe it was a combination of Koreans' consumer nationalism and Wal-Mart's misunderstanding of the cultural preferences that led to its failure. Reciting local newspapers, they argue that Wal-Mart failed to both present their goods in a localized fashion and to provide a visually appealing display of products. Had they "adjust[ed] business practices to the key idiosyncrasies of a foreign culture" (Gandolfi and Strach 2009: 195), they suggest, the results might have been different. Similar arguments have made about the failure of Carrefour.

However, merely aligning their business practices with local preferences would not have reversed the failure of Wal-Mart and Carrefour in Korea. More significantly, as wholly owned subsidiaries, both retailers failed to compete against the large *chaebol* retailers that rapidly redefined the rules of food retailing. Wal-Mart and Carrefour entered in 1996 and 1998 when *chaebol* food retailing was in its earlier stages of development. For instance, Shinsegae only had six Emart stores by 1996 and thirteen by the end of 1998. This increased to 135 by the end of 2011. The local retailers rapidly crowded the food retailing sector by relying on their ability to flexibly diversify and exert market power. While local retailers with stronger ties to producers formed strategic partnerships (e.g., the partnerships between Pulmuone and Shinsegae, and Emart's appreciation week for CJ Group<sup>15</sup>) and aggressively duplicated stores, Wal-Mart and Carrefour suffered from self-imposed isolation as foreign retailers with no local partners.

During the earlier stages of hypermarket retailing (1993-1998), local retailers quickly developed "Korean-style Discount Stores" that combined the idea of discount retailing and the strong orientation towards customers that is found in department stores (Choi 2003). They quickly altered customers' tastes to be attracted to these localized retail formats and strategies, while Wal-Mart and Carrefour inflexibly insisted on the universal recipes that were based on their prior international experience, hence further exacerbating their "foreignness". They were unable to modify their strategies to the local competitive pressure, and lost the battle against local retailers to hegemonically define

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<sup>15</sup> CJ Group is another 1997 spin-off group from Samsung group. Currently, the group is run by Lee Jae Hyun, grandson of the Samsung Group founder Lee Byung-chul and son of Lee Maeng-Hee. Shinsegae, also a Samsung group spin-off, is run by Lee Myung hee, also daughter of Lee Byung-chul.

the cognitive retail blueprint that would restructure the Korean market. Their problem was not their inability to adjust their strategies to idiosyncratic consumer tastes, which pre-dated the emergence of discount retailing, but rather was their failure to win over the cognitive blueprint of the retail format that would define the sector against the local retailers.

Tesco, in contrast, succeeded in gaining a foothold into the Korean market by strategically utilizing its partnership with Samsung. Tesco found Samsung at a fortunate time. Samsung was debt-laden after the financial crisis and seeking foreign investments into its distribution unit. The two formed the Samsung-Tesco joint venture in 1999. The strategic partnership benefitted both sides; Samsung's hypermarket unit benefitted through direct transfer of retail technology and knowledge from Tesco, including customer focus skills, site research and property acquisition abilities, supply chain management techniques, private label development expertise, store layout plans, and fresh food retail skills, financial and discipline knowledge as well as its global sourcing operations (Wrigley and Currah 2004; Coe and Lee 2013). Tesco benefitted from Samsung's reputation and ties to the local market.

Samsung-Tesco maintained the Homeplus brand that Samsung developed before their partnership to give South Korean consumers an impression of being an influential domestic retailer. They also used the ties with Samsung to deepen the partnership's "territorial embeddedness." Coe and Lee (2013) examine localized learning and innovation by Samsung-Tesco, a practice which helped their rapid expansion despite being a latecomer. For example, they introduced a "value store" approach, which

emphasizes the “comfort and convenience of consumers” balancing “price and retail environment” (Coe and Lee 2013: 343) in 2000. In 2007, they continued to drive format innovation as they launched “third generation discount stores” which combined cultural facilities to its retail locations, including art galleries, sauna, driving range, and a health club. They have also expanded its local and global supply bases, utilizing Tesco’s regional sourcing infrastructure and relying on local directors for local purchasing (Coe and Lee 2013).

Tesco’s case in Korea is an exception that proves the type, a rare example of a foreign success in the highly concentrated market. They have done this through an unusual case of close cooperation with a dominant *chaebol* that helped position Tesco within the competitive structure of the Korean marketplace. However, even for this exceptional case of partnership, collaboration with a *chaebol* was required for success. This shows how the dominance of the *chaebol* structure is undisputable.

### **3.3 RETAIL REVOLUTION IN JAPAN [Type 4 Economy]**

Japan provides the earliest case of organized retail development in Asia. The retail revolution in Japan proceeded as new clusters of domestic retail empires emerged and increased their domestic and international influence. The main drivers of the Japanese revolution were general merchandisers and convenience store retailers such as Ito-Yokado, Daiei, and Aeon/Jusco. These emerged in the postwar period and massively grew during the boom days of the 1960s to 1980s. During the retail revolution, they

developed into large format-spinning retail empires through extensive networking with independent suppliers, technology research firms, and technology provider firms.

The development of these retail empires proceeded relatively independently from the dominant Japanese industrial groupings, the bank-oriented, horizontal *keiretsu*. The *keiretsu* are jointly owned with high levels of cross-shareholding and are not centrally managed. The six major bank-centered *keiretsu* (also called the horizontal *keiretsu*) – Mitsui, Mitsubishi, Sumitomo, Fuyo, Sanwa, and Dai-Ichi Kangyo- are centered around a core commercial bank. Their member firms include other financial institutions, general trading companies, and industrial firms.

The influence of the six *keiretsu* groupings is far reaching in the industrial and financial sectors, extending to large independent corporations as well as to the small and medium enterprises (SMEs). A large proportion of these independent SMEs are tied to business groups through subcontracting relationships or by affiliation (Toshio 1989). The affiliated firms tightly coordinate their manufacturing activities, aid other members by giving priority pricing and loaning out workers, as well as share financial risks by organizing around a central bank (Gerlach 1992; Lincoln and Gerlach 2004).

Despite their overwhelming dominance in the Japanese industrial economy, horizontal *keiretsu*'s influence in retail has become restrained over time. With their decentralized authority structure and limited ability to spin out new business lines quickly, they have not been able to expand their retail operations. Before the 1970s, the horizontal *keiretsu* had a sizable influence in modern retailing as major department stores operated as part of their groupings. Mitsukoshi operated as part of Mitsui group until

2008 before merging into Isetan, Takashimaya as part of the Sanwa group, Isetan as part of Mitsubishi, and Hanshin as part of the Sumitomo group. These department stores, which dominated the urban and regional retail landscape of Japan up until the 1980s, often have century-long histories with origins as kimono stores, or the more recent ones, parts of railway companies (Chizuko 1998). These stores co-evolved with the traditional Japanese distribution system (Tatsuki 1995).

These stores extensively focused on innovative aspects of store operations including “displaying goods,... all kinds of sales-related activities - from advertising to home deliveries by way of art and cultural exhibitions” (Moeran 1998: 142). As historian Hatsuda Tōru (1993) points out, early department stores concentrated a lot of effort on expository elements and providing spectacles, including art exhibitions, installment of elevators and escalators, rooftop amusement gardens, and opulent European-style architecture. These elements functioned to provide education to their potential customers on trends and aesthetics, while also triggering their desire to consume. The department stores also played a role in introducing, disseminating, and “domesticating” various foreign merchandises to customers who, in turn, learned to consume them and embraced them as symbols of status, culture, and taste. For these efforts, department stores have been credited for creating and contributing to a new culture of consumption (Creighton 1991).

While they made extensive efforts in marketing and store operations, department stores operated under a manufacturer-driven system where retailers did not take active control over their distribution channels. To source expensive and exotic products meant

that department stores had to rely heavily on wholesalers. Part of the reason for this reliance has been attributed to the lack of professional knowledge about general resources and management of the department store operators at the time (Takaoka 1997; von Mandach 2010). Instead of finding ways to gain control over the products they were selling, department stores established long-lasting and vertical relationships with suppliers. They operated on a consignment system where the suppliers and wholesalers were responsible for much of the actual retail operation (Sternquist, Chung, and Ogawa 2000). Suppliers had control over almost every aspect of the retail operation including control of the sales space, the sales staff, and even merchandise pricing (Larke and Causton 2005). Suppliers also dispatched their own salespersons to monitor consumer trends and acquire expertise. This type of system generated low markups for the department stores compared to the prewar system of direct purchase. However, from the perspective of the department store, this model of consignment and lower profit-to-sales ratio constituted a low risk strategy and also addressed the issues of managerial shortage they were facing (Kikkawa and Takaoka 1998).

According to the Economist (2000),

Japanese department stores... have never really been retailers, and so have few retailing skills. Unlike counterparts in America or Europe, they have traditionally acted more like property developers or shopping-mall operators, earning most of their revenue by renting out space to tenants in return for a small slice of their profits. Thus, tenants and middlemen often controlled design and pricing strategies.

Despite the inefficiencies, department stores expanded in the postwar period. This expansion was mainly triggered by the reliance on wholesalers, suppliers, and

salespeople who had access to the new upscale and Western products that customers lusted after. Its expansion coincided with the heyday of the luxury boom and conspicuous consumption, when consumers stockpiled the most expensive items from various high end stores and from trips abroad. These stores have been in decline with the collapse of the bubble economy. As the “bubble era” came to an end in the early 1990s, consumption of luxury goods declined and the Japanese department stores found themselves in trouble. The economic downturn certainly had a negative effect and added significant debt to their balance sheets, but the core cause of the decline of department stores was more from the limitation of the manufacturer-driven consignment system, high operation costs, low profit margins, and a narrow focus on marketing. Department stores were no longer able to safeguard themselves from changes in the marketplace and the rising competition from other formats.

While the horizontal *keiretsu*-involved department stores went into decline, other independent entrants made headway into the retail sector by successfully expanding into other retail formats, such as the supermarket and general merchandisers. The sales balance between department stores and supermarket retailers had slowly tipped until supermarkets took away the market dominance of department stores in the mid-1990s [See Figure 3.6 for sale trends by format]. In the 1960s, the top retailers were all department stores. This has gradually been replaced by vertical retailers. Around the year 2000, the majority of the top ten retailers were supermarket and general merchandisers [Table 3.3 displays the annual rankings of retailers from 1960 to 1999]. This process has been accompanied by the slow, yet groundbreaking, emergence and growth of retail

empires in the Japanese retail sector. Companies such as Daiei, Ito-Yokado, Aeon/Jusco, Seiyu, and Uny have aggressively challenged the manufacturer-driven market structure and brought a set of innovations that modernized Japanese retail through general merchandise and later multiple formats (Larke and Causton 2005). These stores, which first appeared in the 1960s, focused on strategies of high volume, low margin, and high turnover, with a focus on standardized items that could be bulk purchased. They also introduced self-service stores and pursued aggressive promotion policies, initially generating backlash both from manufacturers and also wholesalers (Yoshino 1971). Manufacturers initially refused to sell to supermarkets that failed to accept the MSRP (manufacturer's suggested retail price), while others were concerned that the trading power of these retailers, as well as the mass manufacturing and mass purchasing required by this type of system, would lead to a decrease of wholesalers in the distribution system (Azuma and Fernie 2001). This complicated battle between the different parties in the supply chain was only partially won by the retailers in the 1960s. That is to note that the manufacturers, had to continue to deal with the retailers for their large sales volumes. However, on the distribution side, retailers only secured a limited amount of direct sourcing. As a result, they continued to source from the existing multi-stage distribution channels, which marked up prices considerably. Multiple studies document why this failure in the early "distribution revolution" might have been the case. The broadest consensus is that supermarkets had to abstain from setting up their own distribution networks to ensure a constant supply of products and to avoid conflicts with manufacturers and manufacturer-designated wholesalers (Meyer-Ohle 2002). It is also

important to note that these durable ties that the retailers and suppliers created over time were crucial in ensuring the stability of retailers' position in the Japanese market. These were ties that many later-entering foreign entrants did not have and a complexity they often failed to navigate through. We will see later through the case of 7-Eleven that retailers gain more leverage against manufacturers in late 1990s, but the historic conflict between retailer and manufacturer colored the present structure of Japanese retailing.

It is notable that retailers gained not only wider influence in the Japanese retail sector, but also grew into *keiretsu* groups in their own rights. The retailers, rather than coordinating through market processes, have gradually formed stable inter-firm clustering to either internalize inter-firm linkages within their vertical *keiretsu* groupings or built long-lasting supply relationships outside of such grouping. Vertical *keiretsu* that result from these processes are more focused in their sectors of operation, which are usually in manufacturing sectors of automobiles, consumer electronics, pharmaceuticals, and cosmetics, or in distribution, compared to horizontal *keiretsu* that operate intra-market, and coordinate various market activities through established ties with suppliers, wholesalers, retailers, and distributors<sup>16</sup>. The groups are vertically structured between independent companies, subsidiaries, and affiliates. They show prominent differences from the horizontal *keiretsu* in the ways that equity ties and finance are not as significant for cohesion, which, “are frequently less important than the use of business practices ...such as rebate and return policies,” and in forming “integrative marketing channels.” Firm membership in these vertical *keiretsu* results from the core companies' development

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<sup>16</sup> This coordination is often top-to-bottom for manufacturers and bottom-up for retailers.

of exclusive relationships with supplies and affiliates over time, or “from having an internal function spun-off, creating a nominally/legally independent affiliate” (United States Internal Trade Commission 1990: 54). Shareholding shows clear vertical control in authority as it tends to be characterized by unidirectional holding of the lead-firm than reciprocal cross-shareholding widely seen in the horizontal keiretsu (United States Internal Trade Commission 1990).

The organizational characteristics led retail groups to form the large retail empires that dominate the Japanese retail market. The vertical system of control within these new *keiretsu* retailers allowed for centralized decision making by the parent company regarding resource channeling and operations of its affiliates. The capacity for multi-format retail operations allowed for a collective effort between the group affiliates in private brand development, sourcing, and arranging joint store delivery (especially since the 1990s). These efforts are prominently seen between affiliated hypermarkets and convenience stores (Meyer-Ohle 2000).

Retail clustering around a central parent company has been widely used as an expansion strategy and one to enhance market power. For example, Ito-Yokado, besides its main supermarkets, expanded to operate department stores (York Matsuzakaya), discount stores (Daikuma), specialty stores (Merian), and convenience stores (7-Eleven Japan). It also branched out into restaurants (Denny’s), mail order, food production, real estate, and finance (Bird 2002: 206). By 2001, Ito-Yokado Corp. included 52 consolidated subsidiaries and six affiliates (Dodwell 2000). Out of the group companies 7-Eleven has gained a particular prominence and has emerged as a powerful subsidiary

through channeling the resources of its holding group. In 2005, it purchased a 65% stake in Millennium Retailing, the parent of Sogo and Seibu Department stores, to become the largest retailer in Japan. Their growing influence led the chairman to entirely regroup Ito-Yokado Corporation under Seven & I Holdings, and to promote 7-Eleven as the central brand of the company (Gaspari 2011).

Similarly to Ito-Yokado, other retailers such as Daiei, Aeon, Seiyu, and Mycal have integrated their expanding business lines into a vertical group structure [See Table 3.4 for the retail involvement of the largest vertical keiretsu]. For relationships that are not integrated within the structure, retailers established lasting, exclusive, and collaborative ties. This brought increasing strategic collaboration between manufacturers and retailers in supply chain practices. Since the 1990s, the collaborative practices allowed large retailers to gain more control over their distribution channels, which in the past have been manufacturer-led.

A well-known example of a retailer's effort to nurture ties with its suppliers in order to create retailer-led supply networks is that of 7-Eleven. In 1997, 7-Eleven's 25 wholesalers launched a joint company with the sole purpose of supplying 7-Eleven with daily goods. This changed the role of retailers from being the sales agents of manufacturers to purchase agents for their own business (Meyer-Ohle 2000). They overcame the problem of relying on traditional distribution channels. Since wholesalers typically supplied items of only a single manufacturer, retailers had to deal with multiple wholesalers to get a large assortment of products. This cumbersome process was avoided with the launch of the joint company. 7-Eleven also entered into direct negotiations with

manufacturers to set the purchase price themselves. They established distribution centers to be shared by wholesalers and organized joint delivery. Meyer-Ohle (2000: 126), after his study of 200 cases of retail market cooperation, concludes that “the success of Seven-Eleven[sic] in transforming the distribution structure to its needs has to be heavily attributed to the company’s policy of establishing long-term relationships with its suppliers.” To develop store-brand items, 7-Eleven nurtured long-term and exclusive cooperative relationships with small- and medium-sized companies that do not supply national brand products. They have taken on a large degree of their suppliers’ businesses, required them to build and operate delivery centers only for their business with 7-Eleven (Hibara and Rapp 2000).

The fact that retail market modernization did not happen through the same business groups but through a different set of firms that grew into large diversified *keiretsu* in their own right highlight the difference between the Japanese business system type and the Korean system. Cross-sector diversification in the horizontal *keiretsu* structure tends to be a more conflict-laden process because decisions are made through consensus and negotiation between member firms rather than by a central decision making unit. There are also joint principles, such as the “one-set” principle that ensures only one firm from each keiretsu grouping can enter each major industry (Gerlach 1992). This practice helps the *keiretsu* member firms avoid unnecessary competition among themselves, but it also results in fierce competition between firms when deciding which firm gets to enter into the new product area (Kim, Hoskisson, and Wan 2004). The joint effort and organizing principles which sustain the horizontal *keiretsu* make it harder to

flexibly diversify within the *keiretsu* network compared to the *chaebol*. This has led to an emergence of a new set of focused, format-spinning retail empires with relatively centralized coordination.

The heightening concentration of the Japanese retail sector by domineering domestic retail giants proved to be stiff competition for the foreign entrants that entered the market later. A large number of foreign retailers entered the food-retailing and general merchandising sector, including JC Penny in 1998, Costco in 1999, Carrefour in 2000, Metro in 2001, Wal-Mart in 2002, and Tesco in 2003. Among these six retailers, JC Penny, Carrefour, and Tesco exited, respectively, in 1999, 2005, and 2012. The remainder have struggled to make an impact in the context of the domestic retailer's strong market power. Local firms monopolized the supply relationships with domestic suppliers. More importantly, they defined the domestic rules of retail operation a decade prior to the entrance of foreign firms into the retailing market.

To illustrate how difficult it is for foreign companies to break through the Japanese retail sector, and how the structure of the "games" (of market competition) between the US and Japan differs, Fields (1989: 49-60) relies on an analogy of the difference between boxing and sumo. As this provides useful insight into the matter of market power between established Japanese companies and the later foreign entrants, I will be taking the liberty of quoting him in length.

In sumo, there is no discrimination between the combatants, by size; currently a popular combat is between a Hawaiian born behemoth, Konishiki, against a, for sumo, relatively diminutive scrapper called Terao, who only weighs about half of the former. On paper, the probability of winning is heavily weighted towards the Hawaiian. The way the Japanese see it, in real life, those without natural advantages must

compensate for it by acquiring special skills. In boxing, while Sugar Ray Leonard has accomplished the feat of capturing titles in five divisions, nevertheless, lightweights don't fight heavy weights because they would be murdered. The sumo rule as applied to business provides a natural advantage to the established and the large, against which the newcomer-read foreign enterprises- and the small must cope (1989: 57).

There is respect for the status and the obligation imposed upon leaders to discharge their duties with dignity. In sumo, the *yokuzuna*- the grand champion- is not supposed to lose- at least not too often. ... If there is the danger that he may lose more than he wins, or even if he may only just squeak through, he usually is diagnosed as suffering from some obscure ailment and retires from the rest of the tournament to recuperate. .... To "play the game like a *yokuzuna*" is an expression that is often used when the manner of winning is appropriate to the dignity of a grand champion (1989: 49).

...we can see the desire for stability- the winner to be always the winner- which affects so much of Japanese business relationships. The Japanese have a word, *kato kyoso* ("excessive competition") which is trotted out every time some newcomer upsets the balance between brands in the market place, especially so when the newcomer happens to be foreign ... The marketing cliché in Japan is that major product categories are dominated by 1 to 4 brands and their shares tend to be relatively stable over their total range (1989: 54-55).

There are of course, exceptions, but the upsetting of the incumbent and disturbing of the market equilibrium by a brash newcomer, which is very much a part of the marketing scene in the U.S. -Tylenol's coming from nowhere to become the number one analgesic is a remarkable story but one that has been repeated- seems to occur less frequently here.

In my observation over the last twenty years, new brand successes still tend to come from established stables. Of course established marketers have an advantage in the United States too, and new stables emerge in Japan as well, but it seems to take much longer, on the average, for them to crack the market in a big way than in the United States. This is because just winning the Japan series two or three times doesn't make Seibu Lions the equivalent of the Giants.

This leads to the observation that speed of entry is all important before the market stabilizes. It is perhaps best to enter into a relatively underdeveloped category or, better still, create a new one and establish your *yokozuna* status there. This may be why so much effort is placed by the Japanese manufacturers on the importing of product ideas as quickly as possible from overseas and the establishment of a brand franchise. Alas,

as a researcher over the years, I have often had to watch western clients go through the standard process of test marketing, only to see their competitors whip in with the same product concept earlier than them and preempt the market (Fields 1989: 60).

As in the Korean case, foreign retailers like Wal-Mart and Carrefour failed to gain influence over the preferences of the Japanese customers. This is partially because Japanese consumer preferences are very stable and loyal to the “authority,” which is the preexisting brand and product. In addition, the foreign companies failed to establish reliable supply relationships in this oligopolic market dominated by intragroup networks and exclusive ties. The domestic retailers concentrated the general retailing sector through diversification, price destruction, and active product development. Meanwhile, Wal-Mart and Carrefour gained reputations as firms that sell subpar quality products. They were denied entry to the closed distribution networks that formed exclusively between retailers and manufacturers (Aoyama and Schwarz 2006), thus failing to make a dent in the Japanese market place.

### **3.4 PREDICTING CHINA’S FUTURE DEVELOPMENT: LARGE ECONOMY, FRAGMENTED MARKET**

What novel insight does the comparative examination of Taiwan, Korea, and Japan provide to predicting the possible course of the Chinese domestic market development? The organizational perspective outlined in the previous chapter argued for attention to firm structures, as they lay out the possible paths for the specific patterns that will likely follow. In the Korean and Japanese case, the presence of vertical and integrated group structures coupled with the ability to flexibly diversify enabled fast developments of local

formats and retail stores. This in turn preempted the expansion of foreign retailers. Would retail sector development of the Chinese case, with sizable previously state-owned corporations, occur in a manner as insulated as Korea and Japan were, that is, by domestic firms effectively guarding the market from the influence of foreign firms? Or do we expect to see a pattern of collaboration and coordination between domestic and foreign firms similar to what we observed in the Taiwanese case? An examination into whether Chinese market development would happen through more extensive involvement of foreign retailers should thus start with examining the specific structure of Chinese firm economy and inquiring what overall level of market power domestic firms will have vis-à-vis the foreign entrants.

However, unlike the previous three cases examined, the Chinese socialist economy necessitates the examination of retail development processes to be accompanied by a look into the change in structure of state ownership and privatization.

Since the 1979 reform, Chinese retail markets have moved away from a state and collectively-owned distribution system where private ownership was entirely banned. Despite the fundamental changes in the ownership structure that has occurred since, retail organization in China is still in its early stages. Only a small fraction of the retail market is currently organized, and thus far, any systematic retail activities have been disproportionately centered in urban areas. This fact, and the sheer size of the Chinese market give reasons to speculate that the overall transformation will not be complete in any near future. Nonetheless, domestic consumer market development is of large importance in mainland China, and is seen by many as a way that the Chinese can

rebalance their economy while being less dependent on the volatility of Western consumer markets (Lardy 2012).

The growth of privately owned, family-run businesses between 1980 and 1990 (Wang and Chan 2007) accounted for the majority of new retail enterprises. As the retail market was opened to foreign direct investment, large transformations also occurred as the State-owned enterprises (SOE) underwent reform. The overall number of SOEs rapidly declined, which resulted in a number of the largest regionally-based retailers (department stores and supermarkets). This is because the largest SOEs and COEs (Collectively-owned enterprise) increased the size of stores and overall employment to become the largest retailers in their respective geographical origin (e.g., Beijing Hualian, Wangfujing, Xiandan, and Chaoshifa) (Wang and Chan 2007).

In addition, in July of 1992 the Chinese government opened six cities (Beijing, Shanghai, Tianjin, Guangzhou, Dalian, and Qingdao) and five SEZs (Special Economic Zones; Shenzhen, Zhuhai, Shantou, Xiamen, and Hainan) to foreign direct investment. Since then, the Chinese retail market has gradually opened to investment until it was fully liberalized in 2004. While only a small number of retailers have been approved by the state government to set up operations in China during the initial stages of liberalization<sup>17</sup>, provincial and municipal authorities have approved multiple retail projects, despite warnings from the central government (Wang and Chan 2007; Fan 2010). These were projected to be around 300 according to government sources, and according to one academic source, “a total of 1,697 foreign-invested and 1,088 overseas Chinese-invested

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<sup>17</sup> By the end 1997, twenty Sino-foreign joint venture retail companies were officially approved by the State Council.

retail establishments existed ... in 1996” (Wang 2003: 121). Since then, the central government increasingly issued permits to these foreign invested enterprises and especially in large numbers after full liberalization of the retail market, “1,027 retailers won permission from the Ministry of Commerce to do business in China in 2005” (Tacconelli and Wrigley 2009: 59).

During this period, many major international retailers entered China either through conforming to the plans of the central government or going through regional authorities. Wal-Mart and Makro were among the first groups to obtain the central government’s license. Others, such as Carrefour, entered through circumventing the central guidelines. Carrefour entered the market through a joint venture with Shanghai Hualian Company, through Shanghai municipal government’s approval. There is a wide regional representation among entrants with Western (Wal-Mart, Carrefour, Metro, Makro) and Japanese (Ito-Yokado, Jusco, Daiei, Seiyu, Isetan, Lawson) origins competing against overseas Chinese retailers (Malaysian Parkson, Thai Lotus, Taiwanese RT Mart). The joint retail ventures have operated in many ways. For instance, a number of specialty retailers teamed up with manufacturers to operate factory outlets or franchised specialty outlets. Other local enterprises became franchisees for international retailers. Some joint ventures invested in construction to use parts of the structures for retail. International retailers have a wide range of formats from department stores (Japanese Yohan, Jusco, Sogo, Isetan, and Malaysian Parkson), hypermarkets (Carrefour and Wal-Mart), Cash and Carry (Metro, Makro), and membership clubs (Sam’s Club, Pricesmart) (Wang 2003).

The foreign retailers expanded quickly from 1992 to the middle of the 2000s and succeeded in transforming the urban landscape of the first-tier cities. Relying on local partners, and sometimes many of them, Western retailers such as Wal-Mart, Carrefour, and Metro focused their expansion in the first-tier cities. A few have succeeded in expanding beyond a single province or city. Second-tier cities have generally not been a focus of Western multinationals groups. Instead, a group of retailers that Tacconelli and Wrigley (2009) call second-tier regional retailers, such as the Hong Kong based China Resource Vanguard Co. Ltd, Taiwanese RT Mart, and Thai Lotus, expanded in the hypermarket and supermarket sectors of these areas.

While the multinational retailers had been expanding through joint projects and mergers and acquisitions, the domestic retailers, both state-owned and private, began to consolidate, giving rise to large domestic retailers. In 2003, the Shanghai government merged four leading state-owned retail groups, Shanghai Friendship Group, Shanghai Yibai Group, Shanghai Hualian Group, and Shanghai Materials Group to create Brilliance Group (Wang and Zhang 2005). WuMart, a private Beijing supermarket retailer that opened its first store in 1994, has been expanding through acquisition of previously state owned and private firm operations including Chaoshifa (Beijing), MerryMart (Beijing), Xinhua stores (Northwestern China), Times Supermarket (Eastern China), and Jiangsu Store Group (Eastern China) to become the 5<sup>th</sup> largest retailer in 2012.

Despite the developments brought out by the domestic and international retailers, the Chinese retail market is still in its initial stages of development, showing high levels

of fragmentation. Though a large number of foreign and domestic retailers are in operation in the country, only a small proportion of these retailers have expanded their operations to multiple provinces. There are a number of reasons to believe that the relatively strong performance of retail multinationals in the Chinese market will likely continue, albeit at a slower pace due to local competition. The expectation is that the trajectory of China's retail expansion will continue to be similar to a type 1 economy rather than resembling the cases of Korea or Japan. First, the high level of industrial and regional fragmentation of Chinese business groups and firms will render impossible a high level concentration of the retail industry by a small number of firms. Despite the large sizes of business groups in China, they are, for the most part, only regional players. Even the largest groups do not have a wide reaching nation-wide presence. Most retail markets are very regional (Tsui et al. 2004) and it is difficult to foresee any dramatic near-future transformation of this balance. Second, while the largest business groups show some diversification in related industries (Keister 1998), the overall level of sectoral-spread is still markedly small compared to Korean or Japanese business groups. These observations lead one to predict the following: Although the largest domestic enterprises will likely stay strong regional players and possibly emerge as national players through merger and acquisitions, their low overall level of market power and concentration will still allow simultaneous expansion of retail multinationals. Additionally, the relatively low level of experience and expertise of Chinese retail enterprises create the need for them to rely on foreign partners. Thus, it is expected that

sizable efforts to organize the regional markets through the activities of both domestic retailers and retail multinationals will be undertaken in the future.

### **3.5 CHAPTER CONCLUSION**

Analysts conventionally focus on proximate causes such as idiosyncratic culture, economic factors, and policy-centered factors to explain multinational retailers' international success and failures. I argued that a focus on the proximate risks overlooks the overall *system* in which retail operations fail or succeed. This system is crucially tied to how retail markets become organized. Through analyzing the retail market development of the East Asian markets of Taiwan, Korea, Japan, and a brief overview of China, I presented a systematic framework for understanding retail organization. My framework emphasizes the level of business group concentration and time since industrialization as central dimensions to understanding how domestic retail markets develop.

In each market, different sets of system characteristics led to divergent developments of retail markets and differential success rates of global retailers. In Taiwan, the specialized focus on export-oriented manufacturing, combined with domestic business groups' limited cross-sector capacity, led to a proliferation of foreign and domestic tie-ups and cooperation. This resulted in the high visibility and successes of global retailers. In Korea, the diversified *chaebol* groups exert great market power over foreign retail entrants, making it challenging for foreign retailers to succeed. In Japan, despite the stagnancy of the industrial groups, a new set of domestic companies has

arisen to rapidly organize the retail sector while effectively blocking the spread of foreign retailers. In each of these cases, entrant retailers have made varying degrees of localization efforts to respond to the local business systems. Efforts by new retailers which conform to the global standards are most visible in Taiwan, while profound efforts at localization are observed in Korea and Japan.

Analyzing the linkage between domestic business systems and retail market organization presents a new perspective to understand the high cross-country variation in the market penetration of retail multinationals. This perspective complements the sizable economic geography literature on retail internationalization (Vida and Fairhurst 1998; Wrigley 2000; Dawson 2003; Coe and Hess 2005) by theorizing domestic retail organization as being contingent upon institutionalized coordination and control strategies of domestic business groups. Global retailers' increasing global activities respond to, and fill, niches within these domestic economies as they become increasingly organized, instead of uniformly diffusing standardized retailing across markets.

On a more general level, these cases provide examples of how diffusion of global technologies and organization happens differently within divergent contexts of local institutions. While the global context undeniably leaves marks on the countries of diffusion, one still needs a systematic framework of institutionalized patterns of business activities to understand the local variation in how the process unfolds. The organizational framework presented here can be a starting point in analyzing the different contexts through which transitions to retail economies take place.

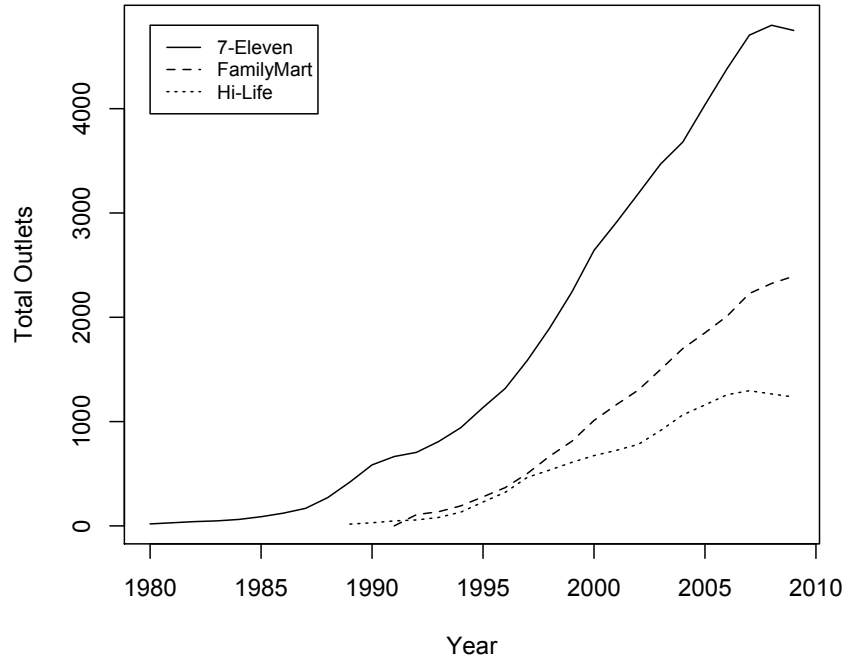
**Number of Outlets by CVS Retailer**

Figure 3.1 Taiwan: Number of Outlets by CVS Retailer  
Source: retailer websites

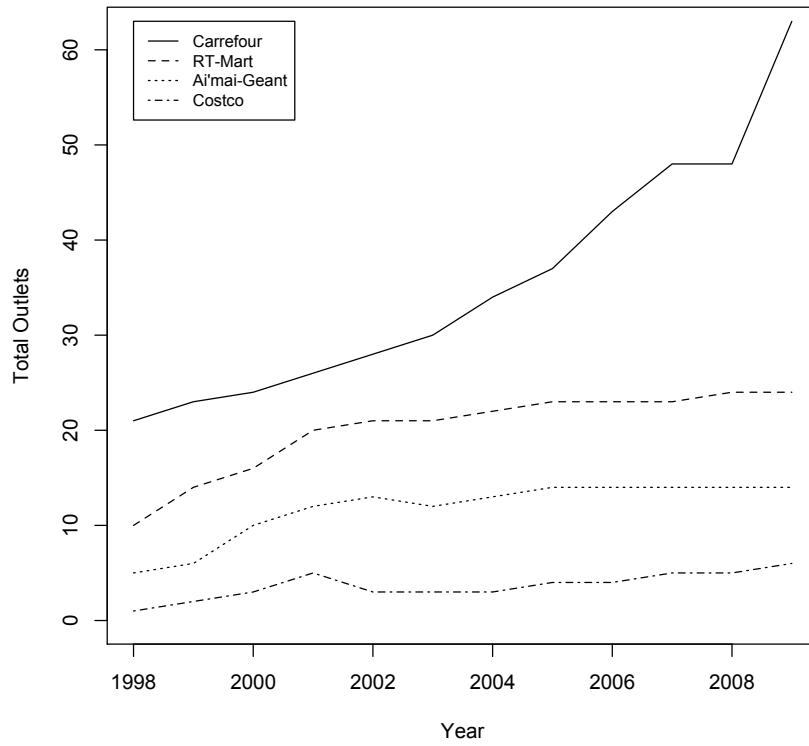
**Number of Outlets by Hypermarket Retailer**

Figure 3.2 Taiwan: Number of Outlets by Hypermarket Retailer  
Source: retailer websites

Table 3.1 Taiwan: Diversification and Foreign Partners of Largest Retail Groups

Business Group	Related Domestic Retailers	Year	Retailer	Format	Foreign Investor	Mode of Entry
Uni-President (President Chain Store Corp.)	Cosmed Pharmacy	1979	7-Eleven	Convenience Store	7-Eleven Southland Corporation (US)	Technology Transfer
		1989	Carrefour	Hypermarket	Carrefour Group (France)	Joint Venture
		1995	Starbucks	Specialty Retail	Starbucks Coffee International (US)	Joint Venture
		2004	MUJI Uni-Hankyu Department Store	Specialty Retail	Ryohin Keikaku & Mitsubishi Corporation	Joint Venture
		2010		Department Store	Hankyu Department Store	Joint Venture
Far Eastern Group	Far Eastern Department Stores	1986	Pacific Sogo	Department Store	Sogo (Japan)	Joint Venture
		1993	Hyper-fee Far Eastern	Hypermarket	Promodes (France)	Joint Venture
		2000	Geant	Hypermarket	Geant-Casino (France)	Joint Venture
President Group	President Department Store	1997	Costco	Discounter	Costco Wholesale Corporation (US)	Joint Venture
Ruentex Group		2000	RT-Mart	Hypermarket	Auchan (France)	Joint Venture
Kuang Chuan Dairy & Taisun		1988	Taiwan Family Mart	Convenience Store	Family Mart & Itochu (Japan)	Joint Venture

Source: Chung (2008), various Newspaper Articles, retailer websites

Number of Outlets by Hypermarket Retailer

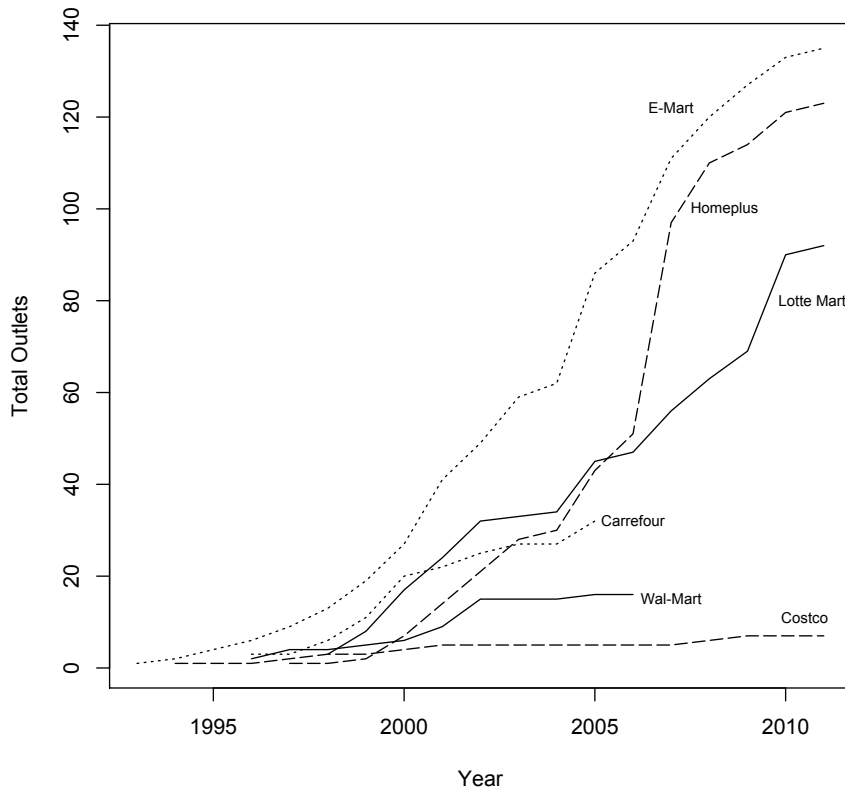


Figure 3.3 Korea: Number of Outlets by Hypermarket Retailer  
Source: retailer websites

Number of Outlets by SSM Retailer

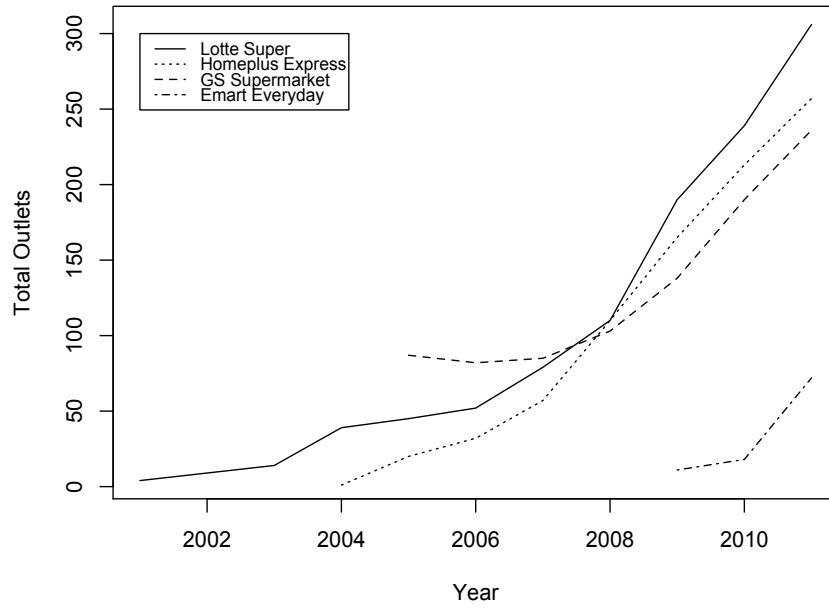


Figure 3.4 Korea: Number of Outlets by SSM Retailer  
Source: retailer websites

**Total Sales (Trillion Korean Won) by Retail Format**

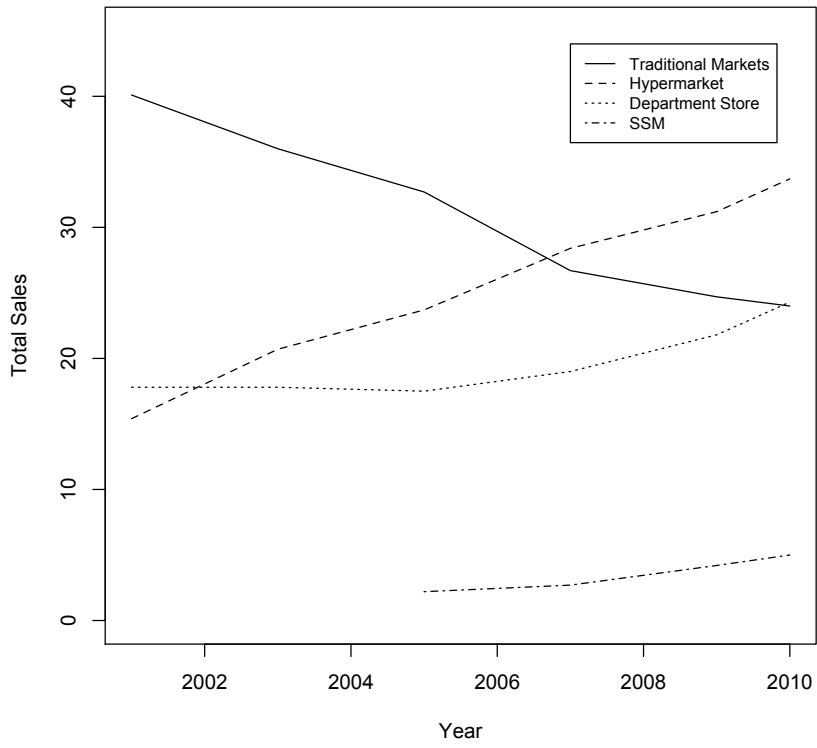


Figure 3.5 Korea: Total Sales by Retail Format

Table 3.2 Korea: Retail Diversification of the Largest Retail *Chaebol*

Retail group	Specialty Retailer	Supermarket	Discounter	Department Store	CVS	Nonstore-based Retail	Distribution & PB production	Others
<b>Shinsegae</b>	Boons Molly's pet shop Sports Big ten Matrix	E-Mart Everyday	E-Mart E-Mart Traders	Shinsegae Dpt. Store		E-Mart Mall Shinsegae Online Mall Shinsegae Homeshopping	Shinsegae Food	Chosun Hotel Starbucks Chelsea Premium Outlet
<b>Lotte</b>	Uniqlo	Lotte Supermarket	Lotte Mart Lotte Vic Market	Lotte Dpt. Store Lotte Young Plaza Avenue	7- Eleven	Lotte dot com Lotte Homeshopping Lotte imall	Lotte Confectionary Lotte International Lotte Samkang Lotte Shopping Lotte Fresh Delica	Lotteria Lotte Hotel Lotte World Lotte Cinema Lotte Outlets Lotte Premium Outlets T.G.I. Fridays Krispy Kreme Donuts
<b>Hyundai Dpt. Store</b>				Hyundai Dpt. Store	H24	Hyundai Homeshopping	Hyundai Greenfood	Alpha Dome City Hotel Hyundai
<b>GS Holdings</b>	GS Watsons GS Caltex	GS Super	GS Mart	GS Square	GS 25	GS Shop	Ourhome	Mister Donut Intercontinental Hotels

### Total Sales by Retail Format

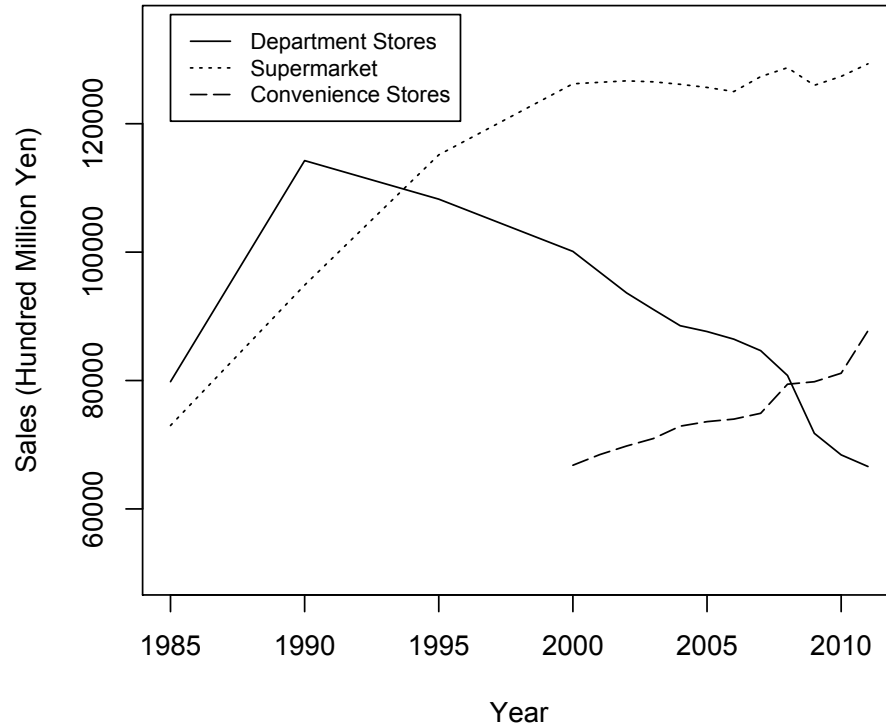


Figure 3.6 Japan: Total Sales by Retail Format.  
Source: METI. Census of Commerce<sup>18</sup>

<sup>18</sup> Department Store and supermarkets were surveyed over 1985-2010. Convenience stores were surveyed during the 2000-2010 censuses.

Table 3.3 Ten Largest Japanese Retailers 1960- 1999 (Ranked by Sales, Billions)

	1960		1972		1980		1993		1999	
	Company	Sales	C	S	C	S	C	S	C	S
1	Mitsukoshi	45	Daiei	305	Daiei	1134	Daiei	2073	Daiei	2205
2	Daimaru	45	Mitsukoshi	292	Ito-yokado	688	Ito-yokado	1536	Ito-yokado	1509
3	Takashima ya	39	Daimaru	213	Seiyu	599	Jusco	1061	Jusco	1422
4	Matuszakay a	37	Takashima ya	199	Jusco	554	Seiyu	1050	Mycal	1081
5	Toyoko	30	Seiyu	167	Mitsukoshi	546	Nichii	822	Takashimaya	1021
6	Isetan	23	Seibu	155	Michii	455	Mitsukoshi	801	Seiyu	875
7	Hankyu	21	Jusco	155	Daimaru	421	Takashimaya	724	Uny	774
8	Seibu	19	Matsuzakay a	149	Takashimaya	415	Seibu	681	Mitsukoshi	676
9	Sogo	15	Nichii	144	Seibu	375	Uny	577	Seibu	589
10	Matsuya	12	Uny	126	Uny	126	Daimaru	543	Marui	481

Source: Bernstein (1997); Nikkei Ryutsu Shimbun (2000)

Table 3.4 Japan: Diversification of Largest Retail Keiretsu

Source: retailer websites

Company	Specialty Retailer	Supermarket	Discounter	Department Store	CVS	Other
Ito-Yokado	Mary Ann Steps Oshman's	York Market York-Benimaru	Daikuma THE PRICE Ito-yokado (Superstores)	Robinson's York-Matsuzakaya	7-eleven	Denny's Japan  Famil  York-Bussan IY Bank
AEON (JUSCO)	Mega Sports Yamaya CoxCo	MaxValu the Maruetsu	Aeon  THE BIG	Bon Belta	Ministop	Aeon Cinema Diamond City
Daiei	Autoworld 55 station	Daiei Maruetsu	Big-A	Printemps Ginza	Lawson	Wendy's Volks Dreampark Kobe Seishin Oriental Hotel

## CHAPTER FOUR: PRODUCT MARKETS

Thus far the dissertation examined the rise of organized retailing in Asia. While similar standardized retail structures- convenience stores, supermarkets, and hypermarkets- arose all across Asia in large scale over the second half of the twentieth century, I showed that the actual business dynamics that led to the respective retail revolutions varied considerably and so did the relative influence of multinational retailers. At the core of this discussion was the issue of how domestic firm structures of different Asian markets laid the ground for future innovation and development in retail.

By now, it is clear that differences in local firm structures lead to considerable differences in how retail markets become organized and internationalized. However, do these differences also affect the products that are consumed in these respective societies? This next section will turn to this very issue and focus on two cases of product development and consumption across Asia. The first focus will be on Korean popular music, or K-pop, which genre of music has become largely popular not only in Korea but also all across Asia and now even outside of Asia. The second focus will be the consumption of foreign apparel products across Asia, and will be presented in Chapter 5. The case study on K-pop will examine the processes that led to the development of K-pop as a unique genre of music and how a group of local organizers have been at the center of the process. Like the previous chapter on the success and failures of global retailers, it will start with a number of conventional accounts that attempt to explain the success of K-pop and then move onto discuss the importance of the Korean market dynamics and business focus of a number of entertainment companies.

#### 4.1 KOREAN WAVE AND K-POP'S INTERNATIONAL SUCCESS<sup>19</sup>

South Korea is widely touted as one of Asia's "four dragons," as a country that has experienced unprecedented growth through its success in export-oriented manufacturing. The country's political and market institutions and the growth process have been extensively studied as providing a model of economic growth based on various low and high-value added manufacturing, ranging from garments to televisions, ships, and cell phones (Amsden 1992; Evans 1995; Woo-Cumings 1999). More recently, among its thriving exports are not merely semiconductors, automobiles, and more sophisticated versions of goods that were produced for the past half-century, but also products rather unforeseen, its popular culture.

*Hallyu* (韩流; Hánliú in Mandarin Chinese), or "Korean wave," is the term used to describe the popularity of Korean popular culture. Starting with the popularity of a 2002 soap opera "Winter Sonata," Korean TV dramas, music, and to a lesser extent, movies, have become staples in Asian countries including the neighboring Japan and China as well as in Southeast Asia. Since the mid-2000s, the popularity of Korean dramas and music has spread further to countries including Iran and Turkey (where the drama *Jumong* was a smash hit), Chile and Peru, as well as France and Germany.

Although *hallyu* describes an overarching diffusion of South Korean popular cultural products of multiple genres, there are genre-based differences as to which specific expression eventually becomes part of the *hallyu* grouping. While dramas of all themes have been widely successful, for movies, it is the rather critically acclaimed art

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<sup>19</sup> This chapter on the success of K-pop is based on a paper co-authored with Lanu Kim. This paper has been published in *East Asia: An International Quarterly* in 2013.

house director-made movies, including Ki-duk Kim's and Chan-wook Park's or the blockbusters of Joon-ho Bong, that made it to large-scale international fame. However, for music, it has mostly been what is called "K-pop" or "idol music," which does not denote all popular music with roots in Korea, but a sub-genre that is the most strategically produced and commercially tailored among Korea's cultural exports.

K-pop is unique because it rose out of nowhere and became a large success. As John Lie (2012) notes, the music does not share much similarity with its pre-90s predecessors that once populated the Korean music scene, not to mention traditional Korean music. Lie (2012: 360) writes,

traditional Korean music was pentatonic, the singing style stressed melismatic and raspy vocalization, and the performer stood still: the stress was on the sound. K-pop is uniformly diatonic, lyrics peppered with English phrases, the singing style is resolutely syllabic of "Western" pop, and dance is an integral element of the performance.

According to Lie, there is nothing inherently or traditionally "Korean" about K-pop. It is "foreign" in its form and hardly existed before the mid-1990s, but yet quickly became an industry, which contributes 2 billion dollars annually to the Korean economy (Seabrook 2012).

The biggest names in K-pop are the "idol" groups like SHINee (reads "Shiny"), f(x), Super Junior, Girls' Generation, 2NE1, and Big Bang, and usually include a large "assortment" of young boys or girls. They wear shiny stage apparel, dance in sync, and often possess superior appearances than singing abilities. The most popular K-pop groups make repeated rounds of TV appearances not only on the music shows, but also on the weekend game and variety shows. Retail stores display life size cutouts of the

idols, and their photos appear on products advertisements, and even on the products themselves. They are cast as actors and actresses in dramas and selected by government agencies to represent Korea as “cultural” or “PR ambassadors.”

They also make frequent rounds of international concerts. JYJ’s spring concert tour in 2012 included 15 venues worldwide including Chile, Barcelona, Berlin, Peru and Tokyo, where hundreds of fans lined up from 4:00 am to get a glimpse of the stars, holding presents and balloons whose colors symbolize allegiance to the idol (Seabrook 2012). Their fans, more devout and passionate than popular culture has ever seen, have also formed fan groups of various formats. Each singer has fan clubs with bureaucratic and often hierarchical structures, where members become financial supporters and “interest groups,” ensuring that record sales are high and that the singers are fairly represented in charts. There are also informal (mostly) online-based communities, where fans participate in exchanges with likeminded people from around the world. The bilingual fans devote a vast amount of their time translating every interview, song lyric, and newspaper article to share with others, while others write and consume “fanfics” or form dance “covering groups.”

The K-pop world has organized quickly with high domestic and international success. Given nobody expected K-pop’s wide-reaching international success as recently as the late 1990s, it is all the more surprising that K-pop arose as a distinct genre of music and gained global popularity over a short period. All this leads to an empirical puzzle: How can we explain the sudden surge and success of K-pop?

## 4.2 EXPLAINING HALLYU

Existing studies on *hallyu* generally focus on either the factors associated with the individual consumers that trigger the demand (i.e., culture) or the macro-environmental factors (i.e., government or internet) that have triggered the development of the Korean cultural industries as reasons for success. For example, those utilizing cultural studies frameworks often examine the success from the perspective of the consumers in the countries where Korean cultural products are successful, and link it to the context of modernity and the growth of youth culture mostly around Asia. Chua and Iwabuchi (2008), in studying the factors that lead to the wide reception of Korean dramas in Asia argue that feelings of nostalgia, emphasis on family values, and themes of morality commonly portrayed in Korean dramas lead to their popularity. They argue that these characteristics distinguish Korean dramas from Japanese products that are seen as representations of “imaginable” and “desired” futures. Others studying K-pop point to its “modern” attributes, hybridization of Western music forms with dance and visual aspects as producing “transcultural imageries, whose origins are ambiguous” yet appealing (Lee et al. 2011: 39).

If the cultural explanation emphasizes a set of values that Korean popular culture promotes and its synchronicity with or appeal to the values of the consuming end, the other two explanations examine the success strictly from the production side. One such explanation emphasizes the government’s role in promoting K-pop (Jang 2009), providing financial and business support to companies, and openly supporting *hallyu* as a way of enhancing the nation’s “soft power.” Also included in the explanations are the

government's release and distribution to China a CD called "Songs from Korea," and the establishment of Korea Creative Content Agency to support the growth of the cultural industry.

Another explanation emphasizes the central role of technological development. Proponents of this perspective emphasize the change in music distribution from record producers and distributors to online based distribution (Kim 2009; Jung 2011), and argue that the rise of online video-sharing sites such as YouTube played the most important role in globally diffusing Korean music, that the number of YouTube hits for K-pop music videos have reached 2.3 billion views from 235 countries (Jeon and Song 2012), and that many singers use YouTube as a platform to showcase their songs, oftentimes through live broadcasts simultaneously watched by millions.

While the explanations focusing on the consumers, the government, and technology, all point to *factors* clearly present in the making of K-pop, I believe that these perspectives only provide partial explanations. Korean popular music has undoubtedly appealed to a large global audience, but explaining the success only from the consumer's side misses the mark in that it fails to examine how the industry, which was non-existent merely two decades ago, grew so quickly. The later two perspectives confuse the *causes* of the success with the background factors that partially *shaped* (or *accelerated* at most) the success. The government-centered explanation not only overemphasizes the role of the government by crediting them for singlehandedly creating the Korean music industry while overlooking the actual industry players, but also suffers from lack of credibility in providing systematic evidence showing continued government

involvement throughout the formative years of the cultural industries. While the current K-pop industry clearly has the government's backing, the government has only recently enlarged its role from providing piecemeal and incidental support throughout the 90s and early 2000s. The government at best represents a *lagging* factor in monitoring and providing support to already budding industries, rather than a force "causing" the formation of specific industries. Similarly, while technological factors did bring decentralization of the music distribution process, traditionally dependent upon record label contracts and television and radio airtime, the proponents of the technology-centered perspective fail to explain why it had to be Korean popular music, not Japanese or Chinese, that ultimately rode the wave of globalized technologies.

Most importantly all three conventional perspectives ignore the most important players that drive the organizational dynamics of the K-pop industry; the singers, producers, record labels, the studios, and most importantly the agents that put elements of music production together and push the products into the market, the entertainment groups. Thus this chapter proposes an alternative approach: Instead of isolating the social and market factors present in Korea and the countries of consumption as core explanatory factors, the role of the large Korean entertainment houses in organizing the market for K-pop will be highlighted.

I argue that the large Korean entertainment houses, as market makers, played significant roles not only in creating and developing the market for K-pop, but also in reshaping the overall market for Korean popular music. I pay special attention to how the entertainment houses emerged, and adopted and refined their organizational strategies.

We also trace how, as these entertainment houses formed and grew larger, their activities systematized the K-pop market. Lastly, I discuss the macro-consequences of their activities, in creating a feedback loop, which resulted in the rapid homogenization in the availability of musical genres and consumer tastes and a marginalization of alternative types of music.

In examining the rise of K-pop, this chapter also comments on three related issues. First, I hope to present an alternative to the view that regards K-pop as “inherently foreign,” something that is not and cannot be “Korean.” Despite the Western influences that have morphed Korean popular music into an expression unrecognizable from the standpoint of traditional music, K-pop has undeniably clear origins, which is nowhere else than contemporary Korea. The particular types of music that K-pop is, have resulted from localized negotiation of global forms of art, wherein Koreans have used “them as resources through which... to construct their own cultural spaces” (Shin 2006: 38). This hybridization of the global and the local results in what contemporary Koreans living in a globalized society can claim their own, not anybody else’s.

Second, the “Korean-ness” of K-pop emanates itself nowhere more than in its production strategies, which stem from organizational recipes institutionalized within Korea. The organizational structure and strategies of the entertainment houses in smaller scale replicate those of the dominant industrial groupings called the *chaebol*, whose competition revolves around large degree market control by vertically integrating related activities rather than coordinating inter-group (Feenstra and Hamilton 2006). Just like this competitive dynamic led to a high concentration of the overall Korean economy, the

Korean music market has increasingly concentrated by a small number of new entrants. This trend contrasts sharply with popular culture production systems in other contexts revolving around increasing flexible specialization (Christopherson and Storper 1986; Storper and Christopherson 1987). This concentrated and domineering musical production system that the K-pop industry has become reflects the organizational strategies of the larger economic system.

Lastly, and more generally, the chapter will illustrate the importance of incorporating an analysis of the production system into the study of culture and consumption. Interrogating the connection between the micro-dynamics of consumption, a major focus of cultural studies, and the macro system of production necessitates an understanding of the producers and industry actors as key players. This approach contributes to an understanding of not only the production process of popular cultural products, but helps clarify consumption as a market process, during which time consumer tastes and preferences are incorporated into production through various business strategies.

### **4.3 MARKET MAKERS IN THE K-POP WORLD**

During the 1990s, a few entertainment houses rose to the forefront of the Korean music industry and brought forth a production strategy that gradually integrated the previously overlooked or loosely coordinated steps of music production. Since these entertainment agencies appeared, they have grown in size, incorporated in-house the processes of talent discovery, training, music production, recording, promotion, and management, and

refined their market-making strategies. This span of years also coincides with the period of formation, growth, and stabilization of the K-pop industry. Only through their activities have Korean idol groups emerged, their musical style defined and tailored, and domestic and international markets for K-pop organized. Thus, K-pop's rise and its domestic and international success are tied to the entertainment groups, most notably the three groups of SM, JYP, and YG, which will be the main topic of examination of this chapter.

In this examination, I follow Spulber's conception of intermediaries, those market players whose activities "create and manage markets by acting as intermediaries between buyers and sellers" (Spulber 1996:135) and also take cue from Petrovic and Hamilton's (2012) idea of "market makers," which emphasizes the role of large retail firms in creating and making mass markets for consumption.

### *Intermediaries in the K-pop world*

According to Spulber (1996:135), an *intermediary* is "an economic agent that purchases from suppliers for resale to buyers or that helps buyers and sellers meet and transact."

However, their participation also extends out to related activities.

Intermediaries seek out suppliers, find and encourage buyers, select buy and sell prices, define the terms of transactions, manage the payments and record keeping for transactions, and hold inventories to provide liquidity or availability of goods and services.

Spulber sees market intermediation as a ubiquitously occurring, vital process where the role of the intermediary extends far beyond serving as an additional step

between the seller and the buyer. He views intermediaries, especially market-making firms, as key in shaping the markets, as they make crucial decisions regarding which products will be supplied to the market, how they will be allocated, and in what form. He also notes that they sometimes even engage in value-adding activities of designing, packaging, blurring the line between the merchant and the manufacturer.

Focusing on retail trade, Petrovic and Hamilton expand this idea of market-making, where the market makers' activities not only involve a "number of routine business activities, such as pricing and contracting, finding and retaining trading partners, and getting products into and through the market," but also exhibit "an element of institutional entrepreneurship" (2012: 37), which emphasizes continuous development and improvement of existing methods of facilitating trade. This perspective clarifies the nature of markets as relying on a concrete set of organizers who play crucial roles in maintaining market operations, and steers away from abstract mechanisms that are somehow self-occurring. The markets need to be made, maintained, and reinforced through organizational actors.

In the K-pop world, entertainment houses are intermediaries who mediate between the musicians and the consumers, while also doubling up as producers. While the first international successes under the entertainment house system were rather coincidental and sporadic, the entertainment houses have learned from experiences and modified their strategies to see wider-reaching successes. As they incorporated a number of strategies, which helped secure their domestic and international fan-base, they have learned to systematize and expand their production models to organizational forms that

resemble somewhat the vertically-integrated “studio system” of movie production of the bygone days, from which Hollywood has gradually moved away (Christopherson and Storper 1986).

By vertically integrating in-house the process of artist selection, musical and performance training, image-making, song writing, management, contracting, and album production, and growing into large domineering entertainment empires, they have made the transition from small recording studios and niche producers of exotic music to central players that define the contemporary Korean music scene. Their activities completely changed the commonly adopted strategies of musical production and the availability of genres and styles of music. Their strategies also gave birth to a mass Korean youth culture oriented towards obsessing over idols: Their influence over both the production market and the market for demand have become hegemonic, where few market players can challenge the status quo.

In addition, the entertainment houses are responsible for the international success of K-pop. As seen in the breakdown between domestic and overseas revenues of SM [see Figure 4.1] and YG Entertainments [see Figure 4.2], overseas revenue is growing. Between 2007 and 2012, SM Entertainments’ overseas revenue increased more than twenty-fold, and surpassed domestic revenue in 2011. YG Entertainment saw similar growth where overseas revenue has doubled between 2011 and 2012.

[Figure 4.1 About Here]

[Figure 4.2 About Here]

That a large proportion of the internationally successful idol groups belong to the top entertainment houses again demonstrates the importance of examining the success and strategies of the entertainment houses.

The following empirical sections will be divided into three sections. The first section describes the dynamics of the Korean music market before the entertainment groups and the events that have led to their emergence. Then, I describe the pioneering role of Lee Soo Man and his group, SM Entertainment, in starting a new age of musical production. The second and analytical section examines the strategies of entertainment groups, focusing on how SM Entertainment and two other entertainment houses, YG and JYP Entertainments, have developed and elaborated their production strategies to expand the domestic and international markets for K-pop. Lastly, I present analysis of the top 20 songs from 1988 to 2012 in the Korean music chart to demonstrate the macro-level consequences of the organizational activities of these entertainment houses.

#### **4.4 EMERGENCE OF LARGE KOREAN ENTERTAINMENT HOUSES**

What were the conditions of the music market prior to the emergence of the entertainment houses? This following section briefly describes the system that was in place.

*Background Conditions: Korean Music Industry before the Entertainment Houses (1980s)*

Korean media were highly censored in the 1980s. President Chun Doo Hwan initiated the Basic Press Law to control media after his military coup, closed down private stations, and licensed only two state-run TV channels, KBS and MBC. The music industry was subjugated under this tightly controlled system, as television remained the most important platform for music promotion, as well as talent discovery (Howard 2006). In what was called the “star system,” singers were chosen through contests hosted by broadcasting stations. Broadcasting systems “employed resident backing bands, music arrangers and conductors, dance groups and choreographers” (Howard 2006: 83). The singers chosen for TV presentation were expected to perform songs given to them. This system, coupled with the lack of copyright control, did not create close association between singers and songs, but made songs popular only because they were sung widely. Singers “were not expected in real life to assume their stage persona” (Howard 2006: 84) or develop their own identities apart from the broadcasting station.

The record production process was controlled by the studio system. There were only 24 recording companies in the entire country in 1981 (Kim 2009b), and the studios, which were also music labels, directly controlled the songs and the hits (Russell 2008). The largest Seoul studio was “the place to make music...”, “defined the Korean music sound,.. creating sounds that were instantly recognizable” (Russell 2008: 141).

The genres of popular music then showed large differences from the contemporary market. Traditional folk singing and “trot”, a variation of Japanese enka, were popular in the countryside. Cho Yong Pil, the largest star of the 1970s and 1980s, owed heavily to

“trot” in although later he tried westernized genres including rock (Lie 2012). A number of ballad singers, notably Byeon Jin Seop and Lee Sun-hee, were discovered through musical contests and became popular. Some singers dabbled in dance (Kim Chu-ja and Kim Chong-mi, Sobangcha and Kim Wansun), or rock (Sanullim). However, the music industry was small and highly local and based on a rather un-innovative and marginal production system that simply pushed a lot of blasé products into the market to somehow connect with consumers.

In the 1990s, a number of factors contributed to heightening vibrancy of the music market. First of all, as the Basic Press Law was repealed in 1987, the private television market expanded. Furthermore, musical styles that were still undeniably local but more westernized were starting to gain popularity. Starting with “SeoTaeji and Boys,” a three-person rap group that revolutionized the music scene by popularizing rap, an increasing introduction and appropriation of foreign genres occurred. A number of singers experimented with musical styles imitating reggae, hip-hop, house, and R&B. An incipient youth culture formed and so did grounds for a growing music market.

The diversification of musical genres and beginning of a Korean youth culture were the fortunate contexts in which a number of entrepreneurs started seeing opportunities to systematize the music market. Especially pioneering was the role of Lee Soo Man, who started a small studio, which later developed into SM Entertainment, the largest and most successful entertainment house. As explained below, Lee developed a system to recreate the small number of rather accidental initial successes through incorporating various production strategies into his star production process. Others soon

took advantage of the trend and adopted similar production strategies. The simultaneous adoption of a set of production strategies by a number of music producers resulted in a rapid transformation and crowding of the music market.

*Founding of S.M. Entertainment (1985-1996):*

SM Entertainment was founded in 1988 as a small studio, named SM Studio. Lee Soo Man, the founder, was once a popular Korean folksinger, TV host, and a DJ, who spent some time in the U.S.. He is said to have been influenced by the changes that occurred in the US music market, the start of MTV and music promotion through music videos, and had hopes that he would be able to “replicate U.S. entertainment in Korea.”

It was the age of Solid Gold lip-synched TV show (and of course, the Solid Gold Dancers), skinny ties, big shoulder pads, and bigger hair. It was the age of tinny bubblegum pop and cheesy lite metal bands. It was the age of Michael Jackson. Lee soaked it all in and decided that there was a lot Korea could learn (Russell 2008: 139).

In SM Studio, instead of following the traditional studio formula, he tried to do things differently. Lee filled the studio with digital equipment imported from Japan’s Akai Electronic Musical Instruments, and hired composers who had interests in synthesizer-based music (Russell 2009). Lee provided directions to employees as to how to create electronic dance music, and based on his understanding of Korean tastes in music, started looking for talent.

His activities during the first years of SM Studio were clearly somewhat of a gamble as dance music had only a minor presence in Korea. Despite his vision to make dance the next big thing, Lee’s first products achieved minor success. Hyun Jin Young, a

singer and hip-hop dancer trained by Lee, debuted in 1990 and did not make a dent on the charts. What did make a change eventually, however, is the studio's continuous experimentation with their artists and effort to learn from past experiences.

Lee kept on refining his techniques, confident that he could find the right formula for his young protégé. He switched Hyun into baggier, more hip-hop-like clothes, raise the music tempo, and added a stronger rap feel (Russell 2008: 151-152).

After trial and error, Hyun's following albums saw bigger and bigger success, with his third album selling 400,000 copies, a huge success in what was then an extremely small and fragmented Korean music market.

#### *Growth of SM Entertainment:*

This experience of success led the studio to learn the value of systematically "producing" the artists rather than supporting only the minimal recording and contract functions. Based on the initial success, the studio decided to systematize the star production business (Russell 2008) and adopted a system for training and developing artists. In search of talent, Lee held auditions all over Korea, the US, and Japan, and hired a "casting manager" to identify the best dancers from local schools and survey teenage girls to ask what they wanted. Once an aspiring singer made the cut, s/he was brought to SM for training –to learn singing, dancing, and how to act like a star.

He worked over the strategies over 1995-1996. The name, SM Studio, was changed to SM Entertainment in 1995, and a five-member boy-band, H.O.T. was put together, a group consisted of five handpicked members who each had different strengths. They debuted in 1996, became an instant success, and arguably started K-pop.

*Period of Market Crowding (1996- 2005):*

The next phase of development occurred as other entertainment agencies appeared and began systematizing their production strategies. YG Entertainment, a record and talent agency founded by Yang Hyun-Suk, once a member of Seo Taeji and Boys, appeared in 1996, and began producing Hip Hop artists like Ginusean and 1TYM. In 1997, Park Jin Young, a singer and songwriter in the mid-1990s, started JYP Entertainment. With the arrival of JYP, the three-tier entertainment agency system as currently existing became complete. The following decade roughly over 1996- 2005 was marked by various efforts at devising new systems of artist production and management. The agencies experimented with various styles of music, singers, and production models, and gradually defined their strategies.

The trainee programs most notably started taking shape during the first half of this decade. In the late 1990s, the average period for training artists were shorter than after 2005<sup>20</sup>, less rigorous, and each house produced artists focusing on (slightly) more varied musical genres and less defined styles. Casting managers focused on finding talented high school students who could already dance and sing. However, as competition intensified, agencies placed larger emphasis on internal production, which trend led to lengthening of the overall traineeship, a selection of younger trainees, and preference for

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<sup>20</sup> The average training for the early groups like H.O.T (debut in 1996), S.E.S (debut in 1997) lasted for around a year, and in the case of Fin.K.L, (debut 1998) only 4 months. In comparison, members of more recently formed groups such as Girls' Generation (debut in 2007), and 2ne1 (debut in 2009), trained for an average of 5.2 years and 3.5 years respectively, with some members like Jessica and Hyo-yeon (Girls' Generation) training for more than 7 years.

in-house training than selecting artists with already defined-styles. Later, a global market focus was added to the list of these production strategies.

#### **4.5 RECIPES FOR SUCCESS: FURTHER DEFINING OF PRODUCTION STRATEGIES AND ORGANIZATIONAL IDENTITY (2000-)**

These current star-producing strategies came into place around 2000. These strategies enabled the entertainment house to gain more control over the artists and continuous profits. Each house further refined their organizational identities through focusing on cultivating a coherent “brand image,” narrowed the range of genres and styles of artists they produced, and instead focused on getting the “formula right”.

This following section focuses on examining the “tried and proven” recipes that the entertainment houses used and systematized to take over the Korean and global music market. I argue that these set of strategies- recruitment and training strategies, strategies to refine organizational identities, globally conscious star production strategies, and market domination strategies - were at core of K-pop’s success. They initially represented systematized ways of producing and marketing to popularize dance and other Western genres of music within the Korean market, but later become strategies targeting the global audience.

##### *Recruitment and Training*

The first and most important strategy to take shape was the star recruitment and training system. Although SM Entertainment is most frequently credited for developing this

system of star production, the other entertainment houses also adopted similar production strategies over this period. Heavy control of the products and outputs (stars and their music) by the entertainment houses were emphasized throughout the processes of recruitment, training, team formation, music production, and debut.

Trainees were recruited through street recruitment, open competitions, and auditions. While other methods were not uncommon, auditions within the entertainment houses have become the most common way for aspiring artists to make it into the trainee system. These auditions are so cutthroat that, out of the 3 million aspiring artists that audition annually with SM Entertainment, only about a handful make the cut (Herald Economics 2012). Auditions are held weekly at the company, and also through public auditions held twice a year in Korea, and once a year in Asia and the U.S. (Daewoo Securities Market Report 2010).

The starting age of the average trainee also has greatly reduced. While many started in their early teens, some started as early as at age 5 or 6. Once the entertainment house selected the trainees, they secured the time to train the teenagers through long-term contracts. It was not uncommon for trainees to have 7+ year contracts and to sign another 10+ year contract upon debut, especially before the Fair Trade Commission's request to reduce the traineeship in 2010.<sup>21</sup>

The systematized traineeship involved training the artists in subjects ranging from singing, dancing, rapping, composition, musical instruments, to foreign language, and

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<sup>21</sup> The nine girls' generation (SNSD) members trained for an average of 5.5 years. After their debut, SM Entertainment secured a 10-year contract with SNSD to collect the capital they invested, which they shortened to 7 years after Fair Trade Commission's correction request.

manners. As the depository of to-be stars and potential moneymakers, the training program itself became of large importance. SM Entertainment now reportedly invests more than 5 million US dollars annually into their training program (Herald Economics, 2012).

Youth and “malleability” of the trainees also became of obvious concern. The entertainment houses gradually aimed for a complete start to finish manufacture of the product rather than taking into consideration what the artists already have to offer. Selection of young tweens and teens, considered “not yet tainted” by outside influence and without their own musical style, gave considerable power in the hands of the entertainment houses to systematically produce the star. The trainees are completely dependent upon the entertainment house for becoming stars and future success.

*Refinement of Organizational Identity through Promoting Coherent “Product Image”*

While all three entertainment houses of SM, YG, and JYP invariably adopted these elements of long term traineeship, early recruitment, and in-house production of musical talent, each house internally developed a distinct and internally consistent packaging strategy for their entertainers through emphasizing a coherent identity or brand-image.

For example, while R&B artists like Fly to the Sky (1999) had been part of SM Entertainment in the earlier days, more recent agency efforts focused on producing multi-member dance groups. SM Entertainment defined harmonizing dances as key to their style and promoted a dance style known as “military style dance” (*gun-mu*), which stresses all members to dance perfectly in sync. “SM style music” was gradually defined

as electronic based, fast-beat, and strong with memorable lyrics with repeating “hooks.” They also trained their artists to be “proper,” and “perfect and elite-like.” Their members are known to be multilingual, articulate interviewees, and polite (Kim 2012d).

In contrast, YG Entertainment put the free and rebellious style of their artists at the forefront of their brand image. YG’s artists are “trained” to have “individuality” and to leave a lasting impression on audiences. Rather than promoting artists who are uniform-looking and artificially coordinated on stage, YG performances feature singers who freely run around the stage and provide a party-like atmosphere. YG’s groups such as 2NE1 or Big Bang, are known to be “un-conforming” not only in their music and dance style, but also in fashion and even facial features (e.g., members of 2NE1 are often referred to as “non-traditional beauties” ) (Kim 2012e).

Lastly, JYP Entertainment boasts artists whose styles appeal to different segments of the mass. While the female group singers are usually the most sexually suggestive, the male singers give out humane and friendly “neighbor-like” images. JYP Entertainment is known for producing songs that become widely popular, even among the middle-aged and elderly crowd, and therefore is also called the most “Korean” of the three entertainment groups.

The emphasis on a set of coherent imagery of the group singers has led the fans to equate each artist with the entertainment house (the “brand name”), and identify the different singers that belong to each group as “allies”. These groups, further reinforcing these identities, often have joint concerts around the world, under the names of “SM Town,” and “YG family” with lineups that include most member singers of the group.

*Emphasis on the Global Market*

Since the 2000s, the entertainment houses incorporated more globally conscious strategies. Most notably, many started overseas ventures as subsidiaries and pursued partnerships with foreign entertainment companies and record distributors. In 2000, SM Entertainment established SM Entertainment Japan as a JV with Avex, and subsequently, its US and Beijing subsidiaries. Similarly YG Entertainment established YGEX with Avex Group in 2011, and announced launching of YG USA and YG Hong Kong in 2012.

Additionally, the companies sought foreign partnerships to promote their artists. YG Entertainment has had partnerships with Nippon Columbia and Universal Music for the Japanese release of Se7en and Big Bang, and teamed up with Live Nation (California) in 2012 to produce “Big Bang Alive Galaxy Tour.” SM Entertainment partnered up with Interscope Records to collaborate on projects involving Girl’s Generation, while YG Entertainment established partnerships with Will.i.Am, whose 2012 studio album included features with 2NE1. YG Entertainment entered into partnership with Creative Artists Agency in 2012 for the US representation of rapper PSY (who in 2013 signed with William Morris Endeavor).

With their foreign subsidiaries and partners as platforms for overseas talent discovery and market penetration, the entertainment groups have targeted overseas markets since the 2000s. The strategies they adopted defy the conventional approaches to internationalizing pop culture products. While conventional wisdom guides the singers to first achieve domestic success, these groups have taken into consideration the overseas markets from the design stage of their products. SM Entertainment was especially fast to

adopt a globally conscious strategy from the production-stage, especially as seen with the training of the female dance singer, BoA.

BoA debuted in 2000 at the age of 13, when she was already trained to speak Japanese and English. Her debut album <ID :Peace B> was only a moderate success in Korea but the Japanese release reached the top 20 on the Orion chart and her subsequent singles <Amazing Kiss> , <Listen to my Heart>, and <Valenti> all ranked top of chart. With the backing of SM Entertainment's joint venture with Avex, she was assisted with Japanese dance teachers who helped her "localization," musicians who produced her album with the strong rock-beat typical in J-pop songs, and stylists who helped her visualization that suited the local taste (KOCCA 2010). She is only one of three artists to have six-consecutive number 1 studio singles on the Orion. She also consistently produced albums in Chinese and English, which helped her region-wide popularity across East and Southeast Asia.

SM Entertainment's boy group Dong Bang Shin Ki (also known as TVXQ or Tohoshinki) also became extremely popular in Japan through similar strategies; production of Japanese language albums through hiring local producer Matsuo Kiyoshi, and featuring their songs in local dramas and movies.

While the entertainment houses focused on Japanese market penetration through cooperation with local media groups, producers, and musicians, they actively tried to create groups that will appeal to the Southeast Asian and Chinese market through similarly produced Chinese language and English albums. All three groups actively hold global auditions to recruit artists of non-Korean nationalities and members of the Korean

diaspora. SM Entertainment's boy band, Super Junior debuted in 2005, included a Chinese national, Han Geng. In 2009, they debuted a five person group, f(x), including Chinese Song Qian and Korean American Krystal Jung. JYP Entertainment's four person girl group, Miss A also includes two Chinese members, Fei and Jia, and boy band 2PM includes Nickhun, an American of Thai-Chinese descent. These groups consisting members with diverse backgrounds, have been, from the formation stage, designed as products to target the overseas markets.

### Market Domination Strategies

More recently, the entertainment houses have simultaneously adopted strategies to achieve larger control over the domestic market. First, in 2010, the three groups have established a JV, KMP Holdings, with four other talent agencies including Star Empire, Ken Entertainment, and Music Factory. The venture is intended as an official distributor of their releases, especially in the digital music market, and to challenge the existing duopoly by Loen entertainment and Mnet in domestic music distribution. Second, in April, 2011, the companies joined forces with television talent agencies, KeyEast, AM Entertainment, and Star J Entertainment, to create a management agency named "United Asia Management," in an effort to push *hallyu* and "pioneer a global market". They have also used the management company to collaborate for a production system that links movies, dramas, and other media.

In addition to these market domination strategies, the respective entertainment houses have established subsidiaries in related and unrelated businesses, and also tied up

with other *chaebol* for further promotion of their products. YG has tied up with Samsung's Cheil industries to launch a fashion line. SM Entertainment has launched SM Pictures, a film producer subsidiary in 2007 and produced a number of films that featured SM Entertainment's stars. They have also announced acquisition plans of Mediaplex in 2012, a film distributor. SM in 2012 acquired a Hawaiian travel company and renamed it "SM town travel" and introduced various travel and concert packages for their overseas fans through its "global package" program.

#### **4.6 DEVELOPMENT OF FEEDBACK LOOPS AND THEIR MACRO CONSEQUENCES**

As showed above, the competition between major entertainment houses and their repeated following of successful production strategies were keys to K-pop's development and domestic and international successes. These developments have also occurred concurrently with a set of organizational and (domestic, and international) market changes, such as the concentration of the domestic market, homogenization of genres, and an establishment of a feedback loop that heightens K-pop's international visibility.

##### Concentration of the Korean Music Market

K-pop's growth has occurred concurrently with a complete restructuring of the Korean music industry. The strategies that emphasize direct control over the artists and in-house production of music and musical talent has gradually enlarged the sizes of the entertainment houses themselves. Between 1996 and 2010 the largest entertainment

houses became more successful and influential, and produced a larger lineup of artists while further developing their strategies. Resulting was a large concentration of the overall music market and the largest three entertainment houses accounting for an increasing share of the music market.

### Homogenization of Korean Music Sphere

This simultaneous following of successful production strategies also meant that, as time went by, there was also a high-level predictability of the type of music that will be produced through these entertainment groups. Over the ten years that the entertainment agencies have dominated the music scene, the domestic Korean music sphere has become incredibly homogenous.

Lack of choice becomes a miserable sort of feedback loop. When Korean consumers demand fewer options, so consumers are less likely to learn and more likely to see their taste narrow even more. Sean [*creator of the internet music downloading site, Sori-bada*] sees the data from his company, where there are zero restraints on what someone can listen to, and he says that choice is declining. That decline is no corporate conspiracy, no heavy-handed distributor. That is consumer choice. (Russell 2009: 186)

Constant monitoring of the tastes and preferences of the consumers and factoring the successful elements back into the products lead to a development of a feedback loop on a larger scale. This makes successful products increasingly predictable and guarantees

a continuous stream of revenue for the entertainment houses<sup>22</sup>, but also homogenizes the entire domestic music scene.

To show the increasing homogenization of the domestic market and concurrent domination by the large agencies, historic music chart data published by an online music streaming-service, Melon music, were used. The top 20 domestic songs of each year from years 1988 to 2012 (total of 500 songs) were coded by genre and whether the musicians belonged to the three large entertainment houses. Genre is coded dichotomously into the categories (1) “Hip-hop and Dance” (most representative of K-pop) and (2) “all others”; belonging to the entertainment houses is also coded dichotomously based on whether the artist behind the song belonged to one of the three major entertainment houses at the time of the release. The data are organized annually in order of song popularity, and calculates the weighted average of national record sales (70%) and media appearance of the song (30%)<sup>23</sup>.

Figure 4.3 summarizes the results. The shaded area of the histogram shows the overall proportion of dance and hip-hop out of the total. The juxtaposed line graph shows the proportion of songs produced from the three large entertainment groups.

[Figure 4.3 About Here]

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<sup>22</sup> SM Entertainment’s quarterly reports list the groups’ product release plans, which strategically space out the album release dates of the company’s top groups to ensure continuous revenue and satisfy shareholders.

<sup>23</sup> Melon music <Historic chart rank calculation> from ([http://www.melon.com/cds/chart/web/chartage\\_list.htm](http://www.melon.com/cds/chart/web/chartage_list.htm))

What I find is an increasing domination of dance and hip-hop music, and also an increase in the number songs being accounted for by the largest entertainment houses. Although the results indicate a sizable presence of dance and hip-hop music in the early to mid-1990s, what the binary coding of genres does not reveal is that the dance music produced before the emergence of the large entertainment houses were qualitatively different in style from the music promoted under the entertainment house system. The dance music performances from the early 1990s looked and sounded nothing like today's K-pop.

The results also do not show the composition of the “next tier” of the K-pop production scene, which is populated by smaller entertainment agencies such as Loen, Starship, and Cube Entertainments. These agencies are smaller in size and produce singers with relatively more diverse musical styles, but many of their productions can still safely be categorized as “idol music”. The strategies of these smaller agencies mimic those of the Big-3, and they often soak up singers who once belonged to the larger entertainment houses.

#### Global Feedback Loop and K-pop's Increasing Visibility

Various demand-monitoring strategies that the entertainment groups adopted also contribute to the heightening global visibility of K-pop. One factor that has particularly aided this process is technological, especially the global diffusion of the Internet and worldwide accessibility to websites like YouTube. Users' instantaneous access to

released contents not only allows for companies' quicker demand-monitoring but also easier identification of potential consumers.

These technological advancements enabling both efficient demand-monitoring and production, like just-in-time production and point-of-sales (POS) systems did to the retail industry (Hamilton and Fels 2010), helped tighten the feedback loop between demand and production: People's interests are aggregated numerically in real time via YouTube hits, iTunes downloads or Twitter shares, enabling companies to monitor demand instantaneously without waiting for weekly album sales data, or without having to spend large amounts of money "testing markets" with unclear prospects. Digital platforms also allow companies to reduce the risk by releasing "digital singles" instead of full-length albums. Thus, YouTube is increasingly relied on as a platform for content distribution by media businesses, leading to a surge of "professionally generated contents" over "user-generated" ones (Kim 2012c).

What technological advancement leads to is an increasing democratization in entry opportunities, but not an equal chance of success. Online channels are open to everyone, but only those producers that effectively monitor demand and flexibly respond through their production processes can see systematic and continued success in international markets. What the Korean entertainment companies have developed is a system to enlarge their domestic and global markets through factoring consumer preferences into their production, while developing a coherent brand image that would enable consumer recognition of the products as unique and appealing.

#### **4.7 CHAPTER CONCLUSION**

This chapter has studied the development and success of K-pop. I showed that a group of Korean entertainment houses were at the center of this process, and argued that cultural, governmental, technological explanations ignoring their role of these players miss the mark. The analysis points to the importance of market intermediaries in facilitating market processes by tying together the markets for production and demand. In this regards, the largest Korean entertainment houses are not merely passive “takers” of market signals, but crucial makers of trends and drivers of the production process. I also show that this producer-driven model (Gereffi 1994) of K-pop production has led to a number of consequences domestically and internationally, including concentration of the Korean music market, increasing homogenization of domestic genres availability and increasing visibility of K-pop in the global market.

An underexplored point, which deserves further attention, deals with the inherent tension between innovation and “newness” that are valued among global music fans and the K-pop production strategies that emphasize predictability and replicability. Despite the high levels of popularity around the world, the uniformity and cookie-cutter images of K-pop singers, the dissonant ideals of sexuality between the US and the East, and the highly-manufactured feel of K-pop, among many possible reasons, have made the breakthrough of K-pop relatively difficult in competitive music markets such as the US, where musical ingenuity is often deemed more important for success than high production-value. Due to the inherent contradiction in applying the K-pop production strategies to produce musicians that are “different,” not to mention the financial risks

such individualized investments entail, most “non-mainstream” artists are not backed by the idol-generating entertainment groups; nor are they ever trained to become potential *hallyu* stars. While the decisions to select and train young artists with high potentials to commercially successful products generally are on target, there can be “upsets” as seen in the case of PSY, who achieved some fame domestically throughout his 12-year career but was deemed too unconventional (musically and appearance-wise) to even be considered a *hallyu* star candidate. However, as his 2012 hit <Gangnam Style> has unexpectedly brought the singer to a level of global success no other K-pop groups has seen, Korean entertainment groups are now recalibrating their strategies and trying to analyze every possible factors that led to PSY’s success. It is unclear how PSY’s penetration of the ever-desired US market would affect the future production strategies of the major entertainment groups, and whether it will actually lead to loosening of the entertainment groups’ highly standardized production strategies. Such will be an interesting topic to devote future attention to.

Finally, I conclude this chapter by stating that more attention should be placed on the industrial processes of generating consumption goods and its relationship to final consumption. The micro dynamics of consumption should adequately be studied in conjunction with industrial and organizational processes, which give shape to the very products of final consumption. This interrelating of the micro and the macro, which this chapter demonstrated through using the concept of a feedback loop, can be a crucial strategy for bridging together the study of culture, consumption, and market processes.

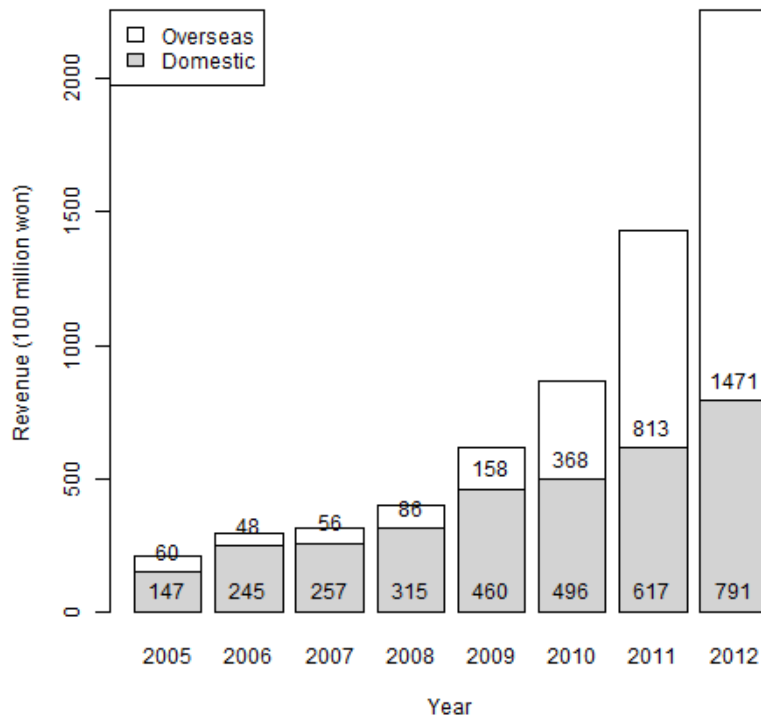


Figure 4.1 SM Entertainment, Domestic and Overseas Revenue, 2005-2012  
Source: Kim (2012a)

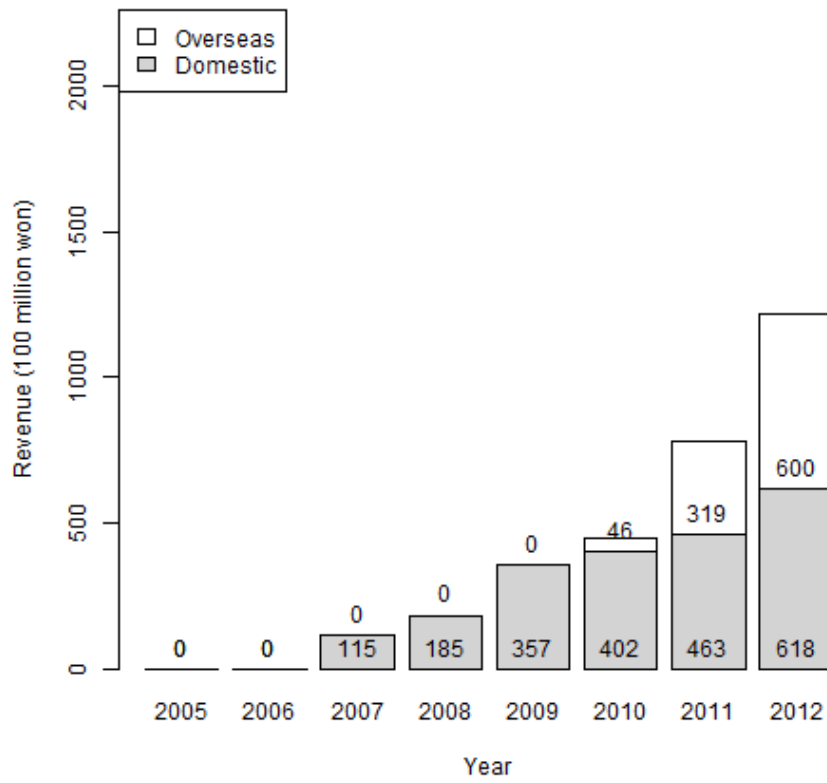


Figure 4.2 YG Entertainment, Domestic and Overseas Revenue, 2005-2012  
Source: Kim (2012b)

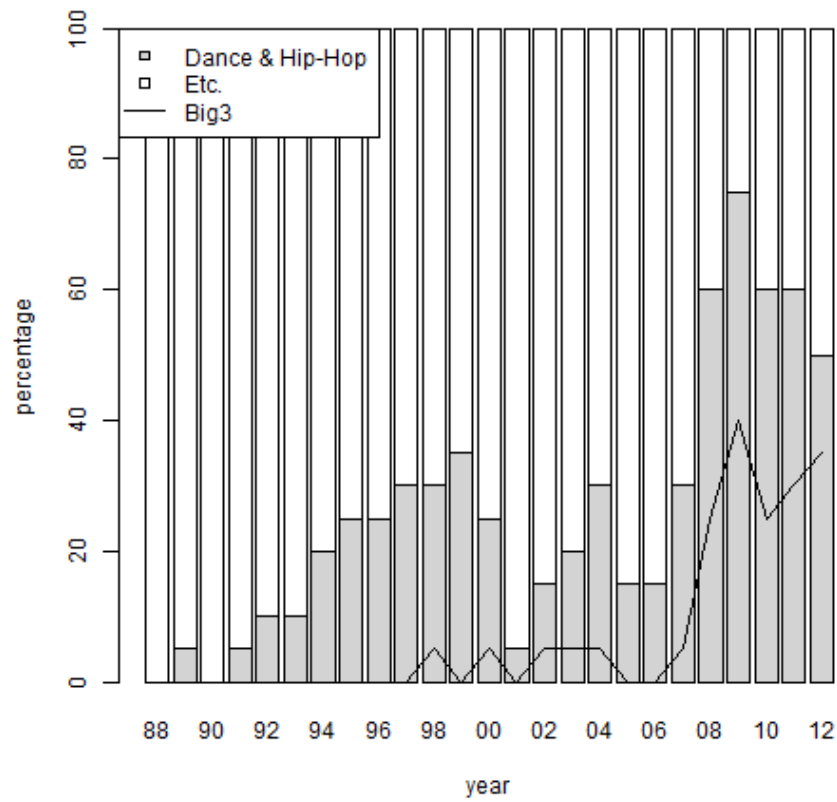


Figure 4.3 Big-3 Membership and Dance & Hip-hop Music among the Top 20 Songs, 1988-2012

Source: Mellon Music Historic Chart Data

## CHAPTER FIVE: CONSUMPTION OF FOREIGN FASHION IN ASIA

The previous chapter examined K-pop as an example of product development and a case study of the role of market intermediaries in the development process. Unlike conventional explanations which emphasize cultural, governmental, technological factors as key drivers of the success of K-pop, the previous chapter emphasized how the organizational activities of these large entertainment companies were crucial in K-pop's development and success. Furthermore, the chapter argued that the specific organizational dynamics reflect the institutionalized logic of conducting business within the context of the Korean market.

This leads to the question to be explored in this chapter: how do the dynamics of consumption vary across East Asian markets? How do the patterns of consumption align with the structures of regional and national production systems? Finally, what are the roles of intermediaries in navigating the distinct landscapes of production and nationally-specific patterns of consumption? This chapter will examine these questions, with consumption of global fashion products as the topic of inquiry.

The main goal of this chapter is to examine how intermediary contractors, distributors, retailers, and sometimes local producers of apparel products develop the market by navigating the regional and national production landscapes, as well as variations in consumer tastes. I show that the specific lineup of products and brands in different markets result from the intermediaries' market-making activities which adjust the gap between local production and demand landscapes. I also show that their specific

market-making strategies reflect both the methods of localized status competition and the preferences of local consumers.

Prior to investigating the patterns of production and consumption of fashion items in Asia, it is important to note how the global fashion market link disparate locations of production with equally spread-out global consumer bases. Specifically, it is necessary to examine the stages of the supply chain that connect the important processes of branding and design, intermediary and final assembly, distribution, and retailing. Each of these actions forms a distinct step of the market process. They are organized around a large group of networked participants and firms located around the world. Therefore, this chapter will start with an inquiry into the structure of the global fashion production landscape and its final linkage to consumers, and how the specific dynamics of local and regional production and consumption tie in.

## **5.1 PRODUCTION AND CONSUMPTION OF GLOBAL FASHION PRODUCTS**

...the most interesting and certainly the most obscure aspect of the entire relationship [in fashion is] the relationship between, on the one hand, the expressions of modernity to which the dress designers are so responsive and, on the other hand, the incipient and inarticulate tastes which are taking shape in the fashion consuming public. Certainly, the two come together in the styles which are chosen and, in so doing, lay down the relationship as constituting one of the most significant mechanisms in the shaping of our modern world (Blumer 1969: 280).

Herbert Blumer's comments on the interrelationship between the producers of fashion and the tastes of consumers provide an insightful starting point for this inquiry into the operation of contemporary fashion markets. Production and consumption are

intricately linked as the participants involved on each side of the market observe and learn from one another to define and redefine their visions of the future and modernity.

In the contemporary era of mass consumption and global fashion, a number of emergent phenomena on both the production side and the consumption side complicate this symbiotic relationship within the fashion market. First, on the production side, a centralized fashion industry developed that spans across the so-called “fashion capitals” of the world, which are cities such as Paris, Milan, London, and New York (Wenting 2005). Elite designers in a small number of fashion houses located in these cities act as the central innovators. They give shape to the trends that will be adopted and diffused throughout the hierarchy of various tiers of producers (Godart 2012). Simultaneously, prestige is endowed to different products by magazine editors, fashion journalists, fashion critics, buyers of prestigious boutiques and department stores; these are the players who make up a centralized prestige hierarchy. Second, as is with goods and services in other consumer sectors, branding has become an institutionalized strategy (Power and Hauge 2008). Fashion houses and apparel firms rely on brands to market and communicate to consumers the “fashion forwardness,” the quality, and prestige of products that they sell. Third, resulting from the disintegration of production (Feenstra 1998), there has been a decoupling of manufacturing and design locations for most fashion products. Lastly, there has been a massive explosion of fashion products available to consumers, as well as a sharp increase in the horizontal expansion of fashion brands. This is fueled by rise of mass production technologies as well as greater numbers of middle-class consumers around the world.

On the side of consumption, the most important phenomenon has been the expansion of a global consumer base for global apparel products. Other contributors to the globalized consumption of branded fashion include the rise of middle class consumers in emerging economies, organization of consumption as a central pastime and the developments in production and retailing technologies. Of course, consumption of branded fashion products stem not from the “use value” that derived from the product. If that were the case, consumption would be not for fashion but for utility. Fashion consumption inherently means that consumers are seeking the social meanings the goods carry as signifiers of individual social status and taste (Bourdieu [1979]; Simmel 1957; Veblen [1899]), one’s lifestyle preferences (Holt 1997) and collectively defined visions of modernity (Blumer 1969).

This “obscure” relationship between fashion designers and consumers, as Blumer puts it, has not yet been well elaborated in the literature. Discussions of fashion need to include the concrete process through which fashion is created. Once designs are conceptualized, they go through the processes of actual manufacture, selection, and then various distribution channels in order to finally be available for purchase in retail stores around the world. Nowadays these stores are mostly standardized formats of department stores, shopping-malls, specialty outlets, and discounters. This is true for various “high” and “low” fashion brands. Although the actual location of design and manufacture might vary, items in these brands go through the same standardized channels and are sold and consumed throughout the world. This process involves sets of complicated networks of high and low end producers, merchandisers, retailers, and the marketers whose global-

spanning activities are located between the designers and consumers. These networks have collectively shaped and defined the market for contemporary fashion.

### *Brands as Objects of Inquiry*

Brands have become central to the processes of both production and consumption of goods. Examining the linkage between the design process and consumption process thus requires a focus on brands.. Brands are important for the following reasons. First, brands have become *the* primary objects of consumption for today's consumers. Consumers "have often deeply personal relationships to brands and brand histories" (Power and Hauge 2008: 123) and use these to decide which brands bear marks of taste and quality and which do not. Some brands are perceived as "original," "innovative," and "fashion forward," while others are merely assumed to be copies. This is true despite how all brands sell products that, to the untrained eye, are barely distinguishable from one another.

More importantly, brands decouple the production process, production location, and issues of actual brand ownership from the primary product image. They wrap the product in a set of coherent messages and imageries that the consumer will identify with, while disassociating the messiness tied to processes of production and issues of ownership. If consumers relied on use value alone, they would use markers of quality such as material and origin to guide their purchase. However, the contemporary consumer does not purchase products recognizing them as "Chinese silk," "Indian spices," or "African ivory" but instead identify that an item is a purse designed by Tom Ford from

Gucci, a company whose advertising campaigns help evoke the image the “slick, sexy and sophisticated women from Los Angeles [*note: not Italy where the brand is based and manufactured*] who consumes, shops, buys, and disposes of, and then buys again” (Tokatli 2013: 248). A consumer may see a Burberry trench as having an “English countryside style” (Power and Hauge 2008: 137) despite much of its production location being plants in China, Poland, Romania, and the US. Nor will it matter that Abercrombie & Fitch and Hollister are owned by the same parent company, or the \$10 Old Navy crewneck shirt was produced under the same roof and side-by-side with the \$20 one by Benetton. In these ways brands selectively mask, exaggerate, and manipulate the history of production and ownership, as well as the elements of the actual object being sold. For these reasons, brands will serve as core objects of inquiry in this chapter, and will be viewed as the primary object of consumption.

## **5.2 HIERARCHICAL AND HORIZONTAL ARRANGEMENTS IN THE GLOBAL FASHION “BRANDSCAPE”**

This section outlines the hierarchical and horizontal arrangements of global fashion “brand-scapes” (Sherry 1998). As a centralized industry, global apparel brands can be clearly classified along hierarchical dimensions of status and prestige attached to the products. At the same time, consumption culture has proliferated courtesy of factors such as the democratization and rising equality that came with the industrial age, rise of mass production and mass consumption, and rise of branding as an institutionalized firm strategy (Power and Hauge 2008). These factors have also led to products that target

certain niche groups organized around lifestyle preferences. Therefore, the arrangements that characterize the current “brand-scape” of global fashion are both horizontal and hierarchical.

### *Hierarchical Arrangements in Fashion*

Fashion is a highly centralized industry in that the core industry players, notably fashion houses and designers, operating in a limited number of global “fashion capitals” of Paris, Milan, London, and New York. They set and define the seasonal trends (Godart 2012) that often “trickle-down” to mass market producers (Power and Hauge 2008).

The brand producers occupying the different quality categories display a disparate focus in production. In high-end fashion, trendsetting and innovation take place in the top segment of the industry. The lower segments have increasingly flourished with the technological improvements that correlated with the creation of worldwide mass-fashion markets. Mass-market fashion producers evolved with the advance of mass retail and marketing technologies. As a result, they differ greatly from up-market producers in their organizational and production principles and their level of supply chain control. To put it simply, higher up the “fashion pyramid”, firms place larger emphasis on control of the product, while the lower segments often place more emphasis on the retail and marketing aspects of the transaction. Lower-market fashion retailers are less likely to maintain heavy control the actual product themselves, and often place more efforts on retail, advertising, and other merchandising efforts.

A few social scientists have examined the production systems within the fashion industry (Abernathy et al. 1999; Doeringer and Crean 2006; Godart 2012). In the most useful of such attempts, Doeringer and Crean (2006: 358) suggest a typology that classifies products along what they call a “fashion pyramid” [See Figure 5.1].

[Figure 5.1 About Here]

Doeringer and Crean’s typology presents a hierarchical classification for fashion products, ranging from mass-marketed and often unbranded “basic commodities” and “fashion basics” to high priced and designer-produced prêt-à-porter and haute couture collections. The further away from the base of this pyramid, generally higher the level of product differentiation, greater the demand uncertainty, and shorter the product cycles (Doeringer and Crean 2006). Each of these product types differs in their production focus and in the level of product prestige and consumer group targeted, as will be explored below.

In the top segment of the fashion industry, membership to haute couture, an expensive and exclusive practice of dressmaking, is granted to only a few prestigious producers. The term is protected by the French ministry of Industry and the membership is granted and regulated by the *Chambre Syndicale de la Haute Couture*. Production in this segment of the industry, where unique, custom-made products with unusual fabrics and exquisite workmanship are consumed by only a few thousand of the world’s wealthiest clientele, defies the logic of profitability that other segments of fashion

organizes around. The designs, for the most part, are not produced to be sold; they are meant for show and brand-image. This sector is still seen as the locus of innovation and true artistry in fashion. It is perceived as a “laboratory of ideas,” where the practice of impractical, un-wearable, unaffordable, and often unprofitable dressmaking sustains its core and drives the trends for the rest of the fashion industry, despite the fact that the sector is also in decline.

The principles of fashion, artistry, exquisiteness, and scarcity seen in haute couture are commercially adopted in the next tier of the fashion pyramid, in the production of prêt-à-porter, designer collections. Although these high-end fashion products still target a rather small group of trend-conscious and wealthy consumers, the designs are not original as haute couture. They are copies that add wearability and practicality. The modification ensures the products will have practical value to the consumers and sell in high-end department stores and boutiques. These collections are designed within prestigious fashion houses headed by famous designers, and put on shows during fashion weeks held twice a year in important fashion centers of Paris, New York, and Milan. Product cycles are short because collections are only sold for a season; standard seasonal sets are Fall/Winter, Spring/Summer collections, but pre-fall, pre-Spring, and Cruise/Resort collections are increasingly appearing. During the process of producing and showcasing the products, high-level of internal editing occurs through the selection activities of both fashion designers and buyers for boutique and department stores before the products picked up in retail.

Lower on the fashion pyramid are “commodity products.” This segment includes relatively unchanging and often unbranded or store-branded basic products that stay on the shelves for a much longer period, sometimes several years. Items such as basic undergarments, simple T-shirts and dress shirts, and socks which are mass-produced for a wide range of mass-market retailers and big-box retailers (e.g., Wal-Mart and Target) exhibit these characteristics (Abernathy et al. 1999).

### *Horizontal Expansion of Fashion*

The top (designer) and bottom (commodity products) segments of the fashion pyramid generally correlate with perceptible separation between “fashion” and “clothes.” This line has been increasingly blurred by the expansion and innovations in the middle segment of the pyramid. This segment is populated by mid-cost products that exhibit a varying mix of the characteristics held by either by commodity or fashion. The brands that occupy this segment show little differentiation in the quality of their products, but vary stylistically in their position along certain horizontal “identity dimensions.” For instance, some brands target youthful teenage girls, others appeal to the urban office workers, and yet others, the inner city hip-hoppers or skaters, or sports aficionados.

The brands in this middle segment include a wide range from the relatively inexpensive brand-name producers and merchandisers of Gap and Levi’s, the specialty sporting goods of Nike, Puma, and Adidas, the fast-fashion brands of H&M, Zara, and Mango, all the way to up-market bridge and better apparel and accessory lines of Emporio Armani, Anne Klein, and Coach. The middle segment has expanded

tremendously in recent decades through utilization of what Abernathy and colleagues (1999) call a set of lean retailing technologies on the production side, and a mass consumerism and rise of modern retail formats on the demand and distribution sides<sup>24</sup>. These changes have driven product proliferation in fashion (Abernathy et al. 1999).

Compared to the top layer of the fashion pyramid, the brands in the middle segment emphasize actual fashion innovation less and instead focus on other non-fashion aspects of business such as marketing, advertising, and branding, cost-saving mass production techniques, distribution, and inventory strategies. As Abernathy et al. (1999: 132) note, “although many apparel manufacturers do have in-house designers, most of the work...comes in adjusting previous patterns or small elements of existing garments... and is more a matter of technical creation than a flight of fancy.” With extensive aid of modern design tools like the CAD (Computer-Aided Design) system, changes in color or fabric patterns can be implemented in minutes, and it is possible to even make entire collections in a day. Mass customization techniques, automatic cutting operations, and techniques that increase sewing productivity enhance the overall flow of production and reduce costs (Abernathy et al. 1999).

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<sup>24</sup> In terms of the firm strategies of these mid-tier companies, three clusters can be identified. First, there are companies with a larger-product focus who relies on local licensees and third-party operators of actual retail space (e.g., Nike, Adidas, Levi’s). Second, there are companies that combine a focus on product and retail by mixing retails that are 3<sup>rd</sup> party owned with own retail stores (e.g., Benetton and Espirit). Third, there are companies that mainly focus on retailing and operate only own stores while maintaining less control over actual products (e.g., H&M, Zara, and Uniqlo). Costs of production are higher for the former groupings, while distribution is costlier for the latter (Euromonitor 2012).

Many of these brands have successfully marketed and branded themselves as “luxuries” in their own right and have garnered values as status symbols within contexts of certain subcultures and niche groups. These makers of lower cost products have played an important role in their effort to bring the mass to become active consumers of fashion products. The horizontal expansion of brands played a crucial role in consumption becoming associated with individual lifestyle orientations rather than status dimensions as well as triggering mass consumption.

### **5.3 VARIATION IN THE PRODUCTION OF LOCAL FASHION**

How do the brand arrangements described above tie with the local production and consumption landscapes of Asia? Taiwan, Korea, and also Japan have become intricately tied to the global landscapes of fashion production. These countries rapidly transformed from being primarily manufacturers of apparel products to also being importers and consumers of these products. Their prior history of apparel and textile production has impacted how the domestic fashion industries developed in these various locations. Japan’s role in global fashion differs from the other two in a key way: Japan established itself a well-recognized fashion capital with the rise of Kenzo Takada and avant-garde designers, Issey Miyake, Yohji Yamamoto, and Rei Kawakubo in 1970s and 1980s. With the famed Bunka Fashion College,<sup>25</sup> Japan, and Tokyo in particular, has nurtured its homegrown group of fashion designers and brands, some of which are globally

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<sup>25</sup> Bunka Fashion College is often considered to be on par with other elite fashion schools like the Central Saint Martins in London, Parsons (The New School for Design) and Fashion Institute of Technology in New York, and ESMOD in Paris.

recognized. There has not been a similar development in designer fashion and global brand development in Korea and Taiwan, but the two countries have been locations of active export-oriented apparel production with OEM producers who have participated in the intermediate supply and assembly of garment production. The variation in these countries' history of engagement with apparel production has led to differences in the lineup of available domestic brand names and products.

The apparel production landscapes of Taiwan, Korea, and Japan integrated into the global system of “brand-scape” in different ways. In Chapter 3 of this dissertation, I argued that the specialized Taiwanese economic structure prevented the firms from developing own-brand names for retail structures because the economy developed around manufacturing for export and the domestic business groups had limited cross-sector reach. In contrast, the centralized ownership and control structure of the Korean *chaebol* structure facilitated cross-sector diversification. The Japanese *vertical keiretsu* that developed apart from the stagnant *horizontal keiretsu* led to the growth of format-spinning and market-dominating domestic retail empires that preempted the domestic markets.

Largely divergent firm structures, which led to different trajectories of retail development, are also responsible for the variation in domestic brand visibility across the respective fashion markets. In other words, the specific trajectories of textile and industrial production have proceeded in ways that made it difficult for Taiwanese producers to develop national apparel brands while Korea and Japan saw developments of domestic brands early on.

Out of the three national producers, Taiwan's SMEs have been the most concentrated in OEM production of apparel products and thus developed apart from the need to develop their own brands. In contrast, Japan has not engaged in large scale manufacturing of apparel products for export outside of an early history of engagement in cotton, silk, and textile production during the pre-WWII era, from roughly 1880 to 1930 (Hunter 1993). Instead, Japan's fashion producers grew largely in response to the growth of Japan's mass consumerism in the 1950s and 1960s. A number of companies grew into fashion and apparel empires producing multiple domestic brands (which are mostly produced in mainland China and Southeast Asia) that mainly serve the domestic market even until today. Korea's companies are somewhat in-between the Taiwanese and Japanese models. The highly fragmented structure of the Korean production market has shown a sharp divide between the activities of the SMEs that do contract work for domestic and foreign buyers on the one hand, and large *chaebol* companies that started to actively develop own brands for the department store customers from the 1960s on the other hand.

This demonstrates that Taiwan's domestic markets were flooded with foreign products as a result of the structure of coordination in the global apparel production system, overwhelming firm engagement in buyer-driven production of apparel products, and the relative lack of brand development by domestic companies. While many of the Taiwanese fashion apparel firms now operate from mainland China (Gereffi and Pan 1994: 126- 127), where a large percentage of the world's apparel production occur, the Taiwanese economy is still primarily situated to supply to multinational retailers and

brand-name manufacturers who originate from the West. Only a few Taiwanese companies simultaneously developed their own brand names to produce products for the domestic markets. A few homegrown designers emerged<sup>26</sup>, but for the most part, brand development is not incentivized because the nature of the Taiwanese firm system is specialized and focused on fulfilling orders of Western buyers. As a result, the products pushed into the domestic market bear Western brand names, despite being assembled by domestic or regional producers.

Recently, the production landscape changed with the rise of large contractors. These have brought “a qualitatively higher degree of integration between production and distribution” (Appelbaum 2011: 255). Hong Kong and Taiwanese Companies like Nien Hsing Textile Co. Ltd, TAL Group, Yue Yuen, and Li & Fung either produce for or coordinate production for multinational buyers through their own or networked production facilities spanning across the world. As will be seen later, the recent expansion of these contractors into retail operations and licensed distribution has increased the level of integration of the process of production, and distribution, and retail for countries of their operation.

Korea had a different trajectory from Taiwan. It is similar to Taiwan in that its economic beginnings were also in the production of upstream textile production. The difference is that the top tier of the Korean apparel industry has been rapidly consolidated by a small number of firms which either have roots in textile or have purchased firms that

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<sup>26</sup> Most notably, the Bureau of Foreign Trade encouraged designers produce under their own names in the 1980s. Clothing designers such as Chen Tsai-hsia, Isabelle Wen, Jamei Chen and Lu Fong-chih emerged during this period (Tsui 2011).

engage in textile or apparel production. Examples of these include Bando Sangsa (originally a wigmaker purchased by LG's textile line in 1970), Chaeil Mojik (Samsung's predecessor textile company), and Kyemyeong Sangsa (a predecessor of Kolon group that started as a Nylon importer to Korea). These were established mid-20<sup>th</sup> century and developed into the largest domestic fashion brands. Each of these companies currently produces a diversified line of its own fashion brands, many of which have populated the domestic market since the 1980s. For example, Kolon produces products under 20 different brand names (Kolon Sports, QUA, Henry Cottons, Re:Code) each targeting customers of different demographics. LG Fashion's brand lineup includes DAKS, Hazzys TNGT, and Maestro; brands which are mostly pushed into department stores rather than having their own retail stores. Similarly, Samsung Fashion (which took over the Fashion section of Chaeil mojik) produces 15 different brand names (Beanpole, Galaxy, KUHO, 8 Seconds, etc). These companies were traditionally engaged in production of local and high quality brands that were sold in department stores and a limited number of outlets. With the recent surge of domestic retail and local demand, these companies have furthered their capacity to quickly alter and develop new product lines depending on the trends at the moment. Most recently, these companies have been reacting to the increasing visibility and appeal of fast fashion (SPA: Specialty retailer of Private label Apparel) brands of Uniqlo and Zara in Korea, with developing local copies that are sold for 30% below the price. Samsung Fashion's '8 Seconds' is an example of a local SPA brand launched in 2012 to compete with the global SPA brands. Other pre-existing brands such as E-land World's 'Who.A.U' and 'DIA' have also changed their strategies

to be more responsive to the local rise of global SPA brands by shortening their product cycles among other tactics.

Japan's top fashion producers grew separately from the major *horizontal keiretsu* groups that engaged in, if only marginally relative to their other activities, textile manufacture and exports. Instead, with the rise of consumerism, active interest in fashion and style, and systems to nurture homegrown fashion and design talent, Japan developed a large number of fashion firms who primarily serve the domestic market. Only the largest companies (e.g., Muji, Fast Retailing's Uniqlo) and globally-famed designer lines export widely abroad. Similar to Korea, many firms are small and carry only a few brands. However, the largest of the companies, Onward Holdings, World Co. Ltd., Five Foxes, and Itokin each engage in the production of dozens of brands. For example, Onward Holdings comprises of 106 subsidiaries that engage primarily in designing, manufacturing, and marketing apparel and other textile products. They have subsidiaries that manufacture the clothing lines of Grace Continental, Language, Smork, Libre, Oriental News, and OPS. Sanei International's lineup includes two-dozen domestic brands including Adore, BOSCH, Charlot Dessert, ANGLOBAL SHOP, and HUMAN WOMAN. Despite the high level of fragmentation in the lower segments of the market, the Japanese apparel market is highly concentrated at top, with the top four companies--- Fast Retailing Co Ltd, Shimamura Co Ltd, World Co Ltd, and Onward Holdings Co Ltd-- accounting for 21% of Japan's apparel sales in 2012 (Euromonitor 2013a).

The vast differences across the three markets in the lineup of domestic and foreign brand names reflect both the divergent organization of clothing production and the

relative engagement of national businesses in export-driven manufacturing.

#### **5.4 VARIATION IN THE CONSUMPTION OF FOREIGN FASHION**

##### *Diversity of Brand-origin in Fashion Consumption of Asians*

How does Asia's fashion production landscape align with the consumption landscape?

The following section explores the variation in brand-origin of the best selling fashion products of Japan, Korea, and Taiwan. It presents analyses of Euromonitor market share data for the total apparel sectors of the three locations, by the geographic origins of brands. The data include lists of companies with brands that occupy more than 0.1% of the total market share of the apparel sector between the years of 2004 and 2012; the combined share of these companies explained approximately 40% of the entire apparel sector in Taiwan and Japan, and about a third of the apparel sector of Korea in 2012. The coding scheme is identical to the one presented in Chapter 2 of this dissertation. It considers locational origins of the brand and utilizes categories of Western, Domestic, Japanese, and other Asian for data of Korea and Taiwan, and utilizes a dichotomous scheme of Domestic and Western for Japan<sup>27</sup>.

By coding the geographical origin of the brands, my coding scheme ignores the actual country of manufacture, typically referred to as COO [country of origin] in the international business and marketing literature. This is because origin of the brand is more theoretically relevant than the country of manufacture. As noted earlier, prestige and status attached to products and brand names hardly derive from the location where

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<sup>27</sup> Foreign brands in Japan with more than 0.1% market share during the surveyed period were all Western in origin.

the garment was stitched together, except, perhaps, for the top line of few luxury goods whose reputation depend on the high quality craftsmanship associated with certain geographies (e.g., France and Italy). While locational origins of brands can be arranged within the globally-recognized hierarchical system of fashion brands, the prestige levels attached to these brands are largely decoupled from the locations of actual manufacturing. The work of assembling apparel is geographically concentrated in areas of the lowest labor-costs (China, India, Bangladesh, and Vietnam). This geography changes with regards to regional export-import quotas, local currency levels, and regulations. The global apparel production chain is a disaggregated structure that links together multiple aspects of production (design, patterning, cutting, and stitching). Each brand employs multi-country sourcing operations. While one could trace the COO by individual garment, it is theoretically pointless exercise to trace the locational origin of production by brand.

Figure 5.2, 5.3, and 5.4 show significant variation in the composition of origins of the top brand names by market. While Japan and Korea's apparel markets were mainly dominated by domestic brands, about 10% of the top apparel products in Japan and Korea were Western-branded products in 2012. The increasing share of Western brands among Korea's top-apparel brands throughout the decade is also noteworthy. There is relatively little presence of other Asian brands. In contrast to Korea and Japan, the distribution of brand origins in Taiwan has a more diffuse pattern. The domination of Western branded products in Taiwan is especially striking; there is almost an equal share of Western

brands (15%) as there are domestic branded-products (12%). Brands that originate from mainland China and Hong Kong comprise 8% of the market.

[Figure 5.2 About Here]

[Figure 5.3 About Here]

[Figure 5.4 About Here]

The above variation in the consumption of foreign apparel products by country reflects the differences in the production landscape as I outlined earlier. That is, in Taiwan, the relative lack of domestic branded items lead to relatively smaller level of domestic brand consumption. Likewise, higher levels of consumption of foreign branded products reflect the relative abundance of foreign branded items that have been produced under the export-driven manufacturing system that extends over the greater China region. This contrasts with Korea and Japan, where the extensive lineup of domestic apparel brands specifically produced for the domestic market leads to the overwhelming domestic characteristic of the market.

This investigation, so far, provides some insight into the differences in how local production landscapes affect domestic consumption, and provides a framework for how we might understand the differences between the three countries. Curiously, there are consistent and even increasing amounts of foreign fashion consumed in the characteristically domestic systems of Korea and Japan. The next section will answer the

following question: what are the characteristics of these foreign brand names consumed domestically and what factors determine their demands?

### *Variations in Brand Orientation*

As seen above, the overall market share of foreign-branded fashion in Korea and Japan is limited compared to Taiwan. Koreans and the Japanese, for the most part, consume domestic apparel; there is also a sizable consumption of foreign apparel brands that cannot be ignored. In contrast, the brands consumed in Taiwan reflect a diverse lineup with domestic, Western, mainland Chinese, and Japanese brands being all well represented. While this observation gives some insight into the inter-country differences in consumption patterns, we are yet to know if there is a systematic difference in the actual lineup of foreign-brands consumed in these societies. In order to get a detailed look, I utilize the typology of the “fashion pyramid” outlined in Section II and code the “status” of each apparel brands.

I employ a six-tier classification<sup>28</sup> of brands whose specific categories are as follows: (1) budget fashion (2) moderate fashion (3) contemporary fashion (4) better fashion (5) bridge fashion (6) designer fashion [For specific definitions, see Table 5.1]. Such classification presents a way of categorizing brands, not product categories; here, the categorization of Doeringer and Crean is slightly modified to factor in the variation in price point and orientation among “fashion basics” and the fact that many “basic

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<sup>28</sup> Haute couture should in theory be included in this scheme as the seventh category. However, given the reality that consumption of such clothing will not be included in any market share data, it is deleted from the coding scheme.

commodities” are unbranded. In addition, this presents a common industrial classification to refer to products by price point (Frings 2008).

[Table 5.1 About Here]

The following three scatter-plots display the result of coding the apparel brands in the data for the year 2012. Each data point represents a brand where the x-axis displays the status category it belongs to, and y-axis displays the domestic market share. This coding scheme prioritized a brand’s proximity in pricing with the category definitions over specific styling criterion. For example, if a clothing line was a secondary line of an established designer line but with a price point similar to “contemporary fashion”, the brand was coded “contemporary” rather than “bridge.”

[Figure 5.5 About Here]

[Figure 5.6 About Here]

[Figure 5.7 About Here]

The results indicate two large differences in the patterns of fashion consumption in the three countries. First, there are differences in the orientation of popular foreign brands, and second, there is variation in the specific foreign brands represented. The results clearly indicate an overall popularity of up-market foreign apparel brands in Japan compared to the other two markets. There is a clear budget and mass-market orientation

of top foreign apparel brands consumed in Taiwan, with diffuse range of overall consumption. Luxury apparel and accessory brands such as Louis Vuitton, Givenchy, Celine, and Loewe are included in the top brands in Japan, while similar top share of luxury designer products are absent in the other two countries. Foreign apparel brands in Taiwan included not only more diffuse brand origins (with a significant number of brands from Hong Kong and mainland China as well as the West), but also popularity of a large number of budget and moderate brands and a small number of designer brands.

Second, the lineup of foreign brands in Korea and Japan include a high representation of flagship brands of the largest global consumer apparel companies in the world, while the pattern in Taiwan is more diffuse. For example, large sportswear and accessory brands (e.g., Nike, Adidas, Puma, New Balance), fast fashion brands (e.g., Zara, Mango, Uniqlo), and some popular American fashion lines (e.g., Calvin Klein, Levi's) are all represented in the three countries (albeit with some differences in specific brands and their respective share). For Korea, these three categories of fashion brands encompass all of the top foreign products, with a single exception of Giordano, a Hong Kong fashion retailer of moderately-priced clothing popular around Asia. Japan shows similar representation of Western brands, but there is notably a sizable list of high-end luxury fashion brands of Celine, Givenchy, Louis Vuitton, Loewe among others. In Taiwan, however, the popular western brands of Nike, Adidas, Puma, Converse, and New Balance, are represented alongside the Hong Kong brands of Hang Ten, Giordano, G2000, Bossini, and Espirit, and Japanese brands of Nature Beauty, BIGI, Savvy, and Proportion. Additionally, there is a lengthy list of Western brands sold in Taiwan that do

not have the same global reputation as the Western brands that are sold in the other two countries. Examples of these include the Italian shoe maker Enzo Angiolini, Scottish kilt maker Kinoch Anderson, cartoon character apparel and jewelry products featuring Snoopy, Barbie, Peter Rabbit, and Mickey, high-end craft Italian bag-maker Roberta di Camerino, and Pierre Cardin, a brand which provides a classic example of marketing failure on the global market after their indiscriminate licensing practices caused profits to plummet.

Earlier, I argued that the variation in the national production systems and their differential levels of integration into the global production landscape partially determine the range of locally available goods and why there is a large difference in the *amounts* of global branded products nationally distributed and thus consumed. However, the examination of the production landscape does not explain the characteristics of the individual consumers and how they structure their consumption in relation to what is available.

In addition, investigation into the divergent production strategies and landscapes do not necessarily provide a systematic explanation of why differences exist in the orientation of the goods consumed. Why is there more consumption of brands higher up in the global “brand-scape” in Japan, a heavy consumption of reputable “mass market brands” in Korea, and a diffuse and cosmopolitan consumption pattern with a heavier focus on budget and moderate brands in Taiwan?

Thus, the proceeding examination of the local consumption of foreign brand should focus on two issues. First, it should explore variation in the relative proportion of foreign

goods consumed, and second, it should investigate the orientation of popular foreign brands that are consumed. In the next section, I first explore the issue of consumer nationalism. Some studies point to nationalism as an obstacle to individual consumption of foreign apparel. A comparative examination into the localized patterns of status competition and methods of cosmopolitan claims-making will follow and provide a basis for understanding how market intermediaries structure their market-making activities in relation to distribution of foreign products.

### **5.5 LOCAL CULTURES OF CONSUMPTION**

To examine the issue of individual consumption, I will first turn to a set of sociological and anthropological studies that examine the varying dynamics of local consumption. It is important to note that consumption is essentially a relational act. This insight emphasizes that goods carry social meanings as signifiers or “sign-vehicles” [whether of individual social status and taste (Bourdieu [1979]; Simmel 1957; Veblen [1899]), one’s lifestyle preferences (Holt 1997) or visions of modernity (Blumer 1969)]. This is in contrast to the assumptions of a classical economist, who would presume consumption reflects an individual’s inherent need, internal preferences, or results of rational calculation of utilities.

This insight also suggests individual decision making is inseparable from total cultural systems during the processes of consumption. Within cultural systems, goods and the objects of consumption become placed within the hierarchical and horizontal systems of meanings that tie individuals together. Consumption constitutes the process during

which consumers, who internalized these systems by virtue of being a part of them communicate to target audiences, using various culturally embedded cues and subtle statements about group memberships, belongings, and desire to distinguish or emulate themselves from others.

Needless to say, the meanings attached to specific objects of consumption vary by social contexts. For example, in an investigation of the McDonald's in East Asia, Watson and collaborators (1997) show that dining at the fast food joint has taken on different meanings across locations, ranging from projection of middle class status and modernity in China to economic treason in Korea. Due to context-specific attachment of meanings to various consumer objects, one major trend in the literature has been to utilize interpretive methods to analyze discursive frames surrounding, and meanings attached to, given consumer products (e.g., Hello Kitty in Taiwan [Ko 2003], Starbucks in Japan [Grinshpun 2012], and mobile phones in Korea [Yoon 2006]).

However, cultural sociologists and anthropologists also point to a coherent set of discursive frames that become deployed within different national contexts in reference to foreign product consumption. Consumer nationalism, more specifically the discourses denigrating the consumption of foreign products and promoting consumption of domestic goods for the sake of national identity or national economic strength, is one such frame reported the most widely across Asia. For example, scholars have examined the anti-Japanese nationalist activism and online boycotts in mainland China against Japanese automakers (Li 2009) and electronics producers (Wang 2006), evoking past historical issues. Hooper (2000) reports the tendency of conspicuous consumption of foreign luxury

products among the wealthy Chinese urbanites coexisting alongside consumer nationalist and anti-imperialist discourses of resistance. Similarly in Taiwan, the popularity of Hello Kitty products has met with various contents criticism by intellectuals, one of which centered on the nationalist concern regarding the crisis of Taiwanese identity caused by increasing “Japanization” (Ko 2003). Additionally, Taiwanese clothing brand Lativ, which became popular through its “MIT [Made in Taiwan]” motto generated backlash and boycotts among Taiwanese consumers when it announced relocation of production to mainland China (Loa 2012). Similar nationalist tendencies are observed in Korea and Japan. Nelson’s ethnography of Korean consumer nationalism (2000) and Lie’s examination of popularity of K-pop or Korean dramas in Japan (2013) both note how nationalist discourses are framed along gender lines that identify women as primary consumers of foreign products (whether luxury apparel or popular music) and, thus, worthy targets of nationalist criticism<sup>29</sup>. By the same token, various nationalist and state-led historical campaigns promoting restrained consumption and savings and investment of household income instead, have been promoted in these countries and mobilized large groups of people (Garon 2006; Nelson 2000).

While foreign consumption and economic nationalist resistance are large themes running through Asian consumption studies, not many have examined the extent these nationalist discourses affect actual individual purchasing behaviors or translate to boycotting of foreign branded products. Contrary to the ubiquitous and highly visible rhetoric of consumer nationalism facilitated by top governmental, intellectual, or activist

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<sup>29</sup> In Japan, however, this constitutes a relatively marginal right-wing sentiment (Lie 2013).

circles in Asian countries, there is considerable variation in the actual level of foreign consumption across space. The relationship between dominant nationalist rhetoric and actual consumption is an understudied topic. It is an issue that has only been examined narrowly in the marketing literature. For example, a recent study that used self-collected survey data to compare the relationship between expressed levels of consumer ethnocentrism and actual preference for domestic products in the US, mainland China, and South Korea (Tsai, Yoo, and Lee 2013) found that levels of expressed consumer ethnocentrism only predicted significant preference for domestic products in the US and Korea, while in China, consumers' high levels of ethnocentrism (relative to Korean consumers) did not actually translate into intentions to purchase Chinese-made goods. Instead, Chinese respondents reported an overwhelming preference and intention to purchase a wide variety of foreign goods over domestic goods, such as Italian and American cars, Italian and Korean apparel products, German laptops, and Italian microwaves. In other words, there can be considerable differences in the effectiveness of nationalistic official rhetoric or activist discourses in shaping people's actual consumption patterns. Even with consumers, there can even be a large divide between self-expressed levels of nationalistic or ethnocentric tendencies and actual consumption behavior as evidenced by the Chinese case. Among the East Asian countries, nationalist or ethnocentric tendencies seem to readily translate to actual purchases of domestic goods in Korea the most, while the significant presence of nationalist rhetoric in China does not negatively affect the consumption of foreign commodities. In Taiwan and Japan, consumer nationalism seems to form rather marginal strands of opinion. Additionally,

while there is clear visibility of consumer nationalist sentiments in Korea (however more prominently prior to and during the 1997 financial crisis than the post-crisis period), the adoption and internalization of these nationalistic frames correlate with certain class and generational dimensions.

Thus, nationalist discourses, are only a weak predictor of actual consumption, and its importance is overplayed in the literature. A more illuminating investigation of contemporary consumption will instead focus on the relationship between consumer goods and the sense of self as it is constructed within the society and especially in relation to localized status concerns. This directs the theoretical focus onto the sociological literature on status competition and self-formation. Following Weber's definition of status group as "stratified according to the principle of their consumption of goods as represented by special styles of life," Hamilton (1977: 885) notes that consumption is "directly related to a person's social status and his efforts to substantiate that status by consuming 'a style of life' in agreement with or in opposition to significant others." He concludes that, "the task of analysis is to understand the composition and structuring of status groups in a particular context and to relate these two factors to an individual's consumption of goods."

In this framework, individuals' senses of self are placed within the local contexts of status competition, which is "pursued largely through the accumulation of cultural capital and through the acquisition, display and exchange of things" (Clammer 1997: 6). Furthermore, I add that in the age of globalized mass consumption, the specific ways that

cosmopolitan yearnings and ideals of modernity become tied to localized understandings of status are important mediators that structure consumption, especially in the non-West.

From this perspective, the issue of foreign apparel consumption is only one instance of how individuals orient their entire lifestyles in relation to their localized status understandings. How do understandings of status and status competition translate to consumption in different locations? I argue that in all three societies, strong yearnings for cosmopolitan lifestyles exist. The differences are how the specific form of cosmopolitanism that serves as the basis for individual emulation and status claims vary. The specific ways the consuming elite, who are the status-conscious upper and middle class individuals capable of lifestyles supported by consumption, consume to achieve this ideal characteristically also vary.

In Taiwan, conspicuous consumption does not revolve around visible consumption of expensive luxury or well-known branded items, but rather through showcasing individual understanding and one's ability to appreciate symbols of "authentic" culture. This is a demonstration of knowing how to properly consume—whether it takes the form of reinvented signs of their own local traditions, or foreign cultures. Cosmopolitanism is not, in the Taiwanese mind, in conflict with appreciating and understanding traditionalism or local cultures, nor is consumption of such seen as inconsistent. A showcase of status happens through a voracious consumption of reconstructed signs of authenticity. Consider the following ethnographical passage by Ching-wen Hsu (2009: 11-26) regarding her subjects' trip to Shengkeng, a rural district of New Taipei City famous for its "authentic" tofu vendors.

Tourism, as a form of consumption, ‘is not only an accumulation of *experiences*, but also an accumulation of *reputation*, *status*, and *symbolic capital*.’ In their game of social positioning, appreciation for local cuisine and the ability to consume it properly is what gives Yu-fen and her friends social distinction (2009: 11).

Stories they told about eating tofu in various places from Taipei to Shanghai attest to their broad knowledge and travel experience and demonstrated their status as urban cosmopolitans cultivating globalized cultural capital as a form of lifestyle shopping which... involves possessing considerable knowledge about ‘the exotic,’ ‘the authentic,’ and so on. Consumption of local food and local places “becomes a social tool to enhance self-image and compete for status and cultural and symbolic capital.” Comparisons were made of Shenkeng’s tofu with other ways of cooking tofu, constructing a culinary map of Taiwan and beyond, as an expression of an informed and therefore discriminating taste (2009: 12).

The construction and consumption of these culinary landscapes involves understanding of where the local and the nonlocal are in relation to one another. Whereas the old streets partake in a game of (competitive) location,... Visitors... play along and take part in a game of social positions. In the culinary map they had drawn, the environmental consciousness they had implanted in their children, the understanding of Taiwan’s geography they had exhibited, the deliberate search for a past-in present in Shenkeng and Pingshi, the weekend trip served to reaffirm their place as members of an educated and worldly urban middle class who play in the valley, consume in the marketplace, and at the mean time, cultivate a cosmopolitan awareness of the exotic, the authentic and, in some cases, at least the irony of the own quest for an impossible authenticity (2009: 26).

The local dynamics of status competition focus on proper form, understanding, and authenticity. To the Taiwanese, the high or low price points, the Western-ness or localness that the good symbolizes, or whether the good itself is attainable to the fellow countrymen becomes only secondary standards for consumption. In this world, “different elements, be they ‘international’ or ‘local,’ [‘expensive’ or ‘cheap’, globally ‘recognized’

or ‘unrecognized,’ (*added by author*)] can be collaged together, experimented with, and reinterpreted to define and redefine one’s position in the world” (Hsu 2005: 245).

Rules that guide local status competitions of Koreans and the Japanese are in stark contrast to the Taiwanese. In Korea and Japan, goods are routinely categorized by geographic origins (Creighton 1991). This division often informs the products’ price points and status attached to them. Status claims are made through direct consumption of luxuries, goods with universal signs of high status, and acquisitions of the commonly unattainable. Possessions of status goods are often equated as proof of high “taste” and aesthetic standards are considered necessary to fit into the “correct” status group. The emphasis on, and the zealousness to, acquire the unattainable objects and cosmopolitan symbols in Korea and Japan are reflected in the large markets for luxury products, apparel, and bodily decoration.

As a report of one French luxury consulting firm states (Goudenech 2012: 2),

[In Korea] social norms are very important, and demanding. A lot of South Koreans are eager to display their success not to be left apart. Buying a luxury good is perceived as making a “social investment”. Some individuals even starve themselves to spare money to be spent on a luxury product.

Beauty... is necessary for personal success. There is real culture of beauty in South Korea [and] aesthetics and perfection are highly valued. Fashion is a good way to display one’s sense of aesthetics, and luxury products are certainly an asset.

The obsession with bodily decoration and even high rates of plastic surgery in Korea (Kim 2003) are certainly localized expressions of cosmopolitan yearning and status claims. Such status competition extends over to other areas of consumption, such

as extravagant dowry and wedding practices and the nation-wide fervor to acquire native fluency in English<sup>30</sup>(Park and Abelmann 2004).

Further survey evidence shows that consumption is the core of status competition and status claims in Korea. Koo (2006) argues that, in the absence of clear class differences and upper-middle class habitus, status claims are made through consumption of objects that can be relatively easily obtained by money rather than through transmitted traits and tastes that have been formed through a long period of cultivation. Hahm, Lee, and Park (2001) have showed that while the upper-class's consumption follow their self-inculcated aesthetic tastes, the middle class's consumption patterns largely follow the lead of the upper class. Yoon and Seok (1996)'s analysis of the national survey of equity and social inequality find that engagement in conspicuous consumption of household articles was a stronger determinant of household's self-evaluation of its own social status than other socioeconomic indicators of income, occupation, education, or wealth.

Similarly in Japan, the presentation of self closely follows dimensions of status concerns, as it is of high importance that individuals project the "correct" appearances, which "requires the acquisition of the emblems appropriate to both self-image and objective status" (Clammer 1997: 70), albeit aesthetics are sometimes placed at higher levels of importance than in Korea.

As Clammer (1997: 70-71) writes,

...While relatively classless, [Japan] is nevertheless very status conscious. While education, career, travel and cultural accomplishments are also important aspects of this, so is the array of things which one adorns

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<sup>30</sup> It is worthwhile to note that having fluency in English often does not have practical value beyond the symbolism for Koreans living in Korea.

oneself, one's family, and one's home. What one does and what one is are to a great extent the same, and it is though very desirable to present a well-rounded or 'total' and consistent image of oneself.

Like Korea and unlike Taiwan, a value of the good visibly consumed and donned directly translates to part of how one's status is perceived. Nancy Rosenberger (1995: 151) states in her study of Japanese women's magazines,

A young woman can literally embody signs of global status by buying brand name international goods that affect her 'atmosphere': her appearance, her smell, the feel of her skin. Communication occurs through the adorned body embedded in the international circuit of commodity signs.

As Clammer (1997: 24) notes on Japanese consumption,

Japan is interestingly a society of high consumption despite high consumer prices, and a society of mass consumption and mass savings. Such considerations are related to a number of features ... One of these is the association of high price with quality, hence the desire for brand-name goods and the following of expensive fads. ... In the UK people will boast about the cheapness of something they have purchased, in Japan about its expense. .... Possession of the very latest enhances cultural capital like nothing else.

In these two countries, individual consumption happens along strictly hierarchical status dimensions, involving hard-to-attain goods, appearances, and abilities, albeit more so with a focus on direct visibility in Korea than Japan.

Earlier, I have mentioned that issues of consumer nationalism have been contentious, and nationalist rhetoric has been highly visible in Korea. How do these tendencies of visible consumption of foreign status goods reconcile with the purported strong consumer nationalism in Korea? Seung-Kuk Kim (2000: 63), relying on a survey by 1993 Korean Chamber of Commerce, identifies three lifestyle groups in Korea

existing along generation and class lines. Those are “the progressively fashionable new generations”, the “rational middle class,” and the traditionally conservative “general” public. Members of the “new” generation, especially teenagers at the time of the survey (1993) were much more likely to buy brand-name goods and consume Western food than the older generations. He also notes a growing tendency, especially among the new middle class, to embrace an attitude that the “young people too have an inviolate right to enjoy in their own ways,” and an overall high level of tolerance for consumption of imported goods (2000: 76-77). Nonetheless, there have been clear nationalist movements with slogans such as “Buy Korean goods,” “Less consumption, more savings,” or “Anti-Americanization,” with support from the older and general public.

These illustrations show how localized methods of individual status claims directly rely upon consumption of visible markers of cosmopolitan status in Korea and Japan. In Taiwan, consumption behaviors revolve around a subtle process that emphasizes form and knowledge. There is not as much of an emphasis on visible brands to make status claims. The highly concentrated nature of consumption in Korea and Japan heightens the competitive pressure and narrows the targets of foreign purchase to a few visible brands. This is different in Taiwan, where the high level of localization and spatial fragmentation adds to the diffuse structure of claims-making and consumption.

This comparative insight on the localized structures of status competition and claims-making leads us to return to the role of market intermediaries and how they navigate between the spheres of production and consumption. Specifically, how do market intermediaries structure the environment for shopping? On one hand, this task

requires reacting to the variations in the structure of production and patterns of global integration that determine the lineup of available goods, and the local structure of status competition and self-representation on the other. How do firms accomplish this? In the following section, I discuss strategies of market intermediation that reflect upon the differences between the production landscape and localized structures of status competition. The following section will list three of the most important market making strategies in the apparel market, namely gate-keeping and distribution strategies, pricing strategies, and marketing strategies.

#### **5.6. DISTRIBUTORS AND RETAILERS AS MARKET MAKERS**

The largest and most powerful market makers in the apparel markets are the intermediary contractors, distributors, and retailers, and sometimes the local producers of apparel products. These market makers navigate the regional and national production landscapes and variations in consumer tastes and develop the market by “filling the gap” between the two. In Taiwan, these market makers are most often the giant transnational contractors that organize production networks for various brand name merchandisers. In Korea and Japan, the market makers are the national brand item producers themselves. While these market makers simultaneously organize consumption spaces for a long list of brands, global brand-name merchandisers of Nike, Adidas, and fast fashion retailers of Zara, Uniqlo, and Mango also show prominence across Asia, despite their management of primarily a single brand. While divergent in portfolio and scope, these market intermediaries play similar roles in organizing the market: they chose available products

from the surrounding production networks and selectively channel them into the market through strategic processes of editing, determining prices, and location-specific marketing. The following section discusses these specific strategies.

*Market Intermediaries as Gatekeepers: Retail and Distribution of Branded Apparel*

The first role that market makers in the foreign apparel market of Japan, Korea, and Taiwan play is gatekeeper and distributors of foreign apparel products. In addition to the products produced within their own networks of firms, they actively acquire licenses to produce foreign brands, obtain licenses to distribute goods, and sometimes establish and operate retail stores themselves. The selection of brands and product assortments that enter the market through these channels reflect the intermediaries' understanding of local structure of demand, which they actively obtain not only through market research or testing products, but through sales tracking which rely on POS systems. Therefore, the process of market making is a demand-driven process of adjustment of the gap between the goods that are immediately available and the goods that are demanded by consumers.

In Taiwan (and in greater China), a number of apparel distributors and giant contractors (often operating from the greater China area) prominently play this role as gate-keepers and selectors of the foreign products that are pushed into the local markets. One prominent trend is the increase of investment in distribution and retailing by large contractors. Pou Chen, the largest shoe contract manufacturer in the world, for example, has networks of retail stores that cover Taiwan and Hong Kong. It distributes sportswear brands of Nike, adidas, Reebok, and Puma, through their subsidiary Yue Yuen, and Yue

Yuen's spinoff group Pou Sheng, which was established in 1992 specifically for distribution and retail functions. Pou Sheng, which began as a licensed distributor of Converse products, has a portfolio that now includes "1,324 directly operated retail outlets, in the format of department store counters, street-level stores and shopping mall stores, in the PRC" and an additional 3,260 retail outlets that are operated through regional joint ventures. It also has 79 directly operated outlets in Hong Kong and Taiwan, which are single brand outlets operating under the brand name of the sportswear products being distributed, including "Nike, Adidas, Li Ning, Kappa, Reebok, PUMA, Converse, Hush Puppies, Nautica, Wolverine, and Umbro"<sup>31</sup>.

Li and Fung's portfolio also includes a number of subsidiaries that engage in distribution and retail of apparel and non-apparel brands across the greater China area. Trinity Limited engages in retailing and licensing of brands, including Kent & Curwen, Cerruti 1881, Gieves & Hawkes, D'URBAN and Intermezzo. Branded Lifestyle Holdings, "a privately held retailing entity focusing on middle-zone apparel and accessories," retails brands like "Hang Ten, Roots, Arnold Palmer, Korean fast fashion brand, H:CONNECT, and menswear brand LEO. "They have "a large retail network of over 1,000 company-owned and franchised outlets covering the Greater China, Korea, ASEAN and other regions"<sup>32</sup>.

The transnational contractors' integrated supply chain activities that link various producers and factories with (mostly) foreign brand name merchandisers and global

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<sup>31</sup> Pou Chen, Yue Yuen and Pou Sheng Webpages (<http://www.pouchen.com/>) (<http://www.yueyuen.com>) (<http://www.pousheng.com/en/index.aspx>)

<sup>32</sup> Fung Group Company webpage (<http://www.funggroup.com/eng/businesses/retailing.php>)

retailers (Appelbaum 2011) are reasonably well known. Now, through their retail activities, they have even integrated the domestic and regional retail ends to directly distribute products into the region. A large number of (mostly Western, but also some Japanese) foreign brands are pushed into the Taiwanese markets through these integrated chains, and despite “foreign” brand names that signify a level of cosmopolitanism, they have been often manufactured within their own networks of firms.

In addition to these giant contractors, there are additional specialized distributors who distribute niche products. For example, Munsin Garment Corp distributes a number local, Korea, and Japanese brands, such as Musingwear, Nara Camicee, Mcgregor, Comme Ca Du Mode, Anna Sui, Felix Buhler, Le Coq Sportif, many of which exist to respond to the great popularity of Japanese and Korean fashion among Taiwanese youth.

Instead of large contractors that have capacities to integrate production of a large number of globally recognized brand name products with the domestic retail end, Korean and Japanese production landscape are decisively local. The fashion markets are dominated by producers who create mainly for the domestic markets, without ties to foreign brand name merchandisers. These domestic brands satisfy most of the local demand, but any localized patterns of consumption that involve status-claims making through globally prestigious foreign brands have to be fulfilled either through direct imports or licensed production. In both countries, the largest major fashion producer firms fulfill this role by acquiring licenses to distribute (mostly high-end) fashion brands. In Korea, Samsung Fashion distributes Japanese and European designer lines of Commes des Garcons, Issey Miyake, Nina Ricci, and Thom Browne among many; LG Fashion

distributes Jill Stuart, Max Mara, and Isabel Marant; Kolon distributes Marc Jacobs, Jimmy Choo, and Berluti.

Similarly, in Japan, the producers double up as distributors and licensees.

The largest of the domestic production companies, Onward Group, have subsidiaries whose sole task is to import and distribute foreign lines such as Jil Sander and Jean Paul Gaultier. Likewise, Sanei International's lineup includes foreign designer brands of DVF, Jill Stuart, and Vivienne Tam, among their large assortment of domestic products.

These strategies to import brands as licensed distributors reflect the firm strategies to fill-in the gaps in demand and production that the firms cannot fulfill through their own capacities.

### *Pricing Strategies and Status Marketing*

Consumers' status claims processes are often coupled with the monetary value of the items they have consumed. This is the case more often in Korea and Japan, where the general price-points have historically been higher. Tough price-competition exists in Taiwan and there is a high level of price-sensitivity among consumers.

In the absence of other certifications of quality and large levels of product differentiation, high prices signal quality and status. The goods that have them acquire meanings that go beyond signs of inconvenience or wastefulness. Determining tag value is an activity tied to the strategic marketing activities of intermediaries rather than something automatically determined by functions of aggregate supply and demand. Because of this, retailer price determinations that are based on theoretical economic

principles can actually constitute an inaccurate projection of the localized characteristics of demand. One example of this was noted in the often-retold anecdote by George Fields (1983), regarding how the price-reduction effort to boost sales of Johnny Walker Black in Japan backfired. Contrary to expectations, the price-drop by importers reduced the sales and led to the disappearance of symbolic value as a status-good that was attached to the product. Other observers of Korea also indicate an existence of a “Veblen goods” (for which goods demand increase with price increase) and marketers’ strategic reactions to the tendency. For example, many have noted the contradictory price hikes of luxury items after the Korea-EU Free Trade Agreements, which should have led to a general decline in prices with the cuts in tariff (Donga Ilbo 2011). Euromonitor’s survey (2013b) notes that the retail price for premium denim line True Religion’s ‘Billy Soft Blue Super T’ sold via authorized importers was 69.2% higher than parallel importers, and several local consumer groups found that the prices for foreign brands such as Polo Ralph Lauren, Chanel, baby stroller brand Stokke, and even foreign cheese brands to be up to 50% higher in Korea compared to the countries of origination (Lee 2011a; Song 2013)

In contrast, a high level of demand elasticity is noted in Taiwan’s apparel sector. A recent rise in manufacturing costs and the increase of fast fashion market penetration have led to further price-destruction for general apparel retailers. During the aftermath of the 2008-2009 financial crisis, apparel companies are reported to have engaged in deeper discounting and promotional strategies, as customers turned to cheaper alternatives in hypermarkets and store brand items (Euromonitor 2013c).

Market makers strategically respond to demand by localizing price structures<sup>33</sup>. As a result, prices of identical Western-branded products significantly vary across different Asian markets. In Korea, there is a systematic “marking up” of prices. This also used to be the case in Japan as well as mainland China<sup>34</sup>. More elastic pricing strategies can be found in Taiwan.

### *Brand Image-Making*

In addition and related to pricing strategies, retailers and brand name merchandisers utilize locally tailored marketing and image-making strategies to appeal to potential customers across national contexts. In Japan and Korea, one can find numerous examples of such tailored marketing and product development efforts by apparel retailers, brand name merchandisers, and the licensed producers of apparel products. Some of these involve expansive localization and image-making efforts to appear “up-market” compared to their original locations. Take the marketing efforts of Dunkin Donuts in Korea as an example. Though it is a currently declining donut chain in the US, it is the highest grossing food-service retailer in Korea with more than 900 locations across the

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<sup>33</sup> Price differences are also a result of organizational competition. While the oligarchic business structures of Korea and Japan allow retailers and merchandisers to set higher prices for their products, large number of competitors make it hard for Taiwanese retailers to add high margins. These economic principals are certainly in play, however, the interplay between prices as a result of organizational structures and prices as a prestige maker needs to be further investigated.

<sup>34</sup> There have been recent Chinese government accusations of price gouging against a range of foreign companies that include automakers Audi, Subaru, Jaguar, various drug companies, Starbucks, formula company Fonterra, and Apple Computer. This incident has led to an outcry among the Chinese public, and liberal Western presses (e.g., *The Economist*) see this as signs of systematic government suppression of foreign companies in favor of domestic companies.

country (as of January 2013). By adopting premium imaging strategies, the chain ensures that the stores are spacious and inviting, equipped with “plush orange and yellow chairs, Wi-Fi Internet access and plasma-screen televisions” (Jargon and Park 2009). This is so that customers will linger for a long period of time while enjoying their bakery items and coffee. The colorful and appetizing menu items suggest that these are products of a healthy, “high quality” life, which is largely different from the standard fare of glazed and frosted donuts and pastries Americans are accustomed to. For instance, the menus include “12-grain lattes” with roasted barley, brown rice, and other grains, organic well-being donuts with “glutinous rice cream cheese donut,” “baked green tea and red beans donut,” “chocolate tofu with soybean milk donut,” “mocha donut with local wheat” and other items with ingredients perceived as healthful. Similar strategies of local brand-image making are observed across different retail sectors, for instance in fashion and apparel.

## **5.7 CHAPTER CONCLUSION**

In this chapter, Blumer’s observation of the dynamics of the fashion industry, and insight on the relationship between dress designers and consumers, provided a starting point into a comparative investigation of the structure of East Asian consumption of foreign branded apparel. Unpacking the elegant statement of Blumer, however, required unmasking the convoluted global networks that characterize the global and regional market processes, as well as linking the elites in the global fashion industry together with

dress designers, global brand name merchandisers and distributors, regional and domestic producers, and national consumers.

I argued that branding serves as a core-institutionalized strategy that, for branded apparel goods, decouples the messiness of production details from the centralized brand image that directly communicates the goods' value to consumers. This decoupling enabled regionally located consumers, often with cosmopolitan status ideals or nationalist tendencies, to primarily react to and consume the brand images that provided them the desired meanings. For Asian consumers in countries where their national garment industries are integrated into global production, the primary association of a good with the foreign or domestic "brand" origins means that they often consume "domestic goods" produced globally, or "global goods" produced domestically or regionally. Often consumers do not take the complexity inherent in the system of global production into consideration and equate "global goods" as fundamentally anti-nationalist or cosmopolitan. The respective locations of Asian consumers, and the locally-contained methods of status-claims making and methods of association are central to informing individuals how and what to consume.

The role of market makers is caught in the middle of this complexity. Market makers are central to shaping the market processes. Their important roles lie in adjusting the gap between ever-changing local demand and the goods that are immediately available in the market through domestic and regional production processes. I outlined three central strategies of these market makers. First, they serve as a gatekeeper. They select which brands and goods will enter the domestic markets. Second, they determine

pricing. Third, the market of a product is made by branding, or how a firm shapes product and brand images so that a product will align with the localized structure of demand.

More fashion content

More product differentiation

Greater demand uncertainty

High quality/ High price

Shorter product cycles



Figure 5.1 Fashion Pyramid (Doeringer and Crean 2006)

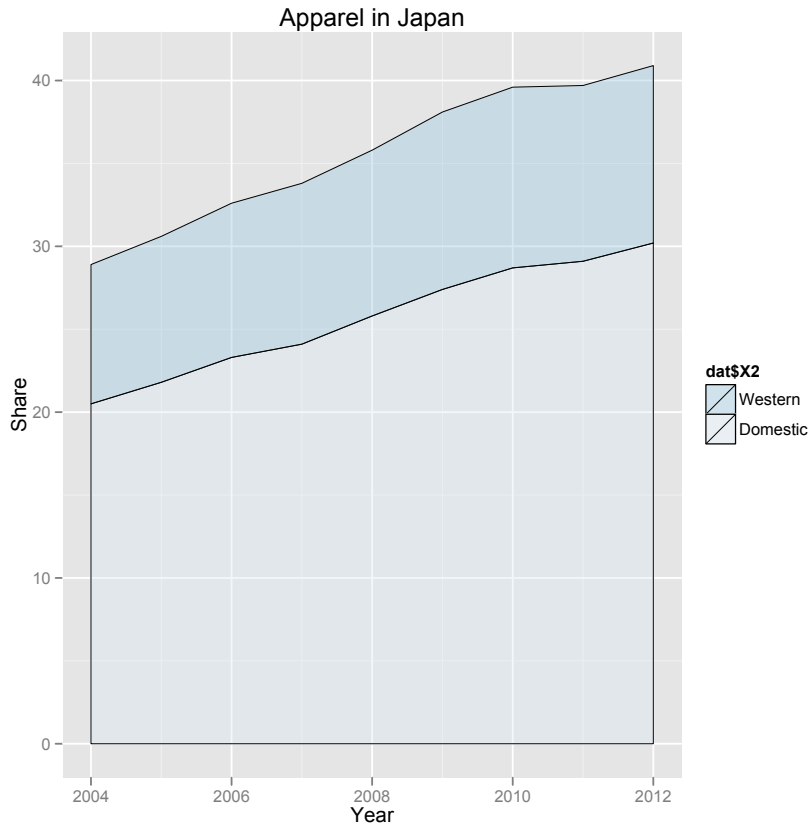


Figure 5.2 Japan: Aggregate Market-share by Brand Origins

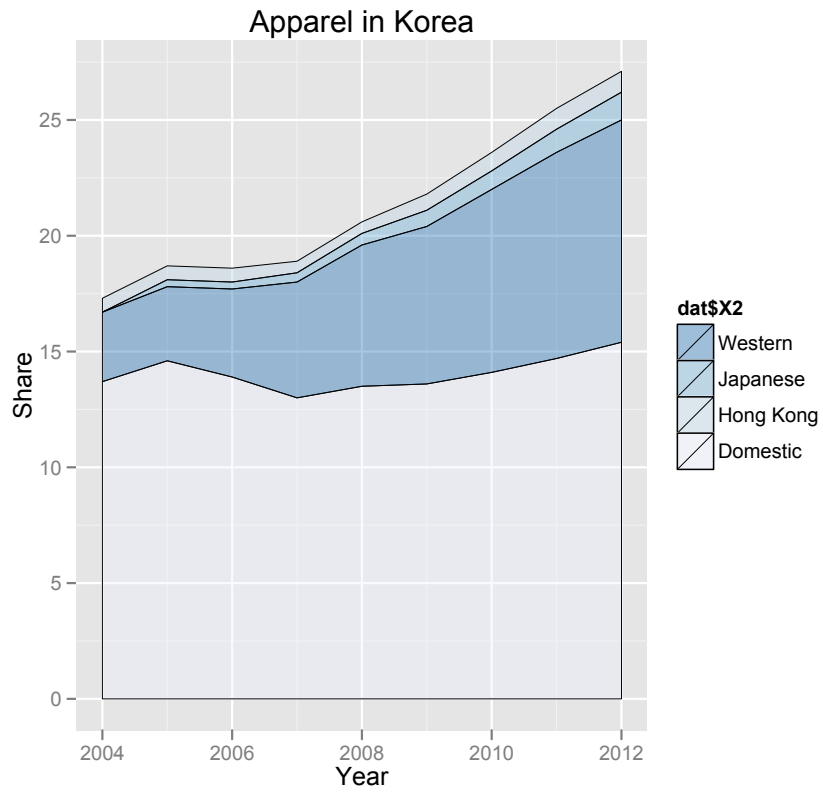


Figure 5.3 Korea: Aggregate Market-share by Brand Origins

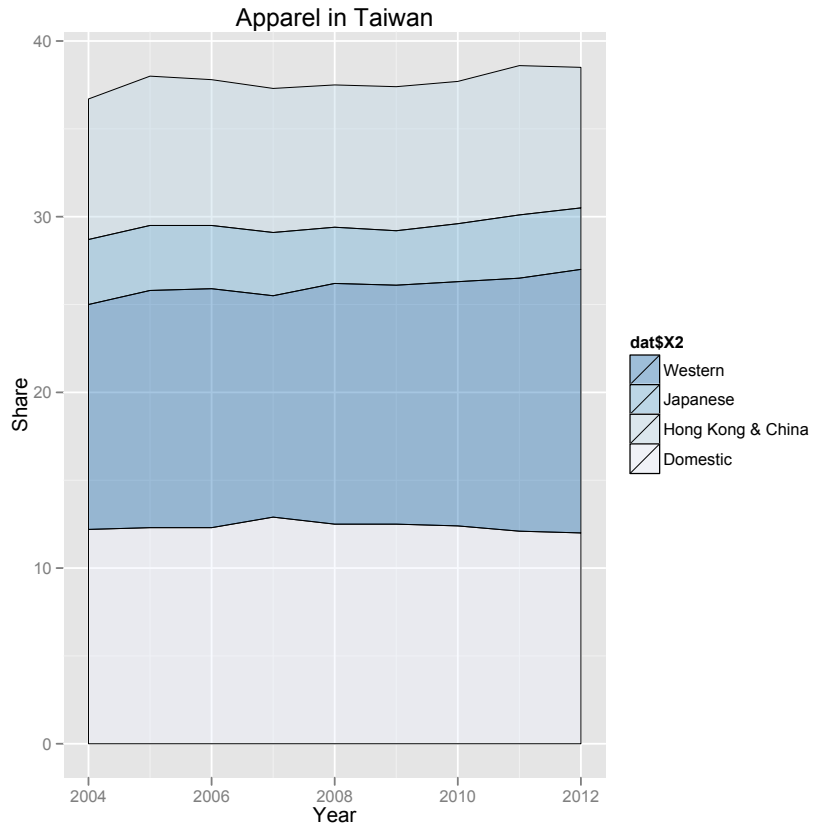


Figure 5.4 Taiwan: Aggregate Market-share by Brand Origin

<b>Category</b>	<b>Definition</b>	<b>Price point (US\$)</b>
Budget	Mass market fashion that is sold at low competitive prices to the mass. Old Navy, Forever 21 as well as store branded products in department stores such as JC Penny and Kohls.	Less than \$50
Moderate	Nationally advertised mass fashion brands. Sometimes in moderate department stores such as Macy's and Dillards. Ex. Zara, Levi's Express, Gap, Nine West.	\$100- \$200
Contemporary	Trendy fashion targeting fashion-conscious women but priced more affordably than designer fashion. Ex. Theory, BCBG, Laundry, Max Studio.	\$200- \$300
Better	Coordinate, dress-lines, and sportswear brands with better styling and quality than contemporary lines.	\$300- 500
Bridge	Less expensive alternative to designer fashion. Many are secondary designer lines achieved through less expensive fabric and production models. Ex. Marc by Marc Jacobs, Emporio Armani, D&G, Coach	\$500-\$1000
Designer	RTW collection of designers of prestigious fashion houses or those with own successful line. Ex. Giorgio Armani, Gucci, Prada, Dolce and Gabbana, RTW collection of couturiers.	\$1,000- \$5,000
Haute Couture	Fashion that is made-to-measure to fit an individual client's measurements by syndicate member couturiers. Couturiers include Christian Dior, Chanel, Givenchy, Elie Saab, and Giambattista Valli.	\$5,000- \$50,000

Table 5.1 Classification of Fashion Brands [modified (Frings 2008)]

Japan

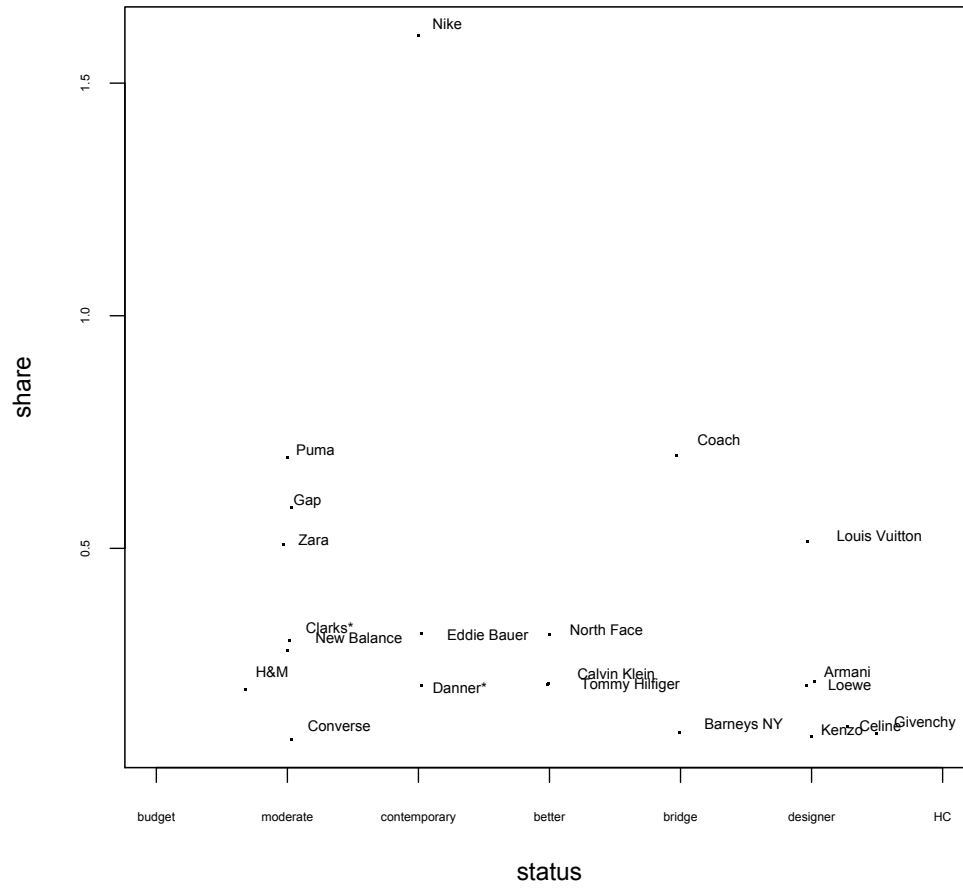


Figure 5.5 Japan: Orientation of Foreign Brands

### South Korea

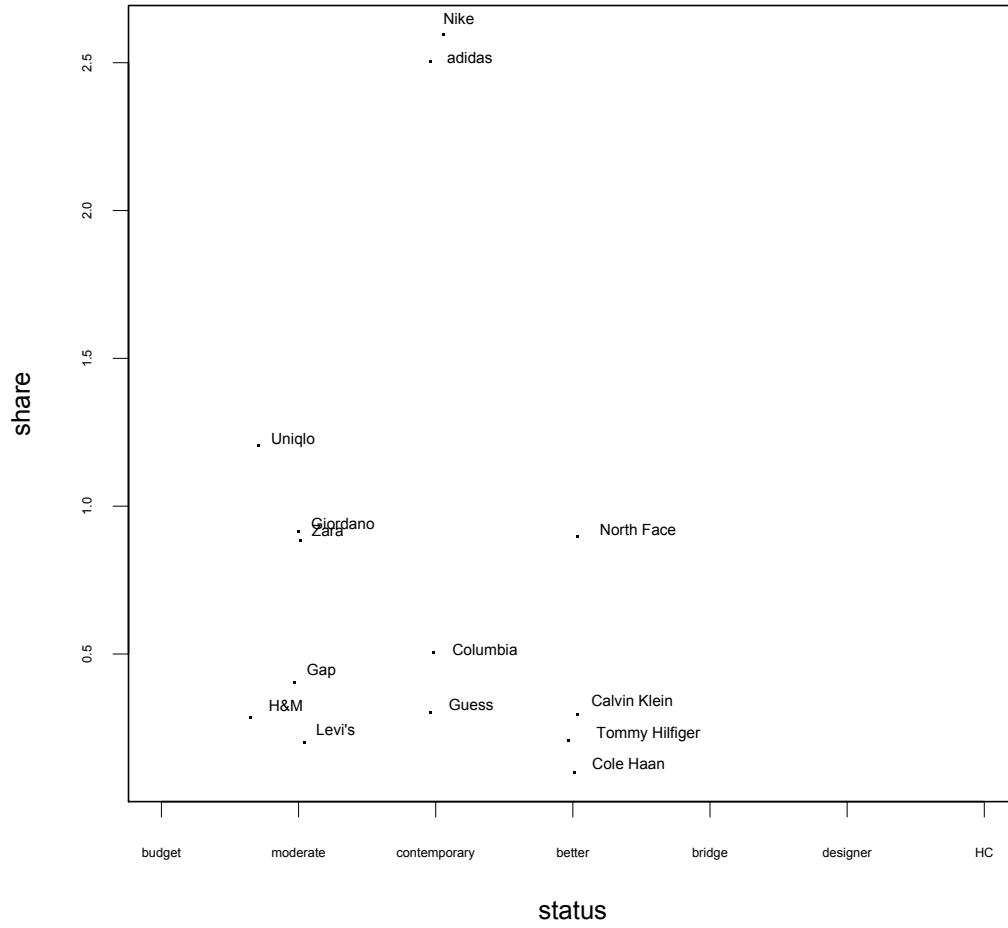


Figure 5.6 Korea: Orientation of Foreign Brands

### Taiwan

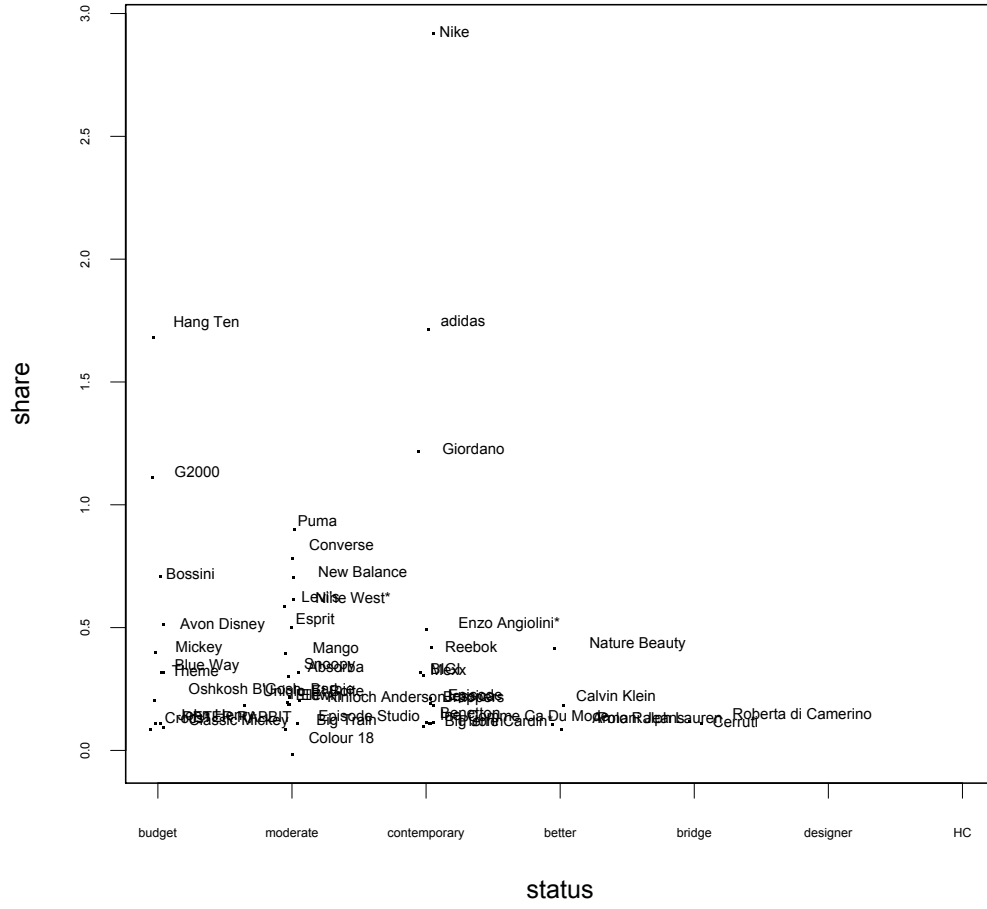


Figure 5.7 Taiwan: Orientation of Foreign Brands

## CHAPTER SIX: CONCLUSION

### 6.1 GLOBALIZATION AND LOCAL CONSUMPTION IN ASIA

Over just a few decades in the twentieth century, Japan, Korea, and Taiwan, and many other locations in Asia have developed thriving domestic economies and cultures of consumption. Shopping has been incorporated into the daily lives of Asians as central and routine activities, activities which individuals now crucially depend upon for self-representation and for communicating subtle cues about their status, identity, taste, membership, and cosmopolitan ideals to others.

Occurring parallel to the rise of Asian consumers and consumerism were the national “retail revolutions,” large-scale systematization and organization of the domestic economies most importantly through the introduction and expansion of standardized retail formats and cutting-edge retail technologies. Organized retailing have brought complete changes to the retail landscapes of these economies as the core shopping districts became filled with well-recognized retailers of department stores, hypermarkets, supermarkets, convenience stores, specialty retailers, as well as chain restaurants and cafes. These contemporary streets as well as the hyperconsumerist lifestyles are completely unrecognizable from the perspective of an Asian living merely a few decades ago, when shopping happened mostly at family-run and small neighborhood corner stores, or traditional wet markets while remaining a comparatively marginal activity. The changes in the structures for shopping were fundamental and so were the shift in how individuals structured their daily lives and the role of consumption in it.

The goal of this dissertation was to provide an analysis of the growth of Asian consumer markets and examine the dynamics and players that have led to the “creative destruction” of the old system and introduction of the new. In examining the major changes that were brought through the East Asian retail revolutions, the dissertation adopted the market-making perspective to emphasize the crucial activities of retail market intermediaries in bringing the production markets and demand markets together. I argued that this approach bridges the current gap in the literature, where analyses of consumer markets focus heavily on select micro or macro levels by paying attention to either exclusively the micro processes of individual meaning-making and symbolic communication through objects or macro abstract equilibrium models that assume the automated relationship between aggregate demand and aggregate supply.

This approach of focusing on the concrete organizational activities of businesses within the realm of the market also provides an attempt to examine how the actual market dynamics work than assuming a priori the independent role of the state in promoting consumption or retail market organization. Despite the common assumption in political economy literature regarding the independent role of the state in shaping market dynamics, I have tried to stay cautious of overemphasizing the role of the state in my case, that is, in the shaping of markets for consumption. What I do find is incidental support for the idea that state policies shape and sometimes complicate the playing fields in which businesses act. However, examining my four cases does not provide support for the straightforward idea that, for example, the amount of state regulation negatively influences the level for foreign penetration of the retail market. In fact, in comparing

mainland China to Japan, one finds that in general, the Japanese retail market is harder to penetrate despite there being considerably less regulations in regards to the entry of foreign retailers compared to the Chinese retail sector. Japan has seen a steady stream of foreign direct investment since the 1980s, however, as I have demonstrated in my chapter on retail organizations, it has been organized primarily through the competitive dynamics of domestic retailers. As for foreign retailers, although there are sector-based variations, the general retailing sector has seen almost as many retail divestments occurring as retail investments. On the other hand, despite the incremental opening of the retail sectors and stricter requirements for local partnerships, Chinese market has seen a more pronounced and systematic influence of multinational retailers over a much briefer span of time. This is a topic that needs further investigation, but the evidence from these two markets supports my approach in prioritizing of the actual competitive market dynamics to regulation in examining how multinational retailers' international activities unfold within divergent local contexts.

What general insights about consumer markets and specific insights regarding globalization in Asia does the adoption of the market making perspective provide? First, the focus on the concrete activities of a number of organizational actors and their crucial roles in developing and introducing new retail formats, organizing and rationalizing supply chains and logistics operations, coordinating with producers to source and develop products, and incorporating systems of demand-monitoring sheds light on the seemingly standardizing retail market organization as well as the activities of market players with divergent roots. The strategic blueprints that become the bases for standardized retailing

are increasingly uniform and standardizing around the world, so much so that when people visit shopping malls or supermarkets located far away from home, it is likely that they hardly feel any sense of foreignness or unfamiliarity. First-time visitors to the foreign retail locations will browse the product mix, navigate the shopping aisles, locate items they want, and go through the checkout procedures all seamlessly with expert knowledge, as these procedures hardly differ from what they have been doing back home. The stores they shop in distant locations will often bear names of familiar retailers and the products they buy will also display familiar global brand names. The location-specific characteristics of the foreign marketplace might seem trivial compared to the large extent similarities that the observer notes.

In these ways, the adoption of standardized retail structures and technologies and the growth of shopping across Asia allude to the theoretical perspectives of homogenization and convergence across locations. There is certainly validity to the point that, especially from the foreign visitors' perspectives, structures for and practices of shopping now have become incredibly similar across locations, compared to when visitors had to navigate the complex regional market systems of, say, the Moroccan Bazaar (Geertz 1978) or the Chinese rural societies (Skinner 1964).

However, the increasing standardization in retail formats and technologies are to large extents surface level convergence and have not eroded the nationally-specific patterns of economic control and coordination nor the institutionalized organizational principles that guide business activities. Neither have individuals located in different

locales embraced the same sets of logics and global meanings to structure their daily consumption, whether of Starbucks coffee, Nike sneakers, or IKEA furniture.

Therefore, while acknowledging the significance of multinational corporations' large market power in diffusing Western retail models, I have shown through my empirical chapters, how locally specific characteristics have mattered for the processes of national retail and consumer market developments in three crucial aspects; first, historic business trajectories and nationally institutionalized systems of conducting businesses led to different capacities of the newly appeared domestic retailers; second, localized organizational logics shaped business strategies adopted for product development; finally, locally formed meaning systems and ways of making status claims informed individuals how to consume and interpret the meanings attached to consumer goods. In the next paragraphs, I will briefly review these arguments.

First, in an examination of location-specific market makers, I have argued that the processes of national retail development as well as the organizational actors that have arisen to develop the markets were contained in an inertial system. I have shown that historically-developed and nationally-specific systems of business activities and patterns of economic control and coordination have mattered in the national trajectories and affected how the retail revolutions have been carried out and by whom. That is, in some countries, existing national firms have diversified or new firms have arisen to attend to the domestic market, while in other settings, market organization has happened in tandem with the international expansion activities of global retailers, most notably, Wal-Mart, Carrefour, and Tesco.

What concrete linkages exist between the structure of national firms and the overall success of international retailers? Chapter 2, and the theory section of this dissertation, presented a framework that builds on the business systems theory and studies of Asian business groups to clarify the role of national firm systems during the process of retail market developments. The theory, which I call, the organizational theory of retail transition, presented a set of hypotheses that predicted the conditions under which domestic retail sectors should be organized mainly by national business groups or through a large reliance on foreign firms. It argued that the relative levels of overall market power of the dominant business groups and the structure of decision-making predict the relative levels of success that national firms or foreign retailers will achieve within certain contexts.

In Chapter 3, the first empirical chapter, I presented empirical surveys of the retail revolutions in Japan, Taiwan, and Korea, and also the ongoing retail revolution in mainland China. I showed that in each Asian market, differential patterns and dynamics of production that structured major businesses have led to varying levels of cross-sectoral abilities and retail capacities of domestic businesses. I argued that the foreign retailers' overall success are tied to the relative levels of market power of domestic business groups and thus needs to be considered in relation to domestic business systems. While the specialized focus on export-oriented manufacturing combined with domestic business groups' limited cross-sector capacity in Taiwan have led to a proliferation of foreign and domestic tie-ups and cooperation, the diversified and oligarchic *chaebol* groups in Korea have preempted foreign retailers' attempts at expansion. In Japan, a new set of companies

has rapidly arisen apart from the main industrial groupings to organize retailing while effectively blocking the spread of foreign retailers. Resulting from these dynamics, foreign success has been the most pronounced in Taiwan, while relatively limited in Japan and Korea.

Second, I have shown that nationally-specific organizational logics of production do matter, as seen in the example of K-pop. In Chapter 4, the second empirical chapter, I focused on the global success of K-pop and its producers and examined the popular music production strategies of three large entertainment houses of SM, YG, and JYP Entertainments. The chapter argued that the specific production strategies of the firms reflect the organizing logics of the larger Korean business system they are embedded in. In addition, it argued that the current attempts at explaining the rise and success of K-pop by singlehandedly pointing to isolated *factors* of policy, demand, or technology miss the most crucial organizational drivers of K-pop's success, the core entertainment houses that increasingly articulated and systematized methods of popular music production.

Third, in Chapter 5, I have emphasized the significance of localized systems of status competition in apparel consumption and argued that a crucial role of intermediaries as market makers is adjusting the gap that exists between the national and regional production landscapes and the local patterns of consumption. By focusing on the linkages between production, consumption, and intermediary retailing and distribution within the apparel sectors of Japan, Korea, and Taiwan, I argued that branding serves as an institutionalized strategy, which strategically decouples the messiness of global production from the primary product image. The logics that drive consumption are

decisively local and form in relation to the localized status understandings and systems of meanings, which are detached from the production regimes.

In these crucial ways discussed above, nationally-specific firm structures, prior economic and business trajectories, and local cultures of consumption matter and continue to stay disparate in the midst of the unifying trends of globalization.

## **6.2 DEMAND-BASED CAPITALISM IN EXPORT-DRIVEN ECONOMIES**

How do once export-driven economies transition to domestic demand-based economies? This was a question indirectly addressed in this dissertation, and also a question that has been posed many times recently especially in regards to China's heavily skewed growth, with disproportionately large shares of investment and export-driven production in the overall GDP.

Because of the importance of internal demand in ensuring the long-term growth of mainland China, most discussions focusing on this issue have been narrowly policy-focused rather than being sociological in nature. Relatedly, the bulk of policy-recommendations have followed the equilibrium-centered logics of the automated relationships between demand and supply. A notable example of this is Lardy's (2012) "comprehensive policy approach," which suggests reform of four policy domains in fiscal, financial, exchange rate, and price policy to rebalance China's growth away from the current focus on export and investment toward consumption. These policies recommendations are geared toward raising disposable household income and boosting consumption on the one hand (by cutting personal taxes, increasing government coverage

of healthcare costs and other outlays, and containing inflation) and constraining high rates of investments by both corporations and households on the other hand (by raising corporate taxes, restricting corporate and household access to cheap credit, modifying the central bank's low interest rate policy, price correction of inflated assets, and further liberalizing the currency float rate).

These are important insights for the purpose of policy reform and legislation, but the discussions that focus on how to increase disposable monies in the pockets of consumers while constraining their investment motives, crucially miss the sociology of the market place. It is important to ask what insights sociologists can contribute to this discussion and in how once export-driven economies become demand-based. The most important insight that the market-making perspective and this dissertation that studies the Asian consumer market development can provide is that consumer market making is not simply an achievement of consumption-friendly national policy legislation or a result of consumer income growth. Instead, consumer markets are shaped through the collective activities of many interested players- entrepreneurs, business groups, foreign retailers, logistics operators, producers, and product developers - who compete and cooperate in the marketplace with profit as their prime motivator – and their devising of new products and ways of selling that will influence the behaviors of consumers. These various players *make* the market by bringing new innovations that destroy the old patterns of trade and market activities and set the trends (often through failures) that consumers incorporate, follow, and accept. It is important to note that the actions of various market players are

organically linked to the actions of the others, and because of this, retail market making is a “collective activity,” as making of art (Becker 1982), or any other productive activity is.

Art worlds consist of all the people whose activities are necessary to the production of the characteristic works which that world, and perhaps others as well, define as art. Members of art worlds coordinate the activities by which work is produced by referring to the body of conventional understandings embodied in common practice and in frequently used artifacts. The same people often cooperate repeatedly, even routinely, in similar ways to produce similar works, so that we can think of an art world as an established network of cooperative links among participants (Becker 1982: 34-35).

These market players do not act in a social vacuum, but as Becker states, rely on a set of conventions to ease the communication between participants, to make the activity easier, less costly in terms of time, resources, or individual energy. At the same time, conventions “do not make unconventional work impossible, only more costly and difficult. Change can and does occur whenever someone devises a way to gather the greater resources required or reconceptualizes the work so it does not require what is not available” (Becker 1982: 35).

What the Asian retail revolutions have brought to the Asian societies are not merely changes in the infrastructures of shopping, but a creation of a new world that individuals live, where consumption has become primary modes of self-representation and identity formation. It has also been a process where those players who traditionally positioned in the export-driven manufacturing industries, domestic services, or independent businesses, were it advantageous enough and if they were capable of it, found out new ways to refocus on their own national consumers yet relying on a set of familiar conventions of doing business.

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