

A study on the status and support policies of the small wholesale vendor in Korea

Sang-Youn Lee

Professor, Graduate School of Business Management, Gachon University, Seoul, Korea.
E-mail: rmi21lee@hanmail.net

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Abstract

There hardly have been support policies for small wholesale vendors or any materials such as proper statistical standards and figures compared to diversity of support policies and size of budget for small and medium manufacturing business. The biggest concern coming from it is that there have never been any policies for small and medium wholesale vendors. This study proposes some ways to improve support policies through investigating the current status of those vendors as their true values haven't been properly recognized, while diverse support systems have been devised for manufacturing business thanks to the traditional industrial development process. According to the study on support policies for domestic and international small and medium wholesale vendors, I realized that those vendors need a policy to ensure them to be promptly adjusted to the rapidly changing distribution environment and to be competitive to access to the global distribution market to finally become hidden champions through systematical operations of small and medium wholesale vendors and implementing educational business through sales management. Therefore, I propose five ways to improve support policies for small and medium wholesale vendors by considering social and economic value, systematizing small wholesalers and scaling small and medium wholesale vendors, reinforcing support for wholesalers, support policies for new online market opening and offline market opening.

Keywords: Small and Medium Wholesale Vendors, Social and Economic Value, Systematizing Small Wholesalers, Supporting Wholesalers, Support Policies for New Online Market Opening and Offline Market Opening.

1. Introduction

The existing support policies for distribution industry has only focused on the size such as small and medium business which is manufacturer and small business, therefore they haven't included the dynamic relations of supply chains which connects to manufacturers, small and medium wholesale vendors and large distribution companies and it lacks effectiveness. Although many cases of business going abroad, diverse distribution channels, and increasing open markets every day occurs every day, the support policies haven't followed the trend yet, instead focusing on traditional manufacturers and distribution companies. Compared to the diversity of support policies and size of budget for manufacture-based business, it is hard to find support policies for small and medium wholesale vendors which has established sales network home and abroad, promoted sales for small and medium business, and connected customers and manufacturers. It is rather ironic that there has not been any concerns on values of those vendors. Although it is possible to create jobs through many of small and medium wholesale vendors, which are intermedium, however, I could not find any proper statistical criteria and figures (the number of employees and companies). The biggest concern coming from it is that there has not been any policies for small and medium wholesale vendors and even there have been support system devised for manufacturing industry due to the traditional industrial development process, the value of small and medium wholesale vendors has not been properly recognized. Therefore this study covers the method on researching the current status of small and medium wholesale vendors on

chapter 2, the current status of small and medium wholesale vendors on chapter 3, and problems on support policies for small and medium wholesale vendors and ways to improvement in conclusion on chapter 4.

2. Method on researching the current status of small and medium wholesale vendors

2.1. Research Target

According to the law on fair trade in large retail companies, Article 2, Section1 defines large retail companies as the ones whose sales retails in the previous business year is more than 100 billion won (according to business accounting standards, for the business operators who recognize incomes through net method, it means the total sales, and for franchise headquarter, it means the total amount added by sales of retail companies and the products sold to franchise headquarters. However, in case the business period in the previous business year is less than a year, the amount during the period is converted as 12 months). So I selected the small and medium business according to the basic law on small and medium business, set limits to the small and medium wholesale vendors with sales of less than 100 billion won (using statics such as Hankyung Business Statics 2016), and set online marketing business as research target.

2.1.1. Legal definition of small and medium wholesale vendors: law on fair trade in large retail business

A company sells and distributes the products of manufacturers to domestic retail companies. Regardless of trade types of “supplier” defined on the law on fair trade in large retail business on article 2, section 2, it is a company which sells the products to large retail business (including directly supplying the products sold by large retail business to customers); the one which sells products under his/her name originally sold by large retail companies, and after selling products, implements consignment trade which is a type of trade where making a payment of sales to a supplier, which certain amount of commission deducted and pays sales incentives which is an economic profit for large retail companies by suppliers according to the condition stipulated on basic contract for yearly trade in order to promote product sales in direct purchase trade.

2.1.2. Division system of small and medium wholesale vendors

(1) By types of business condition

Manufacture and retail among small and medium retail companies, and wholesale trade among wholesale are selected in this study and online marketing business is researched separately.

(2) By types of business

10 types of business and no. 46 wholesale trade from Korea Standard Industry Division System, online marketing business separately researched 10 fields studies including furniture/ interior, digital/home appliance, life/health, sports/ leisure activities, food, child birth/child rearing, fashion, general goods, cosmetics/beauty treatment, and others

(3) By region

Divided by national-level, Seoul, and local regions, and four local regions separately analyzed – metropolitan city including Busan, Daegu, Incheon and Gwangju

(4) By size

Only small and medium business according to the basic law on small and medium business, not considering the number of people but the ones with sales less than 100 billion won

2.2. Research scope

Spatial scope is five cities (Seoul, Incheon, Busan, Daegu, and Gwangju) and time scope is five years from 2010 to 2014

2.3. Method

After collecting 1st data, analyzing by items (figures and graph)

2.4. Scope of small and medium wholesale vendors

Among wholesale business which falls into code no. 46 of Korea Standard Industry Division Table, the ones which falls into “legal definition of small and medium wholesale vendors.” Data used from National Statistical Office, Hankyung Business Statistics and Fair Trade Commission.

2.4.1. Business types of offline small and medium wholesale vendors

The standard industry division for this research is as follows:

Table 1: 46 types of target business among Korea Standard Industry Division

Korea Standard Industry Division	Type of Business
461	Wholesale on a Fee or Contract Basis
462	Wholesale of Agricultural Raw Materials and Live Animals
463	Wholesale of Food, Beverages and Tobaccos
464	Wholesale of Household Goods
465	Wholesale of Machinery Equipment and Supplies
466	Wholesale of Construction Materials, Hardware and Heating and Air Conditioning Equipment
467	Other Specialized Wholesale

Source: Lee (2015), p.18.

2.4.2. The number of domestic online telemarketing business

- Number of domestic telemarketing business by region
- Number of telemarketing business in Seoul by gu (district)
- Number of domestic telemarketing business by type of business
- Identifying the market for telemarketing business: Internet shopping, mobile shopping, home shopping (current status of telemarketing business by distribution channel)

3. Current status of small and medium wholesale vendors

3.1. Size of the number of business

This study figures out the current status including size of market and number of business through the current status of small and medium wholesale vendors. The brief summary of the size of the identified business through the study is as follows. The targeted small and medium wholesale vendors for this study are based on wholesale business and commodities brokerage business (46) from Korea Standard Industry Division Table. The number of those businesses on a yearly basis is 247,322 in 2011, 267,346 in 2012, 281,734 in 2013, which is 6.1% ratio of increase on a year-on-year basis.

Table 2: Size of number of business

	2011		2012		2013	
	No. of business	Component ratio	No. of business	Component ratio	No. of business	Component ratio
National	247,322	100%	267,346	100%	281,734	100%
5 cities in total	141,888	57%	152,111	57%	156,393	56%

Source: Lee (2015), p.68

3.2. Market share of 5 cities and Seoul

Market share of five cities is 57% compared to the whole country. The market share of wholesale business and commodities brokerage business (46) is concentrated in the five cities. The number of wholesale and commodities brokerage business (46) operating in the five cities show 4.7% of increase every year. In Seoul, the market share ratio is 63% compared to the number from the five cities, which indicates businesses are particularly concentrated in Seoul.

Table 3: Market share of 5 cities and Seoul

	2011		2012		2013	
	No. of business	Component ratio	No. of business	Component ratio	No. of business	Component ratio
Total of 5 cities	141,888	100%	152,111	100%	156,393	100%
Seoul	89,596)	63%	95,712	63%	97,759	63%
Busan	22,349	16%	24,141	16%	24,631	16%
Daegu	13,816	10%	14,917	10%	15,624	10%
Incheon	9,101	6%	9,926	7%	10,427	7%
Gwangju	7,026	5%	7,415	5%	7,952	5%

Source: Lee (2015), p. 69

3.3. Market share of the number of business by size of companies

For the number of business for wholesale and commodities brokerage business (46) by size of company, the component ratio for small and medium business from 2010 to 2012 is 99% compared to the total of the whole industry. Small business shares 86% compared to the total of the whole industry. Therefore, for the number of business, it is shown that the business less than the small and medium size accounts for the most of the part.

Table 4: Market share of the number of business by size of companies

	2010		2011		2012	
	No. of business	Component ratio	No. of business	Component ratio	No. of business	Component ratio

Small business	191,977	81%	201,340	81%	219,133	82%
Small and medium business	233,079	99%	244,157	99%	263,997	99%
Total of industry	236,289	100%	247,322	100%	267,346	100%

Source: Lee (2015), *ibid*, P. 70.

3.4. Sales and market share by size of companies

According to the latest information in 2012 of the management status by size of wholesale and commodities business (46), sales of the total of whole industry is 138,629,302 won which is 29.9% for small business, and 298,364,431 won which is 54.0% for small and medium business, which shows how small the small business is.

Table 5: Sales and market share by size of companies

By size of companies	No. of business	Component ratio	No. of employees	Average no. of employees by business	Sales (million one)
Small business	219,133	82%	435,552	1.99	138,629,302
Small and medium business	263,997	99%	872,817	3.31	298,364,431
Total of industry	267,346	100%	1,041,313	3.90	553,261,500

Source: Lee (2015), p. 71.

3.5. Average size by the number of employees and by business

The average number of employees by business is 435,552 for small business and 1.99 employees by business, 872,817 for small and medium business and 3.31 by business, and 1,041,313 for the whole industry and 3.9 by business. Therefore, the small business has a small employment structure and its business operators themselves work on the front line. The number of employees also indicates 51% compared to the total of industry, which shows smaller management compared to its number of business.

3.6. The number of online telemarketing business and size of sales

3.6.1. Size of the number of business and market share in the five cities

The number of online telemarketing business shows sharp increase by around more than 10% every year since 2008, which was 205,641 and as of 2014, the number is 403,685, which is 12% of increase on a year-on-year basis.

Table 6: Size of the number of business and market share in the five cities

Division	2008	2009	2010	2011	2012	2013	2014
No. of business	205,641	237,730	258,376	300,349	327,896	360,279	403,685
Rate of change	19.6%	15.6%	8.7%	16.2%	9.2%	9.9%	12.0%

Source: Lee (2015), p. 72.

Seoul and four Metropolitan Cities (Busan, Daegu, Incheon and Gwangju) account for 54.7% and Seoul and Gyeonggi Province account for 60.5%, which indicates the number of telemarketing business is far better higher in metropolitan area than others.

3.6.2. Size of sales of domestic online telemarketing business

For the size of sales of domestic online telemarketing business, it was 336,900 hundred million won in 2010, which was 25% of growth on a year-on-year basis, 550,200 hundred million won in 2015, 11% of growth on a year-on-year basis, and the figure for 2015 is 602,800 hundred million won, 9.7% growth rate on a year-on-year basis. Particularly mobile shopping market is showing rapid growth, which therefore will have a higher possibility to grow as a promising distribution channel.

4. Conclusion: Issues in and improvement for support policies for small and medium wholesale vendors

4.1. Issues in support policies for small and medium wholesale vendors

It is important to recognize that the functions of small and medium distributors (vendors, sellers, and MDs) have been going beyond just a simple agent, instead they are functioning three roles such as buyer, consultant, and marketer. On the other hand, small business refine their products, deliver them to buyers through verification process, promote them, try to find ways of solutions and improvement in case of problems, find points of contact with large distribution network in real market and promote sales, which shows their roles in a comprehensive area. However, the current distribution and logistic policies underestimate the roles and functions of small and medium distributors. For instance, Korea Federation of Small and Medium Business found the commission for mid-distribution problematic so they advocated of amendment for the relevant law such as applying law on large distribution business. The Federation proposed their negative opinions (including social and economic value) on the policies for small and medium wholesale vendors, which might be the opinion from a few officials from the Federation. It might be attributed to some of the primary large vendors which have practiced wrong custom. However, it seems to be the counterevidence that even the Federation which is supposed to protect rights of small and medium business has an idea for the manufacturer-oriented support policies like the case of Korean government. According to the results of this study, small and medium wholesale vendors are occupied by small business by more than 90%. Therefore, a great number of small and medium distributors should be recognized as small and medium business instead of broker, from focusing on some cases of large distribution vendors.

4.2. Improvement of support policies for small and medium wholesale vendors

According to the study on the support policies for small and medium wholesale vendors home and abroad, I found out the necessity for the policies to make them adjust to the dramatically changing distribution environment and enter into the global distribution market by systematically operating small and medium wholesale vendors and implementing education project. This study suggests the following measures to improve support policies for small and medium wholesale vendors.

i) Support policies considering social and economic values of small and medium wholesale vendors

Small and medium wholesale vendors promote circulation of products and services by implementing multiple functions in the center of manufacturers and customers in distribution system, and creating social and economic values by having a great ripple effect on other industries such as manufacturing, transport, and financial business. According to the “Study on measures to boost new competitiveness through analyzing economic and social values of small and medium distribution business by Nam Yun-hyeong” published by Korea Small Business Institute, the inducement coefficient for wholesale business is the highest for the business with 1~9 employees and when there is the production worth 1 won from the business, the production worth 1.18 won maintains in the whole industry; for value added inducement coefficients, when there is the production worth 1 won from wholesale business, added value worth 0.43 won occurs in the whole industry; the employment for 6.5 occurs in the whole industry by 1 billion won of production; the employment inducing effect for 4.5 people occurs in the whole industry by 1 billion won of production; and when there is an interruption in 1 won of production 1.49 won of damage occurs in terms of failure effect of supply. In conclusion, small and medium wholesale vendors still hold an important place among

distribution industry and they have great economic values, and are directly related to creating and protecting jobs. Therefore, the business should be protected and fostered just in terms of social value such as stabilizing life of ordinary people.

ii) Support policies for systematizing small wholesalers and scaling small and medium wholesale vendors

Regarding the systematic improvement for small and medium wholesale vendors to foster the ability for small domestic retail stores, I could learn lessons from the case study of England. First, in order for small domestic retail stores to survive and reinforce competitiveness in the environment where large distribution business are increasing, it is important to systematize those businesses. Symbolic groups of England could realize the economy which was impossible for individual retail stores and equip with diverse products and boost price competitiveness. Second, to make the systematization possible, a leading small and medium wholesale vendor should be developed for this role. The growth of modern general wholesale business in England was the prerequisite for systematizing small individual retail stores, and was possible through this type of systematization. Third, the M&A cases which happen actively among small and medium wholesale vendors in English suggest that small and medium wholesale vendors should be combined vertically and horizontally to expand their size to survive the competition with large wholesale businesses. Especially for cases of Korea, small and medium wholesale vendors have small structure. Therefore, under this condition, M&A among small and medium wholesale vendors is needed along with systematizing those businesses. As I pointed out from the cases of England, it is necessary to enlarge domestic small and medium wholesale vendors through support policies for M&A among themselves in order to strengthen competitiveness of those businesses.

iii) Support policies for small and medium wholesale vendors to reinforce their functions for supporting retail business

The cases of Japan suggest that it is important to realize economy of scale by systematizing small and medium retail business and the role of small and medium wholesale vendors to support retail business along with expanding their size. Small and medium wholesale vendors in Japan are strengthening their roles in a diverse way such as MDs, logistics, activating stores, etc. in order to improve management of retail business. Particularly, they analyze information through IT, deliver small amount of diverse products, and have advanced logistics system that is ready for immediate delivery, where they support retail stores to make them furnished with the products to fulfil customers' needs in a timely manner. This will allow them to improve the old way of management of retail stores, which will consolidate their competitiveness.

iv) Support policies for offline market opening

To expand distribution of small and medium business, securing offline display space is essential, however, the problem is that for small business, the entry barrier to large distribution business is too high, which is not only prevent them from entering, but also from finding point of contact. Gradually, distribution channels are becoming large (led by large companies) for customers to easily access to, therefore it is very difficult to find market opening through MDs from large distributors. In this regard, it will be much effective to make us of small and medium wholesale vendors which can be easily accessible by MDs and trade and it will be also necessary to find small and medium distribution network. Currently, each agency is actively supporting small and medium businesses for the entry into offline stores. The examples include "Small and Medium Business Myeungpum Maru Inc (at Seoul Station)." by KORAIL tourism development, Happy Department by Small and Medium Business Distribution Center, I'm Shopping, which is the dedicated home shopping for small and medium business. It will be also effective to attach the famous brand of renowned local government or large distribution companies to the products from small manufacturers (called PL products). For example, it is one of the ways to increase reliability of the products from small and medium business by expanding more of Hi Seoul Brand, which is a representative brand of companies in Seoul, to more companies.

v) Support policies for new online market opening

The most important thing from online sale depends on how to organically connect the online platform and offline distribution network (logistics). It costs tremendously by just entering large online malls or home shopping, and winning contracts and promotion activities and it costs astronomically by offline production management, inventory management, and establishing own system for delivery management. The fact that small manufacturing companies have weak connection with large distribution network, which is one of the reasons those small businesses have limits on distribution area. Therefore, in order to support those small businesses, it is necessary to increase the roles of small and medium wholesale vendors which have functions to supply products. As B2B and B2C e-commerce

websites are increasing, the position of small and medium wholesale vendors may be reduced, and it won't be easy for small manufacturers to cover all promotional activities such as developing production detail pages and creating promotional footage. Accordingly, it will be appropriate to sign mutual partnership agreement between distribution companies and manufacturing companies on an equal level. Practically, considering the majority (more than 80 to 90%) of manufacturers are small business (less than 5 employees), small manufacturers have limits in implementing online distribution. To overcome this, manufacturers and distributors should cooperate with each other, and policy-making entities should support the joint enterprise, standardization and informatization of logistics. In order for small and medium wholesale vendors to reinforce their bargaining power in terms of commission and payment when dealing with final vendors, diverse support measures should be considered including providing government guidelines, seconding supervisors, and announcing and recommending excellent companies. E-commerce should be also more reliable for payment of customers.

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