

Growers' Responses to the Changes in Retail Market in Korea

the Pacific Food System Outlook

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I. Update for the Korean Retail Market

- No of hypermarkets in Korea

	2000	2001	2002	2003	2004	2005	2006. 8
No	164	193	235	254	273	300	316
Sales (trillion won)	10.5	13.8	17.4	19.5	21.0	n.a.	n.a.

- Recent Changes in Retail Market
 - Continuous growth of modern retail formats (hypermarkets, convenient stores, online shopping, etc)
 - Exit of foreign retailers: Wal-mart (16 stores, \$0.87 billion) and Carrefour (32 stores, \$1.57 billion)
- Change in the features of hypermarkets: department store-typed hypermarket. In general, hypermarkets are regarded as a hybrid of a discount store and a supermarket, but in Korea hypermarkets are moving towards a hybrid of a department store, a discount store, and a supermarket.

II. Implications of the Changes in Retail Market to Growers

1. Decrease in number of outlets of agricultural products

- In the past growers had several marketing channels to sell their products, such as middlemen, local wholesale markets, etc. However, the marketing channels is concentrating on the channels of modernized retail formats. It is getting harder for farmers to find outlets for their products.

2. Increase in the share of direct purchases

- Large retailers increase the share of direct purchases from producers to reduce cost. The share of direct purchases of agricultural products increased from 30% in 1995 to 63% in 2005. This trend is expected to grow over time.

II. Implications of the Changes in Retail Market to Growers

3. Large volume and consistent quality of products

- Modern-typed retail formats generally ask for large volume and consistent quality of products. It is very difficult for small-sized farmers to meet the standard or demand of large retailers.
- Growers need to increase their volume by combining with other growers or expanding farm size and to meet the standard of large retailers.

4. Changes in the attitude to farming: from producers to managers (CEO)

- Many growers recognize that growers should deal with farming from the viewpoint of business to keep competitiveness in market.
- They are interested in how to deal with large-sized retailers, how to do advertise their products, how to manage inventory, how to create or find new market for traditional products.

II. Implications of the Changes in Retail Market to Growers

5. Getting more responsive to the demand of consumers

- Modernized retailers collect data on consumers, analyze the consuming patterns and finding characteristics of consumption. The information on consumption is conveyed to producers faster than before. For instance, if it is analyzed that consumers are demanding safer and higher quality of food, retailers look for farmers who produce organic products. Thus, farmers are more responsive to consumers' demand.

III. Growers' Responses to the Change in Retail Market

1. Finding new channels for sale

- Growers are trying to find new channels to sell their products, such as sales through internet, TV, and catalog. Many villages have their own websites to promote the village and sell products. However, the share of sales through internet is not large yet.

2. Finding Niche markets

- Finding niche markets are taken place with two ways: developing new demand for traditional products and adopting new products.
- The market for small sized-sweet potatoes is an example of the first case. Traditionally, only large-sized sweet potatoes are sold in market. However, small-sized sweet potatoes are now more preferred for the families that have children. This market have not existed before. However, the change in preference of consumers created new demand.

III. Growers' Responses to the Change in Retail Market

- Paprika is a good example of the second case. Paprika was not produced before 1994 in Korea. Some farmers who recognized that the demand for paprika would increase soon planted paprika in large greenhouses. Now paprika has a lion's share in imported paprika market of Japan. Such example are found in asparagus, blueberries, mushrooms, etc.

3. Organizing growers and making associations

- Organizing growers do them good in terms of two perspectives. First, organizing growers makes them do sufficient investment to new facilities, such as temperature-controlled warehouses, or sorting or packing facilities, etc. So growers can supply the very products that large-sized retailers want to buy in terms of volume and quality. Further, the investment improves the efficiency from the viewpoint of cost and operating.

III. Growers' Responses to the Change in Retail Market

- Second, organizing producers makes them improve the bargaining power against large-sized retailers in demand-monopolistic market. In general, modernized retail formats have bargaining power against growers because they are much smaller in number than producers.

4. Launching own brands or common brands

- Many growers make own brands and sell with their own brands. For instance, some livestock growers made a company and launched a new brand in 2000. The company tried to maintain the quality consistent. Now its brand is recognized as a high quality of product by consumers, so their products are sold at much higher price than products with generic brands.
- second, some growers or organizations launched a common brand with other growers or organizations and sell with the common brand. The main issue on common brands is that it is not easy to control quality over producers.

III. Growers' Responses to the Change in Retail Market

5. More responsive to the changes in consumers' demand

- For example, based on the changes in consumers' preferences to safer food, many farmers transform to organic fruits and vegetable for higher price. In Korea the area of organic crops expanded from 2,039ha in 2000 to 74,995ha in 2006, and the number of organic farmers increased from 2,448 to 79,635 at the same period. The market size of organic products was 1,300 billion won in 2006, which accounted for only 4% of total agricultural market. This number implies that there are sufficient capacity to be developed. Experts estimate that the organic market will expand to 10% in 2010.
- Korean consumers are becoming more diversified in their tastes and buying powers and, consequently, demand a wider range of products and prices: the range is wide from premium quality to middle and low quality of products, from large-sized package to medium and small-sized package.

III. Growers' Responses to the Change in Retail Market

6. Old and small farmers left behind

- Small farmers who are old tend to be left behind and out of business because they continued to have lost competitiveness in market. Many old farmers sell a very small share of their products in market. Instead, they supply their products to their sons, daughters, and relatives who live in urban area at actual expenses or for free. In the long run it is inevitable for them to be out of business.

Implications and Responses

- Implications

- decrease in number of outlets
- Increase in direct purchases
- Ask large volume and consistent quality
- Farming as a farmer
- Less responsive to demand of consumer



- Responses

- Find new outlets and niche markets
- Organize producers and launch own brands
- Marketing as a manager
- More responsive to demand of consumers

IV. Role of the Government

1. Investment on infrastructure

- Infrastructure may be divided by the capacity of investment: infrastructure that farmers can invest (warehouses or trucks with refrigerator, sorting and packing facilities, packing houses, etc) and infrastructure that the government can invest (road, port, etc).
- The investment on infrastructure may help farmers. For example, the development of highway in Korea makes an easy access to rural areas so that many urban people visit rural areas. This trend results to the development of home stays in rural areas. Urban people use the home stay in rural area for weekend or during vacation. Farmers get additional earnings from selling agricultural products. This is one of the newly-developed outlets for agricultural products.

IV. Role of the Government

2. Enhancing the linkage between rural and urban areas

- “one company-one village” campaign, though not a government policy,, is a good example to enhance the linkage between urban and rural areas. The campaign was initiated in 2003 by private companies in urban area to help farmers who had to cope with the opening of the agricultural markets with DDA and FTAs. The Korean government encouraged firms to participate in the campaign.
- The people who belong to the company visit the village and help farmers at planting or harvesting seasons. The company buys a large share of agricultural products produced in the village.
- Producers can sell products at higher price than prices paid by middlemen or local collectors because there is no transaction cost. Urban people can buy safe and reliable products at lower price than markets. So the campaign do both of them good.
- One thing to be noted is that the campaign is based on the voluntary involvement of private companies.

IV. Role of the Government

3. Regulation on concentration and monopolization

- Retail markets tend to be concentrated on large-sized retailers. As concentration is worsened, the market becomes monopolized or duopolized.
- For example, the market share of E-Mart and Homeplus, the two largest retailers in Korea, increases from 52.1% in 2004 to 53.7% in 2006 and this trend seems to continue.
- Monopolization or duopolization is not good not only to the sector but also the economy as a whole because distorted market structure causes inefficiency.
- Though it is not preferred that the government intervenes with market, the government needs to prevent the market from being monopolized or duopolized and make the market be competed with one another.

Thank you