In Korea, mom-and-pop shops still have 69 per cent market share. Yet 50 per cent of consumers have broadband Internet access. Which way forward for retailers?

From lagging to leap-frogging?

INTERVIEW

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Interview with Seung-han Lee, President and CEO of Samsung Tesco Korea and co-chair of ECR Asia.

How do Asian consumers differ from European consumers?

SHL: I think the key word is sophisticated. Korean customers especially now demand more for less from their shopping experience. They not only want a one-stop shopping experience but they expect a one-stop life service.

What do you mean by life service?

SHL: In countries like the UK, town centres are well developed but in Asian countries they are not. So retailers need to provide a kind of community centre as well as a store. Offering life service means providing greater value for the customer than offering a good range of products at good prices. It is about providing a pleasant, convenient shopping environment with a variety of customer facilities and entertainment factors so that our stores can play the role of a community centre. The cultural centres in our stores provide 180-220 educational courses for children and housewives such as Internet training, teaching foreign languages, cookery, hobbies. In addition, we provide a variety of customer facilities such as a children's play area, facilities for family activities and a food court.

Providing these services brings more benefits than the cost. But they attract customers to our stores. They are one of the reasons why customers prefer us, and why our sales are greater and growing much faster than our competitors.

Are manufacturers involved?

SHL: No. It is just the retailer at the moment. But in the future I think there will be many opportunities for manufacturers and vendors to get involved in developing our training/cultural programmes.

ILLUSTRATION BY RAHEL EISENRING

Asian consumers not only want a one-stop shopping experience, they also want a one-stop life service – including community and cultural activities

What other big differences are there between the European shopper and the Asian shopper?

SHL: One of the big differences is attitudes towards price. We have found in Korea that being a "range buster" is as important as being a "price buster". Our research tells us that 71 per cent see a wider, better range as priority, compared with 41 per cent who want low prices, and 16 per cent who put freshness first. How we can accommodate a wider range is a key issue for us.

Another difference is location. In countries like the US, consumers are used to travelling a distance to their stores. Koreans want their stores to be close to them. Forty-nine per cent say this is a priority, followed by easier sales convenience and car parking.

Korean shoppers also expect higher levels of sales assistance than western customers in certain categories. It is difficult to achieve a low-cost operation if you have a large number of staff. But for certain product lines – such as electronic and technical goods, and on the fashion side – we cannot achieve more sales without a reasonable level of service. Taking account of the extra sales generated by these services, this is more efficient than a traditional hypermarket operation. Some western retailers may not understand this.

Also we have to remember that retailing in Korea is not mature. Mom and pop stores still have a 69 per cent market share. Many consumers, especially older ones, still like to buy a few items in small quantities. We still don't have enough hypermarkets and supermarkets. But the situation is changing fast. Back in 1999, modern retailing had a 26 per cent market share. By 2002 this had grown to 31 per cent. By 2005 we expect it to be 43 per cent. So there are tremendous opportunities here.

How important an influence are the big multinational manufacturers in terms of your product range?

SHL: Very important. At the moment, about 30 per cent of our groceries are supplied by multinational manufacturers. So they have a major role. They are making a great contribution, especially to the ECR movement. Compared with local suppliers they have a better understanding of the benefits of ECR and they have the right infrastructure to develop it. Currently, for example, we are working with the multinational companies first on projects like vendor-managed inventory.

So what are the main drivers of ECR in Asia?

SHL: ECR isn't a vision in Asia. It is already a mandate here. More and more companies are coming to recognise they can gain better efficiency if they look at

Seung-han Lee is President and CEO of Samsung Tesco, Korea and co-chair of ECR Asia

While the US has 10 per cent broadband Internet access, in Korea the figure is already over 50 per cent. Korea is in a position to lead e-transformation

the whole supply and demand chain without boundaries: from production to the checkout and even to the customer's door. Within ECR Asia itself, we have seven leading retailers including Tesco and Ahold, nine leading manufacturers including Nestlé, P&G and Unilever, and five related organisations like EAN and IBM Consulting.

Another factor driving ECR in Asia is the explosive development of information technology. For example, Korea has the world's highest broadband penetration at over 50 per cent.

How are you using this potential?

SHL: With new technologies, we can achieve very efficient and low-cost communication and all the benefits of networks and collaboration. At Samsung Tesco, for example, we are capturing sales data at the checkout and sharing it with our suppliers, initially with multinational manufacturers. And on the B2B front in Korea, electronic catalogues are developed carrying about 100,000 SKUs. Besides, the high broadband penetration enables us to provide moving pictures and three-dimensional packs in real time, which are much more attractive to our Internet home shopping customers. In addition, mobile phone shopping channels are being developed, so I believe there is a big opportunity for Korea to be leader in e-transformation.

What are the main obstacles to ECR in Asia?

SHL: The main obstacle is that senior management level has a relative lack of knowledge of ECR, and the movement is largely led by manufacturers. Relatively few retailers are involved. Also, across Asia, the business environment and processes are very different by country so it is difficult to draw common areas.

So how do you actually cope with these differences?

SHL: At ECR Asia we have set ourselves four core objectives. They are: 1, standardisation, including barcode standards; 2, common processes to support standardisation, including category management, CPFR, direct store delivery and so on; 3, shared learning; and 4, e-transformation. We have set up four working groups to ask each Asian country to make a shopping list from these four quadrants, so that we can gather each country's requirements and see clearly where the common concerns lie. Within each common area, we are also asking each country where the priorities lie. For example, some countries are showing a keen interest in barcode, EAN usage and product identification standards. Others are interested in intelligent tagging and loose equipment (standardisation of transportation equipment such as dollies and merchandising units). At the same

ECR Asia has four core objectives: standardisation, common processes to support standardisation, sharing the learning, and e-transformation

time, we are working with other bodies such as ECR Europe to discover common themes worldwide, too. We intend to complete this work before the ECR conference in Korea in October this year.

How do you share learning between Tesco UK and Tesco in Korea?

SHL: We have learned a lot from Tesco in the UK – about its "steering wheel", Customer Plan, core skills, some of its key performance indices and low- cost operations, for example labour scheduling systems. There are a variety of ways to share learning. First, regional CEOs share the learning at meetings four times a year. In addition, there are separate Asia leadership meetings for each country's national CEO. We also have functional meetings between countries. The international supply chain group meets three times a year, for example. Also commercial, HR and IT directors meet together and share learning. We also have an international support office that provides best practices throughout the whole Tesco business in areas such as store format, operating for less, category management, customer plan, price and promotions, and people development.

Are there any areas where the UK has learned from its international operations in Asia?

SHL: Fresh is one example where we have much more of a marketplace atmosphere. Also we are quite strong in presentation and displays of fresh foods. In apparel, our approach to merchandising and display is more diversified and sophisticated than the traditional hypermarket in Europe. In addition, while most stores in Europe are single storey, in Korea we have multi-storey stores. Given rising property costs Europeans may be able to learn from us.

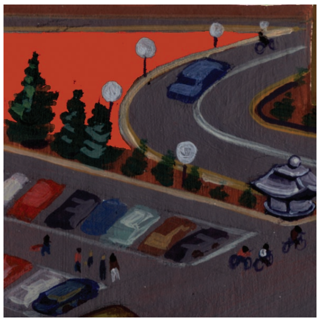
But some retailers have tried to take learnings from one country to another and have failed.

SHL: I think Tesco has been wise in this respect. From the very beginning Terry Leahy, Chief Executive of the Tesco Group, very much emphasised the importance of localisation. That is why in Korea we have developed what I call "GloCal" standards: the combination of global standards and local practices. This means that we have adopted global standards in terms of management principles, a low-cost operation, back office operation and retailing know-how, while applying local practices in terms of customer relations, store format, merchandising and local marketing. In contrast, some multinational retailers operating in Asia have made the mistake of adopting a "cake-cutter" approach.

How important is innovation and new product development in your market?

SHL: It depends on the category. In the

Our vision is to be the world's best retailer. We may not be able to catch Wal-Mart in terms of turnover, but we can match it in terms of management quality



fresh area consumers are still very traditional. But in the deli area, Korean consumers expect constant innovation and greater diversity. And in the apparel area our customers respond very sensitively to new products. That's why we manage the apparel range based on six seasons rather than four seasons.

Are these new products developed in collaboration with manufacturers, or do you just buy things from the market?

SHL: We collaborate closely with our suppliers right from merchandise planning to quality control. We survey customer trends and share the information with our suppliers at the merchandising planning stage. And our internal quality control team work with suppliers to test-market new product developments. We are also working with manufacturers to develop Homeplus private brands (own-label) products. To date, about 350 items have been developed. These Homeplus own-label products provide opportunities for smaller Korean manufactures to compete with the bigger multinationals.

And what about groceries: do you have collaborative new product development with branded manufacturers?

SHL: In groceries, we have developed about 40 own-label items, largely in collaboration with local manufacturers.

What can you tell us about your own retail philosophy?

SHL: My philosophy on retailing is based on three key points: Firstly, I believe retailing is a space game. It's like playing with Lego blocks or constructing a brick building. In our stores, we carry some 35,000 SKUs on the shelves and manage 100,000 SKUs throughout the year. The key to the retailing business is how you put together these individual bricks in such a way as to maximise sales while minimising inventories.

Secondly, I believe retailing is a network business. We are witnessing a shift in focus from internal operational efficiency towards collaboration with external parties on the network.

My third point is that retailing is a combination of art and science - what I call "feelience" – a combination of artistic feel and science. Leading foreign retailers often practise only a scientific low-cost, operational efficiency approach to retailing. But they sometimes lack the human touch and an artistic feel. I believe that in retailing we should strive to strike the right balance between art and science to provide a pleasant, exciting shopping experience.