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**Research Report**

## Transaction types of large retailers and policy directions

KDI Focus, No. 105

**Provided in Cooperation with:**

Korea Development Institute (KDI), Sejong

*Suggested Citation:* Lee, Jinkook (2021) : Transaction types of large retailers and policy directions, KDI Focus, No. 105, Korea Development Institute (KDI), Sejong,  
<https://doi.org/10.22740/kdi.focus.e.2021.105>

This Version is available at:

<https://hdl.handle.net/10419/243340>

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March 3, 2021 (No. 105, eng.)

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## Transaction Types of Large Retailers and Policy Directions

Jinkook Lee, Fellow at KDI

**“In their transaction with retailers, suppliers tend to earn less as the share of purchases under special contract grows. This is due not only to the high sales fees (commission) and frequent unfair practices but also, more fundamentally, to the blatant imbalance in bargaining power. When investigating into unfair trade practices in the retail sector, the government should pay closer attention to how such violations are tied to the type of transaction. It should also work to enhance the negotiation power of suppliers by, for example, diversifying retail channels and strengthening suppliers’ rights to adjust payments. Indeed, ensuring equal bargaining power can contribute to expanding direct purchases and fairness in retail transactions.”**

### I. Issues

The major Korean national shopping festival, ‘2020 Korea Sale FESTA,’ outperformed previous years, marking more than double the participants (retailers) and a 6.3% increase in credit card sales year-on-year (Ministry of Trade, Industry and Energy, Nov. 2020). Indeed, in addition to the various spending incentives laid out by the government, including more income tax credits, lower individual consumption tax, and untact sales support, the festival helped to quench the spending drought brought on by the Covid-19 crisis.

Nevertheless, the event was not free from grievances. Similar to past festivals, consumers complained about the “paltry” markdowns while large retailers protested the higher discount rates on the grounds of insufficient inventories and low share of direct purchases. Suppliers

Although the ‘2020 Korea Sale FESTA’ fared better than previous events, both consumers and businesses expressed dissatisfaction.

\* Based on Lee, Jinkook, *Contract Type Selection and Economic Effect in Large-scale Retail Industry*, Policy Study 2019-12, Korea Development Institute, 2019 (in Korean).

The type of transaction contract between supplier and retailer is the causal factor in the disputes over the shopping event.

This analysis looks into the current status of transaction types, determinants of the transaction type, and the economic impact on suppliers. It then presents the policy suggestions.

(manufacturers) had their own frustrations, arguing that little remained from the increase in sales due to special contract purchases and consignment sales contracts that were on top of the sales discounts.

These issues, however, are not unique to the 2020 festival. They are symptomatic of a larger problem that stems from the type of transaction that unfolds between retailer and supplier which entails direct purchases, purchases under special contracts, consignment sales, and store leases. Moreover, as long as the current transaction structure remains unchanged with continued influences from the imbalance in bargaining power and incentive to minimize transaction costs, and business and product characteristics, the same grievances will arise during future festivals. In spite of this, there are no basic statistics on the type of transaction available, making it difficult to capture the nature and structure of the pending problem.

In this context, this study analyzes the micro-data obtained from its own survey and through cooperation with the Korea Fair Trade Commission (FTC). It then presents i) the current status of transaction types, ii) determinants of the choice of transaction type, and iii) the economic impact on suppliers. Furthermore, by reviewing all of the FTC's resolutions related to retail businesses, this study also attempts to iv) systematize the relationship between the transaction type and unfair practices in order to present policy suggestions on the direction for sustainable growth and win-win cooperation for the retail sector.

## II. Current Status of Transaction Types in Korea's Large-scale Retail Industry

### 1. Comparison of direct purchases, consignment sales, store leases, and purchases under special contract

Transaction contracts between retailers and suppliers in Korea can be categorized into four types (Table 1). Direct purchase is when a retailer directly purchases goods from the supplier and then sells the goods at a profit (for a higher price). Retailers have ownership of the goods which means that they are fully responsible for any promotion activity and inventory management.

<Table 1> Comparison of Transaction Types

	Direct purchase	Consignment sales	Store leases	Purchase under special contract
Purchase	Yes	No	No	Purchase on credit
Main agent in sale	Retailer	Retailer	Store tenant	Supplier
Payment (retailer→supplier)	After purchase	After sales (minus sales fees)	Rent from in-store tenant	After sales (minus sales fees)
Unsold goods returnable	No	N/A	N/A	Yes
Manager of inventory	Retailer	Supplier	In-store tenant	Supplier
Type of retail business	Large retail chain/SSM/convenience store	Online/TV shopping	Department store/outlet mall	Department store/outlet mall

Source: By author based on the FTC's press release(July, 2014) and his own understanding of retail transaction types.

On the contrary, transactions via consignment sales do not contain the elements of purchase activity. In this contract, the supplier grants the retailer the legal rights to sell its goods on its behalf, and the supplier remits the proceeds minus an agreed commission. There is no transfer of ownership which means that the supplier is responsible for inventory control (collection and disposal).

In store leases, the store tenant plays the dominant role as no actual purchase activity occurs, and the tenant handles all the sales activities. In turn, the retailer receives a certain percentage of the sales proceeds as rent in exchange for advertising/promotion and store space.

The last type is a combination of the above three, and is referred to as a purchase under special contract. This type of transaction entails retailers to purchase goods on credit from the supplier and remit the profit minus an agreed commission. Here, the purchase activities are documented on record, similar to a direct purchase, but the retailer subtracts its sales commission before remitting payment to supplier, which is similar to a consignment sale. Moreover, the fact that the salesperson from the supplier side engages in the sales activity is similar to a store lease transaction. What distinguishes a special contract purchase from other types is that the retailers can return any unsold goods.

## 2. Different transaction types for different retail business categories

The acceptance of each transaction type in Korea's retail sector is shown in [Table 1]. Of the total amount of transactions (20.3 trillion won) between large retailers and suppliers, direct purchase accounts for 47%, followed by purchase under special contract (21%), consignment sales (18%), and store leases (14%).

When divided into retail business type,<sup>1)</sup> large retail chains, SSM, and convenience stores show particularly high percentages of direct purchase transactions with 68%, 90%, and 99%, respectively. This is because their sales are largely dependent on essential items including food. Suppliers may also prefer direct purchases as products with a steady demand do not necessarily require professional salespeople or monitoring of retailers' sales activities, and as such, they can focus more on the steady collection of payments.

On the other hand, over 95% of the sales in department stores and outlet malls are under special contract purchases and store leases. Since their sales items are mostly mid- to high-end brands of clothing, jewelry, and fashion accessories that change in line with the seasons and fashion trends, the role of professional salespeople is vital as they are familiar with the features of the products that they are selling. Retailers can directly train their own salespeople and merchandisers (MD) for each product category, but considering the burden of the fixed-costs of this, there is a strong inclination to let the suppliers handle the entire sales process.

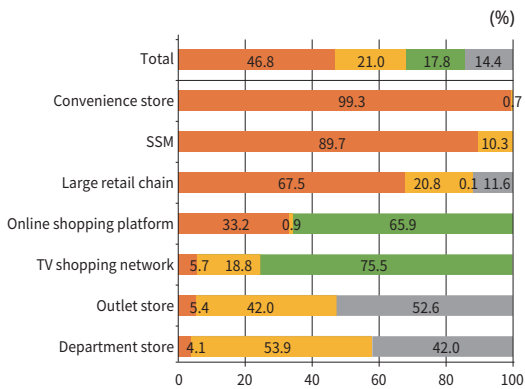
Of the transactions between large retailers and suppliers, 47% is via direct purchases, followed by purchase under special contract (21%), consignment sales (18%), and store leases (14%).

The share of direct purchases is 68% at large retail chains, 90% at SSMs, and almost 99% at convenient stores.

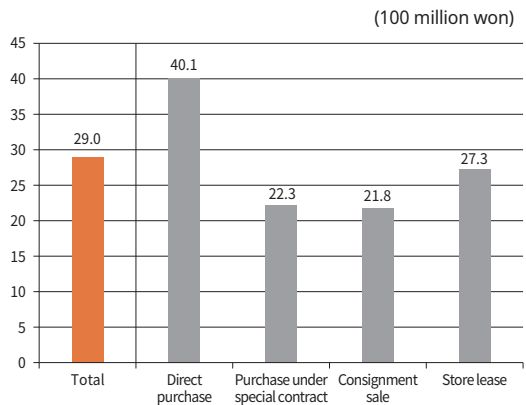
1) The list of suppliers contains a summary of transaction information between a total of 26 large retailers and 7,000 suppliers. See Lee (2019) for details on the total transaction amount and number of suppliers by retail business type.

Over 95% of the sales at department stores and outlets are achieved via special contract transactions.

[Figure 1] Share of Transaction Type: Total and by Retailer Type



[Figure 2] Transaction Amount in Each Transaction Type



Source: By author based on the FTC's "List of Suppliers for Written Surveys in the Retail Business Sector" (2018).

In online and TV shopping, consignment sales account for an overwhelming percentage at 66% and 75%, respectively. This type of transaction limits the intervention from the suppliers in terms of the online platform or what's being aired. Thus, consignment sales are more convenient for suppliers as the marketing activities, including advertising exposure and purchase promotions, are undertaken by the retail managers and on-air presenters. It is also interesting to note that direct purchases account for 33% in the online shopping business. Online retailers make direct purchases to stock up on popular goods—that are frequently bought and easy to store—at their warehouse for 1-2 day delivery service, which implies that online retailers are very strategic.

[Figure 2] shows the average amount of transactions between retailers and individual suppliers in which the percentage of direct purchases (4.1 billion won) is almost 1.5-1.8 times higher than other transaction types. Additionally, when the scope is limited to the five largest suppliers (amount basis) of individual retailers, direct purchases take the highest share not only in large retail chains, convenience stores, and SSMs, but also in online and TV shopping businesses where consignment sales are more prevalent. The fact that the average transaction amount is large suggests that there is a relatively small imbalance in bargaining positions and power between retailer and supplier in direct purchases.

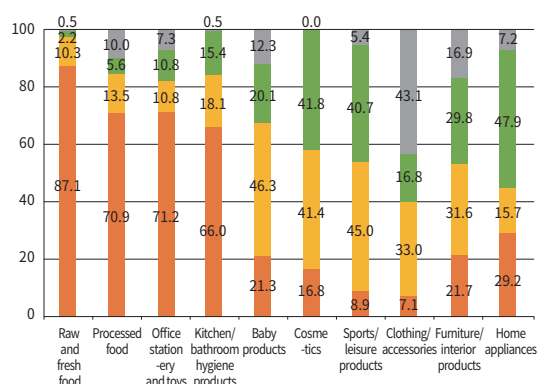
3. Different transaction types for different product categories

The type of transaction varies depending on the category of goods (Figure 3). Direct purchases are most preferred for essentials, such as raw/fresh/processed food, office stationery and toys, and kitchen/bathroom hygiene products. These items (in the list data) account for 69% of the turnover of large retail chains and 56% of the sales at convenience stores and 87% at SSMs. This shows that each retail business type has different key sales items and prefers different transaction contracts depending on the characteristics of the product category.

In online and TV shopping categories, the share of consignment sales is overwhelmingly high.

The imbalance in bargaining positions and power between retailer and supplier may be smaller in direct purchasing due to the significant average transaction amount.

[Figure 3] Share of Transaction Type by Product Category



Source: Ibid.

Meanwhile, retailers tend to purchase baby products (46%), cosmetics (41%), sports/leisure goods (45%), clothing/accessories (33%), and furniture/interior items (32%) under special contracts. The sale of these items rely on the role and sales skills of professional salespeople, and remain sensitive to demand. The variety and quantity of these products are usually limited, but they account for 64% of the turnover at department stores and 75% at outlet malls.

<Table 2> summarizes the transaction type preferred by retailers for processed food, and despite the fact that direct purchases are most common, department and outlet stores show a higher share of special contract purchases while online platforms and TV shopping network prefer consignment sales. This means that the type of transaction is determined by the characteristics of the retailer and products and the dynamics between the two.

<Table 2> Main Type of Transaction for Processed Food

Retail business type	Main transaction type	Share
Large retail chain	Direct purchase	55%
Convenience store		100%
SSM		84%
Department store	Purchase under special contract	58%
Outlet mall		43%
Online shopping platform	Consignment sale	49%
TV shopping network		56%

Direct purchasing is preferred for essential items e.g. raw/fresh /processed food, office stationery and toys, and kitchen and bathroom hygiene products.

Purchase under special contract is preferred for baby products, cosmetics, sports/leisure goods, clothing and accessories, and furniture/interior items.

### III. Factors that Affect Transaction Type

Then, among the factors that influence the selection of a transaction type (excl. retailer type and product category that are already fixed), which can be changed via policy measures? To answer this question, this study analyzed how the elements related to the minimization of transaction costs and the gap in bargaining power affect the decision to choose direct purchasing.

The focus has been placed on the determinants of direct purchases because it has received significant attention as a policy recommendation in recent years, and unlike other types, it accompanies substantial procedure of purchase and takes up a relatively large percentage of transactions regardless of the type of retailer. For data collection, a survey was conducted on 1,000 suppliers who have contracts with large retailers.

#### 1. Factors related to the minimization of transaction costs

First, the level of the suppliers' 'trust in the retailer' was measured (left panel, Table 3). The lower the level of trust in retailers, the less likely suppliers are to choose direct purchasing. If an objective assessment cannot be conducted or the retailers' sales activities and/or opportunistic

The type of transaction chosen is affected by the characteristics of the type of retail and goods and the interplay between the two.

Suppliers are less likely to choose direct purchasing if they have a low level of trust in the retailer.

behaviors cannot be monitored, suppliers wanting to avoid additional transaction costs from such uncertainties will be more inclined to choose purchasing under a special contract or store leasing which would allow them to actively intervene in the retail and sales process.<sup>2)</sup>

<Table 3> Factors Influencing Suppliers' Selection of Direct Purchasing

Minimization of transaction cost factor (7-point Likert scale)		Degree	Bargaining power gap factors	Degree
Trust in retail firm		+3.2%p **	No. of partner retailers (log) (when the no. of partners increases 1%)	+0.04%p ***
Development level of retailers' purchasing system		+3.4%p **	Decision on transaction type in accordance with suppliers' suggestion (0/1)	+8.6%p **
Transaction specific asset	Interior decorating required	-4.6%p **	Decision on margin rate in accordance with retailers' suggestion (0/1)	-15.7%p ***
	Sales staff required	-3.9%p *		

Note: 1) All estimates for the share of supply by retail business type, dummy for key sales times, and general control variables are presented in Lee (2019).

2) \*, \*\*, \*\*\* denote the level of significance at 10%, 5%, and 1%, respectively.

Source: Based on author's own analysis of the "Business Opinion Survey on Transaction Types in Large Retail Business" (KDI, 2019).

In addition, as retailers' purchasing systems become more advanced over time, the share of direct purchases increases, meaning that when retailers' purchase processes, such as product inspection, payments, contract signing, ownership transfer and documentation, are systemized and proceeds seamlessly, more are likely to choose direct purchases.

But, it is also found that the more salespeople or store interior decoration is needed, the lower the percentage of direct purchases. Suppliers' investment in the interior or hiring and training of salespeople can be understood to be transaction-specific assets which can only be of value in the transaction with a contracted retailer. Considering that suppliers are willing to monitor whether their assets are being utilized for the intended purposes and to choose a transaction type that could enhance the investment value, they naturally favor purchase under special contract or store leases where active intervention in the sales process is possible.

## 2. Factors related to the gap in bargaining power

In reality, when there is an imbalance in bargaining position between large retailers and suppliers, the differences in their bargaining power should be considered as a determinant of transaction type. According to the analysis results (right panel, Table 3), the share of direct purchases increases when the supplier has more retail partners and is the party that proposes transaction type. Suppliers that have several retailers as partners can effectively find alternative clients and reduce the opportunity costs from trading disruptions and/or unsuccessful negotiations. This will provide suppliers with the same bargaining power as retailers, and enable them to demand direct purchases to reduce their inventory burden and receive payments without delay.

2) It is also likely that there is an inverse causal relationship in which the higher the share of direct purchases, the more trust there is in retail firms. It should be noted that the account above is valid only under the assumption that the supplier's trust in the retailer has developed based on its trade experiences and will not change easily.

The more advanced retailers' purchase systems are, the higher the share of direct purchases.

Meanwhile, the more salespeople or interior decoration is needed, the lower the share of direct purchases.

The share of direct purchases tends to increase when the supplier expands its retail partners and is the party that proposes transaction type.

On the contrary, when the margin rate, sales fee (commission), and rental rate are determined by the retailer who has stronger bargaining power, the share of direct purchases drops sharply (-15.7%p). The margin rate or sales fee are the basis on which the end-value-added of a product is decided, and as long as the retailers determine these, they have an incentive to avoid direct purchases in order to minimize their burden of inventory.

The share of direct purchases tends to decrease when the margin rate, sales fee, and rental rate are determined by the retailer.

#### IV. How Transaction Type Affects Suppliers' Sales

The analysis thus far examines the differences in transaction type in terms of when the payment is made, who handles the sales activities, whether purchases can be returned, and who determines the margin rate. This implies that even when the supplier provides the same product in the same quantity, its sales may vary depending on the type of transaction. The following section looks into the relationship between transaction type and suppliers' sales.

<Table 4> shows the impact on suppliers' sales of flagship products when their supply increases under each transaction. The results exhibit a noticeable decline in special contract purchases.<sup>3)</sup> For instance, when the supply under this contract rises 1%p, the sale of flagship products sheds 260 million won, which is equivalent to 1.78% of the average sales.

The sale of flagship products shed 260 million won for every 1%p increase in the share of direct purchases.

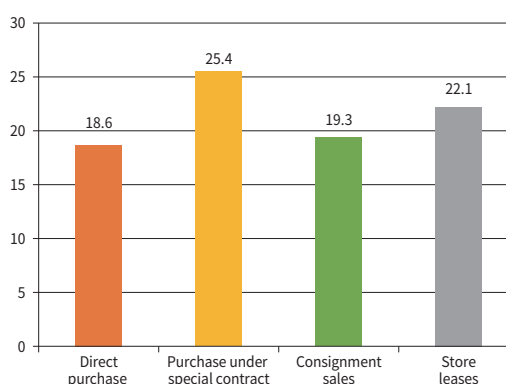
To understand the decline in sales, the patterns of how the end-value-added is allocated to retailers and suppliers must be examined. [Figure 4] shows the averages of the margin rate (direct purchases), sales fee (special contract purchase, consignment sales), and rental rate (store leases) received by retailers. The lowest is direct purchases (18.6%) while the highest is special contract purchases (25.4%).

Retailers' margin rate and sales fee are lowest in direct purchases and the highest in purchases under special contract.

<Table 4> Effect of Transaction Type on the Sale of Flagship Products

	Impact on flagship product sales	
	Magnitude (100 million won)	Change (%)
Purchase under special contract	-2.59 *	-1.78 *
Consignment sales	-3.18	-1.39
Store leases	+0.52	-0.80
Others	-1.89	+0.30

[Figure 4] Average Margin Rate, Sales Fee, and Rental Rate



Note: 1) A regression model is estimated, using the factors of transaction cost minimization and bargaining power gap as instrumental variables for the share of product supply in each transaction type category.

2) \*, \*\*, \*\*\* denote the level of significance at 10%, 5%, and 1%, respectively.

Source: Ibid.

According to the transaction cost theory, retailers are inclined to set a high margin rate in exchange for taking the risks of market uncertainty, and this inclination is more likely to appear

3) To avoid the multicollinearity problem, one transaction type should be excluded from the independent variables. In consideration of the convenience of interpretation and degree of policy interest, the author set the share of direct purchases as the base variable. Even when another transaction type is set as the base variable, no fundamental changes were observed in the estimation results.



In purchases under special contract, the supplier will likely have less bargaining power.

The gap in bargaining power is relatively large in purchases under special contract which increases sales fees and reduces sales.

in direct purchases wherein the inventory burden is placed upon the retailer than in special contract purchases. In addition, the margin rate or sales fee is a reflection of the value and costs arising from the retailer's activities including sales, acquisition, and marketing, which serves as the basis of the higher margin rate in direct purchases where retailers have a stronger role. However, the analysis results show otherwise with higher sales fees in the type of special contract purchases where suppliers handle both promotional activities and carry the burden of inventory management and purchase returns. As such, the transaction cost theory may not be suitable for interpretation in this situation.

Then, can this situation be explained in terms of the gap in bargaining power? As aforementioned, considering that the share of direct purchases is higher when the supplier is in a stronger position at the bargaining table—for instance, when a single supplier has several retailer partners or the transaction type is determined by the supplier—it is highly likely that in a special contract purchase, the supplier may have weaker bargaining power, and the power gap between supplier and retailer may allow room for the retailer to raise the sales fees.

This can also be supported by another analysis which found that the more retail partners a supplier has, the more sales fees and the overall margin rate decreases with a particularly strong negative correlation coefficient (-0.21) in purchases under special contract.<sup>4)5)</sup> In short, it can be said that the difference in the bargaining power between retailer and supplier is relatively significant in special contract purchases, and this can raise sales fees and diminish sales.

## V. Relationship between Transaction Type and Unfair Trade Practices

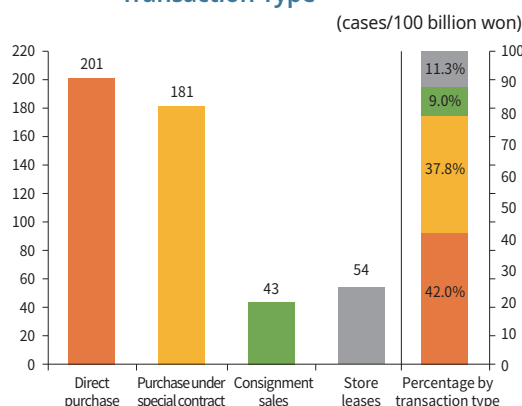
The finding that the decline in suppliers' sales under a special contract is due to the bargaining power gap suggests that, due to an imbalance in bargaining positions, the supplier may have to accept unfavorable contract terms or even unfair trade practices. In this regard, this study focuses on the relationship between transaction type and unfair trade practices, reviewing all cases involving the retail business that were resolved by the FTC in 1998-2020.<sup>6)</sup>

4) The Pearson correlation coefficient between the number of retail partners, margin rate, and sales fee showed a significance level of 5% in special contract purchases (-0.21) and consignment sales (-0.15), but no significance in direct purchases (-0.06) and store leases (-0.51).

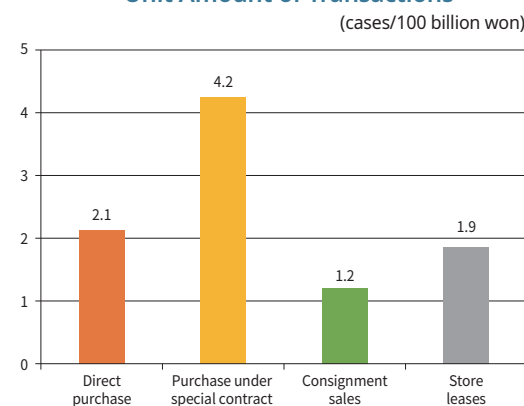
5) Manufacturers who supply more than 70% of their products under direct purchase contracts are found to have 41.6 retail partners on average. On the other hand, for suppliers trading over 70% of their products under other contract types (special contract purchase, consignment sales, and store leases), the average number of their retail partners is analyzed to be 13.6, 14.1, and 3.1, respectively.

6) The total is 187 cases for which 376 violations were found. The total of violation cases in each transaction type is 479.

[Figure 5] Frequency of Unfair Practices By Transaction Type



[Figure 6] Frequency of Unfair Practices Per Unit Amount of Transactions



Source: By author based on the FTC's "Resolution on Violation of Laws by Large-scale Retail Business and Stores, and Large Retail Business" (1998-2020) and online case processing system (<https://case.ftc.go.kr>).

In [Figure 5], the resolution of cases involving unfair trade practices in the retail sector are shown by transaction type. Direct purchases (201 cases, 42%) and special contract purchases (181 cases, 38%) account for 80% of the total, implying that these two types are more conducive to unfair trade practices.

However, the high percentage in direct purchases could be largely because direct purchase contracts are prevalent, accounting for almost half of the total amount of transactions, and thus, relatively more unfair trade practices are reported. To gain an objective understanding of the situation, the frequency of unfair trade practices per unit amount of transactions was measured (Figure 6). It was found there were 4.24 cases per 100 billion won in special contract purchases which is 2-3.5 times higher in frequency than other types. This is why the FTC drew up and implemented the 'Guidelines for Examination of Injustice,' targeting only purchases under special contract.

[Figure 7] shows the results of an analysis of the average number of unfair trade practices reported per year in accordance with the laws and regulations of each period. An increasing trend is evident in recent years, and unfair trade practices, mostly in purchases under special contract or direct purchases in the past, are now being reported relatively equally across all types of transactions, and a particularly sharp increase can be observed in consignment sales. This can be explained by the rapid growth of and transactions with online and teleshopping business where consignment sales are more dominant.<sup>7)</sup>

<Table 5> analyzes the legal violations in each type of transaction. One common case in special contract purchases involves the ban on imposing disadvantages (Article 17, Act on Fair Transactions in large Retail Business). Most cases are in regards to unfair changes in contract details during the contract period, for instance, a cut in the prices of supplied goods, increases in sales fees, sales promotion expenses, and unilateral suspension of trade commitments. Above all, the fact that 43 (65%) of the 66 violation cases occurred during purchases under special contract in the form of reduced payments for goods supplied and raises in sales fees means that this cannot be seen as a separate problem from the aforementioned finding on

This study analyzed the relationship between transaction type and unfair trade practices based on the FTC's resolutions in the retail business industry ('98-'20).

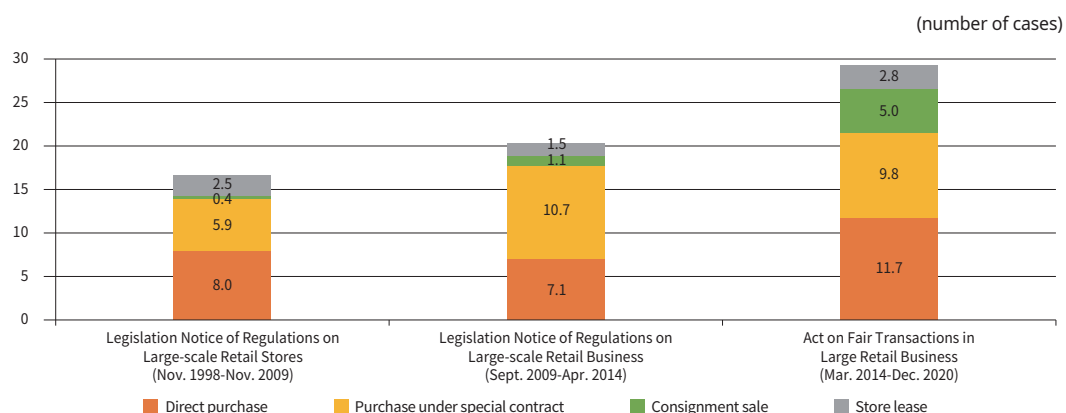
Unfair trade practices occur 2-3.5 times more often in purchases under special contract.

One of the most frequently reported violations in terms of special purchase contracts is the imposition of disadvantages. This is not isolated from the finding about the relationship between special contract purchases and reduced sales.

7) From 2015 to 2020, the frequency of consignment sales related to unfair trade practices is 34, of which 8 occurred in online and 16 in TV shopping.

the relationship between special contract purchase and reduced sales. The act of imposing disadvantages is observed in trade with department stores (24 cases) and large retailers (18 cases).

[Figure 7] Frequency of Unfair Practices By Ordinance



<Table 5> Frequency of Unfair Practices By Article of Act

Articles of Act on Fair Transactions at Large Retailers	Total violations	Direct purchase	Purchase under special contract	Consignment sales	Store leases	Total transaction type
Article 6 Delivery and Preservation of Documents	85	38	44	11	18	111
Article 7 Prohibition of Reduction in Payment of Goods	12	11	1		0	12
Article 8 Payment of Proceeds from Sale	23		17	6	2	25
Article 9 Prohibition of Refusal or Delay of Receipt of Goods	1	1				1
Article 10 Prohibition of Return of Goods	46	46				46
Article 11 Prohibition on Unjustly Shifting Burden of Sales Promotional Expenses	76	39	43	9	21	112
Article 12 Prohibition against Using Employees by Suppliers	42	32	22	8	2	64
Article 13 Prohibition of Forcing Exclusive Dealing	1			1		1
Article 14 Prohibition of Request for Management Information	15	5	10	3	5	23
Article 15 Prohibition of Requests for Economic Profits	17	15		2		17
Article 16 Compensation for Costs of Equipment for Sales Floor	1		1			1
Article 17 Prohibition against Giving Disadvantages	57	14	43	3	6	66
Total	376	167	160	42	53	479

In direct purchases, the majority of violations (46 cases) are regarding the prohibition of returning goods (Article 10), which includes any supplied good and for any reason. The act itself cannot occur in consignment sales and store lease contracts because no substantial purchase is involved, and also it is not possible in special contract purchases as the purchase itself is made on credit with a condition of return. Thus, in practice, the violation of banning the return of supplied goods can happen only in direct purchases. Out of 46 violations, 31 cases involve large retailers.

The most frequent violation in direct purchases is the ban on returning goods.

Meanwhile, other violation cases are observed almost evenly across all transaction types: Delivery and Preservation of Documents (Article 6), Prohibition on Unjustly Shifting Burden of Sales Promotional Expenses (Article 11), Prohibition against Using Employees by Suppliers (Article 12), and Prohibition of Request for Management Information (Article 14). Among these, the second most frequent violation (111 cases) is delivery and preservation of documents (Article 6)<sup>8)</sup> despite being the most basic requirement in a contract between business entities. The most frequent prohibition is found to occur in connection with Article 11 (112 cases), which includes a large number of cases, like sales promotion expenses being transferred to the supplier without prior agreement. This implies that disputes between retail entity and supplier are often caused by flawed initial transaction agreements.

Most disputes between retailer and supplier are due to the flaws in the initial transaction agreement.

## VI. Policy Suggestions

Based on the above analysis results, this study suggests the following to establish a fair trade order and win-win cooperation in the retail sector and for a sustainable future.

### 1. Focusing on transaction type during investigations into unfair trade practices

When investigating and reporting unfair trade practices, the FTC should focus more on the relationship between the particular practice and the transaction type. In cases of violations involving the department store industry, purchases under special contract can often come under fire but not enough consideration is given to the relationship observed in other industries. According to the 'Result of the 2019 Written Survey of Current Status of Subcontracting Transaction,' alleged violations in PB product transactions, such as unfair returns and unfair decisions on payments and cuts, occur 2.4 and 2.7 times more often than subcontracting transactions in the general manufacturing industry. It is likely that most of these cases occurred under a direct purchase contract given the nature of PB products. This suggests that to bolster the efficiency of the policy authority's efforts in terms of monitoring and reporting, the focal point of investigations should become the type of transaction. To this end, when conducting an ex officio investigation or written survey on the current status of the retail industry, the questions and details should be designed to capture the transaction patterns and violation allegations in terms of transaction type.<sup>9)</sup>

Questions and contents in the written survey on the retail sector need to be revised to better capture the transaction patterns and alleged violations from the view of transaction type.

8) Mostly, failed or delayed delivery of documents, delivery of incomplete documents, a lack of the terms of dispatch in writing, etc. These violations appear regardless of transaction type: large retail chains (31), department stores (24), TV shopping (3), and online shopping (3).

9) There may be a number of other unidentified unfair acts. To improve the quality of the basic survey so that this can be properly reported, questionnaires need to be redesigned to grasp the relationship between transaction type and unfair practices.

The unfairness of changing contract details should be included as an important criterion for the 'Guidelines for Examination of Injustice on Purchase under a Special Contract.'

Careful consideration is needed when seeking policy intervention in the selection of a specific type of transaction contract.

Transactions via direct purchases should be pursued by improving suppliers' bargaining power which is a significant underlying factor.

In addition, the current 'Guidelines for Examination of Injustice on Purchase under a Special Contract' uses unfair cost sharing and compulsory participation in promotional events as a main criteria to determine injustice. The unfairness of changing contract details should also be used as an important criterion given that the main method of imposing disadvantages in purchases under special contract is to alter the contract terms.

## 2. Strengthening suppliers' bargaining power to prompt more direct purchase contracts

In order to prevent unfair trade practices related to special contract purchases and to sustain the stable growth of the supply industry, policies should move towards expanding direct purchases, but careful consideration is needed when seeking policy intervention in the selections of a specific type of transaction contract, which is determined by the interaction of businesses, product categories, incentives to minimize transaction costs, and the gap in bargaining power. This is because a system that overlooks this aspect will only confuse the market ecosystem and the process of contracting transactions.

Therefore, transactions via direct purchasing should be pursued by enhancing suppliers' bargaining power, a significant underlying factor. The supply chain should be diversified to reduce the reliance on trade with specific retailers and to create and strengthen an environment in which business groups with a good understanding of market conditions can check and negotiate the details of transaction contracts based on the right to adjust payments for goods. A reduced gap in the bargaining power between retailer and supplier could lead to more direct purchases, contribute to promoting fair contracts, and is free from concerns of market disruption, meaning that it could serve well as a long-term policy.

## 3. Need to change the growth strategy of retail firms

To cope with the rapidly changing market environment, the retail business needs to step up its efforts for innovation. A strategy to minimize the inventory risks in their contracts with suppliers is an obvious method for retailers to avoid immediate losses. However, if too much focus is placed on shifting the inventory burden to suppliers and securing high margins by taking advantage of the imbalance in bargaining power, it will be difficult for retailers to achieve service innovation-driven growth. It is becoming more difficult for domestic offline retail firms to sustain a growth strategy that relies on high retail margins in the midst the rapid growth of the online shopping market and accelerating competition. It is now time to change the business strategy towards releasing a wider variety of products and services and enhancing consumer welfare through investment and innovation that includes training more merchandisers and developing purchasing capabilities.

## 4. Suggestions for Korea Sale FESTA

Lastly, the Korea Sale FESTA needs an overhaul and a new concept as the current format lacks promise to quickly grow into a large-scale shopping festival like Black Friday in the US or Singles'

Day in China. There may be active participation from large retail chains, SSMS, convenience stores, and online shopping businesses (high percentage of direct purchases), but since their items are mostly food and living essentials, a drop in prices may not be enough to entice customers even with the large discount rates.

What could be more ideal is to shorten the event period and enhance the intensity of events by integrating the shopping festivals held randomly by different government agencies. Additionally, it is worth considering designating a “free-regulation shopping period” in cooperation with local governments by removing regulations, including restrictions on business hours and mandatory closures of large-scale stores during this event. Until an increase in the share of direct purchases become evident across the overall retail sector, it may be beneficial to focus the method of attracting consumers to change the sales environment and purchasing propensity, instead of promoting discount rates that cutomers to not find very appealing.

Korea Sale FESTA needs an overhaul and a new concept by, for example, making changes to the sales environment and purchasing propensity.

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