CHAPTER I
INTRODUCTION AND FRAMEWORK FOR STUDY

Historically, the development of retail systems has been seen as adjustments to changing environments. Many researchers have viewed ecological, cyclical, and conflict factors as the primary environments that cause changes in retailing systems. Bucklin (1972) described the external environments, such as technological change and alteration of economic conditions, as the ecological influences of institutional change. Cyclical factors are supported by the wheel of retailing, which means that institutions change repeatedly as a natural trend (McNair & May, 1958). Schumpeter’s (1934) theory of economic development, which suggests that institutions are affected and changed by conflict with others, especially their competitors, is an example of a theory about a conflict factor.

South Korea has developed and changed rapidly in the past twenty years, especially economically. Since 1997, however, South Korea has been experiencing an economic crisis rather than development. South Korea did not have adequate foreign assets for the country’s treasury, so the Korean government forced companies to repay their business loans. Many companies, which did not have enough financial support to return that money, have failed, merged with other companies, or been sold to foreign companies. Companies, regardless of size, have experienced painful lay-offs, and employees’ salaries have been cut significantly. This unexpected change in the financial environment of business has led to the emergence of the discount store as a new type of retailing system in South Korea and actually contributed to the success of discount stores. Discount stores appeared in Seoul in 1993. Although they have a very short history in South Korea, as reported in many recent articles dealing with discount stores (Choi, 1998; Gu, 1998; Han, 1997; Jeong, 1996; Kim, 1998; “Net Sales growth rate”, 1997; Shon, 1997), they have recently captured more of the consumers’ disposable income than any other type of store in the nation.
After the economic crisis, larger apparel companies had financial problems in their traditional distribution sectors such as department stores. As a result, they viewed discount stores as a major distribution network to reduce their inventories and thus started providing their quality products to discount stores. Apparel is now a major and increasingly important product category in South Korean discount stores. However, South Korean discount stores have many flaws because of their short history, including inadequate management and the attempt to imitate foreign discount stores, using strategies that do not quite match conditions in South Korea. Thus, South Korean discount stores do not meet consumers’ expectation in terms of many store characteristics.

**Justification for the Study**

Companies which cannot respond quickly to changing market conditions will eventually fail (Brown & Fisk, 1964). The evolution of the retailing system has occurred due to interactions among environmental changes. These environmental changes include technological changes such as telecommunications and transportation and economic changes such as rising incomes and more time for consumption caused by the reduction in working hours. This evolution has also occurred in response to consumers’ seeking a higher level of services and products for their satisfaction. Shoppers are concerned about price, convenience, and psychological satisfaction to minimize the cost of time, effort, and money (Lumpkin & Burnett, 1991). Lumpkin and Burnett (1991) found that shoppers were attracted by low prices, such as sale prices, and the common attribute of many successful retailers has been a low-price strategy responding to those consumers’ desires. Gu (1998) reported a finding which indicated that discount stores were definitely helpful in reducing consumers’ economic problems as well as their time and effort to find the product which satisfied their needs. For these reasons, discount stores have emerged as a major force in retailing.

Recently, in South Korea, the retailing industry has suffered a decline in sales due to the nation’s financial crisis (Shon, 1997). The South Korean government expected that the net sales of every retailing sector would decrease (Kim, 1998). Department stores were a major retailing sector which had had significant sales success from the 1980s to the early 1990s, but they only
had a slight sales increase in 1997 ("South Korea," 1995). However, the net sales of discount stores have been increasing following the economic crisis (see Figure 1-1). E-Mart and Price Club, the forerunners of discount stores in South Korea, achieved over an 80 percent sales increase during 1997 (Shon, 1997). The sales of E-Mart jumped to 1,041 billion won (about US $867 million) in 1997, compared with 576 billion won (US $480 million) in 1996. The total sales of ten E-mart shops in the country increased from 15.5 billion won (US $13 million) in the fourth week of November, 1997 to 17.6 billion won (US $14.6 million) in the first week of December, and further rose to 20 billion won (US $16.6 million) in the second week of December (Shon, 1997). Kim’s Club, one of South Korea’s biggest discount stores, also grew to approximately 99 percent in sales, registering 55.7 billion won (US $46.4 million) in January, 1997 and 66.5 billion won (US $55.4 million) in February, 1997. The Kim’s Club in Ilsan once earned 250 million won (US $208,000) per day. Thirty-one product categories, which make up about 26 percent of the total product categories in discount stores, showed a growth rate of more than 100 percent. The sales in 25 categories increased by more than 50 percent (Kim, 1998).

For these reasons, Lotte Department Store opened a combined department and discount stores in Seoul at the end of 1997. The above data illustrates an evolution of South Korea’s retail industry. It indicates the current trend of South Korean consumers’ consumption pattern. Discount stores are looked upon as the stores most attractive to South Korean consumers and have the most powerful competitiveness among all of the retail sectors in the year 2000 (see Figure 1-2). As much of the evidence indicates, discount stores are becoming the top retailing sector in South Korea, and therefore, the topic of the current study will involve South Korean discount stores.

Figure 1-1. Growth rate of net sales in South Korean retail stores in 1997
Source: Kim, 1998
Foreign discount companies did not miss the golden opportunity to participate in the South Korean market, which is one of the biggest markets in the world. When most barriers of South Korea’s policies toward foreign investments were removed after the economic crisis, foreign companies started purchasing South Korean distribution networks. Among these foreign corporations, Wal-Mart was selected as the discount store to be studied because Wal-Mart entered the South Korean market in 1998 as the top U.S. retailer in the discount store industry (“Top 100”, 1997). Even though Wal-Mart just started its business in the South Korean market last year, it has already significantly affected South Korea’s retailing system in both positive and negative ways. The South Korean mass media and retailers are very sensitive to Wal-Mart’s business activities. However, because Wal-Mart is originally from a foreign country, it has had some difficulties understanding South Korean consumers. There is little research about South Korean markets and consumers to help foreign companies, especially discount stores, adapt to South Korea. There is a lack of basic knowledge about the perceptions of South Korean consumers towards the foreign discount stores.

The purpose of this study is to examine consumers’ store patronage in both the U.S. and South Korea. The variables, which may affect consumers’ store patronage, are investigated. In addition, South Korean consumers’ preference towards the store and product attributes of a U.S. Wal-Mart store is also examined to determine whether these store and product attributes can be adapted to South Korean discount stores. Based on the results of the study, suggestions could be

*Category killer: a kind of discount store dealing with only one product category
provided to discount stores in South Korea to help them improve their marketing strategies and store environment.

**Conceptual Framework**

Based on the store-choice model proposed by Monroe and Guiltinan (1975), the supermarket choice criteria and satisfaction model proposed by Hutcheson and Moutinho (1998), the apparel retail patronage behavior model proposed by Shim and Kotsiopulos (1992) and prior studies related to consumers’ store preference and store satisfaction, a model was developed as the framework of this study. Monroe and Guiltinan’s model (1975) begins with the premise that consumers’ characteristics such as location, demographics, role, life style, personality, economic level, and shopping orientation affect the importance of various store and product attributes to consumers. It suggests that consumers’ characteristics influence consumers’ shopping orientation and their store-choice criteria. Retailers’ marketing strategies also affect consumers’ shopping orientation and store-choice criteria. This argument is consistent with the results of studies by Carpenter and Nakamoto (1989) and Arnold, Handelman and Tigert (1998), who found that stores’ marketing strategies could shift consumers’ preferences. Monroe and Guiltinan (1975) suggest that consumers’ satisfaction with a store is influenced by their consumer characteristics, shopping orientation, and store and product attributes.

Hutcheson and Moutinho’s (1998) model explained supermarket patronage as being a result of store choice criteria, which includes quality of product and staff, provision for additional services, provision for cars, ease/speed of use, value for money, range of value, and own brand products. Westbrook (1981) studied consumers’ satisfaction with store-related experiences such as store personnel, store atmosphere, merchandiser, etc. He defined consumers’ satisfaction as a subjective reaction to their evaluation of store-related experiences, which resulted in store patronage behavior.

The apparel retail patronage behavior model proposed by Shim and Kotsiopulos (1992) begins with consumers’ characteristics, which consists of lifestyle activities, social class and family life cycle. These personal characteristics influence consumers’ shopping orientation and information sources. Consumers’ shopping orientations affect their perception of importance of store attributes and their store patronage behavior. Information sources influence consumers’
shopping orientations and the perception of the importance of store attributes. The perception of the importance of store attributes, which is influenced by shopping orientations and information sources, affects store patronage behavior.

The proposed model of this study starts with consumers’ characteristics having an influence on the whole process of store patronage (see Figure 1-3). Consumers’ characteristics may affect all variables included in the model (i.e., shopping orientation, store marketing strategy, store choice criteria, store evaluation, satisfaction/dissatisfaction, store patronage). Based on the suggestion of Monroe and Guiltinan (1975), consumers’ shopping orientation affects consumers’ store choice criteria. As several researchers (Monroe & Guiltinan, 1975; Carpenter & Nakamoto, 1989; Arnold et al., 1998) found, retailers’ marketing strategies could also shift consumers’ preferences. The marketing strategy, which includes the store and product attributes, can change consumers’ shopping orientation and affect their store choice criteria (i.e., the perception of the importance of store and product attributes). Consumers, based on their store choice criteria, examine the performance of various store and product attributes in a store. The result of the examination is the overall evaluation of that store. The store evaluation influences consumers’ satisfaction/dissatisfaction with each attribute and the overall satisfaction/dissatisfaction with the store. If consumers are satisfied with the attributes, they choose to patronize the store. Consumers’ store patronage gives positive confirmations to the current store marketing strategies. If consumers are not satisfied with those attributes, they avoid patronizing the store. The outcome of consumers’ dissatisfaction suggests that store marketing strategies need to be changed.

The definition of “patronage” in this study is adapted from Collins Cobuild English language dictionary (Sinclair, Hanks, & Fox, 1993). According to the dictionary, patronage is defined in this study as that if consumers patronize a particular store, they shop more frequently and spend more money in that store. Shopping orientation, which is one of the variables, represents “activities, interests, and opinions concerning the shopping process” (Moschis, 1992, p. 231). Consumers’ perceptions of the importance of store and product attributes of discount stores in the two countries are investigated. Collins Cobuild English language dictionary (1993) defines “attribute” as a characteristic considered belonging to someone or something. According to this definition, “store attributes” in this study are defined as the characteristics of a
store, such as the store policies, services, layout, etc. “Product attributes” are defined as the characteristics of the products in a store, such as price, quality, assortment, etc. “Store evaluation” in this study is operationalized based on the definition in the Collins Cobuild English language dictionary (1993) as the decision about the significance, value, or quality of the store, based on a careful study of its good and bad features, especially about its store/product attributes. Based on Chen-Yu's study (1995), the concept of consumer satisfaction in this study may be defined as "a consumer's psychological state of being fully gratified by the fulfillment of the consumer's want, wishes, and/or desires from the purchase and/or consumption of the product."

Objectives of the Study

Based on the purpose and the framework of the study, eight specific objectives are developed.

1. To examine consumers’ demographic characteristics in the U.S. and South Korea and determine the differences between the two countries.
2. To examine consumers’ shopping orientation in the U.S. and South Korea and determine the differences between the two countries.
3. To examine consumers’ perceptions of the importance of store and product attributes of Wal-Mart stores in the U.S. and South Korea and determine the differences between the two countries.
4. To examine consumers’ evaluations of store and product attributes of Wal-Mart stores in the U.S. and South Korea and determine the differences between the two countries.
5. To examine consumers’ satisfaction/dissatisfaction with store and product attributes of Wal-Mart stores in the U.S. and South Korea and to determine the differences between the two countries.
6. To examine consumers’ store patronage in the U.S. and South Korea and determine the differences between the two countries.
7. To determine the relationship among variables (i.e., consumers’ demographics, shopping orientation, the perception of the importance of store and product attributes, store
evaluation, satisfaction/dissatisfaction with store and product attributes, store patronage) and the differences between the two countries.

8. To determine South Korean consumers’ preferences for suggested store and product attributes used in the U.S. Wal-Mart stores, but not used in the South Korean Wal-Mart stores.

**Delimitations**

This study focuses on only one corporation; i.e., Wal-Mart Stores, Inc. Results may not be appropriate to other discount stores. This study may not be generalized to other international regions, because it is specifically based on two countries, the U.S. and South Korea. South Korea’s economic crisis could affect the consumers’ evaluation of the store and product attributes. For example, it is possible that the economic crisis could lead consumers’ perceptions in favor of discount stores. This study may not be generalized to all consumers, because the participants for this study will be a convenience sample solicited inside or at the exit of the store. They will not be randomly selected.
CHAPTER II
REVIEW OF LITERATURE

Previous studies which assist in understanding the research background are reviewed and presented in five sections: (a) retailing systems in South Korea, (b) consumer shopping orientation in the United States (U.S.) and South Korea, (c) discount stores in the U.S. and South Korea (d) Wal-Mart stores, and (e) important store and product attributes for store. Consumers’ shopping behavior, Wal-Mart stores, and important store and product attributes for store patronage are compared between the U.S. and South Korea to understand the similarities and differences between the two countries.

Retailing Systems in South Korea

Most South Korean consumers have small kitchens and tend to shop daily for fresh products and meats in nearby, tiny stores that are found on almost every street. The South Korean retailing system primarily consists of many small independent operators (Zhang, 1995). Ninety-one percent of the South Korean retail shops register less than two employees, and the average sales floor space per employee is ten square meters or less. Average sales per store are US $40,000 per year (“South Korea,” 1995).

The South Korean retailing system includes privately owned specialty outlets, franchises, manufacturer-owned outlets, door-to-door sales companies, wholesales markets, open air markets\(^1\), department stores, supermarkets, general merchandise stores, chain stores, underground shopping arcades, discount stores, and convenience stores (Park, 1995). Most markets are located in major cities where the population density is high. Seoul, the capital of South Korea, has the densest population in South Korea and accounts for 25 percent of the total

\(^{1}\) In open area markets, sellers do business in an open area without a certain place.
Korean population. This city is handling 24 percent of South Korea’s total store units, earning 38 percent of all retail sales. However, the high maintenance costs in Seoul, such as high land prices, high wages, and high logistics costs, lead to higher retail prices (Lee, 1996; Koo, 1996).

Because of the high maintenance costs in metropolitan areas, discount stores prefer newly developing cities near Seoul such as Bundang and Ilsan. There are several advantages to establishing stores in satellite cities. Besides lower land prices, the population of these newly planned cities is becoming very dense. In addition, conventional stores have not controlled these new cities yet. These factors have attracted the interest of discount stores. E-Mart, operated by the Shinsegae Discount Stores, opened its first store in Ilsan in 1994, signaling the trend to establish discount stores in satellite areas (Koo, 1996). Because discount stores are scattered out over the whole country, they help balance the retail development between the metropolitan and rural areas.

After the economic crisis in 1997, the growth rate of department stores has also fallen for the past two years. The growth rate of other conventional stores located near discount stores has fallen, similar to the situation found in the U.S since the 1960s when this phenomena appeared there (Han, 1997). Discount stores grew rapidly in terms of the number of stores and sales because South Korean consumers tended to patronize discount stores more than ever before. Twenty-one companies among 30 of the biggest conglomerate companies in South Korea have a plan to open discount stores in the near future (Han, 1997). In spite of the serious economic crisis, South Korea is still regarded as a high potential market. South Korea is the world’s ninth largest economy, with 45 million residents, and is one of the most densely populated countries in the world (Mammarella, 1997a; Han, 1997). These factors have contributed to foreign discount stores’ interest in the South Korean market. Foreign investment has significantly increased to US $3.05 billion from January to July in 1996 (“Foreign Investment”, 1996; Brown, 1997).

A reduction in trade restrictions has supported the entry into South Korea by overseas companies. The Uruguay Round created the first international rules concerning fair-play in cross-border trade of services and products (Verdisco, 1992). Trade barriers, such as trade blocs, were obstacles to the expansion of business abroad, but now many countries have removed barriers such as closed distribution channels and biased store-licensing rules. In response to this global trend of market-opening, South Korea is becoming more accessible to foreign investors by removing 50 percent of its current restriction.
The opening of the market benefits South Korea as well as foreign investors. The entry of foreign companies into the South Korean market creates competition with domestically manufactured products, but it is also beneficial in that it leads to domestic economic growth, deflation, political stability, a wider range of product choices for consumers, the creation of employment, and the improvement of South Korea’s poor logistics and distribution systems (“Company: About Wal-Mart”, 1998; “Data sheet”, 1998; “Wal-Mart announces”, 1998; Mammarella, 1997b). The entrance of the U.S. companies is a good opportunity for South Korea to export products to the U.S. For example, South Korea negotiated a contract with Wal-Mart, which opened Korean stores in 1998, to export products such as bicycles, office supplies, and kitchen sets. South Korea continues to amend its unsuitable trade restrictions, and the open of the market will help South Korea overcome its economic crisis.

There are, however, some negative side effects as a result of foreign investment. Foreign investors have expressed a reluctance to renew agreements that had expired because the rectified rules allow them to open stores without a South Korean partner. Foreign companies that originally entered South Korea as joint ventures are buying out their local partners in order to participate in the South Korean market directly and independently. The reason for buying local partners is that direct selling helps to increase price competitiveness by reducing operating costs (Brown, 1997). Foreign discount stores have many competitive advantages over South Korean domestic discount stores. One advantage is the huge financial support from the parent company, while domestic discount stores are operated by small-to-medium sized enterprises. If a loan is necessary, domestic companies are required to pay a 13 percent interest rate on loans, while foreign companies are charged only five percent. These conditions result in a weakening of the price competitiveness of domestic companies against foreign companies. The other disadvantage to South Korean businesses from opening market to foreign companies is that foreign companies have more experience through their long history. They have developed advanced operating systems and achieved strong global purchasing power (Jeong, 1997a). On the other hand, South Korea’s international competitiveness is weak because of stale management skills, poor logistics, and low productivity (Mason, 1984). Rigid regulations for protecting the South Korean market led to a high cost of living, costly production, and excessive taxes (Burton, 1995).

The above review indicates that after the economic crisis in 1997, the growth rate of conventional stores has fallen, but discount stores has grown rapidly. This change attracted
foreign discount stores’ interest in the South Korean market. Foreign investment has increased rapidly, and bringing both positive and negative effects to the South Korean retailing systems.

**Consumer’s Shopping Orientation**

In this section, Americans’ and South Koreans’ shopping orientations in discount stores are reviewed. The purpose of this review is to find the similarities and differences in consumers’ shopping preference between two countries.

**Consumers’ Shopping Orientation in the U.S.**

In the U. S., price-conscious or price-conscious consumers have helped discounters to accelerate faster than any other retailing systems (Summers & Wozniak, 1990). These consumers focus on price-quality, variety, efficiency, sales, store location, easy return policy, and convenient/fast check out (Lumpkin & Burnett, 1991). Consumers in the upper-socioeconomic class, so called non-price-conscious consumers, are concerned about product quality, brand names, store reputation, readable labels, and knowledgeable sales persons. They usually shop at department stores.

Currently, however, consumers seem to have become more homogenous. They are all more likely to purchase items in discount stores which do not have high economic risks, regardless of their demographic or social differences (Summers & Wozniak, 1990). Discount shoppers are more diverse in terms of age, marital status, education, and many other lifestyles. Shoppers diversity means that it is no longer effective to differentiate consumers based on demographics when stores set the target market (Lumpkin & Burnett, 1991).

The median annual family income for discount store shoppers is $20,000 to $30,000, which is higher than an average family income in the U.S. (Summers & Wozniak, 1990). Sixty percent of the discount shoppers have more than a $35,000 annual household income. Fifty-six percent of these consumers have an educational level higher than a college degree (Sweeney, 1992; “New direction”, 1984). Consumers whose family income is $20,000 or less annually most often purchase products at discount stores. According to the survey of the Du Pont
company in 1981, white collar or professional workers accounted for a higher proportion of the
discount store patrons than blue-collar workers (Summers & Wozniak, 1990).

Some consumers have had misconceptions about discount stores. They judged the quality
of merchandise in discount stores by its price. This is because evaluating the quality of many
products in comparison to price is not easy for consumers unless they are experts on quality
control (QC) (Wellman, 1980). However, after discount stores started improving quality by
introducing national brand name merchandise to meet the consumers’ needs, this price-quality
misconception seemed to disappear. Additionally, consumers’ self-confidence about shopping
and their accumulated shopping experiences over the years are helping to change the conception
that discount stores carry inferior quality goods. Consumers have realized that discount stores
have improved the quality of their products. Jay (1994) observed that consumers were turning to
discount stores with a more value-oriented buying behavior. Lumpkin and Burnett (1991) found
that consumers who patronize discount stores enjoy shopping as a social and recreational
activity, and they are willing to express their opinions about shopping experiences to

Consumers’ Shopping Orientation in South Korea

South Korea’s experience with Japan’s colonial period has fostered a nationalistic and
anti-imperialistic attitude. This nationalistic orientation also has produced nationalistic shopping
behavior. South Korean consumers have been urged to purchase “made in Korea” products to
protect the country’s own industries (Rhee & Lee, 1996). South Koreans have generally not had
a positive image of foreign entities (Brown, 1997), but rather are primarily concerned with the
negative effects of foreign industries on domestic industries (“Internationalization of Korea”,
1992). However, as a result of the globalization of the trade movement advocated by the South
Korean government, South Korean’s are becoming increasingly internationalized and more have
easy access to the world’s goods and services.

The growth rate of South Korean consumers’ disposable income from 1990 to 1996 was
12.5 percent per year. After the nation’s economic crisis, the growth rate of disposable income
was 7.3 percent in 1997 and 6.8 percent in 1998 (Gu, 1998). Until 1996, most South Korean
consumers displayed a strong patronage to department stores, regardless of their demographic
differences. The recent economic crisis has changed South Korean consumers’ behavior toward
seeking lower priced products as they become more sensitive to prices ("Net Sales growth", 1997). South Koreans do not look for the higher-priced products and no longer regard more expensive products as superior, because many well-known brands are sold at markdown prices in discount stores. Many department stores are also selling their high-end products at discounted retail prices to dispose of inventories (Koh, Park & Lee, 1997). South Koreans are now seeking value in prices and products, and realize value can be found in discount stores. It is more worthwhile to shop at discount stores than conventional stores, because discount stores provide a new standard market that is large, modern, and has a variety of well-known brand products at low prices (Mammarella, 1997b). In addition, one-stop shopping\(^1\), one of characteristics of discount stores, saves much time which is an important shopping goal for modern, busy consumers (Park & Lim, 1996; Koh et al., 1997; Mammarella, 1997b). For these reasons, the number of consumers who are using discount stores has increased.

Kim and Lee (1994) found that in South Korea, price-conscious consumers were highly concerned about economics, time, and convenience. This consumer group consisted of people who generally have low incomes, low education, and are female over 40. However, after the economic crisis, Jin (1998) found that consumers in various social classes have become price-conscious regardless of demographic differences in income level, age, or education. According to “Discount Stores” (1997), 41.6 percent of the consumers who patronize discount stores were 31 to 40 years old. This proportion was an increase of 3.8 percent compared to 1996. The next largest age group was from 21 to 30 years old and accounted for 22.9 percent of the consumers. This was an increase of 2.9 percent compared to 1996. The only group that decreased, 4.5 percent compared to 1996, was from 41 to 50 years old, which represented a major group of price-conscious consumers in the past. This age group accounts for 20.7 percent of the consumers. Elderly shoppers, who consider economic risk, were the major patron group of discount stores in the past. Nowadays, however, even the young age groups, who normally have low economic concern, enjoy shopping at discount stores. These young consumers are named as smart shoppers, dealmakers, intelligent consumers, professional consumers, or value-oriented consumers (Mammarella, 1997b). Park and Lim (1996) found that South Korean consumers

\(^1\) In one-stop shopping, consumers can finish their purchase of various product items in one store.
who were from 20 to 24 years old, working women and price-conscious consumers were likely to shop at discount stores for their clothing.

Discount stores in South Korea stay open late in the evening and are open seven days a week, so consumers tend to shop at these stores regardless of the time of a day or day of the week. Consumers usually go to discount stores one or two times a week (38.1 percent) and 42 percent of consumers spend 50,000 (US $42) to 100,000 won (US $83) per visit (see Figure 2-1). Most consumers are using their own vehicle (70.4 percent) because they purchase a quantity of goods at a single trip. The average number of cars in the parking lot is 530.9 and the size of the parking lot per store is 4,918 pyung (53,231 square feet). A significant problem for South Korean discount stores is that the parking lot size is still not sufficient to handle the parking needs of consumers. The proportion of consumers who use a shuttle bus service is only 7.5 percent.

Figure 2-1. Expenses per visit in discount stores in South Korea in 1997
Source: Gu, 1998

As the number of working women has increased, the current marketing strategy puts more emphasis on providing consumers with time-saving and convenient shopping (Kim & Kim, 1995). The attributes found to be most important for retail stores in South Korea are listed in Figure 2-2. Convenient location, low prices, wide assortment, large store sizes, and one-stop
shopping are the top five important attributes to meet modern consumers’ needs. All these attributes are the major assets of discount stores. Discount stores meet modern consumers’ needs well. A study conducted by Gu (1998), which investigated consumers’ satisfaction with discount stores, also provides supporting results. Most consumers are satisfied with the price (70 percent), the wide range of merchandise (63.2 percent), return policies (62.4 percent), and the kindness of salesclerks (61.7 percent) in discount stores. Satisfaction with merchandise (58.1 percent) and quality perception compared to price (60.6 percent) are somewhat lower.

Figure 2-2. Important attributes for retail stores in South Korea
Source: Jeong, 1996

The above review indicates that consumers’ perception and shopping behavior related to discount stores are becoming homogeneous between consumer groups in the U.S. and South Korea. Most consumers, regardless of income, are becoming price-conscious. They are seeking value in prices and products. They also prefer time-saving and convenient shopping. Table 2-1 summarizes the U.S. and South Korean consumers’ characteristics, shopping orientation and the perception of the importance of store/product attributes in discount stores. In general, discount stores meet modern consumers’ needs in South Korea.
Discount Stores

This section describes the store attributes, product attributes, and management of discount stores in the U.S. and South Korea. In addition, the history and the current situation of discount stores in both the U.S. and South Korean retailing industries are explained.

Discount Stores in the U.S.

Hollander (1989) noted that the past is a prologue, not prototype of the present; therefore, new systems, which are a reaction to the changing environment, will be created continually. The retailing system is an example of this perspective. This changing environment has caused an alteration in the retailing system. Between 1900 and 1920, retail discounting in the U.S. began with discounting drugs, apparel, automotive parts, and accessories. In the 1930s, various store chains introduced goods at very low prices and incorporated a self-service system. The first discount store appeared after World War II (the 1940s) and was called the revolution of the
According to Sweeney (1992), membership systems of retail stores which combined food, drugs, and general merchandise, such as the Post Exchange (PX)\(^1\) system, emerged in the 1950s. In the late 1950s and early 1960s, non-membership discount stores were introduced, and by the 1960s and early 1970s, many non-membership discount stores were booming, including such chain stores as Kmart, Woolco, Calder, Target, Wal-Mart, Venture, and Gold Circle. At the beginning of the 1980s, discount stores recognized that quality and price came to be perceived as the most important factors when consumers evaluated the value of a product (Hiller, 1983). To meet these consumers’ requirements, in addition to providing lower-priced products, discount stores started selling higher-quality merchandise and providing products with up-to-date fashion trends and good value (“New direction”, 1984). These practices were major factors in the current, significant success of discount stores (Wellman 1980).

In the 1990s, discount stores have placed further emphasis on providing a clean, attractive store environment. They have also established a direct link with manufacturers to insure high quality and low prices. This system has resulted in a direct supply from manufacturers to consumers within a short time and at a lower cost (Olson, 1996). Discount stores have also made an effort to offer high quality products by switching to up-to-date merchandise and well-known brand merchandise (Summers & Wozniak, 1990). They provide consumers a variety of product categories with a wide assortment in each category. As discount stores have matured, they have achieved high consumer satisfaction through better services, product selection, and a comfortable shopping atmosphere (Kaikati, 1987).

In the U.S., discount stores are generally defined as stores which offer products at lower prices than conventional stores (Hiller, 1983; Kaikati, 1987). Discount stores are able to lower their overhead and maintain a low-price strategy by reducing the expenses of financing inventories, in-store decoration, and promotions. In addition, some other characteristics of discount stores, such as a large rate of asset turnover, high volume of selling, and low rate of general administrative expenses, are making this profitable business possible (Sweeney, 1992). One characteristic of discount stores is that stores are very large. In 1995, an average discount store occupied approximately 74,000 square feet of land (see Figure 2-3). Because of the need

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\(^1\) In the PX system, a retail store on an army installation sells goods and services to military personnel and their dependents and to certain authorized civilian personnel.
for large amounts of land, discount stores are usually located at the edge of major cities to save land costs. This location strategy is one of the strengths of discount stores (Kaikati, 1987), in that discount stores may have a much larger trading area, promoting a larger sales volume (Applebaum, 1965). Currently, Wal-Mart is the top discount store in the U.S. in terms of total net sales and management (“Top 100”, 1997).

However, the U.S. market currently seems to be saturated with discount stores. The discount store market has an overcapacity and has already engaged in high price competitiveness with a large number of competitors (Mammarella, 1997b). This situation may be one reason why discount stores have been turning their interests to the international markets.

**Discount Stores in South Korea**

In the 1960s, small conventional stores were plentiful in South Korea. By the 1970s, department stores and chain stores appeared as the major retailing sectors. In the 1980’s, the
retail industry expanded in response to the flourishing economy (Hwang & Jung, 1993). At the beginning of the 1980’s, the number of department stores and supermarkets had grown by 140 percent (“South Korea”, 1995). Department stores’ total sales increased by 246 percent between 1987 and 1991. Specialty shops, which have their own brand names, were also introduced as high-margin retail stores at this time. In the 1990’s, many types of stores were adapted from abroad, including multi-brand shops (i.e., the shops sell many brands at one location), maker total shops (i.e., the shops sell a variety of product categories produced by one maker), and one-stop shopping centers (i.e., the shops that consumers can finish their purchase of various product items in one store). This proliferation was due to South Korea’s globalization movement (Hwang & Jung, 1993). Before the 1997 economic crisis, South Korean consumers had begun to display a preference for imported, luxury items.

Since the economic crisis of 1997, the South Korean government has used the educational public mass media to discourage consumers from buying luxury products (Zhang, 1995). Department stores have lowered retail prices in all merchandise sections and opened special sections for discounted garments (Hutton, 1995). As a result, the big companies, which are very knowledgeable and have advanced management skills, started investing in the discount store industry (Lee, 1996). In 1993, E-Mart, South Korea’s first discount superstore, was opened by Shinsegae, a well-known South Korean department store chain (Zhang, 1995). In 1997, the net sales of E-Mart were 61.2 billion won (US $52 million) which is an increase of 25.6 percent compared to 1996 (Jeong, 1997b). Price Club, a joint venture between Shinsegae and the American Price Club discount store corporation, opened its first branch in Seoul in 1994 (“Ten Large Retail”, 1996). It recorded the largest net sales among the discount stores during the first two quarters of 1997, 160 billion won (US $133 million) (Jeong, 1997a). In 1995, New Core, another large department store, opened Kim’s Club in Seoul. It appealed to South Koreans’ nationalism and sold made-in-South Korea goods in a manner similar to that of Wal-Mart when it boosted sales in the U.S with its catch-phrase ‘buy American made’ (Eisenstodt, 1995). Kim’s Club had a good distribution network and had established a good relationship and brand loyalty with consumers. Kim’s Club in Seoul increased its net sales in 1998 by 40.7 percent to over 710 billion won (US $591 million) compared to 1996. Currently, however, Kim’s Club is experiencing difficulties in its business because of the parent company’s (i.e., New Core}
department store) financial problems as a result of the South Korean economic crisis. Wal-Mart is presently trying to purchase Kim’s Club stores (“Wal-Mart plans”, 1997).

Most of the South Korean discount stores imitate characteristics of foreign discount stores. The definition of a discount store and its attribute of low pricing are similar in South Korea and the U.S. Generally, discount stores cannot be located in the Seoul area because of the high land prices. Rural areas and satellite areas have turned out to be the important areas for the discount store industry (“Net Sales growth”, 1997). According to the report by “Discount Stores” (1997), the average number of employees per store is 96.4 persons. The proportion of personnel who are sales clerks is 73 percent and the remainders are managers. Female workers account for 54.8 percent, and male workers are 45.2 percent. The average net sales of a discount store per day is 177.2 million won (US $148 thousand) and 1,837,881 won (US $1,532) per employee. The average number of customers who visit discount stores per day is 5,490.

The major product categories of discount stores are food and clothing. The proportion of food to the total goods sold is over 50 percent, and that of clothing is 11 percent (“Net Sales growth”, 1997). In the past, stores generally dealt with low-priced clothing such as socks and lingerie that were not fashionable products. Currently, large apparel companies offer their better quality and more fashionable products to discount stores at discounted prices. Among other products sold are electronics and kitchen equipment, at 8 percent and 7 percent respectively (“Discount stores”, 1997).

Similar to the U.S. discount stores, South Korean discount stores purchase products directly from manufacturers, and if possible, participate in not only retailing but also manufacturing. Kim’s Club, which is one of the biggest discount stores in South Korea, is manufacturing its own brand name products which reduces operating costs, allowing stores to expand production and decrease prices (Jin, 1998). In 1996, net sales growth of the discount retailing industry was 2.5 trillion won (US $2 billion). In 1998, the net sales growth was significantly increased to 5.5 trillion won (US $4.6 billion) (see Figure 2-4). Due to the increasing business, the number of discount stores is accelerating accordingly (see Figure 2-5).
Figure 2-4. Net sales growth of discount stores in South Korea
Source: "Net sales growth", 1997; Choi, 1999

Figure 2-5. Increase on the number of discount stores in South Korea
Source: "Net sales growth", 1997; Choi, 1999
The growing Korean discount store business attracts many foreign discount store companies in addition to Price Club (see Table 2-2). Carrefour, a French discount store, opened three stores in 1996. It plans to increase to 15 stores by the year 2000. Makro, a Dutch discount store chain, also opened in 1996. It was one of the leaders in the South Korean discount store market for several years. Makro had most of the advantages of the retailing pioneers, including brand awareness/loyalty, good connections with outstanding local manufacturers, and a fully established distribution network. It had a plan to open 10 stores by the year 2000 (Seckler, 1998; Jeong, 1997c). However, Wal-Mart took over Makro in 1997 because of its parent company’s financial problems (Choi, 1998) and opened its first store in South Korea in 1998. Han (1997) indicated that the general criticism of foreign discount stores in South Korea is their failure to meet South Korean consumers’ expectations for product quality. The primary objective of foreign discount stores should be to adjust to South Korean culture and consumers. However, the author did not explain the South Korean consumers’ expectations for product quality.

Table 2-2. Foreign discount stores in South Korea

<table>
<thead>
<tr>
<th>Discount store</th>
<th>Entry year</th>
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</thead>
<tbody>
<tr>
<td>Price Costco.(USA)</td>
<td>1994</td>
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<tr>
<td>Tower Record(USA)</td>
<td>1995</td>
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<tr>
<td>Carrefour (France)</td>
<td>1996</td>
</tr>
<tr>
<td>Makro(Holland)</td>
<td>1996</td>
</tr>
<tr>
<td>Office one Superstore(USA)</td>
<td>1996</td>
</tr>
<tr>
<td>Dagamiya(Japan)</td>
<td>1993</td>
</tr>
<tr>
<td>Addidas(Germany)</td>
<td>1996</td>
</tr>
<tr>
<td>Museum Company(USA)</td>
<td>1996</td>
</tr>
<tr>
<td>Promodes(France)</td>
<td>1997</td>
</tr>
<tr>
<td>Marks and Spenser(Britain)</td>
<td>1997</td>
</tr>
<tr>
<td>Wal-Mart(USA)</td>
<td>1998</td>
</tr>
<tr>
<td>Toy R us(USA)</td>
<td>planning</td>
</tr>
<tr>
<td>Sungus(Japan)</td>
<td>planning</td>
</tr>
<tr>
<td>Tait(Taiwan)</td>
<td>planning</td>
</tr>
<tr>
<td>Daie(Japan)</td>
<td>planning</td>
</tr>
<tr>
<td>Seiu(Japan)</td>
<td>planning</td>
</tr>
<tr>
<td>Yosogu(Japan)</td>
<td>planning</td>
</tr>
</tbody>
</table>

Source: Jeong, 1997b

One obstacle facing South Korean discount stores is their parking systems. U.S. discount stores provides free and convenient parking, where customers do not have to wait to park. Discount stores in the U.S. have increased the size of their parking lots because most customers
are using their own cars to shop. Parking is not free, however, at some South Korean discount stores. Land costs are too high to provide customers with enough parking lots (Gu, 1997). This parking problem leads to a limitation on the shopping frequency. One less expensive solution may be to take advantage of a shuttle bus system. Lastly, South Korean discount stores do not permit credit card usage, which is an inconvenient policy for customers (Gu, 1998).

In summary, the U.S. discount stores have improved store quality through a long history of meeting changing consumers’ needs. Currently, the American discount store industry has saturated its local market. South Korean discount stores, on the other hand, started blooming suddenly and became a substitute for the department stores which have experienced financial problems during the South Korean economic crisis. South Korean discount stores improved product quality within a short period compared to the U.S. discount stores. Since 1994, many foreign companies have opened discount stores in South Korea and plan to continue expanding the number of their retail stores. However, they have problems adjusting their stores to the South Korean market and consumers.

**Wal-Mart**

Wal-Mart was conceived and developed beginning in 1962 as a small variety store in Arkansas serving baby boomers who were very sensitive to prices ("Wal-Mart- An American success story", 1998). Wal-Mart served more rural people than urban people with the catch phrase, "They are worthy to be served with a variety of good products as much as urban people are," ("Wal-Mart- An American success story", 1998) and this has formed the basis of Wal-Mart's major marketing strategy. Wal-Mart’s aggressive and innovative pricing strategy has satisfied the U.S. consumers’ needs for over 30 years in all 50 states as well as the international market. Now, Wal-Mart is one of the biggest discount stores in the United States. Wal-Mart has already achieved enormous financial success in the domestic market. The success of Wal-Mart’s business over time is shown in Table 2-3. Wal-Mart’s gross profit and net income have increased continuously and stockholders enjoy a remarkable growth in earnings per share (EPS). Wal-Mart incorporated specific marketing strategies to help the company’s sales. Those strategies contribute considerably to Wal-Mart’s financial success. One successful strategy is
that Wal-Mart stocks a wide variety of product categories. Another strategy is that Wal-Mart ships at least 98% of its merchandise to local stores within 72 hours of the order date to provide consumers with new products at the right time and the right price (Struzzle, 1996). Today’s shoppers are becoming short on time in this time-pressed society. Wal-Mart is trying to meet the needs of shoppers and achieve customers’ satisfaction by providing convenient, one-stop shopping with a variety of product categories (Schnabel, 1996; Roach, 1993). For this reason, consumers are willing to visit this store and spend more of their disposable income.

Another reason for Wal-Mart’s success is its Everyday Low Pricing (EDLP) strategy. Wal-Mart’s customers do not have to wait for sales because this everyday, low-priced merchandise helps consumers save time and money. This is especially true for apparel. Customers do not need to buy fabrics to make clothing at home to save money because they can buy clothes at the EDLP at Wal-Mart immediately (Sheets, 1995). Wal-Mart’s EDLP strategy is achieved through operating expenses that are lower than their competitors. The company cuts all the unnecessary costs, such as in-store decoration and store layout costs, and operates its own transportation system for delivery (Roach, 1993; Johnson, 1993b). Wal-Mart expends operating costs at five percent less than its competitors. In addition, Wal-Mart’s advanced technologies—such as scanning registers, a full-time satellite communications network with voice data and full motion video, and point-of-sale replenishment through use of the Universal Product Code (UPC)—help to save expenses and provide great benefits (Roach, 1993).

Table 2-3. Wal-Mart Stores Inc. annual financial report analysis

<table>
<thead>
<tr>
<th>(Unit: million)</th>
<th>Year 1993</th>
<th>Year 1995</th>
<th>Year 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>55,484</td>
<td>82,494</td>
<td>104,859</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>44,175</td>
<td>65,586</td>
<td>83,510</td>
</tr>
<tr>
<td>Gross profit</td>
<td>11,309</td>
<td>16,908</td>
<td>21,340</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>8,321</td>
<td>12,858</td>
<td>16,946</td>
</tr>
<tr>
<td>Net income</td>
<td>1,995</td>
<td>2,681</td>
<td>3,056</td>
</tr>
<tr>
<td>EPS*</td>
<td>.76</td>
<td>1.00</td>
<td>1.12</td>
</tr>
<tr>
<td>Total assets</td>
<td>20,565</td>
<td>32,819</td>
<td>39,604</td>
</tr>
<tr>
<td>Share holders equity</td>
<td>8,759</td>
<td>12,726</td>
<td>17,143</td>
</tr>
</tbody>
</table>

*The unit of EPS is dollar. The unit of other variables is million dollars


needs of shoppers and achieve customers’ satisfaction by providing convenient, one-stop shopping with a variety of product categories (Schnabel, 1996; Roach, 1993). For this reason, consumers are willing to visit this store and spend more of their disposable income.
Wal-Mart’s logistics is highly advanced. For example, Wal-Mart controls computerized inventory systems to control inventory effectively. According to Richard Mercier, debt analyst for Moody’s Investor Service, this practice reduced interest costs by US $150 million (Halverson, 1998). Halverson (1998) predicted this practice would also have an important role in the future.

Another reason for Wal-Mart’s success is its strong partnership with vendors. Wal-Mart is willing to satisfy vendors’ requirements in order to obtain better-quality products in time. This leads to a successful Quick Respond (QR) system and consumers’ satisfaction (Roach, 1993).

Wal-Mart tries to make its associates happy (Johnson, 1993c). Employees may take advantage of the open-door policy that allows them to discuss problems with their supervisors and agree on a solution that satisfies them both (Roach, 1993). If associates and vendors are happy and ready to serve customers at their best, customers will be satisfied with their efforts and have a long-term store loyalty, which is one of the most important factors for a company’s success.

Wal-Mart’s improvement in gross margins (i.e., the difference between net sales and total cost of goods sold) comes from both the U.S. and international segments (Halverson, 1998). Wal-Mart is currently operating in eight foreign countries, including South Korea. The Wal-Mart International department is growing rapidly because the potential demand for Wal-Mart stores is increasing internationally. The number of international stores is estimated to increase by 50 stores and 125 superstores in 1999 (“Wal-Mart enters South Korea,” 1998). Wal-Mart International has grown by 45% annually. It dramatically boosted sales by 50.3% in 1997 compared to sales in 1996, and its operating earnings increased from US $24 million in 1996 to US $262 million in 1997. The income from international market is expected to occupy a greater part of Wal-Mart’s total revenue in the future. This international approach also contributes to its success.

Another reason for Wal-Mart’s success is that Wal-Mart is always developing new ideas to improve their stores and consumers’ satisfaction. Store managers, who are more knowledgeable about their store than store owners, can control the overall image of their stores based on the conditions of their areas. They try to maintain their stores in the best manner possible for consumers. For example, each department manager visits the competitors’ stores and obtains some information about similarities and differences between stores. Then, they have
Grass Roots Meetings with all associates periodically to discuss the information gathered and to generate ideas for increasing sales (Johnson, 1993a).

Finally, Wal-Mart has higher gross margins on some product categories than those of their competitors. Traditionally, supermarkets have very low gross margins, typically one percent. However, Wal-Mart’s gross margins for fresh foods and apparel are higher than 20 percent (Johnson, 1993b). The high gross margins greatly affect the net income.

Wal-Mart has executed these strategies for well over 30 years. As a result, Wal-Mart is at the top of the U.S. retail industry in terms of total net sales (“Top 100”, 1997). Wal-Mart’s mission is to do business not only locally, but also globally. Sam Walton, the founder of Wal-Mart, stated that, “We’re all working together; that's the secret. And we'll lower the cost of living for everyone, not just in America, but we'll give the world an opportunity to see what it's like to save and have a better lifestyle, a better life for all. We're proud of what we've accomplished; we've just begun” (“Company: About Wal-Mart”, 1998). This mission helps to justify Wal-Mart’s internationalization strategy. Since Wal-Mart entered the international market in 1991 in Mexico, it has jumped to the top of the U.S. international retailing industry. Now, Wal-Mart is trying to expand this international market even more. Currently, Wal-Mart penetrates South Korea as one of its new international markets (“Updaters”, 1998).

On July 1998, Joe Hatfield, Wal-Mart International department president in its Asia division, announced that Wal-Mart would take over Makro South Korea and begin business in South Korea (“Wal-Mart plans”, 1997). Wal-Mart is also in the process of merging with Kim’s Club. Wal-Mart Korea opened its first store in Ilsan in 1998 and has five stores across South Korea in 1999. The Wal-Mart Korea has already achieved significant growth in the South Korean market. The current supporting evidence is that some product categories went out of stock shortly after the store opened. Wal-Mart’s characteristics and aggressive marketing strategies shook the traditional distribution structure of South Korea. Entire distribution sectors are struggling against Wal-Mart to survive. Choi (1998) reported that the mass media is very sensitive and concentrate on Wal-Mart’s activities in the retailing business. However, there continues to be problems with adjusting a Wal-Mart store to the environment of the South Korean market and its consumers.

In summary, Wal-Mart has been financially successful for over 30 years and its profits continue to increase in both domestic and international markets. Wal-Mart’s accumulated
experiences support this significant success. Through its long history, it set up the best marketing strategies for success, including one-stop shopping, EDLP, advanced technology systems, efficient logistics, strong partnerships with vendors and associates, and continuous efforts to improve margins and consumers’ satisfaction, and pioneering international market.

Important Store and Product Attributes for Store Patronage

Consumers have continued to display some primary attributes of retail stores, despite changes in retailing. Since the 1980s, price was the attribute that most concerned consumers and retailers (Hutcheson & Moutinho, 1998). By the mid 1980s, consumers’ needs shifted to a preference for higher quality merchandise and service. Simultaneously, stores were realizing the importance of out-of-town locations and beginning to move to satellite areas. This made it possible to provide a more extensive assortment of merchandise, as well as higher quality products and services by lowering operating costs. In the 1990s, because of the recession and the increase of competition, the price became the major marketing strategy again.

Currently, consumers can choose a store among an immense number of options. When they choose a store, they already have in mind a set of preferences, such as low prices or high quality (Porter, 1985). In Darden’s (1979) patronage model, consumers’ shopping orientation - which results from a mixture of values, social class, stage in family life-cycle, and life style- determines consumer preferences and store patronage. Setting up the most effective marketing strategy to attract the interest of consumers and satisfy their preference is a primary concern of retailers (Blakney & Sekely, 1994; Arnold et al., 1998).

Important Store and Product Attributes in General

Researchers have been assisting retailers in identifying the attributes that they should cultivate to satisfy their consumers. Some research has focused on various consumer types. Lumpkin and Hite (1988) found that the elderly prefer a store that offers a good return policy, quality, price, product style and size, and a good store reputation. Huddleston, Ford and Mahoney (1990) found that the elderly thought credit card accessibility was the most important store attribute. This finding encourages retailers to promote store credit cards so that consumers
can shop frequently and use credit more often at their stores. Huddleston et al.’s (1990) study also found a relationship between elderly consumer shopping orientation groups and store and product attributes. Those shopping orientation groups were: a) positive thinkers who reflected an optimistic outlook on life, b) education-oriented consumers who reflected a positive attitude towards education, c) enjoyment shoppers who reflected attitudes towards shopping, and d) socially active consumers who reflected the activity level. Positive thinkers and education-oriented consumers preferred convenience, quality, and store reputation. Enjoyment shoppers and socially active consumers preferred age-related attributes such as discounts for seniors.

Blakney and Sekely (1994) studied the important attributes of various consumers’ shopping modes. He found that price was the most important attribute of out-shoppers who shop at stores out of town, convenience was most important to in-home shoppers, and convenience, service availability, and service quality were important to local shoppers. All types of shoppers had a common concern about merchandise quality and selection.

Some studies investigated the important attributes in various types of stores. Schiffman, Dash and Dillon (1977) found that in department stores, consumers thought that location, warranty, and the variety of merchandise were important. In specialty stores, consumers responded that sales-personnel, variety of merchandise, and the guarantee policy were important determinants of store choice. Lumpkin and Burnett (1991) indicated that in department and specialty stores, elderly consumers were most concerned with quality. In discount stores, they were most concerned with price and convenience. Arnold, Oum and Tigert (1983) focused on discount stores and found that attributes such as locational convenience, price, and assortment of merchandise were the most important attributes over the various cultures and markets. Consistent results were found in another study by Arnold, Handelman and Tigert (1996) which found that locational convenience and price were the most important attributes of discount stores, followed by value for money, advertising, and return policies.

Arnold et al. (1998) investigated consumers’ preferences concerning Wal-Mart stores and found that consumers favored Wal-Mart’s community involvement (67%), value for money (58%), and product assortment (55%) (see Figure 2-6). Other important attributes were: fun place to shop (46%), return policy (44%), locational convenience (44%), fast checkout (43%), and helpful and friendly employees (40%). However, consumers perceived that merchandise quality, credit, sales, and promotion were Wal-Mart’s least favorable attributes.
In summary, the store attributes that most consumers considered in choosing their store patronage were: (1) location (Arnold et al., 1983; Arnold et al., 1996; Dodds, Monroe & Grewal, 1991; Hutcheson & Moutinho, 1998; Schiffman et al., 1977); (2) service (Hutcheson and Moutinho, 1998; Lambert, 1979; Narver & Salter, 1990; Sirohi, McLaughlin & Wittink, 1998); (3) store policy (Arnold et al., 1996; Lumpkin & Hite, 1988; Schiffman et al., 1977); (4) sales personnel (Dodds et al., 1991; Schiffman et al., 1977), convenience (Huddleston et al., 1990; Lumpkin & Burnett, 1991), and store reputation (Huddleston et al., 1990; Lumpkin & Hite, 1988); and (5) promotion (Arnold et al., 1996) and parking (Narver & Salter, 1990) (see Table 2-4). In the product category, studies showed that the attributes important for store patronage were: (1) quality (Dodds et al., 1991; Huddleston et al., 1990; Hutcheson & Moutinho, 1998; Lumpkin & Burnett, 1991; Lumpkin & Hite, 1988; Sirohi et al., 1998); (2) price (Arnold et al., 1983; Arnold et al., 1996; Dodds et al., 1991; Lumpkin & Burnett, 1991; Lumpkin & Hite, 1988); (3) assortment (Arnold et al., 1983; Schiffman et al., 1977) and value for money (Arnold et al., 1996; Schiffman et al., 1977); and (4) fashion and style (Lumpkin & Hite, 1988) (see Table 2-5).

![Figure 2-6. Attributes which consumers prefer in Wal-Mart.](source: Arnold, 1998)
Table 2-4. Important store attributes for store patronage

<table>
<thead>
<tr>
<th>Store attributes</th>
<th>Location</th>
<th>Service</th>
<th>Store policy</th>
<th>Sales personnel</th>
<th>Convenience</th>
<th>Store reputation</th>
<th>Promotion</th>
<th>Parking</th>
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Table 2-5. Important product attributes for store patronage

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<tr>
<th>Product attributes</th>
<th>Quality</th>
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<th>Assortment</th>
<th>Value for money</th>
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</table>

Important Store and Product Attributes for Apparel Items

In apparel research, some researchers have studied the relationship between apparel consumers’ characteristics and the store choice criteria. Jeong and Park (1993) studied the relationship between South Korean consumers’ shopping orientation and store choice criteria. The author found that fashion-conscious and information-conscious consumers perceived that
design, quality, and convenience were important, but quality-conscious consumers selected information service, store atmosphere, and quality as the most important attributes of apparel stores.

Summers & Wozniak (1990) studied the relationship between apparel consumers’ demographics and store choice criteria. The author found that no significant relationship existed between apparel consumers’ demographic differences and discount store patronage with the exception of education and income. Consumers who had a high school education and low income were more likely to shop at discount stores than consumers who had a college or higher education and high income. “New Direction” (1984) reported that consumers’ income levels were not related to the types of apparel item purchased in discount stores. All consumers, regardless of income level, purchased basic apparel items such as men’s socks and shirts, which have low economic and social risk, in discount stores. However, the product purchasing activity for high social and economic risk items, such as coats and suits, in discount stores was decreasing. These results support Dardis and Sandler’s (1971) findings indicating that low socioeconomic class consumers tended to purchase a larger amount of clothing and household textiles at discount stores than did high socioeconomic class consumers.

Some researchers studied the relationships between store choice criteria and various types of apparel stores. Dotson and Patton (1992) found that in department stores, salespersonnel, the return policy, service, and check cashing were important store choice criteria. Within services, consumers required gift-wrapping, shipping, childcare, and pick-up services in department stores. Similar attributes were found to be important in specialty stores. The return policy, sales personnel, service, good lighting, and mirrors in dressing rooms were found as the important attributes in specialty stores. At discount stores, consumers did not expect more services because of the lower prices; however, they hoped to get a wide assortment of apparel merchandise and receive helpful service. Jeong and Park (1993) studied the attributes important to South Korean consumers in department and specialty stores. In department stores, information services, store atmosphere, and quality were significantly related to store choice, and information services, fashion, and convenience were positively related to store choice in specialty stores.

Studies showed the important store attributes that consumers considered in choosing an apparel store were: (1) service (Bishop, 1992; Dotson & Patton, 1992; Gracey, 1993; Jeong & Park, 1993; Kim, 1990; Lee, 1989; Lee, 1997; Lim & Lee, 1993); (2) sales personnel (Bishop,
1992; Dotson & Patton, 1992; Lee, 1997; Lim & Lee, 1993; Marks, 1976; Park, 1988; Park & Lim, 1996); (3) atmosphere (Dotson & Patton, 1992; Jeong & Park, 1993; Lim & Lee, 1993; Park, 1988; Park & Lim, 1996); (4) convenience (Bishop, 1992; Jeong & Park, 1993; Lim & Lee, 1993; Park & Lim, 1996); (5) return policy (Dotson & Patton, 1992; Lee, 1997; Lim & Lee, 1993) and rest room (Lee, 1997; Lim & Lee, 1993; Park & Lim, 1996); (6) promotion (Lim & Lee, 1993; Marks, 1976) and store outlook (Marks, 1976; Park & Lim, 1996); and (7) dressing room (Dotson & Patton, 1992). In product attributes, studies showed the importance of: (1) price (Gracey, 1993; Kim, 1990; Lee, 1989; Lee, 1997; Shim & Kotsiopulos, 1993; Park, 1988); (2) quality (Jeong & Park, 1993; Kim, 1990; Lee, 1989; Lim & Lee, 1993; Park, 1988); (3) assortment (Gracey, 1993; Lee, 1997; Lim & Lee, 1993); and (4) fashion and style (Jeong & Park, 1993; Marks, 1976) (see Table 2-6).
The research was designed to investigate the store patronage behavior of the U.S. and South Korean female consumers regarding discount stores. Specifically, this research examined the relationships among consumers’ characteristics, shopping orientation, the importance of store and product attributes, store evaluation, satisfaction/dissatisfaction, and store patronage in each of the two countries. The differences between the U.S. and South Korean consumers in terms of these relationships were compared. Wal-Mart was selected as the target discount store because it has achieved significant success and has a powerful market position in the U.S. retail industry. It also has accumulated valuable trial and error experience over its long history, and has established an advanced operation system (Arnold, Handelman & Tigert, 1998). An analysis of the successful attributes of Wal-Mart stores in the U.S. can help to improve the operations of South Korean discount stores. The result can provide South Korean discount store managers with suggestions to improve their store and product attributes and policies. The survey technique was used to collect data. A questionnaire was developed as an instrument to measure the variables. This chapter described the hypotheses, sample, instrument development, data collection, and data analysis.

Hypotheses

A total of 12 hypotheses were generated based on the objectives of the study. The first seven hypotheses were generated to test the differences between the U.S. and South Korean consumers in terms of variables including consumers’ characteristics, shopping orientation, the
importance of store and product attributes, store evaluation, satisfaction/dissatisfaction, and store patronage.

H 1. There is no significant difference between South Korean and U.S. customers in terms of demographic characteristics and expenditure of money at Wal-Mart.

H1a. There is no significant difference between South Korean and U.S. customers at Wal-Mart in terms of occupation.

H1b. There is no significant difference between South Korean and U.S. customers at Wal-Mart in terms of marriage status.

H1c. There is no significant difference between South Korean and U.S. customers at Wal-Mart in terms of age.

H1d. There is no significant difference between South Korean and U.S. customers at Wal-Mart in terms of education.

H1e. There is no significant difference between South Korean and U.S. customers at Wal-Mart in terms of household income.

H1f. There is no significant difference between South Korean and U.S. customers in terms of expenditure of money at Wal-Mart on a single trip.

H1g. There is no significant difference between South Korean and U.S. customers in terms of expenditure on a wardrobe last year.

H 2. There is no significant difference between South Korean and U.S. customers in terms of shopping orientations.

H 3. There is no significant difference between South Korean and U.S. customers in terms of their perceptions of the importance of store/product attributes.

H3a. There is no significant difference between South Korean and U.S. customers in terms of their perceptions of the importance of store/product attributes in general.

H3b. There is no significant difference between South Korean and U.S. customers in terms of their perceptions of the importance of store/product attributes regarding apparel items.

H 4. There is no significant difference between South Korean and U.S. customers in terms of overall evaluations of Wal-Mart performance.

H4a. There is no significant difference between South Korean and U.S. customers in terms of overall evaluations of Wal-Mart performance in general.
H4b. There is no significant difference between South Korean and U.S. customers in terms of overall evaluations of Wal-Mart performance regarding apparel items.

H 5. There is no significant difference between South Korean and U.S. customers in terms of overall satisfaction/dissatisfaction with Wal-Mart.

H5a. There is no significant difference between South Korean and U.S. customers in terms of overall satisfaction/dissatisfaction with Wal-Mart in general.

H5b. There is no significant difference between South Korean and U.S. customers in terms of overall satisfaction/dissatisfaction with Wal-Mart regarding apparel items.

H 6. There is no significant difference between South Korean and U.S. customers in terms of store patronage.

H 7. There is no significant difference between South Korean and U.S. customers in terms of the frequency of purchase of the five types of apparel items.

Hypotheses 8 to 12 were generated to test the relationships among variables (i.e., demographic characteristics, shopping orientations, the perception of the importance of store and product attributes, store evaluation, store satisfaction/dissatisfaction, store patronage).

H 8. There is no significant difference among the three shopping orientation segments in terms of their perceptions of the importance of store/product attributes.

H8a. There is no significant difference among the three shopping orientation segments in terms of their perceptions of the importance of store/product attributes in general.

H8b. There is no significant difference among the three shopping orientation segments in terms of their perceptions of the importance of store/product attributes regarding apparel items.

H 9. There is no significant relationship between the perceptions of importance of store/product attributes and the overall evaluation of Wal-Mart performance.

H9a. There is no significant relationship between the perceptions of importance of store/product attributes and the overall evaluation of Wal-Mart performance in general.
H9b. There is no significant relationship between the perceptions of importance of store/product attributes and the overall evaluation of Wal-Mart performance regarding apparel items.

H 10. There is no significant difference among the levels of overall evaluation in terms of customers’ satisfaction/dissatisfaction with Wal-Mart.

H10a. There is no significant difference among the levels of overall evaluation in terms of customers’ satisfaction/dissatisfaction with Wal-Mart in general.

H10b. There is no significant difference among the levels of overall evaluation in terms of customers’ satisfaction/dissatisfaction with Wal-Mart regarding apparel items.

H 11. There is no significant difference among the levels of satisfaction/dissatisfaction in terms of store patronage.

H11a. There is no significant difference among the levels of satisfaction/dissatisfaction in terms of store patronage in general.

H11b. There is no significant difference among the levels of satisfaction/dissatisfaction regarding apparel items in terms of store patronage.

H 12. There is no significant difference among customers with different demographic characteristics in terms of store patronage.

H12a. There is no significant difference among consumers with different occupations in terms of their store patronage.

H12b. There is no significant difference among customers of different marriage status in terms of their store patronage.

H12c. There is no significant difference among customers of different ages in terms of their store patronage.

H12d. There is no significant difference among customers with different educations in terms of their store patronage.

H12e. There is no significant difference among customers with different household incomes in terms of their store patronage.
Sample

The U.S. and South Korean female Wal-Mart customers, who were expected to visit a store and had the major purchasing power on the basic necessities in the family, were selected as the participants of the study. To make sure that participants had an actual shopping experience at Wal-Mart, surveys were conducted inside or at the exit of Wal-Mart stores. The sample size was 234 female participants, 117 from South Korea and 117 from the U.S.

Instrument Development

A questionnaire was developed to measure the variables included in the study (see Appendix A). The questionnaire was divided into six sections: shopping orientation/the purchase behavior of selected apparel items, the importance of store and product attributes, Wal-Mart store evaluation, satisfaction/dissatisfaction with the Wal-Mart store, preferences for suggested improvements, and store patronage/customer demographics.

The first section measured participants’ shopping orientations/the purchase behavior of selected apparel items. Categories of shopping orientations were fashion consciousness, brand-consciousness, and economic/price consciousness. Three questions were used to measure each of the three shopping orientations. They were adopted from studies of Summers, Belleau, & Wozniak (1992), Shim, Kotsiopulos & Knoll (1991), and Shim and Kotsiopulos (1993). Table 3-1 lists the questions for each shopping orientation. Three questions were used to evaluate each shopping orientation. Respondents were asked to circle the number which the most accurately described their shopping orientations. The response scale ranged from 1 to 7 (1 = strongly disagree, 4 = neutral, 7 = strongly agree). The scores of the three questions were added together to obtain the total score of each shopping orientation. Then, the total scores of the three shopping orientations were compared. The highest score determined the participant’s shopping orientation segment.

The purchase behavior of the five selected items (i.e., socks/hosiery, sweatshirts, coat, suit, dress) were asked to measure which apparel items Wal-Mart customers were interested in. For each apparel item, the possible purchase behavior listed were “Never shopped for this item at
Table 3-1. Questions for examining each shopping orientation

<table>
<thead>
<tr>
<th>Shopping orientation categories</th>
<th>Questions</th>
</tr>
</thead>
</table>
| Brand consciousness            | Brand names are important when I shop.  
|                                 | I try to stay with certain brands.   
|                                 | A well-known brand means good quality. |
| Economic/price consciousness    | I save a lot of money by shopping around for bargains.  
|                                 | I usually read sales advertising.     
|                                 | I usually choose the lower priced products. |
| Fashion innovations             | I like to try new fashion products.   
|                                 | I always try to have the newest fashions. 
|                                 | I buy clothes I like, regardless of the current fashion. |

Wal-Mart,” “Shopped for this item at Wal-Mart, but never purchased it,” and “Purchased this item at Wal-Mart.” Respondents were asked to check the blank which most accurately described their purchase behavior for each apparel items.

The second section consisted of two main parts: the importance of store and product attributes in discount stores in general and the importance of store and product attributes specifically regarding apparel items. The store and product attributes were selected from previous research based on the literature review. Categories of store and product attributes were:

- Services (i.e., credit card acceptance, easy to return, store layout, sales personnel, community involvement).
- Convenience (i.e., parking, transportation, price labels).
- Comfortable environment (i.e., seating for resting, lighting in the fitting room, rest rooms, number of fitting rooms, mirrors in aisles and fitting room).
- Assortment (i.e., variety of product categories, number of product in each category, well-known brand availability, low-priced brands).
- Public-relations (i.e., store reputation, advertising)
- Product attributes (i.e., special sale prices, every day low price, quality, value for money, fashion, sizes and style).

The response scale ranged from 1 to 7 (1 = not important at all, 4 = neutral, 7 = very important).

The third section included the consumers’ evaluation of the store and product attributes of Wal-Mart. This section also consisted of two parts: evaluation of store and product attributes of Wal-Mart in general and evaluation of store and product attributes specifically regarding apparel items. Store and product attributes were the same as the attributes in the second section. However, the order of store and product attributes was different from the second section and this
section added the overall evaluations to the end of each part of the questions. The response scale ranged from 1 to 7 (1=terrible, 4=neutral, 7=excellent).

The fourth section covered overall consumers’ satisfaction/dissatisfaction with store and product attributes of Wal-Mart in general and satisfaction/dissatisfaction specifically regarding apparel items. This variable was measured with a 7 point scale (1 = very dissatisfied, 4 = neutral, 7 = very satisfied).

The fifth section was preference for the suggestions for improving store and product attributes of Wal-Mart in South Korea. This section was specifically designed for South Korean participants because the questions in this section were to examine whether Wal-Mart customers in South Korea preferred the different store and product attributes originated from the U.S. Wal-Mart. Questions in this section were generated based on the observations of Wal-Mart in the U.S. and South Korea. The store and product attributes offered in the two countries were compared, and differences were found in special sale prices, every day low price, customers’ bag policy, advertising, sales personnel, return policy, rest area, price label, product assortment, credit card acceptance, community involvement, and mirrors (see Table 3-2). Based on the differences, South Korean participants were asked whether they prefer the store and product attributes offered in the U.S. Wal-Mart, but absent from the South Korean Wal-Mart. The scale for the questions in this section ranged from 1 to 7 (1 = strongly disagree, 4 = neutral, 7 = strongly agree).

The final section was for the store patronage of Wal-Mart and consumers’ demographics. Store patronage of Wal-Mart was evaluated by the current frequency of shopping at Wal-Mart and the expenditure per single trip. The questions related to demographics included gender, occupation, marriage status, age, education, and household income. In addition, clothing expenditures at Wal-Mart over three months and total clothing expenditure for the last year (i.e., 1998) were also included.

This questionnaire was originally developed in English. To survey South Korean consumers, the researcher translated it into Korean. To make sure that the translation was correct, two people who are bilingual (i.e., Korean and English) were asked to translate the Korean questionnaire back to English (see Appendix B). One of these translators is a Ph.D. graduate student in the U.S., and the other is a Wal-Mart customer in South Korea. After the
Table 3-2. Different store attributes between Wal-Mart stores in the U.S. and South Korea.

<table>
<thead>
<tr>
<th>Different attribute/ Country</th>
<th>U.S. Wal-Mart</th>
<th>South Korea Wal-Mart</th>
</tr>
</thead>
<tbody>
<tr>
<td>Special sale price/ Every day low price (EDLP)</td>
<td>More EDLP</td>
<td>More special sale price</td>
</tr>
<tr>
<td>Keeping customers’ bags</td>
<td>Not exist</td>
<td>Customers must keep their bags in the locker before entering the store</td>
</tr>
<tr>
<td>Advertisement</td>
<td>More ads on TV and mailing catalogs</td>
<td>Less ads on TV and mailing catalogs</td>
</tr>
<tr>
<td>Sales personnel</td>
<td>Less sales personnel</td>
<td>More sales personnel</td>
</tr>
<tr>
<td>Return policy</td>
<td>Do not need the receipt for exchanging products purchased or get credits back</td>
<td>Need the receipt for exchanging and the money back</td>
</tr>
<tr>
<td></td>
<td>Need the receipt for cash back</td>
<td>Should claim within seven days from the purchase date</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The condition of return products must be the same condition when they purchased</td>
</tr>
<tr>
<td>Rest area</td>
<td>More rest areas inside the store</td>
<td>No rest area inside the store</td>
</tr>
<tr>
<td>Individual label</td>
<td>Most products have individual labels</td>
<td>Most products do not have individual labels, specially apparel products</td>
</tr>
<tr>
<td>Product inventory</td>
<td>More inventory on the shelves</td>
<td>Less inventory on the shelves</td>
</tr>
<tr>
<td>Credit card acceptance</td>
<td>Various kinds of credit cards are acceptable</td>
<td>No credit card is acceptable</td>
</tr>
<tr>
<td>Community involvement</td>
<td>Active community involvement</td>
<td>No community involvement</td>
</tr>
<tr>
<td>Mirrors in the aisle of the apparel section</td>
<td>7 mirrors in the aisle</td>
<td>1 mirror in the aisle</td>
</tr>
</tbody>
</table>

Translation, the original English questionnaire was given to the translators for comparison. Both translators agreed that the meaning of all questions were similar in both original English and back-translated English versions. Then, they compared the original English questionnaire and Korean questionnaire. They found that although the meaning of the questions in the two questionnaires was similar, several Korean terminologies had to be changed for better understanding. After modification, the final copy of the Korean questionnaire was enclosed in Appendix C.
Data Collection

Data were collected in the Wal-Mart store at Ilsan in South Korea and at Christiansburg, Virginia in the U. S. Prior to the data collection, permissions were obtained from the Wal-Mart managers in the two stores. The survey was conducted inside the store or in front of the exit, to avoid selecting subjects who did not have a shopping experience at Wal-Mart. Volunteers assisted in the data collection. To insure consistency in executing the survey, the volunteers were instructed by the researcher to learn the purpose of each question, the attitude towards customers, their responsibilities, the words used to invite participation, and ways to give assistance in completing the questionnaire. To encourage participation, 2000 won or two drinking mugs were granted to each participant in South Korea and a bag of cookie was granted to each U.S. participant. A total of 234 participants were included in this study, 117 from South Korea and 117 from the U.S.

Data Analysis

Chi-Square tests were used to test Hypotheses 1a, 1b, 1c, 1d, 1e, 2 and 7. T-tests were used to test Hypotheses 1c, 1d, 1e, 1f, 1g, 3, 4, 5 and 6. In addition, the t-test was used to examine consumers’ preferences for suggested marketing strategies. The Multivariate Analysis of Variance (MANOVA) was used to test Hypotheses 3 and 8. One-Way Analysis of Variance (ANOVA) was used to test Hypotheses 9 to 12. In Hypotheses 9, 10, and 11, the score of the importance of store and product attributes, overall store evaluation and overall store satisfaction/dissatisfaction were classified into three levels based on the general rule of 33% of participants (a low level), 33% (a medium level) and 33% (a high level) split. To test Hypotheses 2 and 8, the segment of shopping orientation for each participant needed to be determined. The factor analysis was first used to group the nine questions related to the shopping orientations. The scores of the questions included in each shopping orientation were averaged to obtain the score of each shopping orientation. Then, the scores of three shopping orientations (i.e., fashion consciousness, brand consciousness, price consciousness) were compared. The highest score determined the participant’s shopping orientation segment. The
mean scores of each factor for each shopping orientation segment were compared to confirm the validity of classification. In addition, for Hypotheses 3, 8, and 9, the factor analysis was used to group the 20 attributes related to the perception of the importance of store and product attributes in general and 16 attributes related to apparel items to reduce the number of attributes.