South Korea's E-Mart Is No Wal-Mart, Which Is Precisely Why Locals Love It

By EVAN RAMSTAD
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SEOUL -- This past spring, South Korean discount chain E-Mart spent hundreds of millions of dollars to snap up Wal-Mart Stores Inc.'s 16 outlets in the country. Then began the hard part: overhauling the stores so Koreans will want to shop there.

Walmart's giant stores strewn with wooden pallets are very different from the multifloor E-Marts that are packed with Korean shoppers on weeknights and weekends. E-Marts more closely resemble the U.S. Target Corp. chain, with a spacious layout and lower shelves, though they are much noisier, aiming for the festive atmosphere of outdoor markets. "Koreans hate the warehouse format," says Chung Yong-Jin, executive vice president of E-Mart's parent, Shinsegae Co.

Wal-Mart's retreat from Korea and, more recently, Germany was widely seen as evidence that U.S.-style retailing doesn't translate everywhere. But it also suggests that the Korean economy in particular, which has successfully churned out world-class manufacturers, is capable of producing service know-how, too. South Korea is becoming the place where local competitors outgun multinational retailers like Wal-Mart and Carrefour SA of France, which also got out of the market this year.

For Shinsegae, the 16-store deal is a key to solidifying E-Mart's base at home as it begins its push overseas -- particularly into China. E-Mart has opened seven stores around Shanghai and is exploring other parts of the country.

So E-Mart executives are hard at work preparing to transform the Wal-Mart stores. They have already ordered new signs, brighter lights and colder freezers, though the makeover won't begin until Korean regulators approve the transaction.

Not counting the Wal-Mart acquisition, E-Mart now operates 83 stores. The chain provided 86% of Shinsegae's operating profit last year and 81% of its revenue. Shinsegae had sales of $2.02 billion in the second quarter of this year, up from $1.76 billion a year earlier.

For all its Korean character, the E-Mart chain has thrived in part by emulating successes just like Wal-Mart. In 2001 and 2002, almost a decade into E-Mart's life, Mr. Chung joined a group of merchandisers and buyers on a tour of stores around the world, looking for ideas to update the chain's format. "We came out with a Korean model of a discount store that took elements from the U.S., Japan and Europe," he says.

At one point, Mr. Chung spent two days hanging around Wal-Mart's store in Bentonville, Ark., taking notes on such details as when produce is restocked and when the floor is swept.

Today, Shinsegae's ambitions for E-Mart extend even beyond China, Mr. Chung says. "In the long term, we have to consider the whole world," he says. "We are leaving everything open."
Shinsegae is making its newly aggressive moves at the same time that its executives are planning a generational transition. Chairwoman Lee Myung Hee, the 62-year-old daughter of Samsung Group’s founder Lee Byung-chul, is nearing retirement and is likely to pass the family’s control of the firm to her son, Mr. Chung, who will be 38 next month. No timing has been announced for such a move.

Mr. Chung made headlines in Korea several months ago when, amid scrutiny of the transfer of wealth and power to family members in the country’s corporate groups, he declared he wouldn’t fight the inheritance tax of around $1 billion that he’ll have to pay when he gets control of the company.

Mr. Chung says he doesn’t think the company can pass to his own children. “Looking at the rate of taxation and the current societal atmosphere, I think it’s going to be hard to,” he says. He adds that he believes in the merits of combined family and professional management.

"Professional management is good because of expertise and very rational decision-making," he says. "Ownership management thinks more of the long-term vision and direction."

Mr. Chung considers his mother his business role model but says she often speaks of her father, who died in 1987, and imparts his wisdom.

E-Mart and other local discount chains sprang up in South Korea in the early 1990s, not long after the national economy began to shift away from the government control and market protections that shaped its rise from an agrarian society in the 1960s. Ms. Lee’s father bought the retail chain in 1963 as he built the Samsung empire, but it remained a small unit in the conglomerate until Ms. Lee took control and, in 1991, separated it from Samsung.

Ms. Lee opened the first E-Mart in 1993, three years before Carrefour and five years before Wal-Mart moved into the country. Another domestic company followed, and Samsung, now led by Ms. Lee’s brother Lee Kun Hee, teamed up with Tesco Corp. of Great Britain in 1999 to build a fifth discount chain -- in which Samsung owns only 11% but, tellingly, gets top billing in the name, Samsung-Tesco.

Following the 1998 economic crisis that racked the Korean economy, Shinsegae moved aggressively to grab new locations for E-Mart at low prices. "The biggest success factor is their early-mover advantage," says Han Young-Ah of Merrill Lynch. "They secured very good land at a good price." In central Seoul, for instance, E-Mart operates in a high-traffic area at a major transit exchange.

The atmosphere of a typical E-Mart is frenetic. In the grocery area, women in polo shirts adorned with logos of the brands they represent -- Lipton tea, perhaps, or Dove soap -- call shoppers to try their product, all the while competing to be heard above butchers shouting out the prices of meat and fish.

"They have transplanted the traditional outdoor market into a convenient format indoors," says Janet Choi, a management consultant in Seoul.

Against this kind of entrenched competitor, Carrefour decided to leave Korea early this year. E.Land Group, a local clothing retailer, beat Shinsegae and others with a $1.86 billion offer, announced in May, for Carrefour’s 32 stores. Shinsegae then approached Wal-Mart with an $872 million offer for its Korean outlets, and the two companies struck a deal in late May. Wal-Mart’s Korean stores lost $10 million last year on $720 million in sales, recording the lowest sales per square foot of any discount chain in the country.

--Lina Yoon contributed to this article.

Write to Evan Ramstad at evan.ramstad@wsj.com

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