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**Progress of the NACF and its Member Cooperatives in
Retailing: An Analysis on the Effects of Customer Satisfaction
and Store Image on Sales Performance in Hanaro Club**

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Abstract

The goals of this study are: 1) to study the development of the NACF and its member cooperatives' retail marketing business and 2) to examine the effects of customer satisfaction and store image on sales performance in the Hanaro Club stores. An analysis of the data, collected from a sample of 265 Hanaro Club customers indicates that overall customer satisfaction by different product types has a significant effect on store sales performance, and that customer store image perception influences sales performance. The implications of this research for the Hanaro Club store management and how the managers can use such results for marketing strategy are discussed.

Key words: *NACF, Hanaro Club, discount store, customer satisfaction, store image*

I . INTRODUCTION

The purposes of this study are twofold.

First, the opening of the distribution sector including the agricultural product market has had an adverse effect on the economic viability of the farmers and the foundations of Korean agricultural industry as well as its community. Consequently, farmers have demanded the National Agricultural Cooperative Federation (NACF) and its member cooperatives participate in retail marketing while focusing on selling local farm-

livestock products. This paper will investigate how the NACF and its member cooperatives have developed the retail marketing business for a better understanding of the Korean agricultural coop's marketing business.

Second, the NACF opened its first discount store called Hanaro Club in 1995. Currently operating 20 stores in Korea, Hanro Club has successfully kept the sixth position for several years in the highly competitive market. Their success in the Korean market is mainly due to the strategic localization in terms of products and store image, which enables the discount outlet to be differentiated from other competitors. Hanaro Club operates the store as 'a Korean value store', combining Korean dietary life style and nationalistic sentiment of Korean people. Korean customers tend to shop more frequently and buy less each trip than in other countries due to the desire for fresh foods such as meats and vegetables, of a very high standard. Koreans have a strong nationalistic outlook and sentiment against foreign retailers (Korea Times, 08/01/2001). Thus, the retailer offers an abundant and diverse selection of fresh produce and meat which accounts for over 80 percent of total products. The company has tried to position itself as a Korean style discount store chain by providing only domestically produced produce and meat and offering a lot of local special products. The distinctive and unique character of the retailer has been recognized as a strategic variable, impacting company sales performance. It is said that customer satisfaction with product types and store image characteristics play very important role in store sales performance. There has been no research on the relationships between customer satisfaction by product types, store image and sales performance, and the linkage cannot be understood from observation, conceptual arguments and descriptive statistics. A quantitative model that shows the proper linkage is required.

II. PROGRESS OF THE NACF AND ITS MEMBER COOPERATIVES IN RETAILING

1. The Participation of the NACF and its Member Cooperatives in Retailing

The NACF and its member coop's participation in the wholesale marketing business of agricultural products might be one of the features distinct from foreign agricultural cooperatives. In cases of European agricultural cooperatives, their functions are limited to collecting and selling agricultural products to wholesale companies or processing companies and they do not normally take a direct part in the wholesale business.¹ Even in Japan, the JA is taking part in wholesale business simply as one of many participating corporations at one of many different wholesale markets throughout the country. By comparison, at the end of 2003, the Korean Agricultural Cooperatives owned 88 wholesale marketing centers, of which 13 are operated by the NACF and 75 by member coops. Out of these numbers, 34 public wholesale marketing centers are operated as wholesale corporations at all 33 public wholesale markets. NACF and its member cooperatives accounted for 28.2% of public wholesale markets in 2003.

¹ The countries in which there are government regulations regarding wholesale markets are France, Italy, Spain, and so on. In those countries, there are many markets at which a producer often has their own stores along side wholesalers' stores to sell their own products. (Jeong, Young-il et al., 2003)

In Rungis wholesale market in Paris, France, the world's largest facility, 1,475 companies are running stores, and 227 of these (accounting for 22%) are producer companies. Meanwhile, Merca wholesale market in Madrid, the capital of Spain, was established through the contributions of 51.13% from the city government, 48.63% from state-run companies, 0.212% from local national cooperative associations and 0.028% from agricultural & livestock national association, respectively. The Fruit & Vegetable Cooperative of the Netherlands (VTN), a cooperative association that was created when 12,000 farmhouses acquired an auction company running 9 auction markets, is playing a leading part in the distribution policy by items. (Korea Agro-Fisheries Trade Corporation, 2001/2002)

Compared with the agricultural cooperatives in other countries, the most distinct feature of the marketing business of the Korean agricultural cooperative lies in its participation in retail business. The NACF and its member coops operate two distinct retail formats: Hanaro Mart in the form of supermarket and Hanaro Club in the form of large discount store.

Hanaro Mart is rooted in the ‘Moving Association Store’ that was set up for stabilizing prices in rural areas when the Korean agricultural cooperative was first established in 1961. This format was developed into the modernized ‘Nonghyup Chain Store’ in 1970, and into ‘Nonghyup Supermarket’ reinforcing the sale of agricultural products in 1974. The name of the supermarket was changed into ‘Hanaro Mart’ in 1997, and has continued to grow. The Hanaro Marts located in city areas are also functioning as consumers’ cooperatives where consumers’ cooperatives are not well- developed.²

The Hanaro Mart that enjoyed continuing growth through the ‘close-to-neighborhood’ business is now challenged by the appearance and rapid growth of discount stores. The number of Nonghyup Hanaro Mart stores has continuously declined after peaking at 2,919 in 1998. Total revenues of the mart have also declined after its peak of USD 3 billion (or KRW 3,600 billion) in 1999. On the other hand, because new stores are

² The government, according to growth-oriented economic development plan, showed great interest in cultivating producers’ cooperative association like Agricultural/Fishery/Livestock Cooperative Associations but never showed interest in consumers’ cooperative associations, which resulted in slow development of customers’ cooperative associations. Under this disadvantageous circumstance, movement toward consumers’ cooperative associations was limited due to the of agricultural cooperative’s chain stores and the joint purchase business of credit cooperative association. In other words, at the beginning of the 1970’s, the NACF started to set up the daily commodities purchasing offices which were to manage purchase/transportation/supply of all the goods to be provided to local union associations, and to proceed with activities of agricultural consumers’ cooperative association by means of its chain store business. (Park, Sung-yong et al., 1990)

larger and older, smaller stores are being closed, the average floor space per store keeps on increasing, and sales of agricultural products are growing and so is its market share.

Table 1. Business Performance of Hanaro Mart

Classification	1998	1999	2000	2001	2002	2003
Number of Stores	2,919	2,798	2,588	2,450	2,347	2,242
Average Space of Stores (<i>Pyong</i> *)	60.5	63.6	63.2	66.4	69.2	72.3
Percentage of Store Making Profit (%)	65.1	69.2	61.0	69.3	58.2	56.0
Total Sales (KRW 100 Million)	35,923	36,000	35,891	32,743	32,332	33,702
Sales of Agricultural Products (KRW 100 Million)	-	-	11,006	11,929	12,824	14,044
Portion of Agricultural Products Sales (%)	-	-	30.7%	36.4	39.7	41.7

Source: The NACF Hanaro Mart Division, Annual Business Report on Hanaro Mart

* *Pyong* is a unit of area and 1 *Pyong* is equal to 35.58 sq. ft.

The total sales of Hanaro Mart in 2003 reached USD 2.8 billion (or KRW 3, 370 billion) showing it is recovering in some degree because of the store space expansion program and the growth in sale of agricultural products, but still lower than those of 1999. According to an analysis based on location of store, while the number of city-based Hanaro Marts accounts for 14.8% of the total number of stores their sales amounts in the gross of USD 1 billion (or KRW 1,199 billion) cover 35.6% of the total sales, the number of local-based Hanaro Marts accounts for 60.7% but their sales amounts cover 26.4% only. The reason why the city-based stores exhibit a high proportion of sales is that many large stores have been opened in an attempt to

compete with discount stores. In metropolitan cities like Seoul, agricultural products make up 61.8% of total sales, while in rural areas, it is lower, only 23.3%.

Table 2. Number of Stores and Sales of Hanaro Mart (2003)

(Unit: KRW 100 Million, %)

Classification		Metropolitan	Si(City)	<i>Eup</i> (town)	<i>Myun</i> *	Total
Sales Amount	Total Sales (Portion)	5,739 (17.0)	11,989 (35.6)	7,075 (21.0)	8,899 (26.4)	33,702 (100.0)
	Agricultural products (Portion)	3,545 (61.8)	5,736 (47.8)	2,691 (38.0)	2,072 (23.3)	14,044 (41.7)
Space Of Store	Total Number (Portion)	183 (8.1)	331 (14.8)	367 (16.4)	1,361 (60.7)	2,242 (100.0)
	500 <i>Pyong</i> ** and more	2	17	3	2	24
	Less than 500 <i>Pyong</i>	2	21	15	3	41
	Less than 300 <i>Pyong</i>	13	21	28	13	75
	Less than 200 <i>Pyong</i>	55	78	86	80	299
	Less than 100 <i>Pyong</i>	68	111	128	283	590
	Less than 50 <i>Pyong</i>	43	83	107	980	1,213
	Average	103.2	143.2	101.3	43.1	72.3

Note: Space of Store means the space excluding warehouse (but including workshop, resting room, etc.)

Source: The NACF Hanaro Mart Division, 2003 Business Report on Hanaro Mart

* *Myun* is the subdivision of the county.

** *Pyong* is a unit of area and 1 *Pyong* is equal to 35.58 sq. ft.

Even though the average space per store of Hanaro Mart is 72.3 *Pyong* (or 2,572.6 sq.ft.) and keeps on increasing, it is far less than 177.4 *Pyong* (or 6,312.3 sq. ft.) of A-coop chain store of the JA and is merely half of the average for Korean supermarkets,

144.8 *Pyong* (or 5,152.3 sq. ft.).³ The number of stores having space less than 50 *Pyong* (or 1,779.1 sq. ft.) is 1,213, accounting for 54.1% of the entire Hanaro Mart. Specifically, 72% of the Myun-based stores (980 stores) have space of less than 50 *Pyong* (or 1,779.1 sq. ft.). This means most of the stores in Myun still remain small. Due to their status as small-scale stores, their survival is marginal as large retailers are speeding up in their penetration into local market. And, therefore, Hanaro Mart's purpose of providing farmers convenience in purchasing daily commodities and contributing to price stabilization became subject to great change.

The retail business of the NACF that had relied upon Hanaro Mart in the form of the supermarket made a great change in 1996 when the opening of the distribution market started. In 1995, Korean Agricultural Cooperative Marketing, Inc. (KACM), a subsidiary company for the marketing of agricultural products, was incorporated and Hanaro Clubs in the form of large discount store were opened at the Collection & Delivery Centers that had been run in six major cities since 1991. All of these were a series of efforts to cope with the sudden changes in the distribution market represented by the appearance of new types of distribution business. Above all, with the crisis of the Law for Agricultural and Fishery Products Distribution and Price Stabilization in May, 1994 as stimulus, the government implemented the distribution center construction projects for the purpose of establishing new style wholesale markets and this attempt was a critical factor of the growth of retail distribution business of the NACF. The retail business of the NACF became full-fledged when it started to participate in the management of 11 of the 24 distribution centers to be constructed by 2004.

³ Korea Chainstores Association, 2004 Yearbook of Retail Industry

Thanks to the NACF's focus on the installation and operation of the distribution centers, as well as their cultivation of marketing specialists and financing support, all of the first three distribution centers were profitable from the year of opening, 1998. Following the successful operation of the distribution centers, which conducted both wholesale and retail business at the same time, the 'Act for Agricultural Products Marketing and Price Stabilization' was revised in January 2000 to change the name of Distribution Center to the Comprehensive Marketing Center, enumerate support for agricultural product marketing, and establishment of subsidiary of the NACF.

As of the end of 2003, Hanaro Club operated 22 stores. Of these, subsidiary companies of the NACF are running 15 stores, including 11 stores opened as annexes in the Comprehensive Marketing Centers constructed with the support from the central or local governments. The NACF directly operates 7 stores. Hanaro Club sales revenue is USD 1.3 billion (or KRW 1,508 billion). It ranks 6th following Wal-Mart, and accounts for 7.7% out of total sales of large discount stores, USD 16.3 billion (or KRW 19,509 billion) .

Nevertheless, the position Hanaro Club in the discount stores sector has recently deteriorated, which is attributed to the fact that other large discount stores are opening new stores near Hanaro Club stores. In 2005 Shinsegae E-Mart, the largest discount store in Korea, opened large-scaled stores at Yangjae, Walgae and Yongsan Station, all of which are located within the same travel distance as the stores of Hanaro Club. Hanaro Club's Yangjae and Changdong stores that have nationally ranked 1st or 2nd in sales amount per store ever since 1999 are facing challenges.

Table 3. Number of Stores and Sales of Hanaro Club

(Unit: KRW 100 Million, %)

Classification			1998	1999	2000	2001	2002	2003
Comprehensive Marketing Center (Subsidiary)	Number of Stores	Distribution Center	3	4	5	7	8	11
			Yangjae Changdong Cheongju	Jeonju	Seongnam	Gunwi Goyang	Daejeon	Daejeon Mokpo Suwon
	Hanaro Club (a)	6	7	8	10	12	15	
		Yongsan Busan 2				Mokdong		
	Sales Amount	Wholesale(b)	5,689	7,483	8,727	11,155	13,281	15,424
		Retail(c)	430,2	741,0	843,0	10,620	12,531	13,466
Sub-Total (b+c)		9,616	14,475	16,724	21,775	25,812	28,890	
Direct Operation By NACF	Hanaro Club	Number Of Store(d)	6*	7	7	7	7**	7
		Sales (e)	1,911	2,292	2,463	2,280	2,006	1,616
Total Number of Hanaro Club (a+d)			12	14	15	17	19	22
Total Sales Amount (b+c+e)			11,527	16,767	19,186	24,055	27,818	30,505
Sales of Hanaro Club (c+e)			6,213	9,703	10,894	12,900	14,537	15,081
Sales of Discount Stores (f)			49,739	75,711	105,050	137,918	174,058	195,086
Market Share of Hanaro Club (c+e/f)			12.5	12.8	10.4	9.3	8.3	7.7

Note: 1. Sales of Comprehensive Marketing Centers includes the sales of Agricultural Cooperative Pusan Daegu Gyeongbuk Marketing Co.

2. *: Daegu/Gwangju/Changwon/Paju/Ansan/Sungseo Hanaro Club,

** : Shinchon (Gwangju store closed)

Source: The NACF Retail & Wholesale Marketing Division, Korea National Statistical Office

2. Discount Store Retailing in Korea

Since the mid-1990s, the high demand for a modern shopping environment in South Korea (hereafter Korea) has been growing due to rapid economic growth and rising levels of affluence. Prior to 1996, the Korean retail market was essentially closed to foreign retailers due to very strong protectionist policies. There were no foreign-owned retail stores in Korea until 1995, and the distribution industry had remained relatively undeveloped. The share of small, traditional shops – so called ‘mom-and-pop’ stores – which had fewer than four employees, still commanded about 80 percent of Korea’s retail market until the mid-1990s (Korea Times, 12/10/2004). The Korean government changed its protectionist policy because of the increasing internal and external pressure for deregulation from the 1980s onwards. During this deregulation process, a significant number of previously restricted sectors were opened by early 1995, and the Korean distribution market was deregulated on 1st January 1996 by the abolishment of regulations on floor space and number of stores. Despite the deregulation in the Korean retail sector in 1996, however, the Korean retail market was still an extremely difficult environment for foreign retailers to conduct business.

One of the biggest barriers to foreign retailers’ entry into the Korean market was the extremely high price of real estate assets and rental system, which required retailers to deposit upfront approximately 70 percent of property’s value as rent (Korea Herald, 27/12/2001). However, the Asian financial crisis offered opportunities for foreign retailers to acquire retail and real estate assets at relatively cheap prices due to the devaluation of the South Korean currency. The crisis also made the Korean customers – especially the middle classes who had become used to ‘conspicuous’ consumption in department stores in the 1990s - more price conscious toward low-priced items. This

shift accelerated the expansion of discount stores, which provide low cost, high service, and a comprehensive range of goods. These discount stores are run by both foreign retailers and Korean local retailers. According to the Distribution Industry Development Law, these discount stores generally have a floor space of over 3,000 square meters (or 32,291 square feet).

During the crisis, the Korean Government also actively contributed to the expansion of foreign retailers into the Korean market. The government opened the Korean market to foreign companies by attracting foreign direct investment (FDI) as an alternative engine of growth. As a result of this government policy to attract FDI, the volume of FDI in Korean began to increase rapidly and out-weigh the volume of Korean investment in other countries after 1998. To attract more FDI, the government opened up the mergers and acquisition (M&A) market to foreign firms by abolishing previous regulations on foreigner shareholdings in domestic companies.⁴ Furthermore, the Korean government put pressure on the *chaebols*⁵ to reduce the number of their businesses, which were considered to be excessively diversified.⁶ Consequently, some *chaebols* sold their distribution sector activities to foreign retailers or sought mergers with them, and thus, the leading retail firms expanded their operations in Korea from 1997 onwards.

Due to the Korean government's deregulation policy and the financial crisis, retailers had opportunities to acquire retail and real estate assets cheaply, Carrefour obtained

⁴ The Korean government actually removed the acquirer's obligatory tender offer of shares up to 51 percent of total shares outstanding and abolished restrictions on the total amount of shareholdings a company can have in other companies, which used to prevent hostile takeover by foreigners (Shin and Chang, 2003)

⁵ A conglomerate of business, usually owned by a single family, especially in South Korea.

⁶ The average number of businesses run by the five largest *chaebols* was reduced from 30.0 in 1997 to 23.3 in April 2001 (Shin and Chang, 2003)

authorization of investment (USD 60 million) from the Korean government in 1993 and opened its first store in Korea in 1996. In 1998, Wal-Mart, the world's largest retailer, acquired four stores from the retailer Makro, which had entered into the Korean retail market in 1996 and had suffered from a business depression. Tesco entered the Korean retail market through the merger with Samsung Corporation's distribution unit and opened its Homeplus chain in 1999. While multinational retailers rushed to Korea in the mid 1990s, local retailers – owned by the *chaebols* – opened their discount stores and competed with transnational retailers for market share. Shinshegae opened its discount store, E-Mart, in 1993, the NACF opened its discount outlet, Hanaro Club, and another local retailer, Lotte Shopping launched its store, Lotte Magnet (Lotte Mart since 2002) in 1998.

The entry of the leading multinational retailers into Korea and the emergence of large local retailers have triggered drastic changes in the Korean retail market. Small scale distribution companies have increasingly been absorbed into large retailers, and conventional retail markets have declined since the mid-1990s. The discount store market has become the biggest retail business in South Korea, passing the department store market in 2003. According to the Korea National Statistical Office, the sales of discount stores posted USD 23.4 billion (or KRW 23.5 trillion) in 2005. Discount retailing is estimated to grow 46.6 percent annually during the years of 1998 – 2005 in terms of sales. The Korean discount chain business is dominated by six discount store chains – Shinsegae E-Mart, Samsung-Tesco Homeplus, Lotte Shopping Lotte Mart, Carrefour, Wal-Mart, the NACF Hanaro Club – whose combined market share was about 79.5 percent of the Korean discount stores.

3. The Profile of Hanaro Club

The first Hanaro Club store was opened in 1995 by the National Agricultural Cooperative Federation. Hanaro Club recorded USD 1.8 billion in sales, equal to approximately a 7.4% of market share in 2005 for all of Korea. It is the sixth largest discount retailer in Korea in terms of sales. Currently, the discount store retailer operates 20 retail stores across the country, and they are mainly located in large cities. It has a loyal customer base that is looking for fresh and domestically grown produce and meat, and local special products. Hanaro Club's customers are homemakers in their 20s to 50s.

Hanaro Club's positioning starts with its product mix especially in terms of fresh food products. The stores offer abundant and diverse selection of fresh produce and meat. This was the differentiation strategy that was consistently applied since the launch of the chain. Hanaro Club positioned itself as a Korean style discount chain. It differentiated itself from its competitors by offering only domestically grown and produced meat and produce, and by stimulating local sentiments. Hanaro Club used patriotic marketing promotions to communicate this message to customers.

In terms of pricing strategy, two different ranges of possibilities are available, with "Every Day Low Price" (EDLP) on non-food products and with promotional pricing, known as the HILO price, on food products. As a result, there is minimal variability between the regular price and discount price for general merchandise. In contrast, the stores have a greater disparity between the highest and lowest price of food products, relying on sales and promotion strategies to entice buyers. Table 4-1 shows how the retailer defines its value proposition given product mix, target customers, benefits, and price.

Table 4. Hanaro Club Positioning Strategy and Value Proposition

Product Mix	Abundant and diverse selection of fresh food; Essential assortment of household consumer goods focusing on kitchen utensils and daily necessities with vastly reduced prices
Target Customers	Quality and safety - conscious homemakers from 20s – 50s
Benefits	Fresh, high-quality, and safe
Price	Food products: HILO Non-food products: EDLP
Value Proposition	<i>Shintoburi</i> , ⁷ the food locally produced suits the Korean people The Korean value discount store for Korean people

III. AN ANALYSIS ON THE EFFECTS OF CUSTOMER SATISFACTION AND STORE IMAGE ON SALES PERFORMANCE IN HANARO CLUB

1. Introduction

A goal of retail establishments is often to either create a new customer base and/or retain customer patronage and it is hoped that these lead to greater sales performance. As a measure of retail store sales performance, several variables have been used by researchers who study customers' behavior: store image, shopping excitement, shopping satisfaction, repatronage intention, and total time and money spent during shopping trip.

The Korean discount store sector is characterized by increased competition and greater shopper expectations. These trends make satisfying customers and providing a favorable store image especially critical to the retailers. Discount stores offer a variety of goods and services simultaneously. Different product mix and store characteristics often lead to the difference in customer satisfaction and store image.

⁷ Koreans maintain a traditional health outlook on food called '*Shintoburi*' means that our bodies and the soil are of the same. In other words, the food produced on the land that one lives on is going to be the food that suits that person the best.

For this study, we selected customer satisfaction (hereafter sometimes referred to as CS) and store image (hereafter sometimes SI) for in-depth analysis. If customers' store image and satisfaction affect sales performance (hereafter sometimes SP), then retailers can develop better marketing strategies to improve store image and customer satisfaction attributes.

Even if retail managers intuitively sense that CS and SI characteristics affect sales performance, the linkage cannot be understood from observation, conceptual arguments and descriptive statistics alone. A quantitative model that shows the proper linkages is required.

We chose Hanaro Club in Korea to examine the effect CS and SI have on store sales performance. The product mix of the discount retailer is very different from multinationals and even other local discount retailers. In general, other retailers offer a wide variety of merchandise focusing on industrial goods. The Hanaro Club stores offer mainly food products such as fresh produce, meat, fish and processed food. Together, these four items account for almost 90% of total sales. The retailer is a well-known Korean style discount store because the stores carry only domestically grown produce and meat and the product mix is closely related to the dietary life of Korean people.

2. Literature Review and Hypothesis development

Customer Satisfaction

Customer satisfaction management has become a strategic imperative for most firms (Anderson, Fornell, and Lehmann 1994; Rust, Zahorik, and Keiningham 1994; and Oliver 1997). At the same time, satisfaction programs have become increasingly

result oriented. Firms focus on the relationship between customer satisfaction and sales performance or profit, rather than maximizing satisfaction score alone. Zahorik and Rust (1992) included a mathematical framework to evaluate the financial value of satisfaction based on the effect of satisfaction on customer retention, and the subsequent impact on market share. Anderson and Sullivan (1993) identified factors that determine customer satisfaction, which in turn have a positive association with financial performance.

By improving product and service attributes, customer satisfaction should increase. Increased customer satisfaction is expected to lead to greater customer retention. Improved customer retention may then lead to greater sales and greater profitability. Previous study support for these linkages can now be found in the satisfaction literature. First, Eugene W. Anderson and Vikas Mittal (2000) illustrated that increasing overall satisfaction leads to greater repurchase intention. Secondly, Miguel I. Gomez, Edward W. McLaughlin, and Dick R. Wittink (2004) demonstrated that changes in customer satisfaction result in changes in store sales performance. Customers respond positively to services targeted at improving customer satisfaction. Higher customer satisfaction leads to higher customer demand, resulting in greater sales.

Customer satisfaction factors vary according to the types of products, services and businesses, etc. Most studies on customer satisfaction, however, have mainly dealt with product and service attributes such as product quality, assortment, money value, the disposition of the cashier and sales associates, speed and accuracy of checkout, availability of everyday grocery items, and store cleanliness, among others (Miguel I.

Gomez, Edward W. McLaughlin, and Dick R. Wittink 2004). Overall customer satisfaction by product type has received little attention in empirical literature. Our study focuses on the consumer satisfaction by product types. For Hanaro Club which focuses on fresh produce, meat, and processed food, it is important to find out which product groups induce store sales.

In this paper, we perceive satisfaction as a post-consumption evaluation, and define the consumer satisfaction by product types as ‘*customer overall satisfaction level with different product types aggregating all attributes such as assortment, quality, money value, package, etc.*’ The product types are classified into the following three categories: 1) farm-livestock-fisheries products mainly composed of fresh produce, meat, and fish, 2) processed (or manufactured) food products, and 3) non-food products mainly composed of household consumer products such as kitchen utensils and daily necessities products.

To test the relationship between product level customer satisfaction and store sales performance, we hypothesize:

HYPOTHESIS 1a. *Increased customer satisfaction with farm-livestock-fisheries product type improves store sales performance.*

HYPOTHESIS 1b. *Increased customer satisfaction with processed food product type improves store sales performance.*

HYPOTHESIS 1c. *Increased customer satisfaction with non-food product type improves store sales performance.*

Store Image

Since the introduction by Martineau (1958) of store image as a concept in the development of retail personality, marketing researchers have devoted considerable attention to developing the idea that consumers hold images of particular stores in their minds (e.g., Chowdhury et al. 1998; Berry 1969; Kasulis and Lusch 1981; Kunkel and Berry 1968; Marks 1976; Mazursky and Jacoby 1968).

The American Marketing Association defines store image as the way in which a store is defined in a shopper's mind. It is based on the store's physical characteristics, retailing mix, and a set of psychological attributes.

Although definitions vary, Martineau's definition is generally accepted (Finn and West 1992). He defines store image as the way in which the store is defined in the shopper's mind, partly by the functional qualities partly by an aura of psychological attributes. He thought of store image as part of the retail store's personality (Katherine and Rosann 2005).

Lindquist (1974) theorized that the behavior of a human being is not directed by mere knowledge and information but by the images that a person perceives. In addition, Lindquist stated that the human mind can handle only a certain number of complex situations and stimuli; therefore, people attempt to simplify circumstances and thus abstract only a few meanings that appear salient. This means that image is a summary of a vast complex of values and meanings (Zimmer and Golden 1998).

Hanaro Club has differentiated itself from other discount retailers in Korea by taking a very different direction, which helped to create a unique image for it in the minds of customers.

Hanaro Club's positioning was based on more than just pricing; it encompassed quality, life style and national and local sentiment of Korean people. This was a differentiation strategy that was consistently applied since the launch of the chain. Hanaro Club has positioned itself as a Korean style discount store chain in which the retailer has combined the Korean life style and sentiment with marketing mix.

Previous research (Yong-tak Kim 2003) has identified five Hanaro Club characteristics: 1) Hanaro Club stores offer high quality fresh foods, 2) The stores offer only domestically grown produce and meat, 3) The stores offer plenty of special products from every region of Korea, 4) The stores provide a focused range of goods such as food and essential household consumer goods. and 5) the product mix is closely related to the dietary life of Korean people.

In this paper, we consider these distinguished elements and define store image as the *'summation of the five characteristics as perceived by the shoppers through their experience of Hanaro Club stores.'*

Even though the importance of store image to retail sector has generally been accepted, to the best of our knowledge, there is no study available investigating the relationship between the characteristics of Hanaro Club store image and sales performance. To examine the relationships, the following hypotheses are offered:

HYPOTHESIS 2a: *A better image of Hanaro Club providing high quality and safe fresh foods improves the sales performance of Hanaro Club stores.*

HYPOTHESIS 2b: *A better image of Hanaro Club providing only domestically grown produce and meat improves the sales performance of Hanaro Club stores.*

HYPOTHESIS 2c: *A better image of Hanaro Club providing plenty of local special products improves the sales performance of Hanaro Club stores.*

HYPOTHESIS 2d: *A better image of Hanaro Club offering a focused range of household consumer goods improves the sales performance of Hanaro Club stores.*

HYPOTHESIS 2e: *A better image of Hanaro Club whose product mix is closely related to the dietary life of Korean improves the sales performance of Hanaro Club stores.*

3. Methodology and Data

3.1 Measures

Sales Performance

We employ sales per square foot as the measure of store sales performance. This is preferred over alternative performance measures such as profits for the following reasons. First, any profit measure is necessarily subject to accounting conventions, and these conventions may change over time. Second, given the behavioral focus of our study, we expect sales per square foot to increase with customer satisfaction and store image. Such a link is less obvious for profits. Finally, and related to the previous point,

profits depend on other store-specific variables that affect economic efficiency such as labor and operational costs that are not related to customer satisfaction and store image characteristics (Gomez, McLaughlin, and Wittink 2004).

Overall Consumer Satisfaction by Product Type

The product level satisfaction measure at Hanaro Club was adopted from Gomez, McLaughlin, and Wittink (2004), which consisted of 19 items. We combined satisfaction drivers or attributes to create overall customer satisfaction by product type. The CS measure we use pertains to a customer's overall satisfaction by different product groups Hanaro Club stores offer. The original ten point scale was changed to a five point Likert-type scale to help respondents understand easier and prevent ambiguous meaning in Korean. Customers responded to the three statements by picking one of the five responses ranging from Dissatisfied (coded as 1) to Very much Satisfied (coded as 5).

Store Image

The characteristics of Hanaro Club store image were developed based on previous studies (Yong-tak Kim 2003). These characteristics can be classified into the following five categories: 1) Hanaro Club stores offer high quality and safe fresh foods, 2) The stores offer only domestically grown produce and meat, 3) The stores offer plenty of special products from every region of Korea, 4) The stores offer essential household consumer products such as food, kitchen utensils, and daily necessities. and 5) the product mix is closely related to the dietary life of Korean people. The five point

Likert-type scale was used to measure customer thinking about the characteristics. Customers responded to the five statements by picking one of the five responses ranging from Completely disagree (coded as 1) to Absolutely agree (coded as 5).

3.2 The Basic Model

Customer satisfaction and store image are often closely related. CS is often attributed to the store image and the same applies in reverse (see Figure 1. Model Overview).

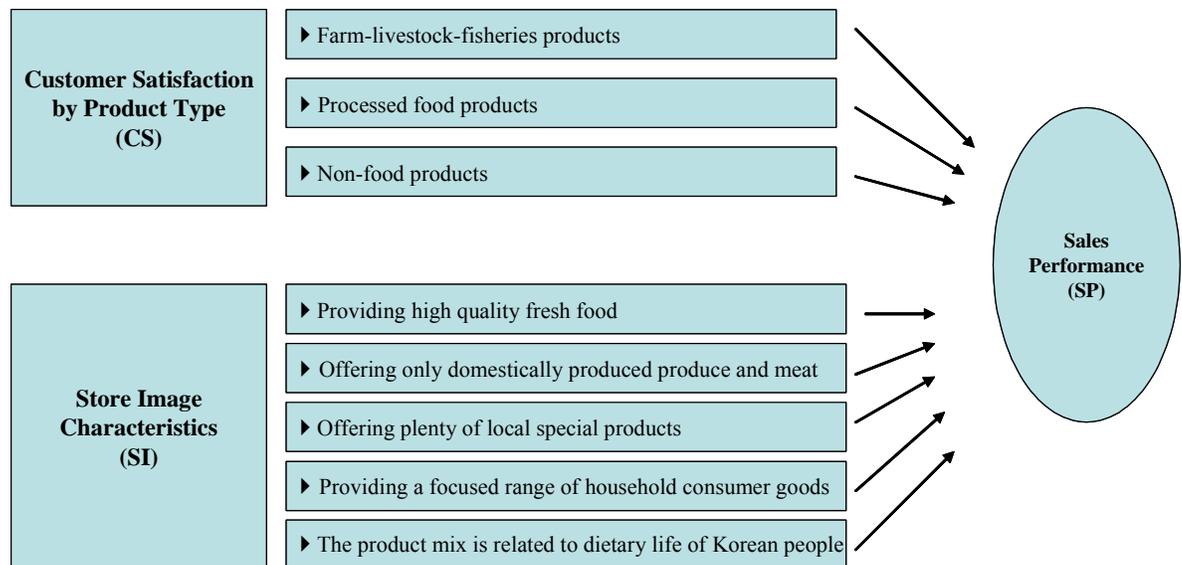


Figure 1. Model Overview

If customers develop a favorable store image, they will form a certain degree of satisfaction commensurate with the favorable store image (Spiggle and Swell, 1987). Therefore, we will combine CS and SI variable into a model. The prime interest of this paper is to access the effects of individual elements on sales performance. The impact of customer satisfaction and store image on sales is considered to be direct. These insights would enable retailers to spend marketing mix resources more effectively.

The model is a system of equations linking overall CS by product types, characteristics of SI and sales performance.

$$\text{Sales Performance (SP)} = \beta_0 + \beta_1\text{OSF} + \beta_2\text{OSP} + \beta_3\text{OSN} + \beta_4\text{Fresh \& Safe} + \beta_5\text{Domestic} + \beta_6\text{Special} + \beta_7\text{Focused} + \beta_8\text{Dietary} + \varepsilon$$

where,

Sales Performance (SP) is monthly average sales per square foot

OSF is overall customer satisfaction with farm-livestock-fisheries products group

OSP is overall customer satisfaction with processed food products group

OSN is overall customer satisfaction with non-food products group

Fresh & Safe is customer thinking about the store image that the stores provide high quality and safe fresh foods

Domestic is the degree to which customer identifies the store image as providing only domestically grown produce and meat

Special is the degree to which customer identifies the store image as providing plenty of local special products

Focused is the degree to which customer identifies the store image as providing a focused range of household consumer goods

Dietary is the degree to which customer identifies the store image that the product mix is closely related to the dietary life of Korean people.

3.3 Model Test Methods

The Ordinary Least Square (OLS) test with the clustered effect was applied since the 265 observations of overall customer satisfaction by product types and store image characteristics clustered around the five dependent variables of store sales performance.

3.4 Descriptive Statistics

Descriptive data showing the mean, standard deviation, minimum and maximum values for variables are provided in Table 5.

Table 5. Descriptive Statistics for the Data Set

Variables	Mean	Std. Dev.	Min	Max
Sales performance*	120.93	69.42	51.58	226.08
<Product level CS>				
Farm-livestock-fisheries products	3.36	0.850	1	5
Processed food products	3.25	0.903	1	5
Non-food products	3.13	0.811	1	5
<Store image characteristics>				
High quality and safe fresh food	3.37	0.883	1	5
Domestic produce and meat	3.27	0.909	1	5
Plenty of local special products	2.91	0.941	1	5
Focused range of household goods	2.70	0.995	1	5
Closely related to dietary life	3.31	0.955	1	5

* 2005 monthly average sales per square foot in US dollars

The average monthly sales per square foot vary between USD 51.58 and USD 226.08. Descriptive statistics for all independent variables are similar, with means ranging from 2.70 to 3.37, and standard deviations ranging from 0.811 to 0.995. For every response variable, responses ranged from 1 to 5.

4. Findings & Discussion

4.1 Model Specification

The Ordinary Least Squares (OLS) regression with clustered effect test was carried out to check the cluster effect in the model. Since the outcomes of within a cluster are

likely to correlated, allowing for an unobserved cluster effect is typically important. When we consider numerous factors influencing the sales performance, the overall statistical support for the model is strong; R-squared = .35, explaining 35% of the total variation in sales performance. The estimates of the structural coefficients provide the tests of the proposed hypotheses.

Table 6. OLS Regression Estimates

Label	Variable	Parameter estimates	t-value
<Overall satisfaction factors>			
Farm-livestock-fisheries products	<i>OSF</i>	18.66**	3.84
Processed food products	<i>OSP</i>	23.64**	3.02
Non-food products	<i>OSN</i>	8.32	1.94
<Store image factors>			
High quality and safe fresh food products	<i>Fresh & Safe</i>	13.27*	2.40
Domestically grown products	<i>Domestic</i>	-22.00**	-5.32
Local special products	<i>Special</i>	13.93*	2.59
Focused range of household goods	<i>Focused</i>	-8.96*	2.02
Dietary life of Korean people	<i>Dietary</i>	0.50	0.34

* $p < .05$, ** $p < .01$, *** $p < .001$

The regression analysis reveals that the six out of eight variables were statistically significant, implying customer satisfaction by product types and store image characteristics can influence sales performance.

4.2 Tests of Hypotheses

Effects of Product Level Customer Satisfaction on Sales Performance

We first address the links between product level customer satisfaction and sales performance regarding HYPOTHESES 1a, 1b, and 1c.

The result supports HYPOTHESES 1a and 1b. As Table 6 shows the overall customer satisfaction with farm-livestock-fisheries product type ($\beta_1 = 18.66, p < .01$) and the overall customer satisfaction with processed food type ($\beta_2 = 23.64, p < .01$), have significant effects on sales performance. The results also show that overall satisfaction with non-food product type has no significant effect on non-food product group.

The estimates ($\beta_1, \beta_2, \beta_3$) in Table 6 allow us to estimate the impact of changes in SC factors on sales performance. We expect the product level SC to have a positive effect on sales performance, ceteris paribus: all other factors being equal, if a SC score increases, sales performance should improve.

As expected, there is a positive relationship between overall SC with farm-livestock-fisheries products and SP: holding the other variables fixed, the impact of overall satisfaction with farm-livestock-fisheries products is associated with the parameter of *OSF* (18.66). In other words, a one point increase in CS with farm-livestock-fisheries products will lead to an increase of the sales per square foot by \$18.66 per month ($\Delta SP = \beta_1 \times \Delta OSF \text{ score} = 18.66 \times 1.0 \text{ point} = 18.66$).

Similarly, we can predict the effect of overall CS with processed food products on SP, while holding the other variables fixed. For example, a one point increase in CS with processed food products will positively affect the sales per square foot by \$23.64 per month ($\Delta SP = \beta_2 \times \Delta OSP \text{ score} = 23.64 \times 1.0 \text{ point} = 23.64$).

Effects of Customer Perception of Store Image Characteristics on Sales Performance

HYPOTHESES 2a, 2b, 2c, 2d, and 2e state that better customer perception of store image characteristics improve store sales performance.

The results support HYPOTHESES 2a, 2b, 2c, and 2d. Table 6 shows that four of the five variables relating store image to sales performance are statistically significant, although with different directions. The image that the stores provide high quality fresh food products ($\beta_4 = 13.27, p < .05$), the image that the stores provide only domestically grown products ($\beta_5 = -22.00, p < .01$), the image that the stores offer plenty of local special products ($\beta_6 = 13.93, p < .05$) and the image that the stores offer a focused range of household consumer products ($\beta_7 = -8.96, p < .05$) are statistically significant. However, the image that the product mix is closely related to the dietary life of Korean people has no significant relationships with sales performance.

We can use the four parameter estimates of store image characteristics ($\beta_4, \beta_5, \beta_6, \beta_7$) which are statistically significant to measure the size of effect that store image can influence sales performance. We expect the store image characteristics have a positive ceteris paribus effects of each independent variable on sales performance: all the other factors being equal, a SI score increase will lead to an increase in the sales per square foot.

Two of the OLS slope coefficients (β_4, β_6) – the image that Hanaro Club carry high quality and safe fresh foods (*Fresh & Safe*), and the image that the stores offer a lot of local special products (*Special*) – have the anticipated positive signs. An increase in the score of the two SI leads to an increase in SP. If we increase the *Fresh & Safe* score by 1.0 point, then, holding the other factors fixed, the sales per square foot increase by \$13.27 per month ($\Delta SP = \beta_4 \times \Delta \text{Fresh score} = 13.27 \times 1.0 \text{ point} = 13.27$). Also if a store increases the score of *Special* by 1.0 point, then, holding the other factors fixed, SP increase by \$13.93 per month ($\Delta SP = \beta_6 \times \Delta \text{Special score} = 13.93 \times 1.0 \text{ point} = 13.93$).

Unexpectedly, two of the parameter estimates (β_5, β_7) – the image that Hanaro Club offer only domestically grown produce and meat (*Domestic*) and the image that the stores offer a focused range of household consumer goods (*Focused*) – have the negative signs. As these two image variables increase, the sales per square foot decrease. If we increase the image score of *Domestic* by 1.0 point, then, holding the other factors fixed, the predicted fall in the sale of per square foot is \$22.00 per month ($\Delta SP = \beta_5 \times \Delta \text{Domestic score} = -22.00 \times 1.0 \text{ point} = -22.00$). Similarly, a higher score of *Focused* image leads to a lower predicted sales. In fact, if the image score increase by 1.0 point, the predicted SP fall by \$8.96 per month ($\Delta SP = \beta_7 \times \Delta \text{Focused score} = -8.96 \times 1.0 \text{ point} = -8.96$).

5. Discussion and Implications

The purpose of this research was to examine the relationships between product level customer satisfaction, store image, and sales performance in the Hanaro Club stores.

Our study demonstrates that changes in product level customer satisfaction and customer store image perception can cause the changes in store sales performance. The customer satisfaction factors have positive relationships with sales performance. The store image factors affect sales performance either positively or negatively. Given the fact that customer satisfaction and store image are two of the primary goals of the marketing function, the findings are notable.

In terms of the practical relevance of our research, a number of managerial implications may be derived.

First of all, the relationships between overall CS by product type and sales performance have some managerial implications for Hanaro Club. For years Hanaro Club executives and managers have trusted their intuition that a higher level of customer satisfaction with food products improves sales performance because the discount retailer focuses on carrying food products. In support, our research finds that there is positive relationship between overall satisfaction with food groups and sales performance, recognizing that customer satisfaction with food products is vital to increase sales performance at the stores. Another implication is that the Hanaro Club customers value food. This valuation is reflected in the level of customer satisfaction by product type has significant positive relationships with sales performance, but that of non-food products does not, suggesting that it is critical for the retailer to improve the level of CS with food products to increase sale performance.

Secondly, the findings of the relationships between customers' store image also have some important implications for the Hanaro Club managers. The managers should take into account the serious impact of store image on store sales; all of the characteristics of store image studied in this research do not favorably affect sales performance. A previous study shows that the more favorable the store image, the more likely consumers are to buy in the store (Ho Wai Man 2002). This implies that retailers have to make sure that the store image characteristics are as positive as possible in the eyes of the customers. In addition, our study shows that it is quite clear that the positive relationship by one factor could reach its limit much sooner than by other negative factors. The benefits of increasing store image with providing fresh food products and local special products are more than offset by the store image that carry only domestically grown produce and meat and the focused range of product assortment.

Therefore, the retailer should focus not just on the positive impact of store image program but also on minimizing the negative effects.

Thirdly, the positive store image characteristics can be used as a major tool to build a better brand to distinguish one store from other competitors. The factors allows added value to be built into stores enabling the strategies to differentiate them from competitors. In addition, the positive characteristics can have enormous strategic and financial value. For example, Hanaro Club stores may be able to charge higher prices than competitors for fresh food products because the image that the stores provide high quality products may make shoppers feel less sensitive to price change and, what is more, it may be considered that higher price signals high quality.

Next, two store image characteristics had negative effects on store sales. This might be interpreted that unavailability of imported fresh produce and meat and extra consumer goods diverts consumers to other stores. Providing 'One-Stop Shopping' service creates obvious benefits to customers (Semeijin and Vellenga 1995). Offering more variety of products by carrying popular imported fruits and popular consumer goods such as cloths, electronic home appliances, automobile-related products would contribute positively to sales performance.

Finally, in a company strategic sense, this research demonstrates the importance to the manager of incorporating customer satisfaction and store image into the firm's overall strategy. In the discount sector, the customer satisfaction was rated as very important in general, and store image affected purchase intentions. By incorporating customer satisfaction and store image into the company's marketing strategy, the two factors can

be used as elements of strategy to increase sales performance. Additionally, market segmentation based on customer satisfaction with product groups and store image may provide a firm with a means to strategically position itself apart from the competition.

IV. Concluding Remarks

This research project focused on the effect of CS by product types and customer perception of SI characteristics on sales performance in Hanaro Club stores. The results clearly show that CS by product groups and customer perception of SI have influenced the store sales. This study contributes to the customer satisfaction and store image literature by relating the concept of CS by product types and a unique and personal factor of customer thinking on SI image characteristics to store sales performance.