



The effect of distribution channel diversification of foreign luxury fashion brands on consumers' brand value and loyalty in the Korean market

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ABSTRACT

The purpose of this research is to examine South Korean consumers' brand value and brand loyalty toward foreign luxury fashion brands and current distribution channels for those brands (i.e., Department stores/Specialty stores, Factory outlet, Internet retailing, TV home shopping). Furthermore, this research examines the impact of channel diversification on consumers' brand value and brand loyalty toward foreign luxury fashion brands. This study employed a quantitative research method. Factor analysis, ANOVA, Duncan test, and multiple regression analysis were employed to test the hypotheses. When testing brand values for each channel diversification case, participants evaluated brand value differently depending on the type of distribution channel. Participants did not show significantly different brand loyalty depending on distribution diversification cases. When the influence of brand value on brand loyalty was tested, different brand values affected brand loyalty depending on the type of distribution channel. Also, this research could suggest possible distribution channel options for foreign luxury brands to be successful in the Korean market and values they need to put an importance depending on the retail types. In addition, foreign luxury brands could apply the results of this study to their own markets.

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1. Introduction

The United States (US) and South Korea (SK) signed a free-trade agreement (KORUS FTA) on April 1, 2007, to expand the bilateral trade and investment ties and create new economic opportunities for the people in both the countries. SK is the world's tenth largest economy with a GDP of nearly \$1 trillion (United States and the Republic of Korea sign landmark free trade agreement, 2007), and is the US' seventh largest goods-trading partner, with a two-way goods trade valued at approximately \$78 billion in 2006. The implementation of KORUS FTA is expected to create highly valuable new export opportunities for the American textile and apparel companies, by phasing out or eliminating tariffs and quotas on a broad range of products. Nearly 95% of the bilateral trade in consumer and industrial products may become duty-free within 3 years, with all the remaining tariffs eliminated within 10 years.

The US textile and apparel companies that comprise globally well-known luxury brands have strong interests in expanding the market access and investment opportunities owing to the high

popularity of foreign luxury brands in SK. According to Wagle (2003), the US luxury apparel and footwear brands achieve more than 30% of their total sales from Asia, and the most profitable markets are Japan, SK, and Hong Kong. SK is one of the most important markets for the luxury fashion brands, not only from the US but also from the European countries. In the first week of February in 2008, more than 100,000 South Koreans visited Paris for luxury fashion goods shopping, which is a 40% increase than the previous year (Go, 2008). SK is one of the top five countries that shop for luxury fashion goods in Paris. Even with the current economic crisis, the three major department stores in SK increased the sales of luxury fashion brands by 28.5% in 2008 (The Ministry of Knowledge Economy, 2008).

The KORUS FTA is expected to provide a competitive advantage to the US luxury fashion companies (e.g., Calvin Klein, Ralph Lauren, Marc Jacobs) doing business in SK. US companies will be able to offer a lower price range than that of the European luxury fashion brands (e.g., Gucci, Ferragamo, Coco Chanel, Louis Vuitton) owing to the exclusion of duties and tariffs. To take advantage of this benefit, the US luxury fashion companies need to know what the South Korean consumers value, and what systems create their brand loyalty toward foreign luxury brands. In addition, they need to know how the foreign luxury fashion goods are distributed in the South Korean market, which is

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different from the US distribution system. Recently, the distribution channels of foreign luxury fashion brands (FLFB) in SK have become more diversified than those in the US.

US luxury fashion brands need to understand this changing South Korean distribution trend and the South Korean consumers' store preferences, for their market expansion in SK. However, no research has been carried out regarding the distribution channel diversification for FLFB and its impact on the consumers' shopping behavior, especially the brand value and brand loyalty toward FLFB.

The purpose of this research is to examine the South Korean consumers' brand value and brand loyalty toward FLFB and the current distribution channels for those brands (i.e., Department stores/Specialty stores, Factory outlet, Internet retailing, and TV home shopping (TVHS)). Furthermore, this research examines the impact of channel diversification on consumers' brand value and brand loyalty toward FLFB.

2. Literature review

The market size of foreign fashion brands in SK has continuously increased since 2000 (e.g., Year 2000: \$1200 billion, Year 2005: \$2300 billion) (Jeong and Park, 2006). In particular, the sales of FLFB have continuously increased, and the highest growth rate of sales has been observed at major department stores in SK. In 2005, more than 800 foreign apparel brands existed in SK, and products from the US, France, and Italy comprise 69.2% of the market (190 brands from the US, 182 brands from France, and 178 brands from Italy) (Jeong and Park, 2006). When KORUS FTA is implemented, all the international duties between the two countries will be eliminated, which will possibly reduce the US luxury fashion brand prices in SK. At present, the US fashion brands tend to increase the quality of products in SK and open more wholly owned subsidiaries, by bringing and selling products directly from the US for a higher profit, instead of licensing. The future of US-origin luxury fashion brands in SK is expected to increase with the support from the new FTA agreement between the two countries.

Currently, in the South Korean market, "parallel importation" for FLFB is allowed by the government. Parallel importation allows direct importation of FLFB from the retail stores in foreign countries to those in SK without permission from the brand owners or authorized vendors in SK, e.g., licensees. As the stores using parallel importation can offer 30–50% cheaper prices than the department and specialty stores, the market share has continuously increased (Geon, 2001). Before the parallel importation was allowed, FLFB were primarily sold at department stores and specialty stores under contracts with brand owners, and served the high-income-class consumers who were the traditional target market for FLFB. However, with the recent increase in the middle-income-class consumers purchasing FLFB, they have become another major target market, and distribution channels have been diversified accordingly. In SK, FLFB are currently being sold via Internet stores, including blog shops, TVHS, and outlet stores, in addition to traditional distribution channels (TDC) (i.e., department stores, specialty stores) (Jeong and Park, 2006). However, this distribution channel diversification has not occurred in the US, where FLFB are mostly being sold through TDC.

2.1. Distribution channel diversification

Stone et al. (2002) studied an emerging distribution strategy using more than one retail type to serve consumers, which is multichannel retailing, and they concluded that multichannel retailing provided unique shopping experiences and values for consumers. Accordingly, consumers have accustomed to shop at

multiple channels for a product; therefore, Stone et al. (2002) emphasized the importance of management for multichannel shoppers. Vijayasathy and Jones (2000) researched multichannel customer management and suggested for retail types to provide their customers unique benefits/values (e.g., product values, 24-h access, product comparisons) to compete with other retail types. Neslin et al. (2006) studied multichannel strategy and identified challenges/issues in multichannel customer management. They indicated that integrating customer data that depicts which channel the customer accessed during each stage of the decision making process is the most important area for researchers and it requires future attention. The researchers also suggested to understand customer behavior, especially what makes the customer choose one channel over another including price because some customers showed less brand loyalty and some showed increased brand loyalty by multichannel strategy. The researcher mentioned that allocating resources across channels could be a challenge for companies using multichannel strategy and not much attention was received in this area. This study examines the areas Neslin et al. (2006) suggested for the future research by identifying factors (brand values) that lead brand loyalty and suggests what resources (brand values) need to be allocated or more emphasized depending on retail types.

Currently, FLFB are using multichannel strategy in SK. FLFB are being sold not only via TDC (i.e., department stores, specialty stores), but also through the newly emerging distribution channels by parallel importation (i.e., TVHS, Internet stores, outlet stores). According to Jeong and Park (2006), in 2005, the market share of FLFB through retail-type sales is as follows: department stores: 23.5%, specialty stores (Korean branches): 19.2%, Internet/TVHS: 18.6%, outlet stores: 18.5%, and licensee specialty stores: 18.4%. The most popular shopping destinations for FLFB were department stores. However, specialty stores (Korean branches) and Internet/TVHS have also continuously increased their market share. On the other hand, licensee specialty stores, outlet stores, and department stores showed a steady or declining growth rate (Jeong and Park, 2006). The results revealed that consumers who previously shopped at TDC changed their shopping preferences to Internet stores and TVHS.

2.2. Department stores

Due to the economic crisis, the number of department-store customers has continuously decreased; however, the amount of sales has increased since 2004 ('Sales data', 2004–2007). This shows that loyal customers have continuously shopped at department stores regardless of the economic crisis, and spent more money than before. The report showed that the sales of FLFB have particularly increased when compared with other product categories in department stores. Therefore, department stores currently focus on FLFB by offering more FLFB brands and improving the atmosphere by renovating the interiors to compete with other channel types (C. Han, 2006).

Low product assortment due to limited space discourages consumers to shop for FLFB at department stores. Most FLFB at department stores offer only accessories including handbags, shoes, small leather goods, and luggage, as well as only limited clothing, if at all. However, owing to loyal customers, department stores are expected to remain as a major distribution channel for FLFB in the future (Won, 2003).

2.3. TVHS

The advantages of TVHS are their lowest-price guarantee and ability to deliver detailed product information. In addition, TVHS has improved the problem of one-way communication that

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