Case Report

Retail Regulation in South Korea: The NoBrand Case

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Abstract: This study examines how NoBrand has faced legal regulations in Korea, and NoBrand’s transition to the franchise system to respond to regulatory changes (examined with a case analysis). In 2015, Emart, a Korean retail giant, launched its private brand (PB), NoBrand, to address stagnant sales. With advantages in price and quality due to supply chain management (SCM), NoBrand not only established a successful foothold, but also gained success in the market. Despite the rapid growth of NoBrand, it has faced government regulations that restrict its operations. To respond to these regulations, NoBrand changed its direct operating system to a franchise system that allows an individual owner to run his or her own NoBrand store. However, the transition triggered conflicts with both local stakeholders and other branches of its parent firm, Emart. By analyzing these conflicts, this study finds that Korean retail policy did not effectively protect small business owners as primarily aimed.

Keywords: franchise system; retail; regulation; retail policy; case study; NoBrand

1. Introduction

The South Korean retail industry is one of the largest markets in Asia. Supermarkets, super-supermarkets (SSMs), convenience stores, and online retail have rapidly grown over the years. In addition, in terms of the market size of retail businesses, South Korea ranks fourth in Asia and 12th worldwide [1]. South Korea’s retail market is saturated with domestic players, mainly conglomerates such as Lotte, GS, and Shinsegae. These conglomerate retailers are competitive in both financial and corporate size [2]. With market growth and fierce competition, these firms have launched a new type of store called the super-supermarket (SSM) to expand their market share. The word “SSM” derives from the fact that SSMs are established by conglomerates, giving them “super” advantages relative to small local supermarkets [3]. As the number of SSMs has exploded since 2010, small retailers, including traditional markets, have been on the decline [4]. As a result, the Korean government has focused on revitalizing traditional markets by regulating retail giants. The government-established Agency for Traditional Market Administration and Agency for Small Entrepreneurs have started to regulate conglomerate retailers more actively [5]. Such efforts were strengthened with the Distribution Industry Development Act Law (DIDA) and Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises (APCLS).

This study contributes to Korean retail policy research by examining how Korean government regulations affect retail firms. The paper specifically examines the effects of government regulations on retailing industries.

To achieve this research goal, we first review the literature relevant to Korean retail policy and to other retail policy cases in foreign countries. In particular, we analyze a specific firm case, NoBrand, which is a private brand (PB) of the representative retail giant Emart. By analyzing the NoBrand case, this paper provides deeper insights into Korean retail policy and identifies several limitations of current regulations.
2. Literature Review

Retail Policy

According to Hollandar and Boddewyn (1974), there are five main objectives of retail policy: (1) the protection of small and medium-sized retailers; (2) the control of retail prices; (3) the protection of the environment; (4) the improvement of retail efficiency; and (5) the protection of consumer rights [6].

Many countries have been implementing various actions to regulate the retail market based on these five goals. For each goal, (1) Belgian regulations require new retailers planning to open a store of over 400 m\(^2\) to apply for specific retail authorization [7], and (2) France enacted the Loi Gall and Law in 1996 to allow independent food retailers managing an area of less than 300 m\(^2\) or other nonfood stores with store selling spaces of less than 1000 m\(^2\) to set below-cost pricing [8]. (3) Many countries, including Italy and the UK, have banned retailers from providing free disposable carrier bags since 2011 [9,10]. In addition, (4) to improve the retail industry, retail policies in developed countries have deregulated or relaxed constraints. France strictly prohibits Sunday trading [11], but the French government allows food retailers to remain open until 1 p.m. on Sunday [5]. (5) Japan revised the Large-scale Retail Stores Law (LSL) to the Store Location Law (SLL) to improve quality of life. The SLL requires a retailer wishing to open new shops of more than 1000 m\(^2\) to address ways to manage related problems (e.g., building safe traffic systems, addressing parking problems, reducing noise pollution, and effectively recycling or disposing of commercial waste) [12].

On the other hand, little policy of this nature has been applied in the United States. There is a regulation on so-called “zoning” that restricts the entry of businesses that sell certain products to certain areas. However, such regulation is applied to urban planning and has different objectives from the retail policies adopted in Europe and Japan. In addition, some northeastern states, such as Massachusetts and Maine, prohibit the sale of groceries on holidays, such as Thanksgiving and Christmas, but there is no selective ban on Sunday sales depending on the size of the retail store [13]. In the United States, the effects of large retailers have been actively discussed and examined. For instance, Basker (2005) found that new entrances by large retailers, represented by Wal-Mart, played a key role in increasing employment in local markets [14]. Some small and medium-sized stores have lost ground [15], but overall efficiency has increased as a ripple effect of Wal-Mart’s entry into the retail industry [16]. In addition, consumer welfare has enhanced as retail firms have strengthened their competitiveness in price and non-price terms through competition [17,18]. Meanwhile, a comparative study of Organization for economic co-operation and development (OECD) countries found that the lower the level of retail business regulation in a country is, the greater the efficiency of the entire retail industry, leading to an increase in sales and employment and lower prices [19]. Additionally, consumers’ well-being has increased as shopping hours have been extended [20].

Meanwhile, Korea’s retail policy has focused most on reviving traditional markets that are declining due to the expansion of retail giants. Representative policies include the DIDA and APLCS, and are explained in Section 6.

To shed light on the present Korean government regulations, the case of Japanese retail industry regulation serves as an appropriate reference. Japan enacted the LSL in 1974 to regulate conglomerates and protect small retailers [21], but it was abolished in 2001 for two critical reasons. First, there was a strong movement from the US and European Union (EU) to eliminate the LSL [22] because the regulation created a strong barrier to foreign investors who wished to enter the Japanese market. Second, the regulation had side effects on the Japanese retail industry. Furthermore, the growth of large stores accelerated after the enaction of the LSL. All but small retailers experienced positive growth between 1979 and 2002 [12,23].

In other words, it should be recognized that current regulations in Korea may be outdated in light of Japan’s retail policy cases. In fact, Cho (2014) argued that the Korean
retail policy does not give small retailers any competitive advantage and that there is a need to establish new measures to protect them [5].

3. Method

This study describes a case in which Korean retailers are heavily affected by government retail regulations. Korean retail policy has changed consistently to regulate the expansion of large retailers to protect traditional markets. Large retailers are heavily regulated by retail policy, and they try to use various strategies to escape such regulations. The NoBrand case serves as an example of a retail giant struggling to respond to such strict retail regulations.

For the purposes of this study, a qualitative case study was conducted. A case study approach is used when an in-depth analysis is required. It serves as an effective means to explain why and how a particular situation has emerged [24]. A qualitative case study provides a more detailed understanding of phenomena compared to a deductive study. In this study, a descriptive case study was conducted. A descriptive case study is used to understand the processes and importance of the subject of a given case [25]. Accordingly, it is appropriate to adopt a qualitative case study, which provides an in-depth and comprehensive analysis. NoBrand serves as an appropriate context for determining the current state of retail regulations in Korea. Moreover, problems emerging from NoBrand’s franchise business strategy established to avoid retail regulations are suitable for raising questions about the effectiveness of Korean retail policy, which focuses on protecting traditional markets. Therefore, the literature on the retail policies of other countries can reveal avenues that the Korean government should pursue.

4. NoBrand’s Background

4.1. History of Emart

Emart is the largest retail company in Korea and was founded in 1993. On 12 November, 1993, Emart opened its first store [26] and then grew rapidly. In 1997, it succeeded in expanding its business to China and opened its first store in Shanghai. Moreover, Emart expanded its business by launching Emart Traders, Emart Everyday, and Emart 24. It operated 141 Emart stores and six Emart Traders stores in 2019 [27].

Emart has grown into a retail giant since its launch. Recently, it has focused on online services and its private brand (PB) business to maintain its leading position in the industry in a rapidly changing environment.

4.2. PB Definition

A PB is a brand that is exclusively manufactured for a retailer. The retailer then markets the product under its own brand name. Typically, a manufacturer supplies unbranded goods to a distributor, which can also be a retailer. A distributor receiving unbranded goods adds its own label and sells it as a PB [28]. Unlike a national brand (NB), which can be sold anywhere in a given country, PB products are sold only in certain retailer stores. PB products are most characterized by their low cost. Because retailers directly control and facilitate the manufacturing, distribution, and sale of products, retailers maintain PB products at a reasonable price by reducing the costs of production processes [29].

4.3. Birth of NoBrand

Consumption trends have become polarized. While consumers are willing to pay premium prices for home appliances, electronic devices and fashion products, they prefer to purchase daily necessities at low prices [30]. This means that it is important for retailers to implement a low-cost strategy for daily necessities to induce consumer purchases. Moreover, online and convenience stores have grown rapidly due to the rising number of single-person households, and traditional retailers and department stores have faced a crisis in Korea. Figure 1 shows a drop in Emart sales from 2012 to 2014. For instance, Emart’s sales fell 2.8% to USD $10.3 billion in 2013 from USD $10.6 billion in 2012 [31].
Emart developed its PB, NoBrand, under the leadership of vice-chairman Jung Yong Jin, reflecting efforts to overcome the crisis. Emart launched three PBs: NoBrand, which is based on low-cost leadership; Peacock, a premium PB that uses special recipes from luxury restaurants; and the Collabo series [32]. NoBrand produces daily necessities such as batteries, tissues, and potato chips as their main products. NoBrand has used a low-cost strategy to attract customers who prefer to purchase daily necessities at low prices. Additionally, NoBrand packages its products in a conspicuous yellow color to attract customers by standing out visually.

NoBrand grew rapidly, and the number of NoBrand products increased considerably. In April 2015, when NoBrand started its business, it provided only nine products. However, the number of products increased to 800 over only 16 months. In particular, snacks, such as potato chips, became popular through social media due to their generous portions, low prices, and appealing taste [33]. NoBrand products were originally sold by Emart, Emart24, and Emart every day. However, due to NoBrand products’ success, Emart transformed NoBrand into an individual brand with its own stores. Emart opened its first NoBrand specialty store on 25 August, 2016. Figure 2 illustrates an increase in the number of NoBrand specialty stores [34]. In 2016, there were only 11 stores. Ninety stores opened in 2017, 200 stores in 2018, and 246 stores in 2019 [35]. Moreover, NoBrand has successfully expanded its business globally, now exporting four kinds of products, butter cookies, soap, tomato juice, and citrus juice, to the Chinese distribution channel Metro [36]. Additionally, two NoBrand stores opened in the Philippines in 2019 [37].

4.4. NoBrand’s Competitive Advantage Based on the Supply Chain Model (SCM)

As trends in consumer consumption have changed, competition among retailers has intensified. While paying less attention to brands of products, consumers now value quality more. Hence, PB products no longer lag behind in competing with NB products. Many retailers have launched their own PBs to survive such fierce competition. As social media have become influential, the popularity of PBs has increased [38]. The PB market is growing quickly. Figure 3 shows the sales growth of PB products from three major retailers, supermarkets, and convenience stores. Many retailers in Korea have launched their own PBs. The most well-known PBs in Korea include Emart’s NoBrand, Lotte Mart’s Only Price, and Homeplus Simplus, which are the PBs of the top three largest retailers [32].
The key feature of PB products that attract consumers is their “cost savings.” PBs can save costs at each stage of the supply chain. Because PB products minimize costs of production and intermediate distribution and reduce advertising and packaging costs, they attract consumers with their low prices. NoBrand enjoys a considerable advantage in sharing Emart’s well-organized and efficient supply chain model (SCM) to reduce production costs. NoBrand outsources most of its products to other suppliers, especially for its food products. For example, NoBrand purchased its cheese ball, one of its popular snacks, from a third party and distributes the product in NoBrand’s packaging. Furthermore, NoBrand saves outbound logistics costs by sharing distribution channels with Emart to deliver goods to all stores. Another cost-saving factor relates to marketing and sales, as NoBrand does little marketing, paying for no TV advertising and pursuing only basic promotions based on its seasonal inventory. As a result, NoBrand reduced its costs by 33% relative to competitors [39]. Additionally, frequent discount promotions and generous quantity discounts encourage consumers to purchase PB products.

NoBrand originally operated specialty stores in the form of direct-operated stores. However, on 17 December, 2018, Emart announced that it would start a NoBrand franchise business to rapidly increase the number of NoBrand stores [35].
5. Korean Retail Industry

5.1. Retail Industry

Figure 4 below shows rates of sales increase/decrease for major retailers relative to the previous year for 2017–2019. While online sellers continuously grew, offline retail growth fell to $-0.9\%$ in 2019. On this issue, the Ministry of Trade, Industry and Energy reported, “Although sales at convenience stores increased, sales at large discount malls and SSMs decreased due to the spread of online shopping, leaving offline sales decreased overall” [40].

(Unit: %)

Figure 4. Rates of sales increase/decrease for major retailers compared to the previous year. Source: RetailOn (2020) [41].

The main players of the offline retail industry are large discount stores, SSMs, convenience stores, and department stores. Those considered rivals by selling items with local supermarkets and traditional markets are large discount stores, SSMs, and convenience stores. The current “big three” discount stores are Emart, Lotte Mart, and Homeplus. In order of the number of stores, Lotte Supermarket, Homeplus Express, GS Supermarket, and Emart Everyday are the main SSM players [42]. The “big two” convenience stores are GS25 and CU with approximately 13,000 stores, with 7-eleven at a close third [41]. As the number of single-person households increase, GS25 recorded operating profits of USD $217$ million, with the sales ratio rising to 3% for both GS25 and CU [43].

Currently, Korea’s top online retailer is Coupang, which had 11.32 million app users as of September 2019 [44]. Experts attribute Coupang’s dominance of 24.6% of the share of the online retail market to its early morning delivery service. Consumers can obtain fresh groceries at their doorsteps at the break of dawn as well as on Sundays [45]. Figure 5 shows the growth of e-commerce food sales, which are catching up with those of large discount stores [46]. This shows that online sellers are a potential threat to all forms of retail, whose sales largely depend on food sales.

5.2. Government Regulations

The two most important regulations applied in the Korean retail industry are the Distribution Industry Development Act (DIDA) and the Act on the Promotion of Collaborative Cooperation between Large Enterprises and Small-Medium Enterprises (APCLS). The two bills, also known as the “twin act” or “SSM act”, were respectively enacted in 1997 and 2006. However, they were revised in November 2010 for the same reason: to limit SSMs to protect local businesses [47]. At the time, players in the retail industry were eager to expand their SSM business as the number of large discount stores became saturated [48]. Small and medium-sized merchants in the region strongly opposed this trend, claiming that large corporations had invaded their business territory. In fact, with the increase in SSMs, the
number of traditional markets decreased. Table 1 shows the number of traditional markets relative to SSMs during the 2000s [49]. In 2010, sales made at stores operating close to SSMs decreased by an average of 48%, and their number of customers has decreased by 51% since 2009 [50].

![Figure 5. Food sales shares of large discount stores and e-commerce. Source: Retailon (2020) [41].](image)

Table 1. Numbers for the super-supermarkets (SSM) and traditional markets.

|          | 2003 | 2005 | 2007 | 2009 | 2010 |
|----------|------|------|------|------|------|
| Traditional market | 1695 | 1660 | 1610 | 1550 | 1517 |
| SSM      | 234  | 267  | 354  | 660  | 866  |

Source: Hankyoreh (2012) [49].

The DIDA was enacted on 10 April 1997 to protect consumers and contribute to the development of the national economy by efficiently promoting the distribution industry [51]. Under the DIDA, large-scale stores and SSMs were not allowed to launch new stores within 39 traditional market districts across the country (the registration restriction). After the revision, the registration restriction was reinforced so that 1550 traditional markets were included under the traditional industrial preservation zones. SSMs and large-scale stores were banned from launching within 500 m of these zones. Accordingly, large-scale stores, direct management and SSMs, etc., must complete public hearings and secure residents’ consent to open stores in traditional commercial preservation areas [50]. The measure was reinforced again on 31 May, 2011, extending the designated area to 1 km from 500 m [52]. Apart from this registration restriction, an operation restriction is also applied. The DIDA requires the mandatory shutdown of these stores twice a month, and operations from 12:00 a.m. to 10:00 a.m. are banned with some exceptions [51].

Similar to the DIDA, the APCLS was enacted on 3 March, 2006, to resolve polarization and lay the foundation for the sustained growth of the national economy by solidifying win-win cooperation between large and small businesses. The APCLS targets issues that DIDA cannot address. It allows small and medium-sized merchants located outside a 1-km radius of the traditional market district to file a request to the government for arbitration. In the arbitration process, large conglomerates and small business owners can set ground rules regarding operation time, charges for delivery services, and what not to sell. If a mutual agreement cannot be reached, the store might not be allowed to open [53]. After the 2010 revision, franchise SSMs in which conglomerates had a 51% stake or more were included as subjects of the arbitration process, similar to direct management stores. This was applied due to claims from small merchants that the APCLS failed to protect them from franchises [54].
Lotte Mart’s (one of the three largest retailers) Pohang Duho branch serves as an example of the effects of the DIDA and APCLS. The building was constructed in 2015 with an initial investment cost of USD $90 million. However, the store remained closed for more than 4 years because Lotte could not reach an agreement with one of the traditional markets, even after it had done so with 20 others nearby. Associated maintenance and rent costs exceeded USD $3 million per year [55,56].

Table 2 shows the sales share of large retailers, traditional markets, and online sellers. In 2006, the retail sales of traditional markets (27.2%) and large retailers (24.0%) were similar. However, in 2012, large retailers (25.7%) were far ahead of traditional markets (11.5%) due to their explosive expansion. Introduced around this time were the revised DIDA and APCLS. With regulations stopping the growth of conglomerate retailers, in 2017, the gap between the number of large retailers (15.7%) and traditional markets (10.5%) narrowed. However, portions of both of their market shares were taken by the new e-commerce market. During this period, sales in the e-commerce industry increased significantly to 28.5% [57].

### Table 2. Sales shares of large retailers, traditional markets, and online sellers.

| Year | Traditional Markets | Large Retailers | Online Sellers |
|------|---------------------|----------------|---------------|
| 2006 | 27.2%               | 24%            | 18%           |
| 2012 | 11.5%               | 25.7%          | 20.5%         |
| 2017 | 10.5%               | 15.7%          | 28.5%         |

Source: Etoday (2019) [57].

While large retailers experienced difficulty with the regulations and growth of e-commerce, the sales of Coupang, the leading online seller, were climbing faster than ever. Figure 6 shows Coupang’s sales by year. Few had expected the company to reach as much as USD $2.2 billion in 2017, as it had only achieved USD $0.3 billion in 2014 [58,59].

![Figure 6. Sales of Coupang (USD). Source: Fortunekorea(2019) [58].](image)

The acts were critical factors in the loss of sales by large retailers to e-commerce businesses shown in Table 2. “There have been many new towns in recent years; however, large retailers cannot offer bids to enter because of the traditional markets around them,” one industry expert pointed out. “Sales can only be increased as large retail stores open new stores, but due to the restrictions, sales have only continued to decline.” The act also limits large retailers from strengthening their delivery services to fight against e-commerce businesses. Due to bans on operations after midnight and regular shutdowns imposed twice a month, there are physical constraints on delivery hours [60]. Accordingly, a loss of worth of USD $2.76 billion occurred in 2013 due to the DIDA, but only USD $44.8 million was converted into consumption from traditional markets and small retailers [61].
the enforcement of the two laws and the rapid growth of e-commerce, companies such as NoBrand began to identify new strategies.

5.3. Strategic Issues

Appendix A shows the timeline of Emart and NoBrand development and retail regulation. NoBrand originally operated its stores as chain or direct-operating stores. In the direct-operating system, headquarters directly operates a store by dispatching a manager [62]. Thus, the company rents the space itself and manages all activities. As the property of the conglomerate, the processes of direct-operating stores are easy to control. However, it is difficult to expand the number of direct management stores due to regulations. To overcome the regulations, NoBrand announced the start of its franchise business on 17 December 2018 [63]. Through a change in its ownership system, NoBrand could now open new stores much more freely. Under Korea’s current law, stores with a shareholder owning 51% or more have to obey the APCLS. As a result, newly opened NoBrand stores, which are run by individual franchisees, do not have to follow the regulations. For instance, such stores do not have to undergo the arbitration process [64] and are not restricted by the law banning the opening of new stores within the same industry. One NoBrand official said, “NoBrand franchises are not owned by Emart; they are private stores. You cannot force individual self-employed people not to do business just because there are supermarkets or convenience stores around them” [65].

The advantages of the new franchise system seemed considerable, as NoBrand could freely launch new stores. However, this system also created numerous problems. First, major clashes with local stakeholders resulted. In September 2019, Chuncheon trade associations and 18 non-governmental organizations (NGO) held their second gathering protesting the entry of NoBrand into Chuncheon. They were especially furious about NoBrand’s expedience. NoBrand had failed in its attempt to enter Chuncheon in 2018 through a direct operation store due to regulations. By shifting to the franchise system, the company could avoid the regulations. The Chuncheon conflict constitutes just one example of the many conflicts that NoBrand has faced with local markets due to its franchise system. The system has also led to criticisms regarding business ethics [66]. Again, in 2020, in the city of Gaheung, 32 civic and social organizations held a press conference to express their opposition to NoBrand operations, which had destroyed the local economy. The organizations especially criticized the government’s lack of action as small and medium-sized retailers collapsed [67]. Emart had tried to open a NoBrand store in Jeonju, but negotiations with local stakeholders prevented this. Nevertheless, NoBrand plans to open Songcheon and Samcheon branches in Jeonju, which could cause nearby stores to close down. According to the Jeonbuk Distribution Industry Report, one of the most important reasons for the decline of small and medium-sized retailers has been the launch of large retailers (39.8%) [68]. In addition, one official said, “If NoBrand enters, the amount that local stakeholders will lose will be approximately 10 thousand dollars per day” [69].

In response, Emart indicated that NoBrand’s franchise stores would only open it at the request of those who wished to run them and stated “we started the NoBrand franchise business because there were many requests from retailers to operate it as NoBrand became popular,” claiming that this had been legally implemented according to the law [68].

As a second problem, there were conflicts between brands owned by Emart. Table 3 lists legal disputes occurring between Emart24 and Emart regarding NoBrand. NoBrand, in selling relatively inexpensive products, was involved in lawsuits with franchisees of Emart24, Emart’s convenience store brand. Before NoBrand was launched as a brand with its own stores, NoBrand products were sold through Emart24. The sale of inexpensive NoBrand products constituted one of Emart24’s competitive advantages. When the brand could no longer sell NoBrand products due to the launch of NoBrand’s own brand store, many storeowners of Emart24 complained about losing this advantage. Worse, since NoBrand is not categorized as a convenience store, it was not affected by the Franchise Business Promotion Act [70]. The Franchise Business Promotion Act forbids franchise headquarters
from opening new stores near existing ones of the same industry. NoBrand stores could then open near Emart24 outlets, which led to a sales decrease for Emart24 stores [71]. The situation worsened as more NoBrand stores opened, sometimes right next to Emart24 franchises, due to the change in operation systems.

Table 3. Legal Disputes between Emart24 and Emart Regarding NoBrand.

| Name of Branch       | Distance to Nearby NoBrand Store(s) | Status as of April 2019       |
|----------------------|-------------------------------------|-------------------------------|
| Incheon Macheon      | 15 m                                | Taken by headquarters, in business |
| Gyeonggi Pyeongtaek Jungang | 80 m                                 | Closed                        |
| Incheon Cheongnabom  | 180 m                               | Taken by headquarters, in business |
| Ulsan Seongnam       | 70 m, 150 m                         | In business                   |
| Ulsan Hyundai        | 250 m                               | In business                   |

Source: Hankookilbo (2019) [63].

“Emart said there would be no damage to my store because NoBrand’s products and focus are different, but this was a lie,” an Emart24 owner in litigation with Emart regarding the issue claimed. “NoBrand’s prices are cheaper while its products are similar to those sold at my store, and sales dropped by more than 10% after NoBrand entered nearby [65].” When asked about this issue at a press conference, Shinsegae vice-chairman Jung admitted that this had been a grave mistake [72].

6. Discussion: Retail Regulation, NoBrand, and Open Innovation

This study analyzed government regulations on the retail industry in Korea through NoBrand’s Case. Taking a step further from the limits of regulation, it is also necessary to focus on the growth of e-commerce, which had a significant impact on NoBrand’s move. Due to regulation only for offline conglomerates retailers and the development of information technology, the e-commerce platform is growing rapidly. This change caused an open innovation called platform business to the retail industry in Korea. Yoo et al. (2012) observed the emergence of a platform is the core of innovation [73,74]. The pervasive penetration of technology with its flexible, open properties has enhanced the role of a platform and made it the central focus of many firms’ innovation activities [75]. Recently the retail industry has been moving to what it calls an “Omni-channel” that connects offline and online platforms [76]. Shinsegae, the parent company of NoBrand, also launched the Online to Offline (O2O) service named “ExpreSSG” on its online retail platform, SSG.com [77].

Yun et al. (2018) argued that controlling complexity at the stage of open innovation is the most important [78]. On the other hand, Anderson (1999) suggested the Complex Adaptive System (CAS), which is an evolving system based on the interaction of the individuals connected together, as the way of addressing open innovation complexity [79]. In this perspective, it is critical to identify the agents within open innovation and to understand the connectivity of them. For Korea’s retail industry, there is government, conglomerate retailers, small retailers, and e-commerce. From the micro-dynamics aspect, the interaction between these four agents will affect further innovation [80]. In particular, the government plays an essential role as a broker who can stimulate the synergy between the agents [81]. In addition, the government can prevent the negative impact of innovation by combining soft and hard policies [82]. For instance, recently, the Korean government discussed retail platform policies to control the side effects of retail platform innovation [83]. In order for the regulation not to be a problem as in the case of NoBrand, the role of the government should change from regulation control to facilitation under a quadruple-helix model of Yun and Liu (2018) [80,84]. If the regulation is developed considering the limitations pointed out in the study and CAS, Korea’s retail industry will be able to take a leap forward.
7. Conclusions

7.1. Implication: Theoretical and Practical Value of This Research

This study analyzed NoBrand’s response to retail regulations and the effectiveness of such regulations. From NoBrand’s case, the study shows an ironic phenomenon whereby small businesses are damaged by the side effects of a law enacted to protect them. NoBrand has grown successfully via low-cost leadership and the provision of daily necessities. It has grown into an individual brand with approximately 250 stores in Korea. However, with the reinforcement of “SSM laws”, DIDA and APCLS, and the emergence of online sellers, it has faced challenges. To survive despite these regulations, NoBrand decided to adopt a franchise system when launching new stores. This led to conflicts with local markets and between brands owned by Emart. Many individuals are in the midst of conflicts that NoBrand has created. By exploring these conflicts, our study shows that small business owners have been harmed by the decisions made by companies attempting to survive harsh regulations. Nevertheless, “SSM laws” have failed to protect such businesses from the real competitor—online sellers [57].

Managers could use this study to understand the side effects that might emerge in the process of responding to regulations. Policymakers can also refer to this study in handling DIDA and APCLS regulations in the future as well as laws of the retail industry in general. In addition, this work can be referenced for background information and past regulations when researching Korea’s retail environments.

The contributions of this study are as follows. First, it extends and complements prior studies on retail policy by focusing on Korean retail regulation. Prior studies have mainly focused on the regulations of European countries or of Japan when focused on Asia. Korean retail regulations are focused on protecting conventional markets and small businesses. In particular, they are stronger than those employed in other countries in that they pressure large retails to achieve this goal. As shown by our literature review, countries such as France and Belgium have placed limits on stores based on their size. However, since the revision of 2010, Korean retail policy regulates stores of any size owned 51% or more by retail brands. Additionally, stricter restrictions on operation hours and new store opening rules have stronger effects on the business of offline retail conglomerates.

Second, this study illustrates a situation in which a policy designed to protect local supermarkets and traditional markets is evaluated as a failure to achieve its primary purpose. Instead, regulations have led to a decline in the competencies of conglomerates. This has benefitted online shopping outlets as consumer trends had already leaned toward them. There was once a time when SSMs posed the greatest threat and restrictions seemed necessary. However, the effectiveness of such regulations is debatable under conditions where online retailers such as Coupang are taking over the market [65]. The NoBrand case shows that laws enacted to protect the market can be critical to some players in a rapidly changing environment.

Furthermore, this study identifies the effects of regulations applied in management environments through the NoBrand case. It also shows how involved entities behave in this process and demonstrates the effects of retail regulations adopted in Korea. The regulation of the hours of operation of large discount stores can directly decrease their revenue. Inappropriate regulation against retail businesses and chains can hinder market efficiency and consumer convenience [85]. Specifically, in this study, the retail market environment, including online competitors, was examined through real-life cases.

7.2. Limits and Future Research Topic

Future research must broaden the time range of analysis. For instance, the case explored in this study is descriptive rather than developing new theoretical constructs. It would be interesting for future studies to develop a dynamic process by introducing new constructs with the use of case studies. Furthermore, this study involved a case analysis of the processes and results of actions taken by a firm without quantitative analysis, limiting
the generalizability of its findings to other firms and countries. It would be worthwhile to empirically examine the findings of this study using a large dataset.

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**Appendix A**

![Timeline of Emart and NoBrand development and retail regulation. Sources: National Law Information Center, Emart and NoBrand website homepages.](image)

**Figure A1.** Timeline of Emart and NoBrand development and retail regulation. Sources: National Law Information Center, Emart and NoBrand website homepages.

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