

<Case Collection—1>

Marketing Case
of
The Seoul Marine Products Marketing Company**

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Early in 1962, officials of the Central Federation of Fisheries Cooperatives (C.F.F.C.) submitted a request to the Korean Economic Planning Board for a revision of the Fisheries Cooperatives Law. The requested revision was aimed at establishing a second, legally-recognized, wholesale market in Seoul through which the C.F.F.C. could sell its members' sea-food production. The existing Fisheries Cooperatives Law specifically prohibited the C.F.F.C. from participating in any speculative or commercial activity. The request submitted by the C.F.F.C. also asked that the law be amended to permit the engagement of the C.F.F.C. in commercial activity, namely, selling members' production to sea-food jobbers.

The Seoul Marine Products Marketing Company (S.M.P.M.C.) was the only officially recognized supplier of sea-food to jobbers in Seoul. The S.M.P.M.C. sales were made only to a limited number of jobbers who were licensed by the Seoul City Government. Determined to prevent any revision of the Fisheries Cooperatives

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Law which might open the way for a competing supplier, officials of the S.M.P.M.C. immediately filed a reasoned statement of their opposition with the Economic Planning Board. To resolve the differing points of view represented by the C.F.F.C. and the S.M.P.M.C., the Economic Planning Board called upon Professor A of Seoul National University. Professor A was requested to make a careful analysis of the situation and the arguments of the two parties and to recommend a course of action to the Economic Planning Board.

The Central Federation of Fisheries Cooperatives

The Central Federation of Fisheries Cooperatives was the national cooperative organization of Korean fishermen. In 1962, more than 800,000 Koreans (out of population of 26,000,000) earned their living in fishing and related activities. Over 8,000 Korean vessels carried on fishing operations in 1962—a better than 66 percent increase over the 4,812 vessels engaged in fishing in 1956. Virtually all Korean fishermen were affiliated with the C.F.F.C. through regional cooperatives. Because of the importance of fishing to the Korean economy, the C.F.F.C. was under the supervision of the Ministry of Agriculture and Forestry and received the full support of that Ministry. The national C.F.F.C. organization consisted of 88 regional cooperatives representing independent fishermenproducers, 11 business cooperatives representing commercial producers, and two processing cooperatives (see Exhibit 1).

The major purposes of the C.F.F.C. were to increase the income of fishermen, to fulfil such functions as research and as publicity, and to encourage industry efficiency. While the C.F.F.C. was barred from all commercial activity, it did perform a variety of business services for regional cooperatives including procurement, banking, credit, education, grading, and foreign trade arrangements. The Mutual Relief Bureau of the C.F.F.C. provided temporary financial assistance to members experiencing financial hardship. The organization of the C.F.F.C. for executing these functions is depicted in Exhibit 2.

The 88 regional producers cooperatives sold their production through four

consignment auction halls located in Inchon, Kanggyong, Masan, and Ulsan. These seashore auction halls were owned by the cooperatives and received a commission fee of approximately five percent. In these four auction halls, only licensed jobbers could purchase marine products; the licenses were granted by the respective city governments. These jobbers sold, in turn, through daily auctions in the fourteen central wholesale markets located in major Korean cities. Each of the four seashore auction halls was limited by law as to the source of the marine products which they sold and the buyers with whom they did business. The output of each regional cooperative was assigned to one of the four auction halls, and each auction hall could sell only to buyers licensed to participate in the auctions.

The Seoul Marine Products Marketing Company

The Seoul Marine Products Marketing Company was one of two wholesale companies licensed to do business in the Seoul Central Wholesale Market. The S.M.P.M.C. dealt in fresh, dried, and salted marine products including fish, shellfish, and seaweed. The Seoul Vegetables and Fruits Marketing Company—the other wholesale company doing business in the Seoul Central Wholesale Market—sold fruits, vegetables, meat, and eggs. Since all perishable food products sold in Seoul were required by law to be sold through the Central Wholesale Market, these two companies theoretically had a legal monopoly on their respective lines of food products. As is often the case, however, theory and practice differed; more than 50 percent of trading in marine products occurred outside of the legally incorporated Central Wholesale Market (See Exhibit 3). In addition to the two legally recognized wholesaling companies, many individual merchants traditionally carried on wholesaling activities on an independent basis. Marine products marketing was in a transitional period in 1962. It was the government's policy to bring about the elimination of the individual wholesalers by the gradual expansion of the Central Wholesale Market.

The Seoul Central Wholesale Market was established on June 22, 1951 by

Law No. 207, the Central Wholesale Market Law. In 1962, fourteen such central wholesale markets were operating in major cities throughout the Republic of Korea. In Seoul, the Central Wholesale Market was managed by the Seoul City Administration under the supervision of the Ministry of Commerce and Industry. Rental fees collected from wholesalers, which amounted to eight-one thousands percent ($\frac{8}{1000}\%$) of the wholesalers' sales, were a source of revenue for the city government and totalled about 300,000 won* per month.

The Seoul Marine Products Company was supervised and supported by the Ministry of Commerce and Industry. Selling on behalf of shippers and jobbers who purchased at the seashore auction halls to jobbers in Seoul, the S.M.P.M.C. used the auction method, long regarded as the best way to clear the market of large quantities of perishable goods in the shortest possible time. In the Seoul Central Wholesale Market, an auction was conducted early in the morning each day by auctioneers employed by the S.M.P.M.C. and licensed by the mayor of Seoul.

Buyers in the Central Market were also licensed by the mayor. In 1962, about 70 jobbers were licensed to buy at the Central Market auctions. These jobbers purchased at the prices established by the auction for retailers, institutional buyers, and other large customers, receiving five percent (5%) of commission. However, jobbers sometimes took title to the products purchased, and resold them assuming risk. Every retailer or other large quantity buyer was required by law to buy merchandise through this limited number of jobbers.

In addition to auctioneering, the S.M.P.M.C. provided a variety of services to jobbers and shippers. These services included collection of the proceeds from the sale at auction, standardization and sorting, and grading, and storage. Jobbers and shippers received payment for their merchandise from the S.M.P.M.C. immediately after the auction. Because the Seoul Central Wholesale Market was the largest central market in Korea, it tended to set the price in other central markets, as well as prices in other smaller wholesalae markets throughout the country.

* In 1962, \$1 U.S. = 130 won at the official exchange rate.

Determined at the end of each month, the commission rate received by the S.M.P.M.C. was based upon the total volume of sale during that month. This commission rate decreased as the volume of sale increased, but was usually between 4.5 and 5.0 percent.

Other Marketing Channels for Marine Products

The managers of the S.M.P.M.C. estimated that total annual consumption of sea food in Seoul, which had a population of approximately 3,000,000 in 1962, was more than 55,000 tons. It was further estimated that about one-half of this total was handled by the S.M.P.M.C., although this company was supposed to be the only marketing channel for marine products in Seoul. It was well-known that many individual wholesalers were operating in Seoul and that their transactions accounted for the remaining 50 percent of marine products consumption in Seoul.

Three large public wholesale markets other than the Central Wholesale Market had long been doing business in Seoul: the East Gate Public Market, the South Gate Public Market, and the Yongdungpo Public Market. Around fifty individual merchants operating in these three public markets combined both wholesaling and retailing functions. Exhibit 4 summarizes data about the movement of marine products through these three public markets. Officials of the Seoul City Administration were concerned over the possibility that public health might be endangered by the uncontrolled sanitary conditions in the three other public markets. One of the Government's objectives in establishing the central wholesale markets had been to centralize wholesaling activities in order to "clear the market" daily and, hence, to prevent the sale of old and spoiled perishable foods.

Early in 1962, the S.M.P.M.C. had received the permission of the City Administration to establish a branch operation near the East Gate Public Market, in order to absorb the customers of the individual wholesalers who were doing business there and to handle the goods supplied by shippers from the eastern coast.

Arguments Presented by the C.F.F.C.

Several arguments were presented by the Central Federation of Fisheries Cooperatives in their statement to the Economic Planning Board. Some of their arguments, in extract form, were as follows:

“It goes without saying that the Government aimed at increasing our poverty-stricken fishermen’s income as well as at promoting national economy on a balanced basis in its establishment of the Fisheries Cooperatives. Is it not, then, the obligation of the Government to help the Cooperatives carry out their undertakings? The marketing activity of the Fisheries Cooperatives should not be restricted by law, no matter where they may market their products. By fulfilling the selling function for a commission in urban markets, the Fisheries Cooperatives will be able to benefit both producers and consumers by bringing about price adjustments to the benefit of both. Further benefits will be derived by the elimination of individual wholesalers and many other middlemen from the market and by avoiding the payment of commission rates ranging from three percent to five percent at the various levels through which fishermen must now sell their production.

“But it is not the intention of the Federation to put the present marketing process into disorder, nor to expel the present wholesale system of the Central Wholesale Market. Rather, it is our intention to establish another wholesale system in urban markets in order to maintain proper prices of marine products by competing in good will with the existing monopolistic wholesale system. The present process of goods flow is so long that the freshness of marine products is difficult to maintain. The monopolistic operation of the present market, with one large wholesaling company like the S.M.P.M.C. in each central market, can arbitrarily decrease the price, which makes it difficult to establish prices in producing areas. Our members suffer from severe price fluctuations and need the benefits of a more competitive market.

“In order to achieve these objectives, the Federation will have to establish

its own assembling, shipping, and storage facilities. With a government subsidy to provide for the acquisition of these facilities, the Federation will be able to establish a wholesale market in 1963.”*

Arguments Presented by the S.M.P.M.C.

The counterarguments presented by the S.M.P.M.C. attempted to challenge the need for additional wholesale markets. These arguments were, in summary form, as follows:

“The establishing of another licensed wholesale market by the C.F.F.C. will put the present process of marine products marketing into disorder, hamper the functioning of the existing distribution organization, and will require a huge amount of money which can be better invested in production activities—far more useful in view of the national economy as a whole. The problem of developing an efficient and productive base must be handled from the viewpoint of the national economy as a whole, not by attempting to resolve the difficulties of each segment individually. It is presently illegal for the C.F.F.C. to sell marine products on commission in areas other than the producing areas and nearby places, and the historical reasons for this setup are well founded. The economy cannot afford to have many small, inefficient producers competing in a disorderly and uncontrolled fashion with resulting higher prices, poor control over the quality of products, and wasteful duplication of distribution.

“It is only an ideal, an unattainable ideal, that the C.F.F.C. can connect producers and consumers directly by avoiding the functions of the present middlemen in the distribution system. To argue that this is more efficient is to neglect the importance of the various functions performed by these agents in the distribution process in a free-market system.

“If there were two wholesalers, the Central Wholesale Market’s functions would be paralyzed because of fluctuating demand from middlemen and retailers. The Central Wholesale Market would no longer be able to perform its important

* See Exhibit 5 for a detailed analysis of planned sources and uses of funds.

function of clearing the market daily if, on a particular day, prices in the second wholesale market were lower than those in the Central Market. This situation could reverse itself from day to day with a good day for one market meaning a bad day for the other market. Furthermore, the additional costs of promotional activities required to attract shippers and assemblers would have to be duplicated in each market and would therefore lead to higher prices.

“Considering the amount of capital required to establish another wholesaler, as well as the present tax system, the Federation’s dream of benefiting both producers and consumers by setting up its own wholesale system is unrealistic and impracticable.”

Professor A’s Analysis

After studying the available information about the operations of the C.F.F.C. and of the S.M.P.M.C. and analyzing the functioning and structure of the Central Wholesale Market, Professor A recognized that both arguments had strength and weakness. An inadequacy of the present system was evidenced by the large volumes of marine products which were being sold through the three other public wholesale markets.

In professor A’s opinion, the Central Wholesale Market had several advantages. Both producers and consumers benefited from the use of large-scale modern refrigeration and freezing facilities in the Central Wholesale Market. Small businesses could not afford these facilities and could not maintain the freshness of product possible with the Central Wholesale Market facilities.

The public auction method of sale promoted fair price transactions and protected against monopolistic pricing by the selling agent. Railway siding running directly from the Seoul Terminal to the Central Wholesale Market helped to reduce the transportation costs to producers.

Professor A wondered, however, why shippers and producers still went to individual wholesalers despite the apparent advantage of dealing through the

Central Wholesale Market. He thought that the best explanation of this situation could be found in history, habit, and custom. The individual wholesalers had a longer history of transactions with the individual shippers and producers than the licensed wholesalers in the Central Wholesale Market. Many individual wholesalers had been in business for a long time before the Central Wholesale Market Law was passed in 1951. Strong relationships based on friendship and mutual trust had developed between these individual wholesalers and shippers.

The growth of the East Gate Public Market in particular could be explained by the rapid development of the East Gate district of Seoul following the Korean War. The East Gate Public Market, being located at the eastern entrance to Seoul City, was geographically in a favored position because it was closer to the eastern seacoast and because of the increased tempo of business in that district. As this market grew after 1951, many small fishmongers grew to become fairly large wholesalers, although not large enough to afford modern storage and refrigeration facilities.

Professor A also believed that many shippers and producers became financially obligated to individual wholesalers through the latter's extension of credit. Fishermen faced with a shortage of capital or poor fishing conditions were able to obtain funds from wholesalers to be used in ship maintenance, purchase of fishing equipment, and payment for crew wages. For many fishermen, this kind of debt had a way of accumulating year after year. On the other side of the coin, many individual wholesalers tended to postpone payment to producers for marine products received. The existence of an unsettled account with a wholesaler made the fisherman reluctant to leave that wholesaler for fear that he would never get paid.

A major factor in explaining the continued importance of individual wholesalers in the distribution of marine products, however, was the existing tax structure. When selling through the Central Wholesale Market, shippers and

producers had to pay taxes at a rate of 0.8 percent to 1.23 percent, on transaction value depending upon the volume of transactions. The Central Market—and, therefore, the Seoul Marine Products Marketing Company— was required by law to collect this tax before paying suppliers. The individual wholesalers were not obliged to collect this tax.

Professor A was uncertain as to the possible improvement in this situation which might result from the establishment, by the C.F.F.C. of a second legally-recognized wholesale market. The argument that additional competition at the wholesale level would benefit both producers and consumers depended for its validity upon an assumption that sales would come from the individual unincorporated wholesalers rather than from the Central Wholesale Market. If these individual wholesalers continued to account for more than 50 percent of the transactions in marine products, however, it was doubtful that the government subsidy of a second wholesale market would be economically justified. It was clear, nonetheless, that many fishermen were suffering financially and that any increase in the prices which they received for their production would be a benefit to this important segment of the Korean economy.

Exhibit 1.

National Structure of the C.F.F.C.

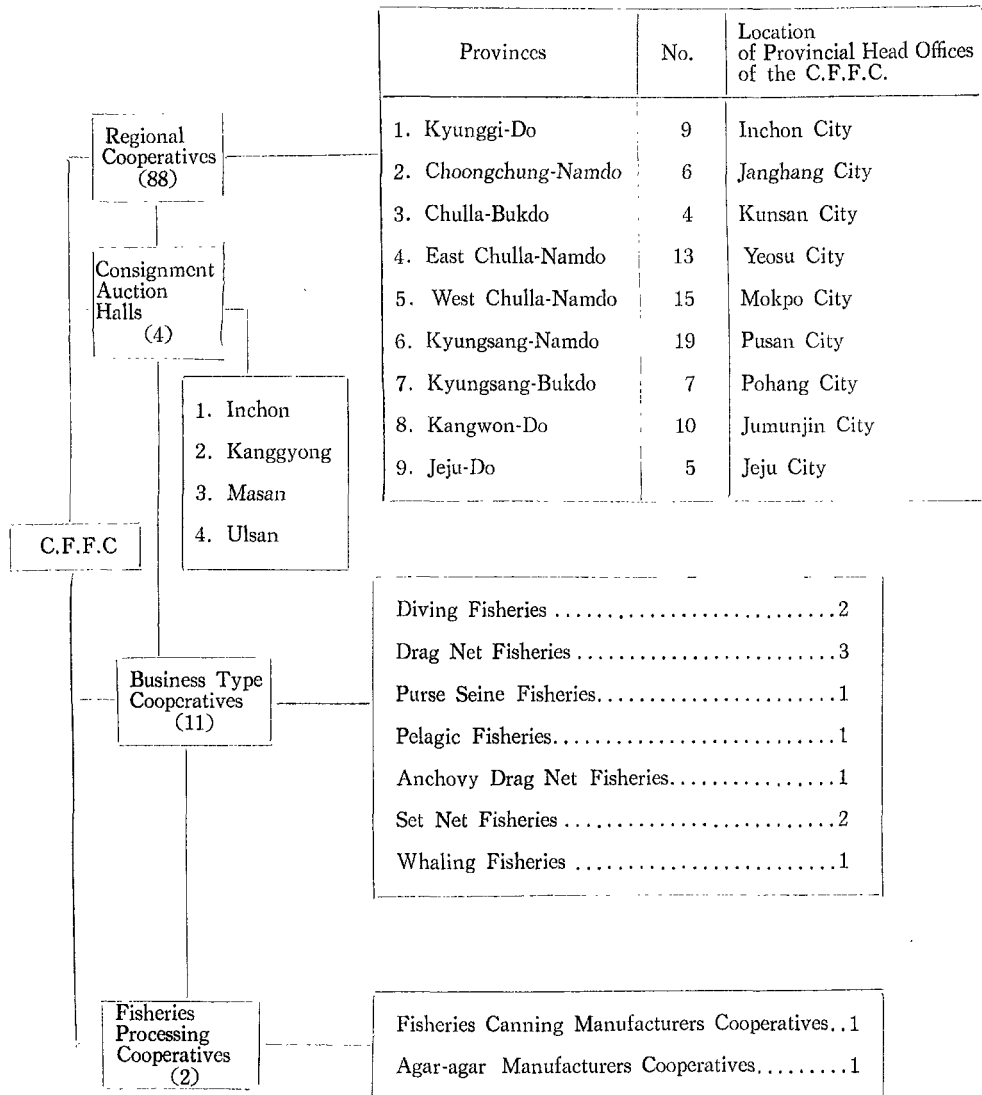


Exhibit 2.

Organization of Central Office of the C.F.F.C.

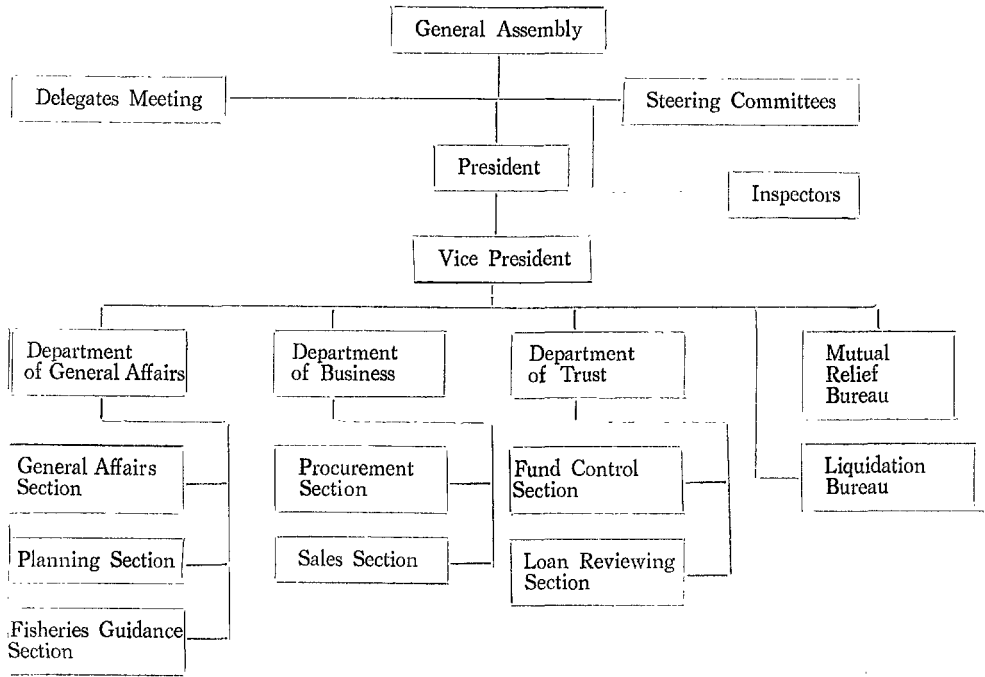
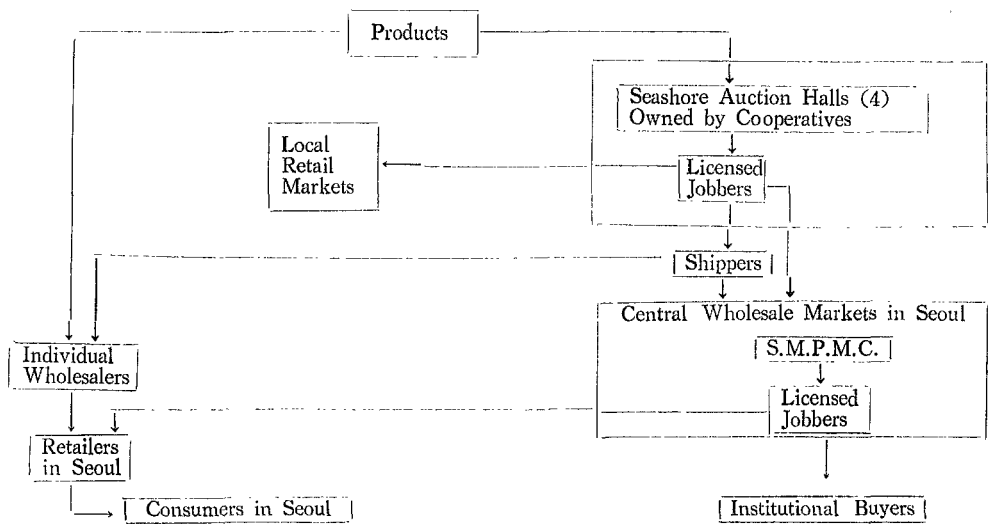


Exhibit 3.

Marketing Channels for Marine Products



Middlemen's Commission Rates:

- Seashore Auction Halls.....4.5% to 5.0%
- Licensed Jobbers.....5.0%
.....sometimes take title and assume risk, no commission.
- Shippers..... take title and assume risk, no commission.
- Seoul Marine Products Marketing Company..... 4.5% to 5.0%
- Individual Wholesalers.....take title and assume risk, no commission.

Exhibit 4.

Estimated Shipments of Marine Products to Individual Wholesalers in Seoul and Actual Shipments to the Seoul Central Wholesale Market, 1959~1961.

	East Gate Public Market			South Gate Public Market and Youngdungpo Public Market			Total to Individual Wholesalers (3)		Seoul Central Wholesale Market		
	Total %	Quantity (kgs.)	Value(2) (,000 won)	Total %	Quantity (kgs.)	Value(2) (,000 won)	Quantity (kgs.)	Value(2) (,000 won)	Total %	Quantity (kgs.)	Value(2) (,000 won)
1959	30	14,344,500	216,602	14	6,694,100	101,081	21,038,600	317,683	56	27,099,440	410,262
1960	36	20,665,800	312,054	10	5,740,500	86,682	26,406,300	398,735	54	31,198,960	473,134
1961(1)	44	19,646,880	347,750	20	8,930,400	158,068	28,577,280	505,818	36	15,885,830	281,415
Total(3)	37	54,657,180	876,405	15	21,365,000	345,831	76,022,180	1,222,234	48	74,184,230	1164810
Annual Average	37	20,496,442	328,652	15	8,011,875	129,686	28,508,317	458,338	48	27,662,912	437,816

- (1) 1961 data are for the period April through November only.
- (2) The value of shipments is stated in terms of thousands of won. In 1962, U.S. \$1.00=130 won
- (3) Totals may not add exactly due to rounding.

Source : Professor A's files.

Exhibit 5.

The Central Federation of Fisheries Cooperatives' Financial Plan for New Wholesale Market in Seoul

(Sources and Uses of Capital)

(1) Amount of Money Needed:

Auction Hall	6,000,000 won
Warehouse	850,000
Machinery and Office Room	450,000
Refrigeration Equipment	500,000
Total Uses	7,800,000 won

(2) Method of Procurement of Capital:

Subsidy from Korean Central Gov't	3,900,000 won
Loan from Bank	2,340,000
Own Capital	1,560,000
Total Sources	7,800,000

(Revenues and Experiences)

Yearly Sales Volume:	200,000,000 won
Commission: ④ 5 % (Revenue)	10,000,000 won
Expenses:	
Rebates to Local Cooperatives	5,000,000 won
Selling Costs	1,000,000
Incentives to Jobbers*	400,000
Interest on Loan ④ 20 % per year	1,480,000
Miscellaneous Fees	300,000
Total Expenses	8,180,000 won
Net profit:	1,820,000 won

Source: : Professor A's files.

* Incentives of jobbers, calculated at 0.2% of sales, including the expenses of promotional activity necessary to encourage jobbers' participation in auctions.