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# Response of Management to the Changes in Consumer Trends and Economic Changes in Korea

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< 목 차 >

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|---|---|
| 1. Introduction   | 3. Business response to consumer trends |
| 2. Economic development and changes in<br>consumer trends | 4. Outlook and implication<br>Abstract  |

Key words(중심용어): 소비추세(consumer trend), 생활 패턴(life pattern), 브랜드 속성(brand features), 히트 상품(hit item), 경쟁에 유리한 위치(competition position)

## Summary

Consumer trend is considered as the most important factors, which strongly influences quality of life and standard of living. Goods and services, which comprise consumer trend, could be a reflection of a response of management according to a change of economic environments. This paper is to identify the changes of consumer trends and response of management to the changes. This identification would be through the hit items and the consumer attitude against the hit-items implemented.

Hit-items, which are regarded as a reflex of the consumer sentiment, play a roll as an advance notice of consumer's demand. So as a managerial response to consumer trends shall be described with an example of hit-items. The first analysis showed that people's perceptions of their current spending level closely correlated with their actual spending behavior. Spending behavior would be displayed in the preferred items, so-called, hit-items. The hit products described evidently reflect consumers' interest.

As far as consumption features are concerned, quality-valued consumption culture, rather than price, is widely diffused. They focused most on brand, price and quality when making a purchase decision. In relation to the preferred brands' features, all income brackets prefer the brands of practical image. Nowadays more and more consumers go for usefulness, rather than pricey things. The new consumer trend has three keywords, i.e. reasonableness, customization, simplicity.

In accordance with consumer trends, Korean companies have concentrated their resources to strengthening competitiveness in the non-price areas such as product quality, design and branding. They have added more value to their products by swiftly releasing sophisticated products reflecting needs of consumers, upgrading design and raising brand profile. A corporate strategy is based on gaining a “differential competition position” rather than pursuing “operational effectiveness” has been stressed. Correspondingly, the creation of quality brands is a way to gain a “differential competition position” and top-hit brands can be regarded as appropriate response to consumer trend.

## 1. Introduction

Consumption in Korea has been on a steady rise since the last 90s. Especially from the year of 2000 the recovery of labor income to the level before the outbreak of the financial crisis 1997 and the surge in property prices, including real estate and stock prices, have boosted households' purchasing power. In the future, households' credibility is predicted to improve as a result of measures to curb household debts, while the current expansion in consumer spending is expected to continue some while.

It appeared that in the past year there were many changes in people's consumption and family life pattern. Dutch pay became a norm at a lunch or dinner meeting with friends like never before. Consumers looked for a store that offers a bargain for a given item even if the total sum thus saved is a paltry amount, with saying that they paid a visit to a department store only during its bargain sale period. They carried discount coupons and mileage cards with them at all time and that prices were more important factor than brand names in making purchasing decisions. They also said that they refrained from making expenses on clothes and that they put off purchasing necessary items until later.

However despite the current difficulties consumers would not reduce money spent for education of their children or in preparations for the future, i.e. installment savings or savings insurance or newspaper/magazine subscriptions, or on occasions of congratulations or condolences.<sup>1)</sup>

In the consumption features in Korea, quality-valued consumption culture, rather than price, is widely diffused over all income brackets. They focused most on brand, price and quality when making a purchase decision. The consumers would increase savings, expenses for cultural activities and travel expenses.

In relation to the preferred brands' features, all income brackets prefer the brands of practical image. The lower income brackets preferred middle and low price

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1) KCC(Korea Chamber of Commerce & Industry), Survey of Recent Change in Consumption Behavior, December 2004.

image, but the upper income brackets preferred the fine article image.<sup>2)</sup>

From the academic point of view – and also in the frame of this paper– the consumer trend is nowadays a description of the time engaged predominantly in occupation. This paper is dealt with consumer trends according to the economic development in recent years and the response of management to the changes in consumer trends in Korea. The main objective of this paper is to identify the changes of consumer trends and response of management to the changes. This identification would be through the hit items and the consumer attitude against the hit-items implemented.

## **2. Economic Development and changes in consumer trends**

### **2.1. Industrial development and changes in business environments**

Korea's industry has been exposed to ever-intensifying global competition from the mid 1980s. As economic environment changed rapidly, Korea shifted its main engine of growth from light industries such as textile to heavy industries geared to producing iron and steel, cars, ships and machinery. From the 1970s to the early 1980s, light industries such as textiles and apparels drove the economy. From the late 1980s, however, heavy industries such as car making became the locomotive of industrial development. Since the late 1990s, Korea's industrial growth is increasingly fuelled by the information technology sector based on production of semiconductors and telecommunications equipment. Besides the manufacturing sector, aiding the economic growth have been the construction industry and communications service industry.<sup>3)</sup>

Over the past two decades of fast growth in Korean economy, the economic development, related to consumer behavior, has been faced with two major changes: the technological progress from analogue to digital age and the rise of high-level domestic consumer market.

As far as the technological progress is concerned, the digitalization has contributed to the economic growth. Since the late 1990s, the global economy has witnessed an explosive growth through development of information technology. Its boom allowed Korea to overcome the financial crisis of 1997, pushing it increasingly towards a technology-oriented course. Korean companies made huge investments to raise technological standards. And through risk-taking and aggressive investments, they now lead the world in industries such as liquid crystal display (LCD), code division

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2)KCCI, Survey Outline Consumption Features for Each Income Level and Suggestions, 2005.

3)TheoreSecurities Association, Securities Market in Korea, 200

multiple access (CDMA) devices and optical disk drives.

Korean companies developed brand new technologies in semiconductor production and wireless communications sector. They introduced six-inch wafers in 1984 and trench technology in 1986. Also, the wireless communications industry adopted CDMA as technology standard in 1993. Fierce competition among local companies in mobile phones and high speed Internet sectors has worked as a catalyst for Korean companies to further improve their technologies and upgrade design. In short, intensifying competition has generated more sophisticated consumers and reinforced the info-tech infrastructure, which, in turn, spurred technological development.<sup>4)</sup>

Traditional manufacturing sectors such as shipbuilding and steel were no exception. Samsung Heavy Industries in 2003 introduced a new shipbuilding method called 'Mega Bloc,' under which large parts of ship under construction were welded outside the dock for assembling operation later. Korea's biggest steel maker POSCO adopted a new steel-making method FINEX which cuts pollutants by 90% while reducing investment and manufacturing cost by 10%. Today, Korea is a global leader in the information technology field, especially in the areas of semiconductors, mobile phones and thin-film transistor liquid crystal displays (TFT-LCD). Its place in the global heavy industries such as car, steel and shipbuilding has won a worldwide recognition.<sup>5)</sup>

Korean companies have worked hard to raise their brand recognition with aggressive marketing strategy. Through a variety of cultural and sports events, Korean companies have striven to establish trust in their markets.

Korean consumers also helped by becoming early adopters or test-bed consumers for high-tech devices. Their willingness to test products ahead of consumers in other countries indirectly aided development of their info-tech companies.

## 2.2. Factors behind changes in consumer trends

As far as consumption features are concerned, quality-valued consumption culture, rather than price, is widely diffused over all income brackets. 17.2% of the consumers focused most on brand, while 25.1% of the respondents focused on price and 31.7% on quality when making a purchase decision. Specifically, the response rate for quality (33.0%) was higher in the income bracket with 3.85 million won of monthly income as compared to other income brackets. The income bracket valuing brand most had a monthly income between 2.99 million and 3.85 million won with the highest rate of 23.8%. The response rates for price and quality by the lower income brackets were similar at 31.1% and 30.6%, respectively. The consumers with less than 1.46 million won of monthly income considered consumer protection

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4) Samsung head predicts rosy years for the firm, in: JoongAng Daily, Sept. 12. 2006/ With new technology Samsung Chip speeds up, in: JoongAng Daily, Sept. 12. 200

5) Ko Jeong Min, From Apparels to Chips: Korea's 20-year Industrial Development, in: KOREA ECONOMIC TRENDS, KET Issue Report, SERI world.org

matters (20.9%), including after sales service (warranty) system, relatively more important, while their preference of brand was the lowest at 9.7%.<sup>6)</sup>

**(Table 1) Factors to Consider when Deciding Purchase (unit: %, 10,000 won)**

Classification	All Brackets	Less than 146	146 226	226 299	299 385	More than 385
Quality	31.7	30.6	30.7	31.5	32.7	33.0
Price	25.1	31.1	26.3	25.5	22.8	20.0
Brand	17.2	9.7	13.8	19.0	23.8	19.5
Consumer Protection	15.7	20.9	15.2	12.5	12.3	17.5
Others	10.3	7.7	14.0	11.5	8.4	10.0
Total	100.0	100.0	100.0	100.0	100.0	100.0

**Source:** KCCI, Survey Outline, Consumption Features for Each Income Level and Suggestions, 2005 (Survey period: August 19~ August 24, 2005, Sample: 500 households in Seoul, Survey method: Phone call survey)

The consumers would increase savings and expenses for cultural activities and travel expenses were 57.6%, 53.0% and 48.4%, respectively. Meanwhile, the surveyed consumers said that they would decrease expenses for dining out (59.6%), clothing (51.2%) and entertainment (31.4%), when their income declines. In the case of income decline, the income bracket with less than 1.46 million won per month showed the highest response in reducing the expenses for clothing (57.1%). (In three multiple responses)<sup>7)</sup>

**(Table 2) Expenditure Variation when Income Changes (unit: %, 10,000 won)**

6) KCCI, Survey Outline Consumption Features for Each Income Level and Suggestions, 2005 Survey period: August 19~ August 24, 2005, Sample: 500 households in Seoul, Survey method: Phone call survey

7) KCCI, Survey outline Consumption Features for Each Income Level and Suggestions, 20 Survey period: August 19~ August 24, 2005, Sample: 500 households in Seoul, Survey method: Phone call survey

Rank	Expense Items Increased Preferentially	Expense Items Increased Preferentially
Less than 146	① Savings (55.1) ② Grocery (45.9) ③ Clothing (40.8)	① Clothing (57.1) ② Dining out (46.9) ③ Grocery (31.6)
146 ~ 226	① Savings (59.4) ② Travel (56.4) ③ Cultural activity (52.5)	① Dining out (61.4) ② Clothing (48.5) ③ Furniture and home appliances (36.6)
226 ~ 299	① Cultural activity (61.0) ② Savings (59.0) ③ Travel (46.0)	① Dining out (56.0) ② Clothing (54.0) ③ Furniture and home appliances (31.0)
299 ~ 385	① Cultural activity (55.1) ② Savings (45.9) ③ Travel (40.8)	① Dining out (72.3) ② Clothing (48.5) ③ Entertainment (36.6)
More than 385	① Cultural activity (63.4) ② Savings (60.4) ③ Travel (50.5)	① Dining out (61.0) ② Clothing (48.0) ③ Entertainment (38.0)
All Brackets	① Savings (57.6) ② Cultural activity (53.0) ③ Travel (48.4)	① Dining out (59.6) ② Clothing (51.2) ③ Entertainment (31.4)

\* Three multiple responses, Source: KCCI, Survey on Consumption Features for Each Income Level and Suggestions, 2005 (Survey period: August 19~ August 24, 2005, Sample: 500 households in Seoul, Survey method: Phone call survey)

According to another survey on consumption behavior<sup>8)</sup>, expense items affected more than others to be those for clothes (24.5%), those for eating out (18.6%) and those for culture/leisure (12.4%). The survey shows that the expense item affected the most is that for culture/leisure (21.4%) for those in 20s, that for eating out (23.0%) for those in 30s and that for clothing (23.3% for those in their 40s and 28.3% for those in their 50s). Another noticeable expense item chosen by people of different ages for reduced spending was entertainment expense (13.6%) for those in their 20s, savings (13.3%) in the case of those in their 30s, private tuitions fees for children (11.7%) for those in their 40s, and food expense (11.6%) for those in their 50s, respectively.

It was already confirmed by the report, entitled “Consumers’ Recent Purchasing Pattern”,<sup>9)</sup> the expense items of consumers affected the most due to the decrease in their disposable income were clothes (24.7%), eating out (18.3%), food (16.1%) and cultural and leisure activities (13.0%). In the case of those earning less than one million won a month, the expense for food was affected the most (28.1%) following the decrease in their disposable income.

(Table 3) Expenses Affected Most Due to Decrease in Disposable Income (unit: %)

8) KCCI, Survey of Recent Change in Consumption Behavior, Period: From December 20~ 31, 2004, Sample size: 800 housewives in the 7 largest cities, including Seoul, Sampling: by assigning the percentage proportionately by their age/monthly income/cities, Method: phone interview)

9) KCCI, Consumers’ Recent Purchasing Pattern, 2004 (Period: July 8-14, 2004, Sample: 1,000 homemakers in 7 leading cities, Method: By phone interviews, Rate of response: 100.0%)

	Monthly Income Brackets						Total
	< 1 million won	1million won < 2 million won	2million won< 3 million won	3 million won <4million own	4million won<5 million won	5 million won or more	
Tuition fee for children	4.5	6.6	7.4	8.2	5.8	4.1	6.5
Food	28.1	16.2	15.3	10.3	14.0	4.1	16.1
Pocket money for family members	3.4	6.6	3.5	8.2	4.7	4.1	5.1
Eating out	10.7	16.8	18.2	24.7	22.1	27.0	18.3
Clothes	23.6	25.7	27.4	16.4	26.7	23.0	24.7
Purchase of durable goods	0.6	1.2	1.5	2.7	4.7	1.4	1.6
Saving	14.0	8.4	7.9	10.3	11.6	16.2	10.1
Contribution for occasions (congratulations/condolences)	3.4	1.8	0.9	2.1		1.3	1.6
Energy cost	5.6	3.3	3.5	1.4			3.0
Cultural and leisure activities	6.1	13.4	14.4	15.7	10.4	18.8	13.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**Source:** KCCI, Consumers' Recent Purchasing Pattern, 2004 (Period: July 8-14, 2004, Sample: 1,000 homemakers in 7 leading cities, Method: By phone interviews, Rate of response: 100.0%)

Looking at consumers' purchasing pattern by item, it appears that in purchasing foods and daily sundries they put priority on quality and use large-sized discount outlets. The higher their income and the younger they are, the higher the frequency of their shopping at large-sized discount outlets is. When it comes to clothes, they appear to think highly of their designs and use department stores. As for household appliances and furniture, they appear to put priority on brand name and use large-sized discount outlets, followed by outlets specializing in electronic goods or furniture.

(Table 4) Consumers' Purchasing Pattern by Item

Item	Priority in Purchasing Decision	Purchased at
Food	Quality	Large sized discount outlets
Daily sundries	Quality	Large sized discount outlets
Clothes	Design	Department stores
Furniture or household appliances	Brand name	Large sized discount outlets

**Source:** KCCI, Consumers' Recent Purchasing Pattern, 2004 (Period: July 8-14, 2004, Sample: 1,000 homemakers in 7 leading cities, Method: By phone interviews, Rate of response: 100.0%)

### 3. Business response to consumer trends

Consumer trend is considered as one of the most important factors, which strongly influences quality of life and standard of living, in which most people are much interested. The consumer trend is a component of life-style, in which consumer as well as community or country carry out the daily life. Goods and services, which comprise consumer trend, could be a reflection of a response of management according to a change of economic environments. These products include a lot of single indicators, measuring a few core aspects of economic development from a managerial point of view. In particular there are the following indicators: influence of consumption on the increase and decrease of production, governance and enterprise restructuring, price liberalisation, trade system, competition policy of business and banking reform and interest rate liberalisation.

A consumer trend has various sub-indices such as present and future economic conditions, living standards, and durable goods purchases. In this paper, hit-items, which are regarded as a reflex of the consumer sentiment, play a roll as an advance notice of consumer's demand. So as a managerial response to consumer trends shall be described with an example of hit-items. The first analysis showed that people's perceptions of their current spending level closely correlated with their actual spending behavior. Spending behavior would be displayed in the preferred items, so-called, hit-items. Meanwhile, consumer behavior over spending was found to affect changes in trailing consumer selection of goods and services.

Nowadays more and more consumers go for usefulness, rather than pricey things. They now prefer substance to style, evidently placing more value on function than on brand image. The new consumer trend has three keywords, i.e. reasonableness, customization, simplicity. Consumers flock to goods with reasonable quality and price. Young consumers who used to indulge in brand-name products now appear shying away from conspicuous consumption, buying instead things that express their individuality. Reflecting such change in consumer behavior, discount-store brands 20-



30% cheaper than those from large department stores now have popularity. In many cases, quality of discount-store brands appears similar to that of larger-store brands.<sup>10)</sup> The variety of goods and services demanded by increasingly affluent consumers continue to expand to hit-items.

**(Table 5) Hit-items in Korea (between the year of 1992-1999)**

Year	Hit items
1992	Laser Disk Player, Elantra (car), Beat(Detergent), Air drop Washer
1993	Hite (beer), Kimchi refrigerator, Sonata II(car), Tooth Paste made from Bamboo salt, Mud Pack, Green Computer, Juicer & Mixer,
1994	Three dimensional refrigerator (Brand: Tank), Premium TV, Virac Sikhye(drink from traditional recipe), Condition(remedy for hangover),
1995	Anycall, gasoline (brand name: Techron), pantium multimedia III, Avante (car)
1996	Sonata III(car), clear “soju” in Oak barrel, Sikmulnara (Shampoo & detergent), Aha free (cassette tape recorder),
1997	Hatban (instant cooked rice), New OB lager(beer), Leganza(car), Apple Yogurt, Retinol cosmetics, PCS016(Cell phone)
1998	Baekseju,
1999	Refrigerator (brand name: Zipel), Dimchae (refrigerator for Kimchi), Matiz(car), cosmetics (brand name: Herra), Clean Country(Toilette paper), Bio Air conditioner, Anycall Folder (cell phone), Cyber apartment 21

**Source:** Choi, Soonhwa, Hit items and consumer trends in Japan and Korea (in Korean), in: SERI (Samsung Economic Research Institute), CEO Information, 2002. 2.14. (Vol.335)

In accordance with consumer trends, Korean companies have concentrated their resources to strengthening competitiveness in the non-price areas such as product quality, design and branding. They have added more value to their products by s w i f t l y r e l e a s i n g s o p h i s t i c a t e d

**(Table 6) Top Hits in Korea (between the year of 2000-2005)**

10) Choi, Soonhwa, Putting Simplicity and Usefulness above Luxury, Columns, Sept.27.2006, in: SERI World Weekly, Oct.2.200

Order of Popularity	2000	2001	2002	2003	2004	2005
1	Anycall (Dual Folder Type cell phone)	Lotte Xylitol Chewing Gum	Color mobile phone	Digital photo	Multi functional mobile phone	Chonggye Stream
2	Green Plum drink	Samsung E Combo set*	Office + Apartment	New electric home appliances*	Vita 500	Blue ocean strategy
3	Quick Board	SM5**	Home theater set*	Well being Product	MP3 with large scale memory	S DMB mobile phone
4	Winia Dimchae*	Large scale flat panel TV	Oriental medical product	Imported cars	Low priced cosmetics	Indirect investments
5	Megapass	Baekseju***	SUV Car	In line Skate	KTX*	K1 fighting
6		Tooth Paste made from pine tree salt	Drum Washer	Wine	Hyundai NF Sonata**	TV dramas featuring strong women
7			In line Skate	PDA	Beer in large package	Kart Rider
8			Premium Whiskey	Pet product	Wine	Car navigation system
9				Traditional Alcohol drink	Cosmetics for men	Welcome to Dongmakgol*
10						Blogs
Others (2005)	Yoga; body slimming bathtub; small SUVs; TV drama "Admiral Yi Sun Shin"; Hyndai card commercial; I Pod; slim mobile phones; black colored cell phones; premium high rise apartments; National Museum of Korea; silver Nano goods; green teas					

Note: 2000-2004: only Top Hits of Goods, 2005: Top Hits of Goods & Services, Remarks: 2000\*=refrigerator for "Kimchi", 2001\*=VCR+DVD combination, 2001\*\*= passenger car, 2001\*\*\*=Alcohol drink by traditional recipe, 2002\*=TV+DVD player + Amplifier + Speaker, 2003\*=Premium TV, Two door refrigerator, Drum washing machine, 2004\*=Korea Express Rail, 2004\*\*=passenger car, 2005\* movie, Source: SERI, CEO Information (in Korean), 2001.5.26. (Vol.328), 2002.12.28 (Vol.379), 2003.12.17(Vol.430), 2004.12.15.(Vol.480), 2005. 12.27

products reflecting needs of consumers, upgrading design and raising brand profile.<sup>11)</sup>

There are always smash-hit items no matter how difficult the times are. But the items are changed according to consumer trend every year. The top-ten items, for

11) Ko Jeong Min, From Apparels to Chips: Korea's 20-year Industrial Development, in: KOREA ECONOMIC TRENDS, KET Issue Report, SERI world.org

example, in 2005<sup>12)</sup> included the following, in order of popularity: (1) The recently restored Chonggyechon Stream, running through the mid-section of downtown Seoul, (2) the management strategy book *Blue Ocean Strategy*, (3) mobile phones with satellite digital mobile broadcasting, or DMB, (4) indirect investment products, (5) K-1, a martial art fighting sport, (6) TV miniseries featuring strong-willed and determined women, (7) online game *Kart Rider*, (8) the car navigation system, (9) Korean film 'Welcome to Dongmakgol', and (10) blogs.

Consumers showed, in comparison with hit-items of 90s, a keen interest in leisure and cultural products as well as service items that provided relief from stress in their daily lives. Half of the list included leisure items such as the Chonggyechon Stream, K-1, TV drama series, *Kart Rider*, and 'Welcome to Dongmakgol.' Other info-tech items such as satellite DMB mobile phones, the car navigation system and blogs have, at least partially, attributes of leisure and culture.<sup>13)</sup>

Notably, the restored Chonggyechon Stream, bringing a scent of freshness into urban life, and *Blue Ocean Strategy*, suggesting how to create untapped markets without price competition, drew wide support from both men and women of all age groups.

However, other hit items did not receive such broad-based support. In particular, men preferred sports, while women opted for lifestyle items. For example, male respondents favored the car navigation system and K-1, a martial art fighting sport mixing "Kung-fu", "Karate" and "Taekwondo" with kickboxing. In addition, men also liked the latest electronic gadgets such as DMB mobile phones, which women respondents found not so appealing. On the other hand, female respondents were keen on beauty- and health-related items such as yoga and the body-slimming bathtub, in addition to TV drama series featuring strong-willed female characters.<sup>14)</sup>

Consumers showed different tastes along the age line. The younger generation, below age 35, showed much interest in digital devices, while respondents aged between 35 and 55 chose practical items, and those over 55 years opted for health-related items. Among the three age brackets, the middle age group preferred indirect investment products and the car navigation system.

Consumers today are exposed to a variety of multi-functional products, a fruit of rapid technological developments. Most people want functions that they only need. In short, they prefer simple-function goods. So products with key functions or those focused on convenience are expected to be popular. Already consumers prefer products with key functions and those with minimal supplementary

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12) From December 8 to 10, Samsung Economic Research Institute conducted a survey of 11,406 members of seri.org to compile a list of top-ten items they liked the most in 2005. (Lee, Min-Hoon, Korea's Top-Ten Hit Products & Services in 2005, in: SERI, CEO Information, December 27, 2005)

13) Le, Min-Hoo, Korea's Top-Ten Hit Products & Services in 200, in: SERI, CEO information, December 27, 200

14) Lee, Min-Hoon, Korea's Top-Ten Hit Products & Services in 2005, in: SERI, CEO Information, December 27, 2005

functions. From now on, simple and key-function-oriented products will gain wider consumer recognition. The key to bring hit items to the market lies in the ability to balance function, design and brand image.<sup>15)</sup>

Consumers' needs are a reflex of the economic situation and the daily life of the people. First, consumers are looking for new sources of fun to relieve stress in their daily life. That's why many Seoul citizens flocked to the newly restored Chonggyecheon Stream, which now flows across downtown. Second, under economic uncertainties and rising stress levels, consumers are increasingly longing for a place, where they can find peace and relaxation. Third, under harsh economic conditions, consumers are getting smarter in selecting more economical and practical items. For example, they chose the safety of indirect investing through funds, rather than putting their money into individual company stocks. Such pragmatism has been also reflected in the preference of leading characters in TV drama series featuring highly opinionated women, who are making their own decisions and pursuing their own dreams. Fourth, as digital technology evolves, consumers are embracing it in their daily lives. The satellite DMB mobile phone allows users to watch TV without being attached to a cable line. Meanwhile, the navigation system has eliminated the use of paper maps, thus saving time in reading the map and asking directions, while reducing the possibility of being lost on the road. Blogs are another prime example of digitalized lifestyle. Internet users accumulate their knowledge and their skills by interacting on blogs, thus taking advantage of the network as a way of learning.<sup>16)</sup>

The hit products described evidently reflect consumers' interest. If companies want to know what consumers really want, they should be able to understand their needs through in-depth analysis and intuitive perception on current trends. A corporate strategy is based on gaining a “differential competition position” rather than pursuing “operational effectiveness” has been stressed, although many companies have poor understanding of strategy.<sup>17)</sup> Correspondingly, the creation of quality brands is a way to gain a “differential competition position”, and top-hit brands can be regarded as appropriate response to consumer trend rather than viewed simply as a tool for selling products. In other words, gaining a good position in the minds of the consumers by making top-hit brands, so that increasing brand loyalty ultimately leads to long-term growth of the company.

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15) Choi, Soonhwa, Putting Simplicity and Usefulness above Luxury, Columns, Sept.27.2006, in: SERI World Weekly, Oct.2.200

16) Lee, Min-Hoon, Korea's Top-Ten Hit Products & Services in 2005, in: SERI, CEO Information, December 27, 200

17) Porter, Michael E., Clusters and the New Economics of Competition, in: Harvard Business Review, 76 Jg., 11-12 1998; Chaudhuri, Arjun and Morris B. Holbrook , “The Chain of Effects from Brand Trust and Brand Affect to Brand Performance: The Role of Brand Loyalty,” Journal of Marketing, 65(2), 2001, pp. 81-93

(Table 7) 21st century; age of “Technology + sensibility”

Classification of age	Production ('70s~'80s)	Technology ('90s)	Technology+ sensibility (2000s)
Consumer needs	Simplicity, Uniformity	Preference of New products & high function	Differentiation & sensibility are considered
Factor for buying decision	Price, Quality, mass consumption, Multi sort	Scale, High function, digital, pro environment,	Design, convenience, complex, concept, color, attractiveness, brand image
Response of management	Mass production, cost reduction	Improvement of existing technology & development of high tech	Understanding of consumer sensibility, combination of technology from different type of industry
Cases of industry	Textiles, paper	Memory, new medicine, large scale flat panel TV	Car with a sweet smell, jewelry mobile phone

**Source:** Lee, Min Hoon, Era for fusion of technology and sensibility - commodity trends and response of leading firms (in Korean), in: SERI, CEO Information, 2003.9.17. (Vol. 417)

In order to calculate the degree of product differentiation, in most cases, methods like horizontal differentiation (item diversification marketing) or vertical differentiation (quality-product marketing) are used. So far, Korean business has been successful mostly in horizontal diversification during the last decades. Certainly, these two methods are limited in precisely calculating the degree of product differentiation. So to supplement them, Korean business, in the future, should apply “elasticity of substitution” model to more accurately analyze the degree of differentiating products.

As the degree of product differentiation depends heavily on research and development (R&D), Korean business needs to intensify its R&D efforts in order to diversify items and differentiate its products. Needless to say, enhancing national image and brand recognition is another helpful way to differentiate products and also to identify the consumer needs.

In marketing, Korean companies have shifted focus from products to corporate image, thus paying attention to corporate social responsibility activities. Facing globalization and market opening moves, they have mapped out global marketing strategies. Development of advanced marketing methods has enabled them to develop products fit for consumers' taste based on research and analysis.<sup>18)</sup> In

18) Lee, Won-Jae, Review of Korea's Management, in: SERI, CEO information, SERIWorld.org, July, 18 200

order to keep pace with consumer trends nowadays, it is expected that technology and sensibility comprise the core of quality-product marketing strategy in the market leaders

#### 4. Out look and Implication

Increase in demand is dependent on the growth in national income and hikes in the interest rate. To boost managerial response to the change in consumer trends and economic changes, the government policy must create an environment in which technology development and corporate investment are securely promoted. It is crucial to develop domestic market as alternative direction instead of depending solely on international market. Korean business should develop policy for fostering materials industries. Business needs to make higher value-added goods to compete in the domestic and also international marketplace, but they lack technological capability for producing intermediate parts and materials, for which they now depend on imports. Unless this imbalance was corrected, it is difficult for companies to add value to their production activities in accordance with the high-rise demand in domestic market.

Further deregulation to create a pro-business atmosphere, which is essential for companies with ample cash flow to think of investing in equipments and facilities is also needed. For example, the government can ease the rules restricting the construction and expansion of production facilities in the Seoul metropolitan area. At the same time, the policy ban against the big-business groups using the cross-shareholdings method to acquire subsidiaries may be eased.

Deregulation boosts business activities and opens the way for private companies to response to the economic changes and consumer trends. It also eases confrontational relations between the labor and management while boosting business confidence.

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## 소비자 추세에 따른 기업 전략의 대응

박 기 안\*

소비자 추세는 생활의 질과 수준에 가장 큰 영향을 끼치는 요소이고, 소비자 추세를 반영하는 재화는 경제환경의 변화에 대응하는 기업의 전략수단이다. 이 논문에서는 “히트” 제품의 수요 추세를 통하여 기업의 대응수단을 일별하고자 한다. 히트 품목은 소비자의 정서를 반영하는 동시에 소비자 수요를 예고하고 선도하는 역할을 한다. 분석결과에 따르면 소비자의 지불수준에 대한 인지도는 소비자의 실제 소비태도와 상관관계가 있다. 실제소비 태도는 선호하는 소위 “히트” 상품에서 나타난다. 왜냐하면 히트상품은 소비자의 관심을 가장 명확하게 반영하는 것이기 때문이다.

소비 속성에 관한 한, 가격위주보다는 품질과 가치위주의 소비 문화가 널리 퍼져있다. 소비자 들은 구매결정을 할 때, 브랜드, 가격 및 품질의 순서로 결정을 내린다. 선호되는 브랜드의 속성을 보면 모든 소득 계층이 실용적 이미지의 브랜드를 선호한다. 가격 중심으로 보기보다는 유용성 위주로 선호한다. 새로운 소비 추세는 세가지 주요 단어로 표현할 수 있다, 즉, 이성적, 고객 위주, 단순함 등이다. 소비추세의 변화에 따라서 기업정책은 비 가격적인 분야의 경쟁력을 강화하는 일에 집중 할 필요가 있다. 즉, 제품의 품질, 디자인 및 브랜드를 개선하는 것이 소비자 욕구를 반영하는 첩경이다. 특히 운용적인 효율성보다는 차별적인 경쟁위치를 추구하는 것이 기업 정책의 핵심이 되어야 한다. 따라서 고품질의 브랜드를 창출하는 것이 차별적 경쟁 위치를 차지하는 길이며 “히트” 상품 브랜드는 바로 소비자 추세에 적절하게 대응하는 기업의 정책수단이다.

■논문접수일 : 2007년 4월 20일, 논문심사일 :2007년 5월 14일, 게재확정일 :2007년 5월 17일