**The COVID-19 and Korea’s Retail Sector**

**THE IMPACT OF THE COVID-19 ON THE RETAIL SECTOR**

Since late January 2020, total footfall has fallen due to social distancing restrictions, ‘untact’ culture, school closures, and remote working, and Seoul’s commercial districts which were previously packed with local and foreign visitors have fallen silent. Visitors to large hypermarkets, department stores, shopping malls, and movie theaters have wound down significantly regardless of the day of the week. According to the Korea Film Council, audience numbers in April stood at 970 thousand, only 7% of the same period last year. Due to the sharp decline in admissions, major multiplex chain CGV announced the suspension of operations of 35 of 116 theaters (30%) nationwide. Management is also planning to shut down altogether the worst performing theaters. The once-popular family restaurants are experiencing a severe drop in sales and organizing a reduction in the number of branches. Samyang F&B, a subsidiary of Samyang Group, will be closing down the last branch of the buffet Seven Springs since its acquisition in 2006. CJ Foodville, E-LAND PARK, Shinsegae Food, Lotte GRS and other industry-leading foodservice companies have initiated a restructuring of their brands. Proactive measures for CJ Foodville – whose sales are at 30% of the figure recorded last year – include liquidity management, fixed asset disposals, suspending new investments, unpaid leave, and executive pay cuts.

Small store operations have also suffered from direct sales losses. Survey results from the Korea Food Industry Research Institute revealed that 95.2% of restaurants have experienced an average fall of approximately 65.8% in sales by the sixth week after the outbreak. While the government will be providing emergency financial aid to small businesses, there is a shortage of available funds in comparison to the number of applicants. Buildings owned by government-related organizations and public institutions are implementing a temporary rent relief policy for small businesses, and more tenants are asking for rent adjustments, mainly for retail properties. If the outbreak proves to be prolonged, reduced rents and waivers across all commercial real estate sectors may become the norm.

**KEY ECONOMIC INDICATORS**

At the beginning of the year, the Bank of Korea forecast annual economic growth at 2.1% similar to the 2.0% in 2019, but the Financial Services Commission in April announced that achieving growth of 1% could be difficult. The IMF also revised its forecast to -1.2% in April, and the economic outlook for the year will continue to be updated depending on the pace of recovery. The Business Survey Index, an indicator of general business sentiment, was 51 in April, marking the lowest point since the 2008 Global Financial Crisis, and the Consumer Sentiment Index also hit its lowest level in eleven years. The number of unemployed workers who claimed employment insurance in April 2020 reportedly rose by 23% YoY to over 121,000 persons. The labor market is anticipated to further deteriorate due to honorary retirement, personnel reductions, and job losses for temporary workers. Employment instability and recession may lead to a slump in consumption, dragging down the distribution and manufacturing industries.

**VALUE-FOR-MONEY CONSUMPTION**

Consumers seeking rational consumption in the current low economic growth era are exhibiting diversity in brand choices by product characteristics. There is definite success with brands that provide ‘Godlike’ value-for-money. Daiso, seller of daily necessities at competitive prices, recorded sales of approximately KRW2.2 trillion in 2019, up 13% YoY. The coffee franchise Banapresso, operated by an IT platform firm with its eye-catching pink signage easily noticeable in the Gangnam area, offers coffee for KRW3,500 and a sandwich-and-coffee combo for only KRW3,500 and has gained popularity among young workers and students. Labor costs have been lowered with the use of unmanned counters and its mobile app for orders and payment provides convenience and good value-for-money.

**KEY RETAIL INDUSTRY STATISTICS**

A comparison of monthly sales by retail business type for the months of February and March with the previous year shows that non-store sales, comprised of online, home shopping, and door-to-door sales, increased at their highest rate of 24.7%. For supermarkets, which allow for shopping near home, sales of food items surged, pushing up total sales by 5.4%. Meanwhile, sales at duty-free shops have slipped by -44.0% due to the sharp decline in foreign arrivals, and department store sales are down by -29.5%.

Compared to the same period last year, total retail sales declined slightly by -4%, but the changes varied by item. Footwear & Luggage (-35.4%), Clothing (-33.1%) and Cosmetics (-22.1%) showed the worst performance. Meanwhile, automotive fuel surged by 6.8% due to the wider use of private vehicles, and F&B rose by 8.3% due to more dine-at-home demand because of remote working and school closures.

In the March online shopping trend survey published by Statistics Korea, total sales volume climbed 11.8% YoY due to ‘untact’

---

**TABLE 1: Key Economics Statistics**

<table>
<thead>
<tr>
<th>GDP GROWTH RATE</th>
<th>EMPLOYMENT INSURANCE CLAIMS</th>
<th>BUSINESS SURVEY INDEX (BSI)</th>
<th>CONSUMER SURVEY INDEX (CSI)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>2020(E)</td>
<td>APR 2019</td>
<td>APR 2020</td>
</tr>
<tr>
<td>2.0%</td>
<td>-1.2 - 1.0%</td>
<td>530,059</td>
<td>651,000(p)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>74</td>
<td>51</td>
</tr>
<tr>
<td></td>
<td></td>
<td>101.7</td>
<td>70.8</td>
</tr>
</tbody>
</table>

Source: Bank of Korea, Korea Employment Information Service, IMF
Korea Retail Market

culture. By category, Food Delivery Services climbed by 76%, F&Bs by 60% and Household Goods by 47%. Sales tumbled most for Cultural and Leisure Services (-89%) and Travel Arrangement and Transportation Services (-73%). Data between January and early-March from top e-commerce company eBay Korea demonstrates that the categories that showed increased revenues compared to the same period last year include Health (598%), Daily Necessities (41%), Food (21%), and Childcare (15%). Sales of items related to outdoor activities such as Ticket Sales (-77%), Travel (-57%), Cameras (-35%), and Shoes (-14%) all decreased.

MAJOR RETAILER TRENDS
Lotte Shopping declared that it will boost its profitability by re-organizing 30% of its stores (200 of approximately 700 in total), including department stores, hyper-marts, supermarkets, and drugstores, within the next three years. The company recorded a net loss of KRW850 million in 2019, up about 80% from their net loss in 2018, as revenue per store declined due to a dip in offline sales, a rise in the minimum wage, intensifying competition, and a downturn in domestic demand due to the expansion of the e-commerce market. The news of branch closings by Lotte Shopping, the industry leader, clearly illustrates the shift from offline to online.

In 2019, Shinsegae Group succeeded in locking in KRW1 trillion of new capital from Affinity and BRV Capital by incorporating SSG.COM as an independent online shopping platform, and chose to focus investment on delivery, the core competitiveness of online shopping. As part of its measures to improve delivery efficiency, the company will increase the number of its dedicated online logistics centers from three to six. It announced its plans to grow from its previous sales revenue of KRW3 trillion in 2019 to KRW10 trillion by 2023.

POST-COVID
As of May 11, four months after the first cases, the number of confirmed cases stands at approximately 10,900 persons. Many countries have benchmarked Korea’s swift response system to tackle the spread of the virus. The government has extended the social distancing drive until May 5 and reopened schools via online classes. Until the virus is fully contained or a cure is developed, people are likely to remain concerned about large gatherings and visiting densely populated areas. As opposed to the United States where all shopping malls have been forced to close, Korea has been recommending malls maintain sanitary conditions and operate autonomously.

Large-scale venues such as shopping malls and movie theaters where crowds cluster should pay more attention to facility maintenance and operation management particularly distancing and disinfection. Not only is air purity a concern because of the rising amount of ultrafine dust levels, a greater awareness of indoor air quality management has emerged as a result of the need to maintain a disease-free environment. Consumers
will show a preference for well-ventilated locations with significant external lighting over underground floors with limited air circulation, and such nature-friendly factors will be reflected in interior designs.

As the popularity of online shopping grows, consumers are visiting shopping malls looking for new experiences, rather than to simply purchase goods and shopping malls are searching for new ways to engage consumers. Facilities today provide new experiences and entertainment, pop-up stores through collaboration with brands, programs to boost guest satisfaction during shopping hours, and create cultural and artistic hotspots that draw attention on SNS. In addition to such ‘charm factors’, shopping malls should above all else maintain sanitary and control measures so that shoppers can confidently enjoy their time spent shopping as steady progress is made to overcome the crisis.

For more information about this report, please contact us