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Contract Type Selection in Korea's Large-Scale Retail Sector†

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"Using firm-level data on 7,000 suppliers transacting with 26 major South Korean retailers, this study analyzes how contract types, referring to direct purchase, special contract, consignment, and store lease types, are determined and how they affect supplier performance. Contract choice varies systematically by retail format and product category, shaped by transaction costs and asset specificity.

Regression results show that direct purchases are positively associated with advanced retailer procurement systems, high supplier trust in the retailer, and stronger supplier bargaining power, while special contracts are more prevalent when supplier-specific investments are required. Instrumental variable estimates indicate that a 1 percentage point increase in the special contract share reduces supplier revenue by approximately KRW 259 million.

Regulatory enforcement data reveal that over 75% of unfair trade practices occur in direct and special contract transactions, with special contracts showing the highest violation rate per transaction. These findings suggest that contract type is a key channel through which bargaining asymmetries affect economic outcomes. Policy implications include enhancing supplier bargaining power and improving the oversight of contract-specific risks."

Key Words: Contract type selection, Large-scale retailer, Supplier performance, Unfair trade practices, Bargaining power, Transaction costs

JEL Codes: L81, D23, D43, K21

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I. Introduction

Transactions between retailers and suppliers typically fall into one of four categories. As presented in Table 1, in a direct purchase transaction, the retaileracquires products from the supplier and sells them at a markup. Given that ownership of the goods is transferred upon purchase, the retailer assumes full responsibility for setting the final consumer price, managing sales operations, and handling inventory.

In contrast, consignment transactions involve no purchase by the retailer, and product ownership remains with the supplier. Unsold inventory is returned and managed by the supplier. The retailer sells the products on the supplier's behalf and receives either a fixed fee or a share of the sales revenue, with the remainder paid to the supplier.

In store lease transactions, the retailer's roles and responsibilities are significantly more limited than in the previous two transaction types. The retailer does not purchase the products, nor do they engage in sales activities, which are instead handled by the tenant businesses. In return for leasing a portion of the store space, tenant businesses pay either a fixed fee or a percentage of their sales revenue as rent.

Finally, a special contract purchase transaction can be regarded as a hybrid of the three previously described transaction types. In this arrangement, the retailer acquires products from the supplier on credit and, after deducting a fixed fee or a percentage of the sales revenue as a commission, pays the remaining balance to the supplier.

Contract types between retailers and suppliers result in significant differences in product ownership, sales responsibility, payment terms, and inventory management. This raises key questions: How are these transaction types distributed in the domestic retail market? What factors influence contract selection, and how do they affect economic outcomes for both parties?

TABLE 1—COMPARISON OF RETAIL TRANSACTION TYPES

Category	Direct Purchase	Consignment	Store Lease	Special Contract purchase
Purchase of Goods	Purchase	None	None	Credit Purchase
Ownership of Goods During Sales Phase	Retailer	Supplier	Tenant	Retailer
Agent for Sales Activities	Retailer	Retailer	Tenant	Supplier
Payment for Goods	After Purchase	After Sale (deducting sales commission)	None	After Sale (deducting sales commission)
Sales Title	Retailer	Retailer	Tenant	Retailer
Return Policy	No Returns	Not Applicable	Not Applicable	Returns Possible
Inventory Burden	Retailer	Supplier	Tenant	Supplier
Major Retail Formats	Supermarkets, SSM, Convenience Stores	TV Home Shopping, Online Shopping	Department Stores, Outlets	Department Stores

Source: Korea Fair Trade Commission Press Release (July 11, 2014) and the Author's Understanding of Retail Contract Types.

Understanding transaction types is essential when analyzing contractual structures, economic impacts, and patterns of unfair trade practices in an increasingly oligopolistic retail market. However, limited data availability has hindered empirical research, as even basic statistics on transaction types remain scarce. To address this gap, this study examines transaction patterns in Korea's retail industry using micro-level data on direct purchase, special contract purchase, consignment, and store lease transactions.

Existing studies often lack comprehensive insight due to limited industry coverage or insufficient firm- and product-level data. This study addresses these limitations by utilizing the List of Suppliers for the Written Survey on the Retail Sector (Korea Fair Trade Commission, 2018), which offers broad industry coverage and detailed transaction-level information.

First, we examine the factors influencing transaction type selection and the corresponding causal relationships. While contracts are mutually agreed upon, they are shaped by market conditions, interfirm dynamics, product characteristics, and consumer demand. Using supplier survey data, we focus on identifying the drivers of direct purchases, a type both widely used and actively demanded by suppliers.

Second, we assess how transaction types affect supplier performance. Even when supplying the same product in equal volumes, suppliers may face different conditions depending on the transaction type—such as different payment timings, return policies, or cost burdens—all of which can impact profitability. In particular, special contract purchase contracts often involve practices such as shifting promotional costs to suppliers or requiring the use of supplier staff, which may harm performance. This study empirically analyzes these effects to offer objective insights into these practices.

Third, we analyze the frequency and nature of unfair trade practices across transaction types. The large-scale retail sector is prone to power imbalances, yet the connection between contract type and legal violations remains understudied. By reviewing Korea Fair Trade Commission (KFTC) rulings from 1998 to 2018, we identify patterns of violations by transaction type to inform more targeted and effective regulatory policies.

This study proceeds as follows: Section 2 reviews relevant domestic and international literature and outlines the study's contributions. Section 3 presents trends in transaction types using KFTC data. Section 4 explores influencing factors based on supplier surveys. Section 5 evaluates the impact of different transaction types on supplier performance outcomes. Section 6 analyzes the link between unfair practices and transaction types through regulatory cases. Finally, Section 7 offers policy recommendations for fair trade, sustainable growth, and collaborative industry development.

II. Related Literature

This section reviews prior domestic and international research on transaction types and highlights this study's contribution. Lim and Lee (2013) analyzed the evolution of transaction types in the department store industry. Until the 1970s, rental agreements dominated due to underdeveloped procurement systems. As department

stores expanded in the 1980s, they adopted sales-based purchasing, which later evolved into special contract purchase transactions with the introduction of the VAT in the 1990s. The study finds that over 70% of department store sales are conducted through special contract purchase transactions, attributing their dominance to cost advantages—particularly lower fixed costs compared to direct purchasing.

Yoon (2004) analyzed the market environment of department stores, noting their focus on high-value fashion goods and service competitiveness over low prices and standardized products. This leads to a limited product variety sold in small quantities, making it difficult to develop in-house merchandisers (MDs) for each category. As a result, he argues that special contract purchase transactions, which utilize supplier sales representatives, are more efficient under such conditions.

Facing growing economic and social pressure to increase direct purchasing over special contract purchase transactions, Pyeon *et al*. (2009) analyzed the key factors influencing this shift in domestic department stores. To examine this, they surveyed 112 buyers from the top four domestic department stores. A correlation analysis revealed that direct purchasing increases when demand volatility is low, transaction-specific investments are high, and managerial support is strong.

Existing domestic studies have primarily focused on explaining the prevalence of special contract purchase transactions in department stores and identifying conditions that facilitate the expansion of direct purchasing. However, empirical research on other retail formats remains scarce. Given the rapid expansion of TV home shopping and online retail channels, a broader, cross-sectoral analysis is needed to capture the evolving landscape of transaction types across the industry. As transaction structures differ significantly by sector, it is essential to consider both the overall market trends and the specific characteristics of each retail format. This study differs from prior research in that it provides a comprehensive industry-level analysis while offering a detailed examination of sector-specific transaction patterns and their implications.

International research has predominantly examined supplier channel strategies through the lens of transaction cost theory. For example, John and Weitz (1988) found that higher asset specificity increases the likelihood of direct sales. Similarly, Anderson and Schmittlein (1984) demonstrated that in the electronic components industry, suppliers tend to choose direct channels when facing greater transaction uncertainty or specificity.

Building on this foundation, more recent studies in operations research have focused on indirect sales models. Adida and Ratisoontorn (2011) compared fixed-fee consignment, revenue-sharing, and wholesale contracts, concluding that fixed-fee consignment yields the highest retailer profits. They also emphasized that suppliers' optimal contract choices depend on the degree of retailer differentiation.

Further refining the analysis of consignment structures, Ru and Wang (2010) explored two models: retailer-managed consignment inventory (RMCI) and vendor-managed consignment inventory (VMCI). Their theoretical model suggests that VMCI leads to higher profits for both retailers and suppliers, whereas RMCI can cause over-ordering and inefficiencies due to information asymmetry and double marginalization effects.

From an empirical industrial organization (IO) perspective, Li and Moul (2015) investigated the performance implications of a transaction model shift in the Chinese mobile handset retail market. A department store initially operating under retailer-

managed retailing with linear pricing switched to supplier-managed retailing with a revenue-sharing contract in 2011. Using transaction-level data and a BLP model (Berry, Levinsohn, and Pakes, 1995), the study found that this shift enhanced both consumer welfare and producer surplus—primarily through lower prices, improved service quality, and greater supply chain efficiency.

International research has primarily examined (1) the determinants of supplier's vertical integration, (2) comparative supply chain performance across transaction types, and (3) consumer and producer welfare using empirical industrial organization (IO) approaches.

Our study extends the scope of transaction cost theory by shifting the focus from direct sales decisions by suppliers to a diverse range of indirect sales models involving retailers. It contributes to both the academic discourse and policy development by empirically assessing whether key findings from the international literature—such as the effects of different transaction types on retailer and supplier performance outcomes and the efficiency gains from supplier-managed distribution—are applicable in the domestic retail context. Furthermore, the study explores the underlying mechanisms that shape these outcomes.

III. Overview of Contract Types between Retailer and Suppliers

A. *Data*

First, this study analyzes the distribution of transaction types in the domestic retail industry. In the absence of comprehensive data categorizing all transactions by contract type, it relies on the 2018 Supplier List for the Written Survey on the Distribution Sector (hereinafter the Supplier List), obtained with the cooperation of the Korea Fair Trade Commission (KFTC).

As shown in Table 2, the Supplier List dataset covers seven distribution sectors, from large supermarkets to outlets, detailing the top retailers by market share in each sector and the number of their suppliers.

Table 3 presents detailed information from the Supplier List, including basic identifiers for retailers and suppliers, product categories, transaction types, the initial transaction year, and the transaction volume. A key advantage of this dataset is the 'transaction type' variable, which allows for identifying the contract types associated with each transaction.

It is essential to assess how well this dataset represents the domestic distribution industry. For large supermarkets, the 1,500 suppliers listed account for approximately 30% of all suppliers to Emart, Lotte Mart, and Homeplus. Moreover, because the list primarily includes top suppliers with high transaction volumes, the total transaction value is likely to exceed 30% of the market. While the Supplier List does not cover all large-scale retailers in Korea or every supplier working with the 26 listed retailers, it encompasses major retailers each with a significant market share in each sector and over 30% of their suppliers, making it a valuable resource when conducting such an analysis.

Tables 4 and 5 show transaction volumes and supplier counts by distribution sector and product category. Large supermarkets (23%), convenience stores (22%),

TABLE 2—NUMBER OF COMPANIES INCLUDED IN THE SUPPLIER LIST DATA

(Unit: Number of Firms)

	Number of Retail Companies	Names of Retail Company	Number of Trading Suppliers
Total	26		7,000
Large Supermarkets	3	Emart, Lotte Mart, Homeplus	1,500
Convenience Stores	4	GS25, Seven Eleven, CU, Ministop	1,000
SSM	3	GS Super, Lotte Super, Emart Everyday	500
Department Stores	4	Lotte, Hyundai, Shinsegae, Taepyeong	1,500
Online Shopping	5	Wemakeprice, Lotte.com, Coupang, Interpark, TMON	1,500
TV Home Shopping	3	GS, Hyundai, CJ	500
Outlets	4	Lotte, New Core, Save Zone, Mario	500

Note: Some suppliers have contracts with multiple distribution companies (95 suppliers have signed 199 distribution and supply contracts).

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018.

TABLE 3—INFORMATION RECORDED IN THE SUPPLIER LIST DATA

Sector	Recorded Information
Retailer Sector	Distribution type, Retail company name
Supplier Sector	Supplier name, Product category, Transaction type, Vendor status, Initial transaction year, Transaction amount (purchased by the retailer or sold by the supplier)
Supplier Contact Details	Representative's name, Corporate number, Business number, Address, Email address, etc.

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018

TABLE 4—TRANSACTION AMOUNTS AND NUMBER OF COMPANIES BY DISTRIBUTION TYPE

(Unit: 100 Million KRW, Number of Companies)

Distribution Type	Transaction Amount	Transaction Share	Number of Companies	Supplier Share
Total	202,825	1.00	7,000	1.00
Large supermarkets	47,042	0.23	1,500	0.21
Convenience Stores	44,236	0.22	1,000	0.14
SSM	8,044	0.04	500	0.07
Department Stores	37,920	0.19	1,500	0.21
Online Shopping	24,707	0.12	1,500	0.21
TV Home Shopping	26,112	0.13	500	0.07
Outlets	14,764	0.07	500	0.07

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018.

TABLE 5—TRANSACTION AMOUNTS AND NUMBER OF COMPANIES BY PRODUCT CATEGORY

(Unit: 100 million KRW, Number of Companies)

Product Category	Transaction Amount	Transaction Share	Number of Companies	Supplier Share
Total	202,825	1.00	7,000	1.00
Fresh & Perishable Food	24,154	0.12	700	0.10
Processed Food	49,138	0.24	2,068	0.30
Clothing & Accessories	40,406	0.20	1,287	0.18
Kitchen & Bathroom Supplies	6,031	0.03	290	0.04
Furniture & Interior	4,273	0.02	241	0.03
Electronics	11,110	0.05	392	0.06
Office Supplies & Toys	2,392	0.01	112	0.02
Cosmetics	7,570	0.04	263	0.04
Sports & Leisure	8,438	0.04	334	0.05
Baby Products	5,876	0.03	165	0.02
Household Sundries	10,074	0.05	595	0.09
Others	33,361	0.16	553	0.08

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018.

and department stores (19%) each account for around 20% of all transactions, while other sectors hold approximately 10%. The supplier distribution closely mirrors transaction share levels, but in convenience stores and for TV home shopping, the transaction share is significantly higher, suggesting larger average transaction volumes per supplier.

B. *Analysis of Transaction Type Distribution: By Retail Sector*

An overview of transaction types (Figure 1) shows that direct purchases account for 47% of the 20.3 trillion KRW in transactions, making up nearly half of the total. This is followed by special contract purchases at 21%, consignment transactions at 18%, and store lease transactions at 14%.

By sector, direct purchases are the dominant transaction type in large supermarkets, SSMs, and convenience stores, accounting for 67%, 90%, and nearly 99% of transactions, respectively. These retail formats primarily handle food and essential goods, which exhibit stable demand and strong consumer pull, making direct purchasing the preferred contractual arrangement. From the supplier's perspective, products with stable demand require less need for dedicated sales personnel or the monitoring of the retailer's sales activities. As a result, suppliers can focus on securing stable payments, making direct purchases the preferred transaction method. In large supermarkets, special contract purchases (21%) and store lease transactions (12%) together make up a third of total transactions alongside direct purchases. This likely reflects cases where suppliers' sales representatives operate dedicated sections for

apparel, furniture, cosmetics, and baby products.

In department stores and outlets, over 95% of sales are conducted through special contract purchases and store lease transactions. Due to the seasonal and trend-sensitive nature of high-end apparel, jewelry, and fashion accessories, supplier-trained sales specialists play a critical role in the sales process. To minimize fixed costs, retailers often delegate sales activities to suppliers instead of investing in in-house merchandising teams.

In online and TV home shopping, consignment transactions dominate, accounting for 66% and 75% of sales, respectively. Given that product exposure and promotions are handled by the retailer's merchandising team or show hosts, suppliers have little direct involvement, making consignment the preferred model. Notably, direct purchases account for 33% of online shopping transactions. This reflects a strong

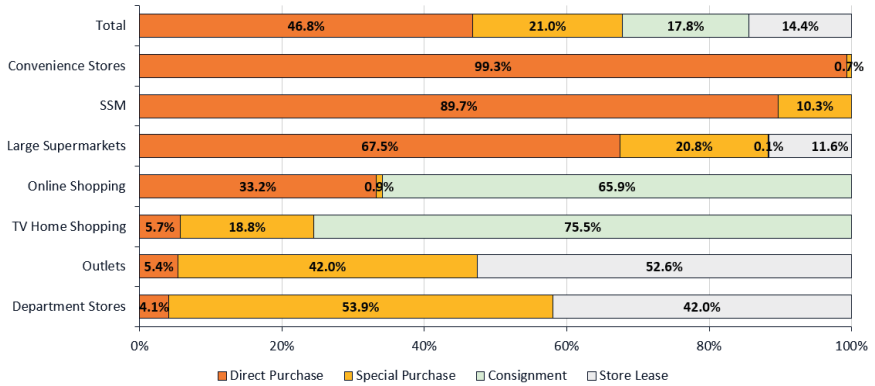

FIGURE 1. SHARES OF TRANSACTION TYPES: OVERALL AND BY RETAIL FORMAT

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018; Compiled by the author.

(Unit: 100 Million KRW)

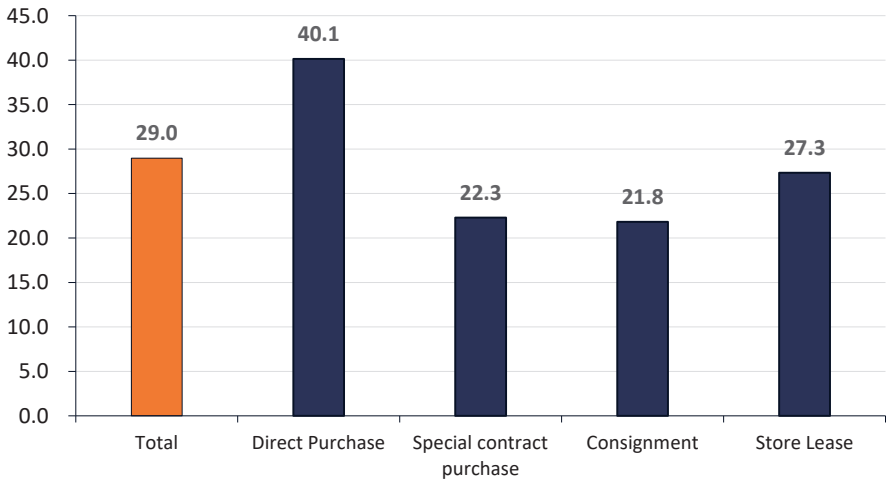

FIGURE 2. AVERAGE TRANSACTION AMOUNT PER SUPPLIER BY TRANSACTION TYPE

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018.

strategy of stocking frequently purchased and easily stored items in the retailer's logistics centers to enable same-day or next-day delivery.

Figure 2 shows the average transaction value between retailers and individual suppliers, with direct purchases averaging 4.01 billion KRW—1.5 to 1.8 times higher than other transaction types. Analyzing the top five suppliers by transaction value for each retailer reveals that direct purchases are the most common, not only in large supermarkets, convenience stores, and SSMs but also for online and TV home shopping, where consignment transactions are prevalent. Given the higher average transaction value, direct purchases likely involve less of an imbalance in bargaining power and negotiating leverage.

C. *Analysis of Transaction Type Distribution by Product Category*

As previously noted, the predominant transaction types differ across distribution sectors. While these differences are largely driven by the unique sales environments of each sector, they may also reflect the varying characteristics of the products sold, which in turn influence the appropriateness of specific transaction types.

Figure 3 presents the marked differences in transaction types by product category. Direct purchases are most prevalent for essential consumer goods—such as fresh & perishable foods, processed foods, office supplies & toys, and kitchen & bathroom supplies. These categories represent 69% of sales in large supermarkets and 56% and 87% in convenience stores and SSMs, respectively. This highlights how a sector's core product composition can shape its preferred transaction structure, with product attributes playing a key role in determining the type of contract.

In contrast, special contract purchases dominate in baby products (46%), cosmetics (41%), sports & leisure (45%), clothing & accessories (33%), and furniture & interior items (32%). These products require specialized sales assistance, have high demand volatility, and are sold in limited varieties and smaller quantities. They account for 64% of department store sales and 75% of outlet sales.

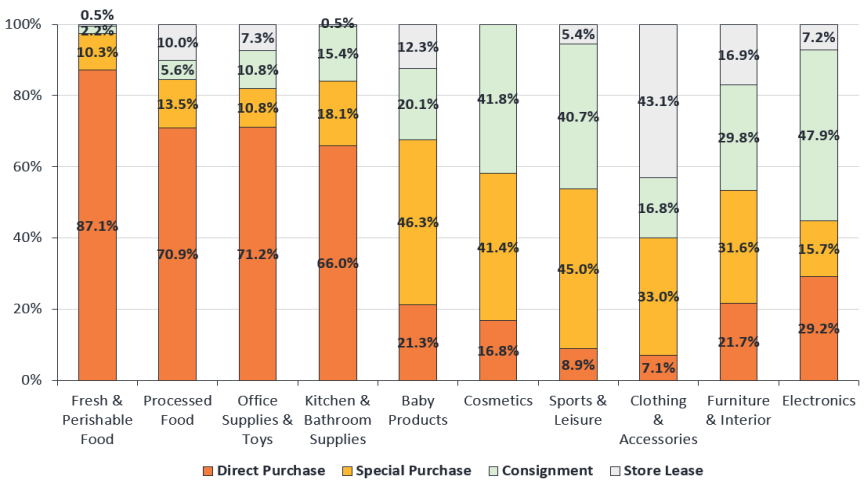

FIGURE 3. SHARE OF TRANSACTION TYPES BY PRODUCT CATEGORY

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018; Compiled by the author.

TABLE 6—PRIMARY TRANSACTION TYPES FOR PROCESSED FOOD PRODUCTS

Retail Category	Primary Transaction Type	Share
Large Supermarkets	Direct Purchase	55%
Convenience Stores		100%
SSM		84%
Department Stores	Special Contract Purchase	58%
Outlets		43%
Online Shopping	Consignment	49%
TV Home Shopping		56%

Source: Korea Fair Trade Commission, Supplier List for the Written Survey on the Distribution Sector, 2018.

Table 6 analyzes transaction types by distribution sector for processed foods. Despite typically being dominated by direct purchases, department stores and outlets rely more on special contract purchases, while online and TV home shopping favor consignment transactions. This highlights how transaction types are shaped by sector characteristics, product attributes, and their interaction.

IV. Factors Influencing the Selection of Contract Types

Variations in transaction types across sectors and products reflect differences in sales and product characteristics. Factors such as market conditions, production settings, relationships, and consumer behavior may shape these choices. This section outlines the main influences and their causal links.

A. *Overview of the Survey*

The supplier list analyzed in Section III provides limited data on transaction amounts by contract type and lacks comprehensive supplier information, rendering it unsuitable for the analysis presented in this section. Furthermore, neither public nor private datasets systematically capture supplier-level information on market conditions, production factors, or transaction characteristics.

To address these data limitations, this study conducted a survey of firms listed in the supplier database. A sample of 1,000 companies was selected to reflect the regional, product category, and distribution channel composition of the broader population of 7,000 firms. The survey was carried out between June and September of 2019.

Table 7 outlines the survey questionnaire, which covers supplier profiles (such as name, establishment date, and location), main product distribution (including product details, sales, costs, PB supply, and distribution by retail channel and transaction type), and key business characteristics. It also addresses market and production conditions, retailer-supplier relationships, product and sales attributes, consumer behavior, experiences with unfair trade practices, and financial information.

TABLE 7—ITEMS IN THE SUPPLIER SURVEY

Category	Survey Items	
Supplier Profile	Supplier name	Date of establishment
	Business registration number	Industry code
	Business location	Factory location
	Product category	Product type
	Product sales	Operating costs
Main Product Distribution	Experience with supplying PB products	Market share ranking
	Supply share by retail channel	Supply share by transaction type
	Primary retail partner	Sales to primary retail partner
	Supply share by transaction type with primary retail partner	Decision-making process for transaction type
	Margin, sales commission, and rental rates	Process for determining margin, commission, and rental rates
	Preferred transaction type	

Category		Survey Items
Other Key Characteristics	Market Environment	Volatility and uncertainty of market demand
		Growth trend of market size
		Level of competition among suppliers
	Production Conditions	Stability of production and supply
		Ability to change retail partners
		Financial and managerial stability
	Retailer-Supplier Relationship	Extent of transaction-specific investments
		Development level of the retailer's purchasing system
		Accumulation of the retailer's sales expertise
		Bargaining power gap between the retailer and supplier
		Supplier's trust in the retailer
	Product Characteristics	Brand recognition
		Inventory depreciation
		Degree of product differentiation
	Sales Characteristics	Need for in-store interior customization
		Need for dedicated sales staff
		Importance of timing in sales
	Consumer Characteristics	Price sensitivity
		Quality and service sensitivity
		Preference for well-known brands
Experience with Unfair Trade Practices	Experience of unfair practices	Transaction types involved in unfair practices
	Type of unfair practices encountered	Responses to unfair pressure
	Reason for accepting unfair conditions	
Financial and Other Information	Sales over the past three years	Share of PB products
	Operating costs	Number of retail partners by sales channel

Source: Compiled by the author based on the Korea Development Institute's Corporate Survey on Transaction Types in the Large-Scale Retail Sector (2019).

TABLE 8—SUMMARY STATISTICS

Variable		Obs.	Mean	Std. Dev.	Min	Max
Supplier Characteristics						
Share of Transaction Types (%)	Direct Purchase	993	41.27	44.33	0	100.00
	Special Contract Purchase	995	10.36	26.59	0	100.00
	Consignment	993	23.35	37.13	0	100.00
	Store Lease	993	21.36	38.99	0	100.00
	Other	994	3.40	12.24	0	91.00
Firm Age (months)		991	168.27	124.93	6.00	1,003
Vendor (1 = Yes)		976	0.14	0.35	0.00	1.00
Total Transaction Duration with Retailers (months)		1,000	197.12	197.92	0.00	1,600
Number of Retail Partners		1,000	66.3	850.66	0.00	25,900
Sales from Main Product (2018, in million KRW)		905	21,369	55,672	50.00	831,073
Total Sales (2018, in million KRW)		892	27,444	83,380	100	1,632,631
Total Sales (2017, in million KRW)		928	25,694	77,921	0.00	1,569,204
Share of PB Products (2017, %)		1,000	3.08	12.11	0.00	100.00
Experience with PB Supply (1 = Yes)		1,000	0.15	0.36	0.00	1.00
Distribution by Retail Format (%)						
Large supermarkets		991	22.06	34.19	0.00	100.00
SSM		998	3.73	13.25	0.00	100.00
Convenience Stores		997	3.76	15.42	0.00	100.00
Department Stores		994	17.45	33.16	0.00	100.00
TV Home Shopping		995	5.07	19.06	0.00	100.00
Online Shopping		991	20.42	34.12	0.00	100.00
Outlets		998	3.82	16.25	0.00	100.00
Duty-Free Shops		999	0.77	7.00	0.00	100.00
Other		992	22.42	32.61	0.00	100.00
Main Product Category (1 = Yes)						
Fresh Food		1,000	0.14	0.35	0.00	1.00
Processed Food		1,000	0.26	0.44	0.00	1.00
Clothing & Accessories		1,000	0.20	0.40	0.00	1.00
Kitchen/Bathroom/Sanitary Goods		1,000	0.05	0.22	0.00	1.00
Furniture & Interior		1,000	0.03	0.17	0.00	1.00
Electronics		1,000	0.07	0.26	0.00	1.00
Stationery & Toys		1,000	0.02	0.14	0.00	1.00
Cosmetics		1,000	0.04	0.19	0.00	1.00
Sports & Leisure		1,000	0.08	0.27	0.00	1.00
Baby Products		1,000	0.03	0.16	0.00	1.00
Household Goods		1,000	0.05	0.21	0.00	1.00
Other		1,000	0.03	0.18	0.00	1.00
Decision-Making Process (1 = Yes)						
Proposed by Supplier		1,000	0.14	0.34	0.00	1.00
Proposed by Retailer		1,000	0.28	0.45	0.00	1.00
Jointly Determined		1,000	0.59	0.49	0.00	1.00
Margin Determination (1 = Yes)						
Proposed by Supplier		1,000	0.07	0.25	0.00	1.00
Proposed by Retailer		1,000	0.31	0.46	0.00	1.00
Jointly Determined		1,000	0.62	0.49	0.00	1.00

Source: Based on survey data.

The section on other key characteristics incorporates variables grounded in transaction cost theory. To assess market uncertainty, the survey captured the volatility and uncertainty of market demand. To evaluate the potential for opportunistic behavior, the trust of suppliers in retailers was measured. In relation to transaction-

specific assets, the survey examined the extent of transaction-specific investments, the necessity for customized in-store interiors, and the requirement of dedicated sales staff. These variables were analyzed to evaluate the relevance and applicability of transaction cost theory within the domestic retail context. Measures related to key product characteristics were assessed using a seven-point Likert scale.

Supplier bargaining power can significantly shape transaction types and contractual terms. To capture the extent of bargaining power asymmetry, the survey included variables such as the decision-making process for transaction types; the profit margins, sales commissions, and rental rates; the product market share ranking; the firm's ability to change retail partners; the perceived bargaining power gap between the retailer and supplier; and the number of distribution partners across sales channels.

Table 8 presents the descriptive statistics of the key variables used in the regression analysis. The distribution of transaction types shows that direct purchases account for 41 percent, special contract purchases for 10 percent, consignment transactions for 23 percent, and store lease transactions for 21 percent. In 2018, the average sales revenue of main products was 21.37 billion KRW, equivalent to 77.9 percent of the overall average sales revenue for that year (27.44 billion KRW), indicating that main products amounted to approximately three-quarters of the suppliers' total revenue. Additionally, 15 percent of firms had supplied private-brand (PB) products over the previous three years, with PB sales accounting for an average of 3 percent of total supplier revenue.

B. *Empirical Model*

To analyze the factors influencing the choice of contract type, this study establishes the following empirical model:

$$y_i = X_i\alpha + \sum_j \beta_j I_j + \sum_s \gamma_s D_s + u_i$$

The dependent variable y_i is the proportion of direct purchase supply provided by supplier i in region s, who specializes in product category j. Using a proportion instead of sales volume accounts for variations in supplier size, preventing larger firms from disproportionately influencing coefficient estimates and significance levels.[1]

X_i is a vector representing the key characteristics of suppliers. It includes the proportion of deliveries by retail format to account for supply format effects and reflects PB supply experience over the past three years (or PB product share), given that PB products are primarily transacted through direct purchases. It also captures core product attributes, classified into six groups in Table 7. Additionally, it includes control variables reflecting the supplier's fundamental characteristics, such as sales,

[1]The focus on direct purchase transactions is motivated by their policy relevance, particularly in light of past institutional initiatives aimed at transitioning from special contract purchases. Direct purchases involve actual procurement processes, distinguishing them from other transaction types. They also exhibit the highest transaction share in both supplier records and survey data and are most frequently observed across retail formats, indicating stronger associations with key explanatory variables.

years in operation, vendor status, and total transaction duration with the retailer.

I_i is a product category dummy to control for fixed effects, while D_s is a regional dummy used at the metropolitan and provincial levels. Finally, u_{ijst} is the error term, satisfying standard assumptions.

This section employs ordinary least squares (OLS) estimation, considering the single-year cross-sectional nature of the survey data. In Section 5, instrumental variables (IV) estimation will be incorporated to address potential endogeneity concerns with regard to certain variables.

C. *Estimation Results: Factors Influencing Transaction Type Selection*

Table 9 presents the regression results on the determinants of transaction types. Model 1 analyzes the relationship between the distribution of deliveries across retail formats and the proportion of direct purchases. Using department stores as the reference category, a 1 percentage point increase in the share of deliveries to large supermarkets is associated with a 0.36 percentage point increase in direct purchases. While this positive and statistically significant effect is consistent with the strong preference for direct purchasing in large supermarkets, the magnitude of the coefficient appears somewhat lower than anticipated.

As shown in Figure 1, the average direct purchase share is 67% for large supermarkets and 4% for department stores. If the survey data accurately reflected the population distribution, the estimated coefficient would be expected to approach 0.63.

Several factors may account for the observed discrepancy. First, the Supplier List dataset aggregates all retailer-supplier transactions into a single transaction value, whereas the survey dataset in this study is limited to suppliers' core products. Variations in transaction types between core and non-core products could contribute to this difference. Second, the survey data report an average direct purchase share of 41.3%, which is lower than the Supplier List average of 47%. This suggests that the surveyed suppliers may have a lower propensity for direct purchase transactions compared to the overall population. Furthermore, while the Supplier List is compiled from retailer-submitted data, the survey responses are provided by suppliers, potentially leading to differences in the classification of transaction types. Given these considerations, the interpretation of the results should focus on the significance and relative magnitude of the coefficients rather than their absolute values.

An increase in transactions with SSMs or convenience stores was also associated with a significant rise in the direct purchase share. A 1 percentage point increase in the sales share to SSMs and convenience stores led to a 0.81 and 0.73 percentage point increase in direct purchases, respectively. This effect was larger than for large supermarkets, likely due to the predominance of direct purchasing for processed and fresh products sold through these channels.

Similarly, increased transactions with online shopping platforms are positively associated with a higher share of direct purchases. This trend is driven by several factors, including the expansion of online sales for both processed and fresh foods, a shift in consumer behavior away from large supermarkets and SSMs toward online channels following the introduction of mandatory bi-weekly store closures, and the growing preference among online retailers to secure inventory through direct

TABLE 9—REGRESSION RESULTS ON THE DETERMINANTS OF THE SHARE OF DIRECT PURCHASE TRANSACTIONS (1)

Dependent Variable: Share of Direct Purchase Transactions (%)		Model 1	Model 2	Model 3
Share of Sales by Retail Format (%)	Large Supermarkets	0.36*** (0.05)	0.28*** (0.05)	0.29*** (0.05)
	SSM	0.81*** (0.10)	0.59*** (0.10)	0.60*** (0.10)
	Convenience Stores	0.73*** (0.09)	0.61*** (0.09)	0.60*** (0.09)
	TV Home Shopping	-0.03 (0.08)	-0.04 (0.07)	-0.08 (0.08)
	Online Shopping	0.13*** (0.05)	0.07 (0.05)	0.05 (0.05)
	Outlets	-0.10 (0.08)	0.05 (0.08)	0.02 (0.08)
	Duty-Free Shops	0.26 (0.19)	0.26 (0.18)	0.20 (0.18)
	Others	0.70*** (0.05)	0.65*** (0.05)	0.61*** (0.05)
Main Product Category (0/1)	Processed Food		-16.78*** (4.40)	-15.20*** (4.51)
	Clothing & Accessories		-29.03*** (4.99)	-28.44*** (5.07)
	Kitchen, Bathroom & Sanitary Products		-8.06 (6.38)	-5.66 (6.46)
	Furniture & Interior		-24.88*** (8.58)	-25.37*** (8.66)
	Electronics		-10.32 (6.64)	-9.88 (6.71)
	Stationery & Toys		-13.83 (9.48)	-11.51 (9.55)
	Cosmetics		-11.96 (7.65)	-12.18 (7.80)
	Sports & Leisure		-37.00*** (6.09)	-37.17*** (6.18)
	Baby Products		-29.95*** (8.44)	-33.21*** (8.80)
	Household Goods		-10.61 (7.08)	-8.64 (7.16)
	Others		-15.17* (8.96)	-14.80 (9.06)
1 / (Sales of Main Product in 2018)		-1,614 (1,119)	-1,060 (1,090)	304.06 (1,286.22)
PB Supply Experience in Previous Three Years (0/1)			18.39*** (3.61)	
Share of PB Products in 2017 (%)				0.34*** (0.10)
ln (Total Sales in 2017)				2.92** (1.20)
ln (Firm Age)		2.00 (2.24)	3.43 (2.18)	2.03 (2.28)
Vendor (0/1)		3.66 (3.81)	1.15 (3.66)	1.71 (3.69)
ln (Total Transaction Duration with Retailers)		2.53 (1.90)	0.38 (1.86)	0.51 (1.90)
Constant		-25.36** (12.32)	-1.06 (12.38)	-18.37 (14.48)
Regional Dummy		Y	Y	Y
Observations		777	777	771
R-squared		0.39	0.46	0.45

Note: Standard errors are in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

purchasing in order to enable faster delivery services.

Model 1 analyzes the effect of the retail format delivery share on the proportion of direct purchases, controlling for firm age, vendor status, total transaction duration with retailers, and regional fixed effects. Given the potential correlation between retail format delivery share and other factors, the estimated coefficients may be subject to bias.

To mitigate this, Model 2 introduces core product categories and PB supply experience over the past three years as additional controls. These results indicate that transactions with large supermarkets, SSMs, and convenience stores remain statistically significant and positive, though their coefficients decrease to 70–80% of those in Model 1. Conversely, the effect of online shopping transactions becomes statistically insignificant, while core product categories and PB supply experience explain a substantial portion of the model's variance.

By core product category, the direct purchase share for processed foods was 16.8 percentage points lower than for fresh and perishable foods, which had the highest direct purchase share. This difference closely aligns with their respective average direct purchase rates (87% vs. 71%).

In contrast, categories with a higher prevalence of special contract purchases exhibited even stronger negative effects. The direct purchase share was 29.0 percentage points lower for clothing and accessories, 24.9 percentage points lower for furniture and interior goods, 37.0 percentage points lower for sports and leisure products, and 30.0 percentage points lower for baby products. These findings provide robust empirical support for the systematic relationship between retail format, product category, and transaction type distribution, reinforcing the causal link between product characteristics and contract selection.

PB products are typically contract-manufactured and sold exclusively through retailers' proprietary stores, making direct purchases the predominant transaction type. The analysis above confirms this pattern, indicating that suppliers with PB supply experience over the past three years exhibit an 18.4 percentage point higher share of direct purchases.

To investigate this relationship further, Model 3 specifies PB transaction share as a continuous variable, revealing that a 1 percentage point increase in the PB share is associated with a 0.34 percentage point increase in direct purchases.

Models 4–6 in Table 10 extend the analysis by incorporating additional determinants of transaction type selection. These variables were measured using a seven-point Likert scale, and the estimation was conducted using standardized values within each product category to ensure comparability.

The estimates in Table 10 can be interpreted through transaction cost theory and supplier bargaining power. From a transaction cost perspective, the development level of the retailer's purchasing system is associated with a higher share of direct purchases. Structured systems streamline supply, distribution, and ownership transfer, improving efficiency. In contrast, underdeveloped systems often require suppliers to retain ownership and monitor sales closely. Therefore, advancements in retail purchasing systems are likely to have a significant positive effect on direct purchasing.

TABLE 10—REGRESSION RESULTS ON THE DETERMINANTS OF THE SHARE OF DIRECT PURCHASE TRANSACTIONS (2)

Dependent Variable: Share of Direct Purchase Transactions		Model 4	Model 5	Model 6
Distribution by Retail Format (%)		Y	Y	Y
Main Product Category (0/1)		Y	Y	Y
Market Environment	Market Demand Volatility and Uncertainty	1.20 (1.27)	1.18 (1.27)	1.21 (1.24)
	Market Growth Trend	-2.00 (1.31)	-1.71 (1.31)	-0.99 (1.29)
	Competition Among Suppliers	1.22 (1.34)	1.23 (1.33)	1.91 (1.32)
Production Conditions	Stability of Production and Supply	-3.59** (1.53)	-3.74** (1.52)	-2.55* (1.52)
	Ability to Switch Retailers	0.45 (1.38)	0.45 (1.38)	1.02 (1.35)
	Financial Stability	0.63 (1.55)	0.63 (1.54)	-0.22 (1.52)
Relational Characteristics	Transaction-Specific Investments	-1.15 (1.56)	-1.05 (1.55)	-1.29 (1.52)
	The Development Level of the Retailer's Purchasing System	3.57** (1.77)	3.65** (1.76)	3.04* (1.74)
	Accumulation of Retailer's Sales Expertise	1.10 (1.63)	0.99 (1.63)	0.73 (1.60)
	Bargaining Power Gap Between Retailer and Supplier	0.22 (1.33)	-0.10 (1.32)	-0.81 (1.31)
	Supplier's Trust in the Retailer	3.41** (1.61)	3.23** (1.60)	3.03* (1.57)
Product Characteristics	Brand Recognition	-1.73 (1.47)	-1.51 (1.47)	-1.21 (1.44)
	Inventory Depreciation	-0.00 (1.26)	-0.19 (1.25)	-1.00 (1.24)
	Product Differentiation	1.29 (1.51)	1.11 (1.50)	0.58 (1.47)
Sales Characteristics	Need for In-Store Interior Customization	-4.88** (2.02)	-4.69** (2.02)	-4.17** (1.98)
	Need for Dedicated In-Store Sales Personnel	-3.68* (2.20)	-4.03* (2.20)	-3.57 (2.17)
	Seasonality and Timeliness of Sales	-0.33 (1.34)	-0.29 (1.34)	-0.09 (1.31)
Consumer Characteristics	Price Sensitivity	0.60 (1.48)	0.63 (1.47)	0.73 (1.44)
	Quality and Service Sensitivity	-1.42 (1.62)	-1.40 (1.61)	-1.49 (1.58)
	Preference for Well-Known Brands	-0.76 (1.44)	-0.57 (1.44)	-0.64 (1.41)
ln (Number of Distribution Partners)			3.39*** (1.18)	3.72*** (1.17)
Transaction Type Proposed by	Supplier			8.57* (4.62)
	Retailer			0.77 (4.37)
Margin Rate Proposed by	Supplier			0.07 (5.96)
	Retailer			-15.65*** (4.19)
1 / (Sales of Main Product in 2018)		884.9 (1,277)	895.5 (1,270)	1,265.97 (1,251.67)
Share of PB Products in 2017		0.28*** (0.10)	0.28*** (0.10)	0.26*** (0.10)
Ln (Total Sales in 2017)		3.42*** (1.20)	2.43* (1.24)	2.05* (1.22)

Dependent Variable: Share of Direct Purchase Transactions	Model 4	Model 5	Model 6
Ln (Firm Age)	0.44 (2.27)	1.24 (2.28)	1.89 (2.24)
Vendor (0/1)	2.73 (3.63)	1.85 (3.63)	0.80 (3.58)
ln (Total Transaction Duration with Retailers)	0.35 (1.88)	-1.49 (1.98)	-1.86 (1.94)
Constant	-3.74 (14.41)	4.77 (14.64)	14.41 (14.50)
Regional Dummy	Y	Y	Y
Observations	771	771	771
R-squared	0.50	0.51	0.53

Note: 1) Due to space constraints, coefficients for the share of sales by retail format and main product category are not reported. Their significance levels and coefficient magnitudes are broadly consistent with those presented in Table 10.

2) Standard errors are in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively

Moreover, greater supplier trust in the retailer is positively linked to a higher share of direct purchasing transactions. According to John and Weitz (1988) and Anderson and Schmittlein (1984), when suppliers struggle to monitor retailers' opportunistic behavior or evaluate sales performance, they often adopt direct selling to reduce transaction costs. Among indirect sales methods, suppliers tend to prefer consignment or store lease agreements, which offer more control over distribution and sales. Increased trust, however, reduces concerns over behavioral uncertainty, thereby strengthening the preference for direct purchasing.

Regarding sales characteristics, the greater the need for specialized store design or dedicated sales personnel, the lower the proportion of direct purchasing transactions. This effect is more pronounced than that of relational factors such as the advancement of the retail purchasing system or the supplier's trust in the retailer. Products requiring dedicated sales personnel are often non-standardized and necessitate additional consumer guidance. In such cases, transaction models that fully delegate sales activities to retailers, such as direct purchasing or consignment sales, may be less effective. Additionally, investments in sales personnel recruitment and training, store design, and fixture installation constitute transaction-specific assets, as their value diminishes significantly if the relationship with the retailer is discontinued. To mitigate the risk of asset devaluation, suppliers are more likely to prefer transaction models that allow for greater oversight, thereby increasing the likelihood of selecting special contract purchase or store lease agreements.

Regarding production conditions, greater stability in a supplier's production and delivery processes is associated with a lower share of direct purchasing transactions. While stable order volumes can be expected to improve forecasting and promote direct purchasing, retailers view reliable suppliers as enabling more flexible procurement, reducing the need for advance stockpiling. As a result, direct purchasing declines, with the estimated coefficient suggesting that this negative effect outweighs the positive.

In Model 6, supplier bargaining power variables were added as independent variables. The results show that the share of direct purchasing increases with the number of retail partners and when the transaction type is determined by the supplier's proposal. This aligns with theory, as a broader retail network reduces

dependence on any single retailer, lowering the opportunity cost of transaction termination. With greater bargaining power, suppliers can negotiate more effectively and tend to prefer direct purchasing to ensure timely and reliable payments.

Conversely, when key financial terms—such as direct purchasing margins, consignment commission rates, and rental fees for store leases—are determined by the retailer, the share of direct purchasing transactions decreases significantly by 15.7 percentage points. This suggests that greater retailer bargaining power, coupled with a preference for minimizing inventory risk, plays a decisive role in determining the transaction type.

Ultimately, the choice of contract type between retailers and suppliers is shaped by factors such as the retail format, product category, transaction cost considerations, and bargaining power dynamics. As such, policy interventions that attempt to alter transaction types exogenously risk disrupting industry practices and the broader market order.

Nonetheless, increasing the share of direct purchasing could address issues such as excessive inventory risk for suppliers or disputes under special contracts. Rather than mandating specific contract types, a more effective and sustainable approach would be to strengthen suppliers' bargaining power—encouraging a natural shift toward direct purchasing while promoting long-term market stability.

V. The Differing Effects of Contract Types on Suppliers' Business Performance

What roles do different contract types play in shaping the business performance outcomes of suppliers? This section explores this question through an analysis based on survey data. In Model 1 of Table 11, we incorporate dummy variables for region, distribution type, and main product category, along with factors related to transaction cost theory, supplier bargaining power, and other control variables. This approach enhances the robustness and explanatory power of the model prior to examining the effects of transaction-specific supply proportions. The results indicate that main product sales are positively influenced by market growth trends, balanced bargaining power, consumer brand preferences, and an increasing number of retailers.

In Model 2, transaction-type-specific supply proportions were added, but their coefficients were not statistically significant at the 10% level. Because transaction cost and bargaining power variables are the key determinants of direct purchase supply proportions, analyzing them at the same hierarchical level may introduce endogeneity issues.[2] Moreover, these variables influence sales revenue both directly and indirectly through supply proportions, further complicating the interpretation.

Models 3 and 4 adopt an instrumental variable approach using transaction cost and bargaining power variables as instruments pertaining to the proportion of

[2]For instance, if unobserved supplier characteristics—such as prior experiences of unfair trading practices—simultaneously influence both the composition of transaction types and the level of main product sales, then specifying the proportion of supply by transaction type alongside transaction cost and bargaining power variables as independent variables at the same analytical level may give rise to endogeneity concerns. In such cases, the estimated coefficients on transaction-type proportions may be biased due to the omission of variable confounding.

TABLE 11—EFFECTS OF TRANSACTION TYPES ON SUPPLIER SALES REVENUE

Dependent Variable: Sales of Main Product (2018, million KRW)		Model 1 (OLS)	Model 2 (OLS)	Model 3 (IV)	Model 4 (IV) ln (Sales of Main Product)
Region, Distribution Type, Main Product Category		Y	Y	Y	Y
Share of Transaction Types	Special Contract Purchase		-62.63 (41.49)	-258.52* (146.85)	-0.018*** (0.007)
	Consignment		1.90 (37.24)	-318.11 (210.94)	-0.014 (0.010)
	Store Lease		-53.54 (40.35)	51.95 (123.98)	-0.008 (0.006)
	Other		-3.61 (81.05)	-188.93 (394.16)	0.003 (0.018)
Market Environment	Market Demand Volatility and Uncertainty	-1,478.32 (920.53)	-1,551.39* (926.73)		
	Market Growth Trend	1,655.16* (953.61)	1,726.94* (960.58)		
Relational Characteristics	Bargaining Power Gap Between Retailer and Supplier	-1,764.60* (949.32)	-1,799.64* (957.31)		
Sales Characteristics	Need for In-Store Interior Customization	2,358.02 (1,482.71)	2,499.02* (1,502.99)		
Consumer Characteristics	Preference for Well-Known Brands	2,374.57** (1,045.98)	2,405.75** (1,049.67)		
Other Characteristics		Y	Y		
Number of Retail Partners		53.68*** (14.08)	51.95*** (14.30)		
Transaction Type, Margin Rate Determination		Y	Y		
Firm Age		34.77* (17.81)	36.69** (18.08)	59.23*** (20.64)	0.005*** (0.001)
Firm Age2		-0.03 (0.03)	-0.03 (0.03)	-0.07** (0.03)	-0.000*** (0.000)
Number of Employees		240.24*** (23.95)	240.35*** (24.40)	283.45*** (30.38)	0.017*** (0.001)
Number of Employees2		-0.09*** (0.03)	-0.09*** (0.03)	-0.13*** (0.04)	-0.000*** (0.000)
Share of PB Products in 2017		-38.25 (71.83)	-47.64 (72.48)	-106.07 (86.51)	-0.002 (0.004)
Constant		-2,995.49 (7,030.99)	38.75 (7,455.29)	-1,103.27 (12,735.93)	8.239*** (0.574)
Observations		798	794	794	794
R-squared		0.45	0.45	0.33	0.44

Note: Standard errors are in parentheses. *, **, and *** denote statistical significance at the 10%, 5%, and 1% level, respectively.

supply accounted for by different transaction types. Specifically, the instrumental variable set comprises variables related to Market Environment, Relational Characteristics, Sales Characteristics, Consumer Characteristics, Number of Retail Partners, and Transaction Type & Margin Rate Determination. Although these factors are correlated with the share of supply by transaction type, they reflect structural characteristics shaped over extended business relationships. Accordingly, they are unlikely to be systematically related to unobserved, period-specific shocks that directly influence current sales revenue. The findings from Model 3 indicate that a higher proportion of special contract transactions is significantly associated with a decline in suppliers' main product sales revenue, using direct purchase transactions as the reference category. Specifically, a 1 percentage point increase in special contract transactions results in an average revenue loss of 259 million KRW—equivalent to 1.58% of the average supplier revenue (16.35 billion KRW)—highlighting a substantial negative impact.

In Model 4, the dependent variable is the log of the main product sales revenue, allowing the effect to be interpreted as elasticity. The estimated coefficient (-0.018) suggests that a 1 percentage point increase in special contract transactions leads to an average 1.8% decline in main product sales revenue.

Why, then, do suppliers engaged in special contract transactions exhibit significantly lower sales revenue compared to those using direct purchase transactions? Given that both distribution type and main product category are controlled for, this difference cannot be simply attributed to fixed effects related to retail format or product line. To gain a better understanding of the underlying dynamics, it is necessary to examine how value is distributed between suppliers and retailers across different transaction types.

Figure 4 presents the average margin rate for direct purchases, the commission rates for special contract and consignment transactions, and the rental fee rate for store lease transactions. Interestingly, the margin rate for direct purchases (18.6%) is lower than the commission rate for special contract transactions (25.4%). According to transaction cost theory, retailers bear greater demand fluctuation risk under direct purchase arrangements, which should warrant a higher margin. The fact that special contract transactions yield an even higher commission rate suggests that transaction cost considerations alone cannot fully explain this discrepancy.

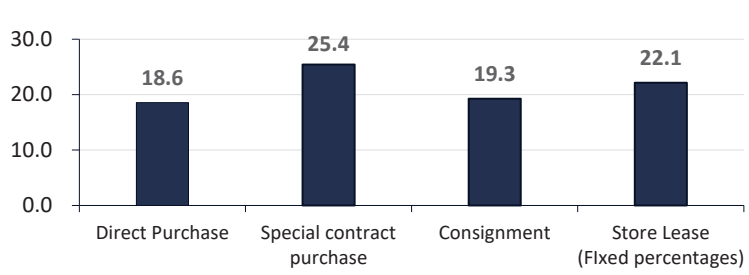

FIGURE 4. AVERAGE MARGIN RATE, SALES COMMISSION RATE, AND RENTAL RATE BY TRANSACTION TYPE

Note: The numbers of observations by transaction type are 350 for direct purchases, 123 for special contract purchases, 247 for consignment, and 153 for store leases.

Source: Based on survey data.

One plausible explanation is the presence of bargaining power asymmetry. Imbalances in negotiation leverage between retailers and suppliers can influence how value is distributed, with special contract transactions often leading to less favorable outcomes for suppliers. Although bargaining power asymmetry is difficult to measure directly, Table 10 in Section 4 shows that the proportion of direct purchase transactions tends to be higher when suppliers have more trading partners or greater influence over transaction decisions—implying that weaker bargaining power may be more prevalent in special contract arrangements.

Furthermore, Figure 5 and Table 12 reveal that suppliers overwhelmingly prefer direct purchase transactions, while special contract transactions are consistently ranked as the least desirable. From this perspective, the negative association between the proportion of special contract transactions and sales revenue likely reflects the higher commission rates imposed on suppliers with limited bargaining power. This interpretation aligns with the broader pattern in which suppliers systematically view special contract transactions as the least favorable option.

Overall, the findings suggest that bargaining power asymmetry plays a critical role in shaping transaction type decisions and has a direct impact on suppliers' sales performance. To promote fairer partnerships and balanced growth in the retail and supply sectors, policies that aim to enhance suppliers' bargaining power should be given greater attention.

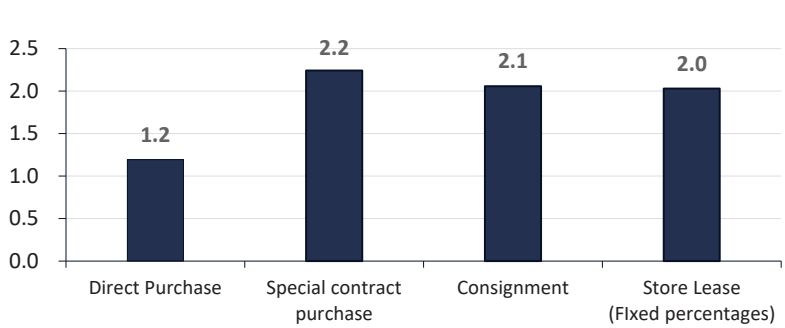

FIGURE 5. PREFERRED TRANSACTION TYPE RANKINGS

Note: The numbers of observations by transaction type are 271 for direct purchases, 111 for special contract purchases, 191 for consignment, and 65 for store leases.

Source: Based on survey data.

TABLE 12—REFERRED TRANSACTION TYPE RANKINGS BY SHARE OF DIRECT PURCHASE TRANSACTIONS

Share of Direct Purchase Transactions	Number of Suppliers	Direct Purchase	Special Contract Purchase	Consignment	Store Lease (Fixed Percentages)
Total	584	1.19	2.24	2.06	2.03
Less than 50%	316	1.36	2.15	2.00	1.96
Less than 30%	234	1.40	2.12	1.91	1.74
Less than 10%	131	1.59	2.21	1.71	1.63
0%	95	-	2.13	1.68	1.6

Source: Based on survey data.

VI. Patterns of Unfair Trade Practices by Contract Type

Section 5 highlights the negative impact of special contract transactions on supplier performance—likely stemming from imbalanced relationships and weaker supplier bargaining power. This raises an important question about the link between transaction types and unfair trade practices in the retail sector.

Despite its significance, systematic analyses of unfair practices by transaction type remain limited, largely due to a lack of direct data. However, identifying whether certain practices are concentrated within specific contract types could improve regulatory oversight and enforcement.

To investigate this connection, this section analyzes the complete set of rulings issued by the Korea Fair Trade Commission (KFTC) related to violations of the Large-Scale Retail Business Act, focusing on how different contract types are implicated in these cases.

According to Figure 6, unfair trade practices in the retail sector are most commonly associated with direct purchases (167 cases, 39.6%) and special contract transactions (160 cases, 37.9%), followed by store lease transactions (53 cases, 12.6%) and consignment transactions (42 cases, 10.0%). Together, direct purchases and special contract transactions account for over three-quarters of all cases, highlighting their greater vulnerability to unfair trade practices.

Interestingly, direct purchases showed a slightly higher frequency of unfair trade practices than special contract transactions, despite expectations that the latter would be more vulnerable. However, as shown in Figure 1, direct purchases make up 47% of the total transaction volume, while special contract transactions account for just 21%. This suggests that the higher occurrence of unfair trade practices in direct purchases is simply a reflection of their larger transaction share.

Figures 7 and 8 examine the relative vulnerability to unfair trade practices after factoring in transaction volume and the number of contracting firms. The analysis reveals that special contract transactions have the highest incidence of unfair trade practices per unit. In Figure 7, their frequency per unit of transaction volume is

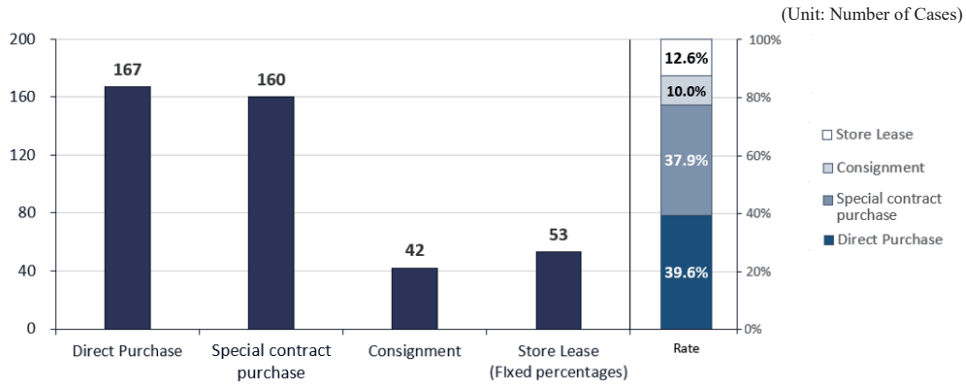

FIGURE 6. FREQUENCY (LEFT) AND SHARE (RIGHT) OF TRANSACTION TYPES INVOLVED IN UNFAIR TRADE PRACTICES IN THE LARGE-SCALE RETAIL SECTOR

Source: Compiled by the author based on the Korea Fair Trade Commission's Rulings on Violations of the Large-Scale Retail Business Act (1998–2018, KFTC Case Information System)

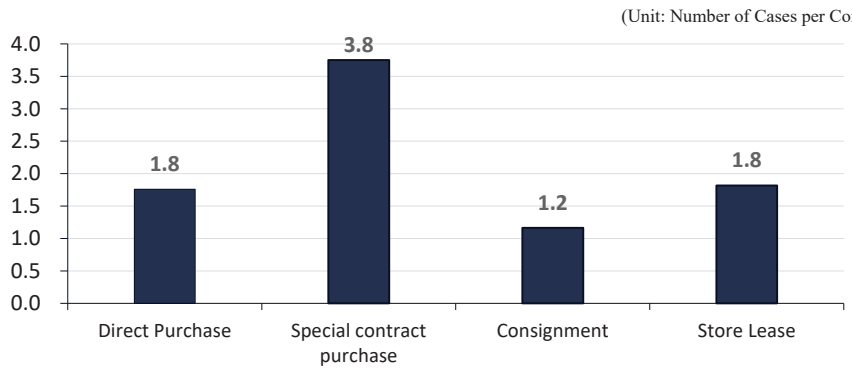

FIGURE 7. FREQUENCY OF UNFAIR TRADE PRACTICES BY TRANSACTION TYPE PER UNIT OF TRANSACTION VOLUME

Source: Korea Fair Trade Commission, KFTC Case Information System (https://case.ftc.go.kr, last accessed: April 3, 2019).

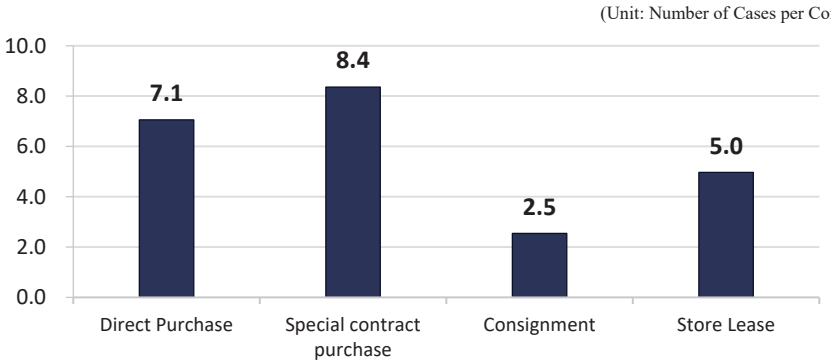

FIGURE 8. FREQUENCY OF UNFAIR TRADE PRACTICES BY TRANSACTION TYPE PER NUMBER OF SUPPLIERS

Source: Korea Fair Trade Commission, KFTC Case Information System (https://case.ftc.go.kr., last accessed: April 3, 2019).

3.75, making them 2.1 to 3.2 times more susceptible than other transaction types. These findings support the need for dedicated regulatory guidelines for special contract transactions and confirm that these types of transactions are most vulnerable to unfair trade practices.

Table 13 presents the annual average frequency of unfair trade practices across different regulatory periods, revealing a distinct upward trend in recent years. Whereas such practices previously occurred mainly in special contract and direct purchase transactions, they have now become more evenly spread across all types of transactions. In particular, the rapid growth of online and TV home shopping has led to a sharp rise in unfair trade practices within consignment transactions.

Figure 9 illustrates the annual average frequency of unfair trade practices by transaction type, based on evolving regulatory frameworks over time. In recent years, there has been a marked increase in frequency, particularly within consignment and store lease transactions following the enactment of the Large-Scale Retail Business Act. This trend suggests a shift from the previous concentration of unfair practices associated with special contracts and direct purchases toward a more

TABLE 13—FREQUENCY OF TRANSACTION TYPES INVOLVED IN UNFAIR TRADE PRACTICES IN THE RETAIL SECTOR: BY YEAR AND LEGAL BASIS

(Unit: Number of Cases)

Year	Direct Purchase	Special Contract Purchase	Consignment	Store Lease	Total
1998		1			1
1999	15	9		3	27
2000	13	4		3	20
2001	13	4		2	19
2002	6	6	1	9	22
2003					0
2004	6	1			7
2005	20	13		7	40
2006	3	1		2	6
2007	5	17	3		25
2008	6	6		1	13
2009	6	12		5	23
2010	11	6	1		18
2011	4	8	4	2	18
2012	11	20		1	32
2013	2	3			5
2014	4	7		1	12
2015	2	10	17	1	30
2016	20	7	5	1	33
2017	7	22		13	42
2018	13	3	11	2	29
Total	167	160	42	53	422

Source: Korea Fair Trade Commission, KFTC Case Information System (https://case.ftc.go.kr., last accessed: April 3, 2019).

(Unit: Number of Cases)

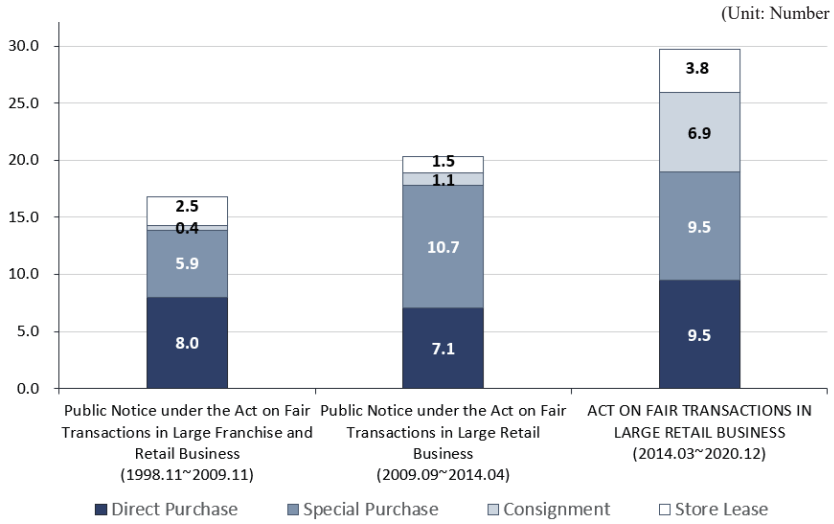

FIGURE 9. FREQUENCY OF TRANSACTION TYPES INVOLVED IN UNFAIR TRADE PRACTICES IN THE RETAIL SECTOR: BY LEGAL BASIS

Source: Compiled by the author based on the Korea Fair Trade Commission's Rulings on Violations of the Act on Fair Transactions in Large Retail Business, Large Franchise Retail Business, and Large-Scale Retail Stores (1998–2020) and the KFTC Case Information System (https://case.ftc.go.kr).

TABLE 14—FREQUENCY OF TRANSACTION TYPES INVOLVED IN UNFAIR TRADE PRACTICES IN THE RETAIL SECTOR, BY LEGAL PROVISION

(Unit: Number of Cases)

Provisions of the Act on Fair Transactions in Large Retail Business		Total Number of Violations	Direct Purchase	Special Contract Purchase	Consignment	Store Lease	Total by Transaction Type
Delivery and Retention of Documents	Article 6	85	38	44	11	18	111
Prohibition of Reduction in Payment of Goods	Article 7	12	11	1		0	12
Payment of Proceeds from Sale	Article 8	23		17	6	2	25
Prohibition of Refusal or Delay of Receipt of Goods	Article 9	1	1				1
Prohibition of Return of Goods	Article 10	46	46				46
Prohibition on Unjustly Shifting Burden of Sales Promotional Expenses	Article 11	76	39	43	9	21	112
Prohibition against using Employees by Suppliers	Article 12	42	32	22	8	2	64
Prohibition of Forcing Exclusive Dealing	Article 13	1			1		1
Prohibition of Request for Management Information	Article 14	15	5	10	3	5	23
Prohibition of Requests for Economic Profits	Article 15	17	15		2		17
Compensation for Costs of Equipment for Sales Floor	Article 16	1		1			1
Prohibition against Giving Disadvantages	Article 17	57	14	43	3	6	66
Total		376	167	160	42	53	479

Source: Compiled by the author based on the Korea Fair Trade Commission's Rulings on Violations of the Large-Scale Retail Business Act (1998–2018, KFTC Case Information System).

widespread distribution across various transaction types.

Table 14 analyzes legal violations by transaction type, revealing that breaches of the prohibition on unfair disadvantageous practices (Article 17 of the Large-Scale Distribution Act) were particularly prevalent in special contract purchases. A significant number of these cases involved unjustified changes to contract terms, such as unfair reductions in supply prices, increases in sales commissions or incentives, and unilateral termination of transactions. Notably, 43 out of 66 such violations (65%) were associated with special contract purchases, with supply price cuts and commission hikes being the most frequent. This pattern appears to be closely linked to the previously observed decline in sales associated with this transaction type.

The most frequently cited violation in direct purchase transactions was the infringement on the prohibition on product returns (Article 10), with 46 recorded cases. This provision is breached when a retailer returns goods previously purchased from a supplier without legitimate grounds. Given that consignment and store lease transactions do not entail actual purchases and that special contract purchases generally permit returns under credit-based terms, this regulation is applicable solely to direct purchases. Notably, 31 of the 46 cases involved large-scale supermarket chains.

Violations of provisions related to the issuance and retention of documentation (Article 6), the unfair allocation of promotional costs (Article 11), the use of supplier personnel (Article 12), and demands for business information (Article 14) were identified across all transaction types. Among these, failure to issue and retain written agreements—a fundamental contractual requirement—was the second most frequent violation, with 111 cases. The most prevalent issue, however, was the imposition of promotional expenses on suppliers without prior agreement, accounting for 112 cases. These findings suggest that many retailer–supplier disputes stem from ambiguities or omissions in contractual arrangements.

VII. Conclusion

A. *Summary of Findings*

The key findings of the study are as follows. Among transactions conducted among 26 large-scale retailers and approximately 7,000 suppliers, direct purchases accounted for the largest share (47%), followed by special contract purchases (21%), consignment transactions (18%), and store lease agreements (14%). The distribution of transaction types varied significantly by retail format: large supermarkets, convenience stores, and super supermarkets (SSMs) predominantly employed direct purchase models, whereas department stores and outlet malls relied almost exclusively (over 95%) on special contract purchases and store lease arrangements. In contrast, consignment transactions emerged as the dominant model in online and TV home shopping platforms. From a product category perspective, direct purchases were primarily used for essential goods, while special contract purchases were preferred for products characterized by high demand volatility—a pattern further supported by a regression analysis.

Second, transaction costs and bargaining power were key determinants in the selection of transaction types. Direct purchases were more prevalent in cases where retailers possessed advanced procurement systems and maintained high levels of trust with suppliers. Conversely, when sales involved specialized store infrastructure or the deployment of dedicated sales personnel, the proportion of direct purchases declined, with a corresponding increase in special contract purchases and store lease arrangements. From the perspective of bargaining power, direct purchases were more likely when suppliers had access to multiple retail partners and held greater leverage over transaction terms and profit margins. These findings indicate that suppliers tend to prefer direct purchase arrangements when the costs associated with terminating a relationship with a specific retailer are relatively low.

Third, as the imbalance in bargaining power between retailers and suppliers widened, a corresponding decline in supplier sales was observed. Specifically, a 1 percentage point increase in the share of special contract purchases was associated with an average decrease of 259 million KRW in core product sales. This decline is largely attributable to the diminished negotiating position of suppliers in special contract arrangements, which are typically characterized by higher commission rates, making them the least preferred transaction type among suppliers. These results suggest that special contract purchases contribute to an inequitable distribution of value

in supplier–retailer relationships.

Finally, more than 75% of unfair trade practices were concentrated in direct and special contract purchases, with special contract purchases exhibiting the highest incidence of violations per transaction unit. Moreover, such violations have shown an upward trend over time, particularly within consignment and store lease transactions. When disaggregated by transaction type, unfair disadvantageous practices—prohibited under Article 17 of the Large-Scale Distribution Act—were most frequently observed in special contract purchases, whereas violations of the product return prohibition (Article 10) were most common in direct purchases.

B. *Policy Recommendations*

While ongoing efforts aim to reduce unfair practices in special contract purchases and to promote the adoption of direct purchase models, policymakers should exercise caution with regard to mandating specific transaction types. This study demonstrates that transaction structures are shaped by a range of factors—including the retail format, product category, transaction costs, and the dynamics of bargaining power. Imposing a uniform transactional model may inadvertently distort market mechanisms and constrain trade. A more sustainable approach to expanding direct purchases would involve strengthening suppliers' bargaining power, particularly through the diversification of retail partnerships. Narrowing the power asymmetry between retailers and suppliers is likely to encourage direct transactions naturally, fostering a more equitable and transparent contracting environment.[3]

Second, regulatory bodies such as the Fair Trade Commission should examine more closely the relationship between transaction types and unfair trade practices. Although special contract purchases in department stores have been a primary focus of scrutiny, other retail sectors remain comparatively under-examined. For example, private brand (PB) transactions exhibit unfair product returns and arbitrary payment decisions at rates two to three times higher than those found in manufacturing subcontracting, indicating heightened risks even within direct purchase arrangements. To improve regulatory oversight, sectoral surveys should be refined to better reflect the nuances of transaction types, thereby enabling more effective monitoring and enforcement of relevant legal provisions.[4]

Finally, the retail industry itself must take a proactive role in driving innovation. Although minimizing inventory risk has become a widespread strategy, transferring this risk to suppliers—while prioritizing high distribution margins—may undermine long-term sustainability. The recent decline in profitability across offline retail channels suggests that the traditional margin-centric model may be approaching its structural limits. To remain competitive, retailers should invest in in-house merchandising capabilities, enhance procurement competencies, and focus on delivering differentiated products and services that elevate consumer welfare.

[3]However, the study does not offer a concrete answer as to how such an enhancement of bargaining power can be practically achieved, which remains an inherent limitation of the research. To address this issue more explicitly, future research may need to examine the determinants of bargaining power itself empirically or to investigate the underlying causes of unfair trading practices across different contract types.

[4]In addition, the regulatory data used in this study—such as enforcement cases by the Korea Fair Trade Commission—are based on information up to 2018. To better reflect recent developments in the retail environment and regulatory responses, periodic updates of such data should be prioritized in future research.

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