promoters in korea: entrenched and powerful

By Mark Sungrae Kim

Armies of in-store promoters dominate Korea's retail scene. They are expensive and often inefficient, but what is to be done?

"That is a great international ketchup brand, but it is not quite right for the taste buds of Koreans," or so the in-store promoters of a Korean ketchup brand told customers a few years ago when a major US brand was entering the market. The American company, which had decided against using promoters itself, deeming them inefficient and expensive, was already off to a bad start.

This anecdote, and hundreds like it, richly illustrates the immense power of promoters in Korea's competitive retail scene. Generally women between 20 – 50 years of age with a high school education, promoters have the power to make a relatively unknown brand a household name overnight, or to sink the world's most famous brands when they try to enter the Korean market.

While promoters exist in other countries, their role in Korean retailing is unique. In other countries promoters are typically reserved for major consumer durables, such as washing machines, fridges, stereos, and the like. In Korea their role extends to even the most modest of household products: soap, detergent, soft drinks, food, etc. Korea's big consumer firms have deep relationships with promotion outsourcing companies.

Companies such as CJ CheilJedang and Yuhan Kimberly have affiliated outsourcing companies with 2,300 and 1,200 promoters each, while LG Household & Healthcare and Procter & Gamble have partner companies with about 1,700 and 660 promoters each.

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Free Workers

In a major discount store such as Emart, major consumer companies have four to five people per store selling their products. In addition to their main role of explaining the value of products, they also get involved in a whole range of activities, from stock management, ordering, and displaying. Sometimes they help out the cashier and even sell competitor's products.

For retailers this arrangement is terrific, for while the consumer goods companies foot the tab for their promoters, promoters often end up performing duties that have nothing to do with the products they are supposed to be promoting. "Merchandising directors at retailers are under constant pressure to increase volume growth," says a country manager at a multinational food company. "To facilitate this they ask suppliers to make promotions in the store. This is very common in the market. They will use one set of promoters for a few weeks, and then switch to the next promotion – and get more promoters."

He reckons that a product being pushed by a promoter could enjoy sales up to ten times those of a product that has no promoters, and compounding this is the fierce nature of competition in Korea. Although much larger, untapped

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markets exist overseas, being strong in the home market of Korea is seen as vitally important by major consumer goods firms. “There is a lot of jealousy between companies in this market,” he says. “Even the big firms such as LG and Samsung, who compete globally, place a very high priority on competing locally. In Korean culture winning is very important.”

“Consumers rely on face to face selling,” says an executive at a major promoter outsourcing firm. “In other words, a consumer can pick product A, but product B's representative will recommend B, especially if product A doesn’t have a representative near at hand. Ultimately this gives larger consumer companies an edge.”

Promoters, however, are not cheap. Tougher labor laws and a unionized work force mean that consumer products companies spend more paying promoters than on any other part of the marketing mix, such as advertising. Furthermore, companies that still directly employ their own promoters are coping with a range of labor issues. Turnover among promoters also tends to be high, meaning a lot of the money spent on training is for naught.

Companies are often surprised by “commission fees” classified under selling, general & administrative (SG&A) expenses. In the past, this number mainly represented royalty, consulting and legal fees; today 70-85% goes for overhead costs paid to promoter outsourcing companies.

What’s more, promoters may not be good for brands. “While potentially effective for new product introductions the effect of promoters appears to be short-term and not a positive way to build up brand equity,” says a senior consumer analyst at a global brokerage firm. “What’s more, the typical “buy one get one free” promotions that are used to launch product usually make people more sensitive to prices.”

The 20/80 Rule

For companies to move away from the promoter model, it is essential that they look at new ways of selling, says the country manager from the multinational food company. He recommends setting a cap on the number of promoters being used, or by deploying promoters based on the 20/80 rule, using them only for the twenty percent of products that account for eighty percent of sales. He also reckons consumer goods companies could do a better job of creating innovative product packaging and coming up with better, more eye-catching displays. Finally, companies could do more research into the minds of consumers, which may result in ideas that could help move away from the promoter model.

Even so, what to do about promoters is a difficult question to answer. "As long as other companies use them, you really cannot stop," says the country manager. "Consumers have come to expect them when they go shopping. Culturally, there is too much over-reaction to what competitors are doing, and floor managers will always demand promoters from suppliers. If you turn them down, they could well end up taking revenge against your products, which could be disastrous."

From a leadership point of view, this means that firms need sales and marketing leaders who can find ways to lessen the reliance on promoters in Korea, while also maintaining good relations with big players in the retail sector.

Sooner or later Korea's consumer goods firm will have to address the issue of promoters, which have become prohibitively expensive and are out of tune with international best practice in the field of retailing. From a leadership point of view, this means that firms need sales and marketing leaders who can find ways to lessen the reliance on promoters in Korea, while also maintaining good relations with big players in the retail sector. This will take creativity and courage, but the firms who succeed will grow their business going forward.

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