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Analysis of Open Price System through Comparison of Korea and Overseas Cases

This study discusses the Open Price System, examines its current status, and presents cases in Korea and overseas. The open price system is a system in which a distributor, who is the final seller, freely sets and executes the selling price. Domestic and overseas cases are compared to discuss the reasons for which the open price system in Korea has not been successful, from the perspective of government, suppliers and consumers. In terms of government, there has been a lack of macroscopic approach other than the system itself. In foreign countries, open price systems have been implemented for considerably longer periods of time, and there has been continuous monitoring on the part of consumer groups and efforts to have a strong implementation of the law on the part of government. In Korea, however, there was lack of effort to improve distribution structures and practices and of systematic approaches. We have analyzed the errors of the Open Price System and have presented solutions to enforce it.

Keywords: Open Price System, Analysis, Comparison, U.S.A, Japan, Korea, Europe

Open price system’ is a system that prohibits producers from putting suggested retail price on products. In other words, distributors, final dealers, set the price of products freely and sell them. The subject setting the price changed, from manufacturer or importer to distributer.

Before the open price system, ‘suggested retail price system’ was used. Suggested retail price means the price that indicated on the cover of products by manufacturer. There are many good effects of suggested retail price. First, suggested retail price performs a role of indicators that judge the quality of product by price information. Also suggested price makes consumers easy for purchasing activity. Second, it has a role of price ceiling. Under the suggested retail price system, distribution enterprise can’t sell products more expensive over the price on the tag, fearing resistance of consumers. Lastly, the suggested price system provides the usability in the part of management of distribution.

However, the suggested retail price can induce the unfair trade in that it has strong characters of restriction on competition and price fixing. Also, when exaggeration of price occurs, a price structure can be destroyed. In reality, under the suggested retail price system, the marketing strategies of trickery were taken very often. The trick is that, after setting suggested retail price of products much higher than the real price (price bubble), sellers pretend to discount big amount with the slogan “50%, 70% discount”. But in fact it is not a discount. They daze consumers by this way. Typically, this kind of evil effect occurs frequently in category of ice creams in Korea.

Open price system appeared as an alternative to these side effects of suggested retail price system. The role of this new system is to make the distributors set the price of products freely so that sellers are unable to make those kinds of trickery. Also this system makes the competition between distributors so that consumers can get products cheaper.

The reason why let distributors decide themselves is that consumers can search and compare the quality, function, price of products on the internet as their information-gathering capacity is stronger than before. In the past, an imbalance of information was the main problem, but now thanks to the internet, the problem is almost solved. In addition, in Korea, after the middle of 1990s, discount markets, home shopping companies, internet shopping malls keep growing, so people thought, as the competition between them would make the condition that is advantageous to consumers. To sum up, open price system is expected to be an opportunity to consume wisely for consumers, a stimulus that strengthen competitiveness for manufacturers, and a turning point for distributors getting closer to consumers with low-price products and new service.

However, open price system also has several weaknesses. First, it can make a side-effect that price rather goes higher because of indiscriminate price set by distributers. Second, the system can cause discomfort and confusion to

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