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Profit Turnover Strategies and Future Directions for Coupang - Focusing on Logistics and Delivery

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Abstract

Purpose: Coupang's profitability ratio has historically been low. However, both Coupang's sales and profitability started to improve in 2022. This paper aims to discuss Coupang's strategy for turning itself into a profitable business. **Research design, data and methodology:** Coupang is the company with the largest sales among the various domestic early-morning delivery companies and the only company with a surplus. Its shift into profitability will definitely have a big ripple effect on the early-morning delivery industry as a whole. Therefore, this report aims to investigate and divide Coupang's main business models and characteristics into two categories: logistics and delivery, identify the driving force behind the firm's turnaround, and predict its future based on theoretical models. **Results:** Coupang maximizes economies of scale and enables continuous growth by making large-scale investments in logistics. It is ensuring more efficient delivery and reducing transportation costs by utilizing vendor flex, and it is expanding its product line while earning additional income through the CFS(Coupang Fulfillment Services) system. **Conclusions:** Coupang's future outlook appears to be good, as it is the company that can most reliably procure fresh products in the long run thanks to its huge logistics center infrastructure.

Keywords: Delivery, Logistics, Strategies, Future, Coupang

JEL Classification Code: M10, L21, L10

1. Introduction

Coupang is an e-commerce company that was established in 2010, with product sales and brokerage as the primary business model and basis for its online platform, with its fees and customers' membership subscription costs recognized as profits (PwC, 2022; An & Yoon, 2023). Currently, Coupang provides services such as Rocket

Delivery, a monthly payment-based product called Rocket Wow, a food delivery service called Coupang Eats, and an OTT service called Coupang Play. In 2014, the launch of Rocket Delivery, which promised "same-day delivery," shook up the e-commerce market. Rather than relying on traditional courier services, they built their own logistics centers to ensure fast and secure delivery of goods to customers. The company transformed from a low-cost

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retailer to a "fast delivery" company, revolutionizing the customer experience and captivating the hearts of consumers (PwC, 2022; An & Yoon, 2023). In 2015, they received a significant investment of 1 trillion won from SoftBank Vision Fund, a global venture capital firm, leading to substantial growth. On March 11, 2021, they went public on the New York Stock Exchange and closed at \$49.25, a 41% increase from the IPO price of \$35. With a closing market capitalization of 95 trillion won, they achieved remarkable success.

Coupang's business performance was not good as of 2022 (Park, 2023). By December 31, 2021, Coupang's cumulative deficit was about KRW 5.9 trillion, which means that the net loss accumulated to that date was enormous. Coupang's financial structure is also quite unhealthy. As of 2021, its current ratio, an indicator of a company's short-term solvency, was only 67%, and the net operating capital calculated by subtracting current liabilities from current assets also showed negative figures. Additionally, the debt-to-equity ratio was negative because of capital erosion (PwC, 2022; Yim et al., 2023).

The equity capital ratio, which represents the financial soundness of a company, has a significant negative relationship with the probability of corporate bankruptcy (Pappu & Quester, 2006; Park & Ahn, 2014). Therefore, a negative debt ratio implies the possibility of corporate insolvency, and at the same time suggests that a company's financial flexibility and solvency are not sound, suggesting that it could become insolvent at any time depending on circumstances in the money market (Jabeur, 2017; Kim, 2018).

Even if the above-described indicators are not good, a company can be considered safe if the company's profits are stable and its financing ability is high (Nisar, 2011; Hwang, 2022). In particular, indicators related to cash flow are useful for assessing an entity's ability to generate cash and cash equivalents and they provide useful information for assessing its ability to adjust the amount and timing of cash flows (Lee, 2001; Lee et al., 2011; Kiani, 2020). Therefore, even if net losses continue to occur for the current period, if the cash flow pattern is good, an entity can consider no major financial problems to be occurring.

However, Coupang never reported net profits from 2013 to the end of its ninth business year in 2021, and the cash flow of operating activities, seen as the most important factor in corporate business performance, was negative in most business years (PwC, 2022; Yim et al., 2023). Considering this fact, Coupang cannot be said to be a financially safe company.

Coupang has been in a state of capital erosion since 2017, with its total deficit exceeding the total capital. If a corporation enters a state of capital erosion due to the accumulation of continued deficits, the company may be

delisted at any time, which means that the company may begin the liquidation process at any time (Meyer-Ohle, 2002; Im, 2015; 2022). In fact, Coupang was asked to come up with measures to improve its financial structure when it received a management notice from the Financial Supervisory Service in 2019. Coupang's deficit is due to the company's sales cost ratio and its SG&A (Selling, General & Administrative Expense) ratio. According to the company's financial statements, the three-year sales cost ratio from 2019 to 2021 was about 83.2%, 83.2%, and 84%, respectively (Park, 2023). Considering the fact that distributors' sales cost ratios are generally less than 80%, Coupang's sales cost ratio can be said to be excessively high. In addition, due to the nature of the business, a large amount of sales and management costs are incurred, so as sales increase, operating losses also increase. As a result, Coupang reported this huge current accumulative deficit (PwC, 2022; An & Yoon, 2023).

However, Coupang's sales performance seemed to have started to improve in 2022. Coupang achieved an operating profit of \$77,420,000 in the third quarter of last year, according to its third-quarter 2022 report (PwC, 2022). Accordingly, net profit for the third quarter was also reported to be \$90,679,000. In addition, it reported a net profit of \$102,064,000 in the fourth quarter of 2022, marking a second consecutive quarter of surplus. Although this is a surplus transition limited to the third and fourth quarters, it is significant in that it is the first surplus achieved by Coupang and the only surplus to have been experienced among the various domestic early-morning delivery distributors. Of particular note, Coupang's sales cost ratio in the third quarter was about 75.8%, and the sales cost ratio until the third quarter was 77.5%, indicating a significant improvement. Considering the fact that E-Mart's sales cost ratio last year was 72.9%, GS Retail's 77.2%, and Curly's 81.2%, this is an encouraging figure (Kim & Mo, 2022; PwC, 2022).

With the turnaround in the surplus, the financial structure also began to improve. Coupang's liquidity ratio in the third quarter of 2022 was 122%, a figure which generally means that a company has secured minimum short-term solvency. It is also important that a positive EBITDA was reported for the first time. EBITDA is an indicator of an entity's ability to generate cash flows in operating activities, and if this figure is large, it is generally considered that the entity's ability to generate cash flows is good (Pesque-Cela et al., 2023; PwC, 2022). In the case of operating cash flow, it was still negative, but it did increase significantly compared to the third quarter of the previous year. The company's net operating capital also showed a positive figure, indicating that the company's short-term liquidity had improved (Kim & Mo, 2022).

Coupang is the company with the largest sales among the various domestic early-morning delivery companies and the only unique company with a surplus. Its shift into the black will definitely have a big ripple effect on the early-morning delivery industry as a whole. Therefore, this report aims to investigate and divide Coupang's main business models and characteristics into two categories: logistics and delivery, identify the driving force behind the firm's turnaround, and predict its future based on theoretical models.

2. Literature Review

2.1. Porter's Industrial Structure Analysis Model

The study of the relationships between the environment, behavior, and performance of a company is called industrial organization theory, and it aims to identify factors that hinder competition in an industry and to induce competition by allowing government to eliminate them (Coase, 1937). One of the theoretical models of industrial organization theory is the structure-conduct-performance model, or SCP model, in which 'structure' refers to industrial structure, 'conduct' refers to corporate strategies within the industry, and 'performance' refers to the performance of individual companies and economic performance of the entire society (Margaret, 1992). The SCP model attempts to grasp industrial structure, corporate behavior, and performance by connecting them. In other words, the SCP model assumes that a company's performance is determined by its industrial structure and the suitability of its corporate behavior, and emphasizes the analysis of structure and behavior (Panagiotou, 2006). However, although the SCP model is a useful analytical framework for government macro policymaking, it suffers from the disadvantage that it is not suitable in the narrow environment to which a specific company belongs. To compensate for these shortcomings, Michael Porter developed an industrial structure analysis model or a five-factor model that can identify the threat faced by a specific company based on the SCP model.

Porter's five-factor model has been widely used as a tool to equip for the market situation and strategies that companies face in the existing traditional market structure (Grundy, 2006; Morschett et al., 2006). However, after the advent of this model, the internet developed over a long period of time, and the accompanying movement toward the e-commerce market affected the prevailing circumstances. This is because skepticism since emerged about whether Potter's five-factor model, a tool used for traditional companies, could still be used effectively in the online era. However, it can be seen that Potter's model can indeed still be used as a valid analysis tool in modern times through an expansion of the model, by such means as integration

corporate innovation using existing market rules. In other words, Potter's five-factor model can still be useful in analyzing market circumstances of modern e-commerce companies (Amato & Amato, 2004; Karagiannopoulos, 2005; Morschett et al., 2006).

Developments in the e-commerce market appear to have changed a lot in the existing market, including provision of the advantage of being able to form a continuous relationship between suppliers and consumers and the disadvantage of making it easier for competitors of existing companies to enter the market (Van Pelt, 2010; Barutcu, 2012). Even in this rapidly changing market situation, Potter's five-factor model still has a great influence, and it functions as a guide in analyzing e-commerce companies. The model identifies five environmental threat factors that companies face and describes situations that determine the magnitude of those threats. The five threats are the risk of entry of potential competitors, competition among existing companies, the threat of substitute goods, the bargaining power of suppliers, and the bargaining power of buyers (Porter, 2008; Harman & Porter, 2021). Considering these five factors, it is possible to grasp the current situation of the market to which Coupang belongs by analyzing the company with this industrial structure analysis model (Jeon, 2022).

The first factor to consider is the threat of potential competitors—that is, new entrants. New entrants refer to companies that have recently started or will soon start working in industrial fields such as those under analysis (Porter, 2008). The greater the entry cost when entering an industry, the lower the threat of entry for potential competitors, so identifying entry cost can also serve to identify the threat easily. The threat of entry of new entrants thus depends on the cost of entry. Rocket Delivery, Coupang's main business model, required huge initial investment costs, including the establishment of a nationwide cold chain system and costs related to fulfillment centers. In addition, even if the business is currently on track, the sales cost ratio and sales management ratio are very high due to the nature of the business. The fact that there is only one Oasis market, a Korean start-up delivering food early in the morning, that made a surplus before 2022 and that it took 10 years to generate a surplus despite Coupang's aggressive expansion policy proves that it is difficult for new entrants to enter the market due to high entry barriers. However, there is a threat that existing offline retailers are attempting to enter the online distribution industry—not just Rocket Delivery.

Online distribution is a very competitive market because consumers can always easily use other platforms and compare sales prices immediately and directly. Numerous companies implement aggressive investment policies in order to occupy an exclusive position in the market. For

example, SSG.com is attempting to strengthen online logistics by expanding its PP center based on E-Mart, and GS Retail is trying to strengthen its online capabilities by acquiring Yogiyo and making large capital investments in Kakao Mobility (Yang et al., 2022). In addition, in the case of Coupang, competition between companies in the online distribution market, the second factor, is extreme, bearing in mind that it does not have an overwhelming size or market share and the degree of product differentiation in the industry is low.

Third, substitute goods allow customer needs to be satisfied in a different way, as opposed to products being provided by competitors. One alternative to the online retailer that is Coupang is offline stores such as convenience stores and large discount stores. Through the COVID-19 era, the proportion of online purchases in the distribution industry grew significantly to 36.1% in 2021, but the proportion of offline purchases remains large. In addition, sales of offline retailers rose 7.5 percent in 2021, beating the decline (Yim et al., 2022). This amounts to half of the 15.7% increase in online distribution sales, but it means that the offline market still has a large influence in the distribution industry (Yim et al., 2022).

Fourth, suppliers provide the raw materials and other assets that an entity needs. Suppliers can hurt company performance by increasing the price of supply components (Buallay, 2022). In the case of Coupang, its suppliers are the manufacturers that deliver to it. In the distribution market, suppliers do not sell differentiated goods, and their bargaining power is low due to the number of suppliers being very large. In particular, Coupang has been punished through a fine of 3.3 billion won for so-called "gapjil" of suppliers, which can be said to have extremely low bargaining power in the market.

Finally, a buyer refers to an individual or corporation that uses a company's products or services. The higher the buyer's bargaining power, the worse the company's performance (Buallay, 2022). In the case of Coupang, the buyer becomes a consumer group. Although there is a large number of consumer groups in the market, Coupang faces minimal conversion costs, which equate to costs incurred from selling standardized products for which consumers change vendors, so buyers' bargaining power in this business is quite large.

Overall, the e-commerce market, in which Coupang is currently located, is difficult to enter for new competitors due to the huge initial investment costs, but competition among existing companies that have completed such initial investment is severe. This suggests that continuous competition will be required to sustain a large market share, and furthermore, steady investment in logistics and delivery systems must be made to maintain competitiveness. In addition, despite the continuous growth of the online market,

the threat of alternatives from offline retailers appears to be high, and the bargaining power of suppliers is low but the bargaining power of buyers is high. In other words, Coupang should also pursue a strategy to differentiate itself from offline companies and make it attractive to suppliers and consumers—in other words, to invest in the field. Overall, Coupang will be able to overcome these threats and grow if continuous investment is made in the context of current circumstances.

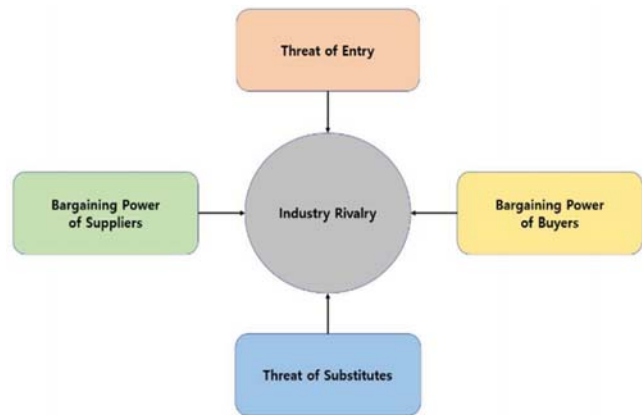


Figure 1: Porter's Five Forces Model

3. Coupang's Strategies

3.1. Logistics

Logistics can be seen as a key source of profits for companies, in line with the idiomatic expression that "logistics is the third source of profit and the fourth source of competitiveness (PwC, 2022)." Accordingly, Coupang is making great efforts to reduce logistics costs. It has been steadily investing to reduce logistics costs in the short and long term, and it has effectively reduced costs while creating a "win-win" situation between customers and consumers by utilizing vendor flex. It also earns additional income through Coupang Fulfillment Services (CFS).

3.1.1. Logistics Center Investment

Coupang operates a logistics center by renting distribution centers from ESR Kendall Square REITs (Real Estate Investment Trusts) (Kim & Zo, 2022). ESR Kendall Square REITs is an ESR affiliate of Asia's largest logistics platform company and has a total of 18 logistics centers in Korea, including Icheon Logistics Center, which is scheduled to be incorporated in December 2022. As of November 2021, Coupang leases three of its largest distribution centers (Goyang, Anseong, and Bucheon), and

the area leased by Coupang alone accounts for more than 50% of the total area owned by ESR Kendall Square REITs (Kang, 2022).

Table 1: Coupang's investment in distribution centers

Area	Numbers	Location	Share (%)	Tenant
Downtown	1	Bucheon (Cold Chain)	5.0	Coupang
	2	Goyang	17.2	Coupang
Metropolitan	3	Anseong 1	8.2	Coupang
	4~11	Yongin 1	30.0	Others
Pusan	12	Kimhae	2.2	Others
Additional	13	Kimhae	3.4	Coupang
	14	Anseong 2	13.4	Coupang
	15	Anseong 3	5.5	Coupang
	16	Icheon 5	7.4	Coupang, Ediya, and Others
	17~18	Anseong 4, Icheon 6	7.7	Others
Total			100.0	

The reason Coupang uses 3PL (entrusting all or part of its logistics activities to logistics companies) is to reduce the initial cost of building and securing a well-located logistics center. In the case of low-temperature distribution centers for fresh delivery, it also requires a lot of money to manage a distribution center, so Coupang is looking for short-term cost savings by utilizing logistics REITs.

Meanwhile, Coupang is also investing a lot of money in building its own distribution center. The biggest reason Coupang is aggressively looking to expand its logistics center is to launch future fulfillment services while magnifying the economic effect of scale by continuing to increase direct purchases (Kautish et al., 2021; Lee et al., 2021). For example, Amazon, benchmarked by Coupang, guarantees product availability through inventory aggregation at the distribution center level and links to other companies' products, reducing supply chain costs and providing better choice, convenience, and price competitiveness than its competitors. Amazon's supply chain enables economies of scale as mass sales grow and partners have greater choice, furthering the business goals of sustained growth and improved profitability (Chilies & Dau, 2005; Sanchez-Franco et al., 2021). This enhanced range of choice and growth lowers costs and prices, which provides reasons for customers to continue shopping on Amazon (Jindal et al., 2021). Based on this "flywheel" effect, Amazon has stood tall as a company that constantly repeats customer inflow and capital expansion. In this way, building a distribution center to be owned by Coupang enables continuous growth and profitability improvement by lowering rental costs and expanding economic effects of scale from a long-term perspective (Larsen & Sigurdsson,

2019). In addition, Coupang's rental distribution centers lack uniformity, with different systems used in each building (Cho & Choi, 2020). Construction of a distribution center with a consistent internal system can serve to reduce logistics costs by increasing efficiency.

Coupang suffered 20.8812 trillion won in sales and 1.171 trillion won in operating losses based on its 2021 audit report, the highest loss prior to date, because it reinvested most of its profits in corporate operations and additional logistics centers (Choi & Lee, 2022). In fact, Coupang invested about \$870 million in the construction of seven additional high-tech logistics centers as of 2021 (Park & Kim, 2022).

3.1.2. VendorFlex

"Vendor Flex" is a combination of the terms "vendor" and "flex", referring to the concept of ensuring maximum autonomy of vendors in the logistics process. Vendorplex originated from Amazon's introduction of the concept of "Seller Flex" in 2013 while sharing P&G's warehouse. Amazon's Seller Flex consists of Amazon jobs picking up products from merchant logistics warehouses and delivering them to customers (Reardon, 2021).

Coupang's Vendor Flex is conducted in the same way as Amazon's Seller Flex business. The companies Coupang collaborates with are Bebe Forest, Yuhan Kimberly, Ilhwa, Mona Lisa, and Clean Nara, which are mainly household goods companies (Lee, 2021). Household goods involve a small number of items and plentiful demand, so they can meet the economy of scale even using just the seller's own distribution warehouse, and storage costs can be reduced by excluding bulky goods from the distribution warehouse. Such vendor flexes function to avoid taking up space in the logistics warehouse, and offer the advantage of reducing transportation costs due to reduced pickup delays or omissions and reduced delivery stages. In the case of sellers, transportation costs can be reduced because they do not have to transport goods to the warehouse, and consumers also benefit from this reduction in costs leading to price cuts and improved delivery.

In the end, the seller's warehouse alone can achieve economies of scale, and companies that manage procedures more thoroughly as they do not utilize their logistics centers will win the competitiveness battle. As of 2021, Coupang's share of the Korean e-commerce market is high at about 19.6%, and it is leading the market, with Coupang employees being responsible for direct delivery (Park, 2023). In addition, other companies face a limitation in that they rely on vendor flex to compensate for problems caused by a lack of logistics warehouses, but Coupang does not encounter this issue as it strengthens its own logistics capabilities and uses vendor flex as an additional source of income.

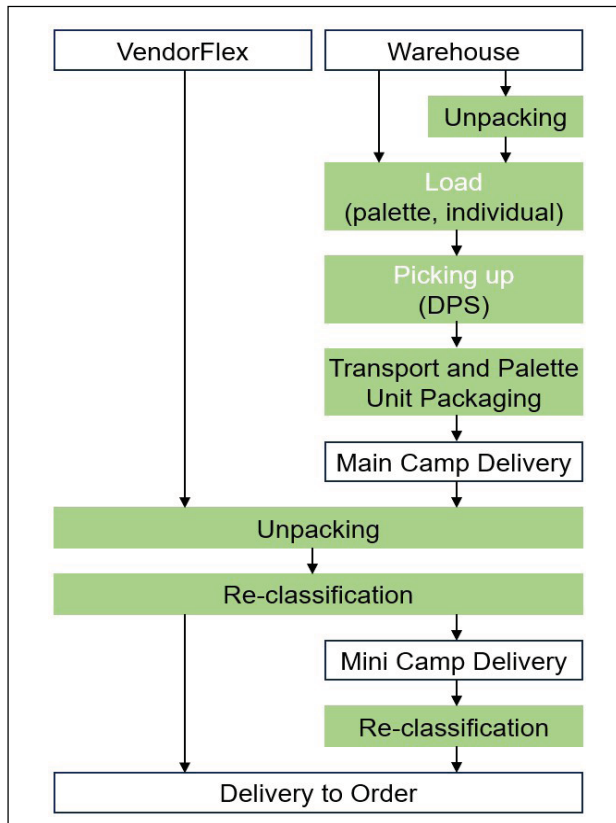


Figure 2: Vendor Flex Logistics Flowchart

3.1.3. CFS (Coupang Fulfillment Services)

Coupang benchmarked Amazon's Fulfillment By Amazon and established a fulfillment service called CFS (Coupang Fulfillment Services) (Gauri et al., 2021; Park & Kim, 2022). CFS is part of the 3PL project, so Coupang can use its own logistics center and sell the logistics center at ESR Kendallitz Square. Amazon provides distribution warehouses to sellers and is responsible for picking and packaging, delivery, and customer CS support (Gauri et al., 2021; Choi & Lee, 2022). Amazon's total sales in 2021 were \$470 billion, of which \$228 billion was accounted for by the logistics service FBA (Fulfillment By Amazon), which is provided to sellers.

Coupang provides fulfillment services to sellers through 'Jet delivery'. This is not a structure that enables direct purchase of products, such as through Rocket delivery, but which works to keep the products owned by the seller and provides only logistics services. By investing in distribution centers and increasing their respective area, Coupang can now provide fulfillment services to open-market sellers in Coupang. The commission rate of Coupang Marketplace is between 4 and 11%, while the commission rate of Jet Delivery sellers using the CFS system is about 30%, which

is expensive. Nevertheless, sellers that prefer Jet Delivery can utilize Coupang's logistics services. Through Jet Delivery, Coupang possesses an additional profit structure and is less responsible for products, while securing various product groups in its logistics warehouse to expand its product range for fast delivery. In addition, Coupang's logistics service makes products more attractive by increasing the seller's service level, which allows the seller in turn to increase its selling prices, thereby easing price competition with sellers. Although there is a disadvantage in that the provision of the fulfillment service intensifies competition in Coupang's relative logistics competitiveness, this price competition mitigation effect can benefit Coupang along with generation of profits (Lai et al., 2022).

Such fulfillment services are inevitably advantageous to companies such as Coupang, with logistics warehouses built nationwide, in terms of fast delivery and competitiveness of seller targets. In Korea, Coupang, Shinsegae Group, and Naver Shopping are investing in fulfillment centers, and among those corporations, Coupang is leading the operation and investment of fulfillment nationwide. Coupang has been strengthening its competitiveness of its fulfillment service by increasing patent applications for fulfillment-related technologies over those for online shopping services, with 132 patents related to fulfillment filed since 2019 (Park & Kim, 2022).

3.2. Delivery

Based on the logistics facilities discussed above, Coupang has been able to establish a fast delivery system in the form of Rocket Delivery. Coupang's delivery system became its biggest differentiating factor, distinguishing it from other companies. According to Kim (2021), satisfaction with Rocket Delivery greatly affects consumers' purchase intentions and brand loyalty. The perception of pleasant feelings when using Rocket Delivery was found to have a significant impact service satisfaction, and customer loyalty increased as the return processability, rapid accuracy, and delivery economy of delivery increased (Kang & Hyun, 2021). Currently, Coupang provides fast and accurate delivery services through both Rocket Delivery and Rocket Fresh, and provides high levels of return processing and delivery economy through Rocket Wow.

Coupang's delivery-related success factors can be divided into three main categories: Rocket Delivery, Rocket Wow, and Rocket Fresh.

3.2.1. Rocket Delivery

Rocket delivery, which began in 2014, is a service that delivers products by the next morning when ordered before midnight on the previous day, and can be used for purchases of 19,800 won or more if Coupang's membership system,

"Rocket Wow," which will be described later, is not used. This Rocket Delivery feature represents the biggest difference in Coupang's delivery system, distinguishing it from other companies, among which it is common either not to provide early-morning delivery services, or to provide such services only in the fresh food sector (Kim & Mo, 2022). However, Coupang provides early-morning delivery services for other products as well as early-morning delivery of fresh food through Rocket Fresh, which will be described later, which is a great advantage compared to other companies. In the case of general e-commerce companies, many actors such as intermediate distributors, sellers, and delivery companies are included in the logistics flow from manufacturers to consumers, and it usually takes two to three days for a delivery to be completed. However, Coupang has been able to effectively reduce the delivery period by internalizing the logistics flow by leading it to a process of "Manufacturer → Coupang Distribution Center → Coupang Delivery Center → Consumer." It was possible to achieve this reduction in the delivery period due to the expansion of the previous fulfillment center. After products purchased from the manufacturer are divided into categories and stored in the fulfillment center, when an order is placed, fast delivery is ensured using the above process. Based on Rocket Delivery, Coupang was able to surpass WeMakePrice, Auction, and Gmarket in the e-commerce sector and take the top spot in the industry (Kim & Mo, 2022; Oh et al., 2023).

Coupang's success through Rocket Delivery began with the company's corporate philosophy of 'customer-centered growth' (Suh et al., 2022). In the early days of its establishment, Coupang, like other e-commerce companies, entrusted delivery to external delivery companies. However, due to various customer complaints, associated with such issues as delivery delays, Coupang, which pursued the possibility of direct delivery based on the enthusiastic response of consumers, launched the current Rocket Delivery service in March 2014 (Park & Lee, 2016). Rocket Delivery services, which started in Daegu, Daejeon, and Ulsan on the opening day, are implemented nationwide as of 2022, and have become Coupang's unique service. As such, the number of customers to enjoy "fast delivery for consumers" has continued to increase (Kim & Mo, 2022; Pesque-Cela et al., 2023).

The importance of delivery services was also confirmed in the 2013 conflict between Alibaba and SF Express. When high-quality SF Express delivery services were unavailable to Alibaba, sales fell by 7,501.14 units per hour and 20.42 units per person. During the conflict, the search volume of JD Logistics, China's second-largest online retailer, increased 23.36 percent, which can be interpreted as customers displaying sensitivity to delivery quality by using competitors instead of Alibaba. The rapid increase in sales

again upon the resumption of SF deliveries shows that rapid and accurate high-quality delivery services have a significant impact on customer satisfaction (Cui et al., 2020).

According to the 2022 Coupang Impact Report on rapid and accurate delivery, the number of active customers who used Coupang even once in 2021 was about 18 million, an increase of about 53% compared to 2019 (Oh et al., 2023; PwC, 2022). This suggests that the number of customers is increasing, and given the increase in Wow membership, which will be described later, the number of customers signing up for membership has increased beyond one-time purchases, indicating that customers continue to use Coupang rather than other e-commerce companies. Coupang's "spreading strategy" has increased the number of loyal customers by providing exceptional services such as Rocket Delivery even if a deficit is experienced initially, and has strengthened its competitiveness in the e-commerce market based on this approach. In other words, Coupang was able to become the No. 1 player in the industry through the "lock-in effect" of customers using Rocket Delivery (a phenomenon in which customers using certain products or services do not move to other products or services), and ultimately achieved its first surplus this year. As such, Rocket Delivery can be considered a success factor and an example of effective corporate management by Coupang, which adhered to a consumer-centered corporate philosophy and was in turn able to increase consumer satisfaction (Nam & Na, 2020).

3.2.2. Rocket Wow Membership

Rocket Wow Membership is a monthly payment service currently being provided by Coupang and available for 4,990 won per month. The main benefits of signing up are as follows (Kim & Mo, 2022; PwC, 2022).

- Free Rocket Delivery is available regardless of purchase price: Rocket Delivery is available even when purchasing less than 19,800 won of products, which is the standard limit for free Rocket Delivery.
- "Rocket Wow Arrival by Dawn" is available: If customers purchase a product marked "Rocket Wow" before the deadline, they can receive it before 7 a.m. If they order before 10 a.m., they can also use the Rocket Wow Today Arrival service, which ensures products arrive by nighttime on the same day.
- Rocket Fresh is available: a morning delivery service for fresh food which will be described later. The delivery time and method are the same as Rocket Wow, but it is available for orders that exceed 15,000 won.
- Purchase of Rocket Wow Member Discounts: Rocket Wow members are given the opportunity to purchase discounted products.

- 30 days free return benefit: Returns are available within 30 days, free of delivery charges, regardless of the reason for return.

In addition to the above benefits, Coupang Play, an OTT service, a "Rocket Direct Purchase" service that vicariously purchases products currently sold overseas, and Wow-only travel discounts service that offers cheap tickets, accommodation, and event tickets are also provided. Rocket Wow, which launched as a paid membership-based service in 2019, provided only free delivery and 30-day free return benefits in the beginning, but began offering various benefits with discounts on Wow-only products and Rocket Direct Purchase services in 2020, and free use of Coupang Play and exclusive travel discounts in 2021. Based on these benefits, according to the Coupang Impact Report, the number of members of Rocket Wow reached 9 million as of 2021, an increase of about 200% from 2019. In 2022, the number of members increased again by about 20% from 2021, to a total of 11 million (Oh et al., 2023; PwC, 2022).

According to Kang and Hyun (2021), return processability is the delivery service quality factor that most directly affects customer loyalty. This is because it provides the same effect as purchasing an item offline by checking the product online and addressing the difficulty and inconvenience of returning it if it goes wrong. Rocket Wow members can not only return products at any time during a long period of 30 days, but also do not pay for return delivery. The return process is also simple: apply for a return on the Coupang app, put the product in front of the door, and all the procedures are completed. In general, this is different from other e-commerce companies that require customers to pay for round-trip delivery and only allow returns during a short period of seven days. In addition, this free return service reduces consumers' psychological hurdles when purchasing products from Coupang and increases loyalty.

In addition, Coupang's simple payment system improves customer convenience by reducing hassle on the part of customers and making goods purchases more convenient. This simple and convenient system enhances customers' enjoyment when using the online shopping platform, which ultimately increases loyalty to the platform (Koo & Chong, 2021; Fernando & Aw, 2023). According to Lee et al. (2021), the simple payment system has become the foundation of Rocket Wow membership. Coupang provides customers with a wide range of choices by adding a postpaid payment function in addition to the prepaid payment system, such as Coupay. Coupang takes risks such as financial burden assumption and delinquency rate management through its postpaid payment system, but benefits from reducing credit card companies' fees, strengthening lock-in effects, and expanding new business by accumulating customers' credit data (Liu et al., 2012; Kim & Mo, 2022).

The membership fee for Rocket Wow was 2,900 won per month as of 2019, but from December 2021, the price for new members was raised to 4,990 won per month (PwC, 2022). From June 10, 2022, the price for previously registered members was also raised to the same 4,990 won per month, which was expected to antagonize consumers. However, many members considered this to be reasonable despite such a sharp increase in membership prices. This may be because consumers thought that the price had not actually risen much compared to the various benefits Coupang was providing through the membership. Although more expensive than the previous 2,900 won, at the still relatively low price of 4,990 won per month, consumers could continue to enjoy various benefits, especially the free return services, and so this did not provoke much opposition.

Through this inexpensive and simple membership system, Coupang has improved its financial structure and customers are able to enjoy various benefits, creating a kind of "win-win" structure. In other words, this is in line with Coupang's aforementioned corporate philosophy of 'customer-centered growth'. Furthermore, based on member loyalty, it was able to create a "lock-in effect" and bring about long-term growth (Oh et al., 2023).

3.2.3. Rocket Fresh

Rocket Fresh, which started its service in 2018, is an early-morning fresh food delivery service that allows customers ordering fresh foods such as fruits, vegetables, and meat before midnight to receive them before 7 a.m. on the next day. In addition, a same-day delivery service has been provided since 2020 that delivers food orders made before 10 a.m. until 6 p.m. on the same day. These Rocket Fresh services are being implemented for Rocket Wow members as discussed above.

Coupang is the only country-wide delivery service for fresh food at dawn on the same day. Rocket Fresh, the "Rocket Delivery" of fresh food, can be achieved thanks to logistics infrastructure and artificial intelligence technology, just as was previously the case with Rocket Delivery. Each fulfillment center has a logistics infrastructure dedicated to freezing and refrigeration, allowing products to be stored fresh, and based on the 168 Rocket Delivery centers nationwide, fresh food can be delivered at dawn on the same day. According to a video released via Coupang (Kim & Mo, 2022; Suh et al., 2022), it uses an artificial intelligence system to process orders and inventory quickly, predicting the fastest and most efficient process immediately after a customer's order is made, and based on this, it enables a fast-forwarding process to occur.

Coupang is currently investing heavily in the fresh food delivery business through Rocket Fresh. In fact, 92% of the deficit in the 2021 earnings report was due to investments in Coupang Eats and Rocket Fresh. These can be divided into

three categories: expanding physical facilities, promoting Rocket Fresh services, and collaborating with local farmers (Kim & Mo, 2022; Pesque-Cela et al., 2023). First of all, Coupang is not just a current distribution center, but has invested 800 billion won since 2021 in regions of the country including Gwangju, Changwon, and Cheongju to build a distribution center with a cold chain system. Furthermore, investment in logistics infrastructure will continue in non-metropolitan areas nationwide. Second, significant service promotions have also been carried out. First of all, promotions are being conducted for individuals by providing Rocket Fresh discount coupons or sending promotional messages through messenger services such as Kakao Talk (Kim & Mo, 2022; Oh et al., 2023). At the same time, the company is also promoting a service that identifies and introduces successful cases of young agricultural product sellers through the Rocket Fresh distribution network on its website. Finally, it is promoting co-prosperity with regions through cooperation with local farmers. For example, the Coupang 2022 APAM Market was held this year to provide an opportunity to secure a distribution market for local farmers and small business owners and promote the excellence of local agricultural products through introductions and transactions of local agricultural products (Newsroom Team, 2022b). Furthermore, the company is trying to provide products through the Rocket Fresh service by directly signing contracts with local farmhouses without involving intermediate steps. Based on such collaborations with farmers, private brand (PB) products have also been created to provide consumers with opportunities to purchase a wider range of products and manufacturers with opportunities to expand sales (Choi & Huddleston, 2014).

Based on such investments and promotions, the Rocket Fresh service has continued to grow explosively. According to Coupang's earnings report for the second quarter of 2022, Rocket Fresh transactions were worth 3.9 trillion won annually, with more than 50 percent of 6.33 million people using Rocket Fresh more than once compared to last year (Kim & Mo, 2022; PwC, 2022). This accounts for about 35% of all active Coupang customers. Of course, there have also been claims made that the success of Rocket Fresh, by which customers have been able to purchase fresh food non-face-to-face, has been overestimated in the recent COVID-19 era. However, Rocket Fresh's success is not just a fluke of the times. Coupang's own efforts to deliver quickly based on continuous investment and promotion can now be seen as a success.

4. Discussion

Coupang is often called the Amazon of Korea and is drawing a blueprint to make a world without Coupang

unimaginable (Oh et al., 2023; Suh et al., 2022). However, it is competing with Naver, in terms of non-fresh products, to monopolize the market like Amazon, and Market Kurly, E-Mart, and Homeplus are still showing potential in terms of fresh products. In addition to increasing the total number of customers in the e-commerce market in Korea, Coupang can set up a three-way strategy to increase its share of the pie. It can steal pie from other platforms, take pie from other countries' e-commerce markets, or alternatively take pie from completely different industries.

Amazon, which Coupang benchmarks, can be seen as having already succeeded in these three directions. It not only monopolizes the U.S. market, but also has entered 20 overseas markets and has a high market share in several countries including Japan, India, and some European states (Liu & Hong, 2016). In addition, Amazon Web Services (AWS) has topped the global cloud market share overwhelmingly (Huh & Kim, 2022).

Coupang is also struggling to increase its piece of the pie. In terms of overseas expansion, it entered the Japanese market in 2021 and also entered the Taiwanese market in October 2022. In addition, it applied for trademark rights for "Coupang Cloud Store" and "Coupang Cloud Shop," revealing that it plans to enter the cloud business like AWS. However, it is clear that its situation is not as good as Amazon, given that Coupang failed to dominate the domestic market. Currently, it is fiercely competing with existing online and offline retailers in the e-commerce market. The biggest bump in the road is Naver. First of all, Naver's platform gather a large number of people. It also possesses a lot of customer data and a lot of capital power. In July last year, Naver joined forces with CJ Korea Express to launch the NFA (Naver Fulfillment Alliance), a fulfillment service similar to Coupang's Rocket Delivery. NFA is a service aimed at Coupang's Rocket Delivery and aims to deliver products quickly. In addition, according to Naver on November 28, 2022, the "Naver Arrival Guarantee" service will be launched on December 14, and Coupang will have no choice but to work harder on logistics and delivery, which are its strengths, to ensure low prices and fast delivery. In other words, Coupang has no choice but to invest a huge amount of capital in maintaining its biggest competitive asset, Rocket Delivery, and constantly expanding its logistics center (Lim et al., 2021; Kim & Zo, 2022). As long as the investment continues to be made, Coupang will build distributable logistics infrastructure across the country as planned, and further pursue continuous improvement in its delivery system. This competition situation will affect not only Coupang but also other companies. Coupang's current industrial position can be attributed to a delivery system based on the expansion of distribution centers. If its logistics delivery system, including the current Rocket Delivery system, is maintained,

other companies will also want to introduce such a system. In other words, this competitive situation is expected to lead not only to investment on the part of Coupang but also overall system improvement among logistics companies.

Coupang's position in the fresh product market is still not unique. This is because, unlike non-fresh products, delivery quality, product quality, and platform reliability also have a significant impact on consumers' purchases. Nevertheless, Coupang's future outlook appears to be good, as it is the company that can most reliably procure fresh products in the long run thanks to its huge logistics center infrastructure. Coupang Rocket Fresh recorded a 100% growth rate in 2021, ranking second after SSG.com with a 7.0% market share. If additional logistics centers with a cold chain system are built and linked to local farms as Coupang plans, it will be able to supply high-quality food at low prices across the country and achieve economies of scale. As of 2021, the online penetration rate of the food and beverage industry is only 25.2%, but if Coupang improves logistics and delivery services as described above, the online penetration rate of the food and beverage industry will increase along with Coupang's market share (Lim et al., 2022).

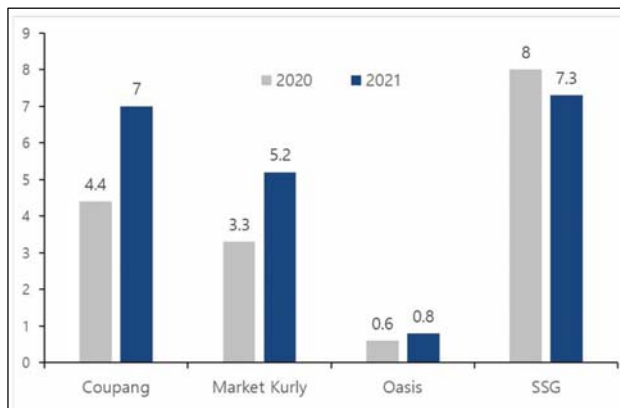


Figure 3: Market share by food online company

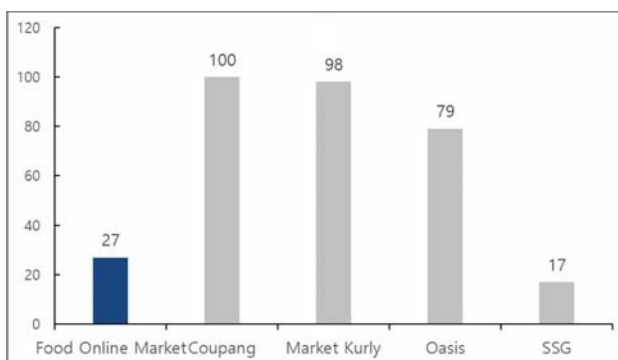


Figure 4: Growth rates by food online market and company

Ultimately, Coupang's future depends on whether it can sustain the aggressive investment it has made so far and whether it is possible to grow accordingly. The company has already secured about 5 trillion won in capital through its listing on the U.S. stock market two years ago and is using this as an investment resource (Kim & Mo, 2023; PwC, 2022). However, capital expansion through IPOs is only a one-off measure. If Coupang, which has not yet secured a sufficient market share, continued to show poor business performance, there would be a clear possibility that it will eventually fall behind due to difficulties in securing additional capital. In this regard, its performance reported in the third quarter of this year is remarkable. If Coupang's current trend continues and business is deemed to be on track, this would be a great advantage in securing necessary funds in the future. If the chronic financing problem is resolved, Coupang will be able to gain a dominant position in the market, increasing its market share through continuous investment and expansion, and its distribution business will be a key cash cow for stable cash-generating companies when growth in the online distribution market slows.

5. Conclusion

The reason why Coupang was studied in this study is that Coupang was listed for the first time compared to WeMakePrice and Market Kurly, excluding large e-commerce companies, SSG, G-Market and has the largest transaction volume as of 2022. In addition, Coupang is trying to increase the size of its unique service, Rocket Delivery, as many companies are following it, making it a leading e-commerce company in Korea. Increasing the size of rocket delivery so that more consumers can receive the products they want for free and quickly is a strategy that other companies that do not have as much logistics infrastructure as Coupang cannot easily follow. The advantage of this is that consumers prefer it. Consumers' preferences lead to Coupang's earnings. In addition, reducing shipping costs and shortening delivery periods have the effect of lowering real prices, lowering nominal prices. E-commerce companies need to consider an appropriate margin rate that can enhance sellers' willingness to join, as coexistence with sellers is essential for increasing the possible product range for fast delivery.

In addition, unlike other e-commerce businesses, Coupang operates various services and memberships. As seen in Coupang's nickname "Amazon of Korea," Coupang's research is indispensable to study the future of e-commerce. Coupang is preparing measures to strengthen incentives to join Wow membership. Membership services have been expanded from limited to product purchases to benefits from

consumption throughout life (Nam & Na, 2020). As a result, foreign companies such as Amazon, Alibaba, and Rakuten have provided services that encompass their entire consumer life, locking consumers into loyal customers of their membership. For example, Amazon provides video content use, books, music, game streaming, and cloud storage in addition to various e-commerce delivery benefits (Nam & Na, 2020).

However, compared to its biggest competitor Naver, Coupang's Wow membership offers enough benefits for purchasing products, but it still lacks services for overall consumer life. Naver's "Naver Plus Membership" provides OTT services, sports broadcasts, webtoons, web novels and movie tickets, music app subscriptions, and cloud access. Although not all of these services can be enjoyed at the same time, the desired service can be used at around 1,000 won per month for four people's subscriptions, and it can lock in enough consumers in that no domestic company has yet provided better benefits. In response, e-commerce to lead the future should lead to an increase in loyal customers and expand into new markets in the future by developing services or memberships that make consumers' overall consumer life more economical and convenient.

Coupang is experiencing growth by leveraging its own national logistics infrastructure, which was developed through the implementation of new delivery systems and innovative logistics services like fulfillment service (CFS) and rocket delivery. Rocket delivery, in particular, has revolutionized customers' online shopping habits and influenced changes in the logistics industry. The reason Coupang continues to offer advanced services despite incurring losses can be attributed to several factors.

Firstly, in the era of the Fourth Industrial Revolution and the rapid expansion of the domestic e-commerce market, competition has intensified. To enhance customer satisfaction and reduce customer churn, e-commerce companies must innovate and strive to provide competitive products and services. Establishing differentiation strategies and delivering new corporate values are essential for securing competitiveness.

Secondly, the boundary between offline and online channels has blurred, especially due to the impact of the COVID-19 pandemic. The adoption of remote work, online education, and social distancing measures has led to an increased demand for fresh food and household goods through e-commerce platforms. E-commerce companies need to quickly adapt to these changing circumstances and transform crises into opportunities by attracting new customers who are transitioning to online shopping.

Thirdly, effective customer experience management (CEM) plays a crucial role. E-commerce companies should actively engage with customers throughout their purchasing journey, from pre-purchase interactions to post-purchase

support. By accommodating customer needs and aligning with changing consumption trends, such as last-mile services, companies can maximize consumer satisfaction.

Overall, Coupang's growth can be attributed to its commitment to innovation, adapting to market changes, and prioritizing customer experience in the rapidly evolving e-commerce landscape.

Coupang, which had shown an unhealthy financial structure until the second quarter of 2022, first succeeded in recording a surplus in the third quarter of 2022. The driving forces of this surplus transition can be divided into logistics and delivery. Coupang maximizes economies of scale and enables continuous growth by making large-scale investments in logistics. It is ensuring more efficient delivery and reducing transportation costs by utilizing vendor flex, and it is expanding its product line while earning additional income through the CFS system. Rocket Delivery is Coupang's core delivery service, attracting customers and increasing customer loyalty by providing fast and accurate delivery. Coupang Wow Membership, which offers various benefits, provides free return services and simple payment services to enhance customer convenience and loyalty. Rocket Fresh is the only nationwide early-morning delivery service for fresh food, and it has been an explosive success based on continuous investment and promotion.

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