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Korea, Republic of

HRI Food Service Sector

Institutional Feeding Food Service Market Brief

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Report Highlights:
Institutional feeding food service (IFFS) market grew to about $4.3 billion in 1999. The outlook for US food suppliers to the commercial IFFS sector is very bright, both in fresh and processed/prepared food materials. The trend is for increased global sourcing of low cost, good quality and a stable supply food materials year round. In addition, the trend of adopting more western style dishes to meet changing tastes of customers also opens new opportunities for various US foods.

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Korean Institutional Food Service Sector Market Brief

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I. Market Summary

The iInstitutional feeding food service(IFFS) market has grown up to about $4.3 billion USD* in 1999, among which the share of commercial IFFS sector has grown consistently from $0.9 billion USD in 1997 to $1.2 billion USD in 1999. The commercial sector is likely to maintain its current growth rate in coming years as more organizations are expected to switch to outside commercial IFFS from their own institutional feeding programs, seeking cost and efficiency benefits. Since the commercial IFFS was first introduced to Korea in late 1980's, many companies, including major Chaebols (Korean conglomerates) and international joint ventures, have entered the business. Currently, there are about 200-300 businesses in the market, most of which are small in size and only about 50 companies are registered as corporate style businesses. The commercial IFFS sector is mainly led by a few major companies as evidenced by the fact that the top five companies take 35% of market share by value in 1999. The outlook for US food suppliers to the commercial IFFS sector is very bright both in fresh and processed/prepared food materials as more emphasis is placed on global sourcing of low cost, good quality, and a stable supply food materials year round. In addition, the trend of adopting more western style dishes to meet changing tastes of customers also opens new opportunities for various US foods.
(* $1 USD = W1,200 Korean Won)

ž Advantages

1. Competitiveness of the US agricultural and food products in price, quality, and stable supply.

2. Existing strong demand for the US food products in Korea.

3. Well-developed importing & distribution system for US agricultural and food products in Korea.

4. Changing life style and dietaty culture are interpreted into increasing demands for western cuisine and food materials.

5. The US has developed one of the most sophisticated IFFS industries in the world. Many companies in Korean IFFS sector are trying to benchmark the US IFFS industry especially in procurement of food materials.

ž Challenges

1. US suppliers are unaware of the needs of the Korean IFFS sector.

2. IFFS sector is unaware of the competitiveness and availability of many US food materials.

3. Many procurement managers have doubt about the safety of imported foods.

4. Current volume of demand from each individual company is not big enough in most product categories to overcome the logistics cost from the US.

5. Procument decision is mainly driven by price factor and many Korean procument managers are overlooking the overall competitiveness of the US products.

6. Currently, procument is often made on short-term basis and imports from the US can not meet the sudden

demand.

II. Road Map for Market Entry

A. Entry strategy

ž Any US supplier who seeks to sell his/her products to Korean IFFS sector first needs to understand the sector's specific needs for the food materials that the supplier is specialized in. For example, most of the dishes served in Korean IFFS sector are based on contemporary dietary(cuisine) culture of Korea and may require special specifications or conditions even for the same food materials used for the same kind of dishes served in the US. Consequently, the US supplier may need to adjust their existing processing lines for different cutting and packaging, or may have to develop totally new products that can meet the needs of Korean IFFS sector. Coming to Korea and establishing direct contacts with various people in IFFS sector will be the best way for a new-to-market US supplier to gain comprehensive understanding of the sector's needs for the food materials that the supplier is specialized in.

ž It is also important for a US supplier to understand the changing tastes of Korean consumers so that the supplier can develop a new market for its products in IFFS sector by introducing new-to-market food materials for new recipes. For this, the US supplier needs to be in close contact not only with Korean companies in the sector but also with various information sources on Korean dietary culture.

ž Once a US exporter is ready to supply the products that can meet what the sector needs, aggressive promotion of the products is needed. For this, participating in food shows in Korea or organizing its own seminars and tasting events targeting procument managers of the sector could be a cost effective and time saving method.

ž Unless the US supplier has its own branch office in Korea, working with an established importer throughout the whole process of market entry is recommended. Established importers are well aware of distribution channels of Korean market and, most of all, are the best source of current information on labeling and inspection required for customs clearance of imported food products.

B. Market structure

ž The distribution channel of food materials for the IFFS sector is shown in Figure 1. Imported food materials are mainly supplied through importers, wholesalers, and special vendors. The special vendor designates those wholesalers who got an exclusive contract with an IFFS firm to supply certain food materials on long term basis. They are usually specialized in procuring specific items such as meat and fish in big volume both domestically and internationally, and often provide pre-cook processing services in their facilities such as washing, cleaning, and cutting into certain sizes as ordered from the buyer.

ž As the price competition in the sector gets more severe, more emphasis is placed on the direct import of food materials from the overseas suppliers to reduce the cost by eliminating intermediaries. However, lack of expertise in import and comparatively small transaction volume in most imported food materials have kept most companies from moving towards direct import. Only a couple of major firms in the sector have switched to direct import in a limited number of items that have comparatively big transaction volume such as frozen fish.

ž Many major firms in the sector are planning to procure beef through direct import from 2001 when Korean beef imports are open to any licenced importer.

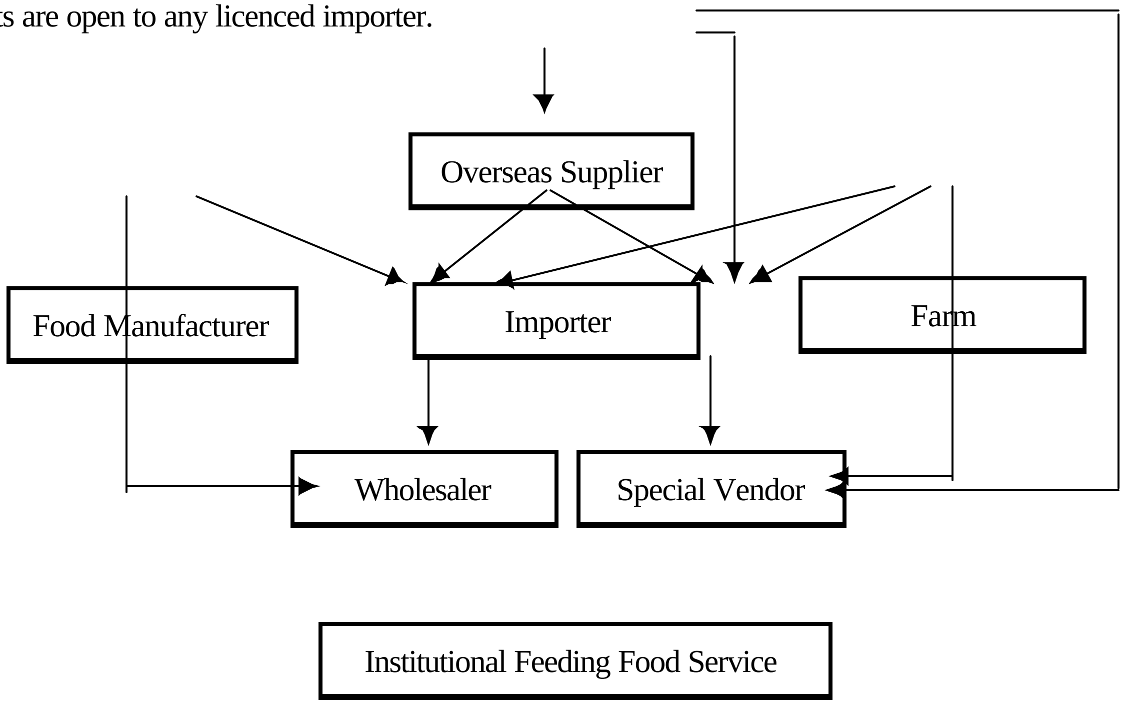


Figure 1 - Distribution Channel of Food Materials for IFFS Sector

ž Direct procurement from farms is another channel on which the IFFS sector is putting more emphasis currently in an effort to reduce the cost of food materials. In a direct supply contract between a IFFS firm and a farmer, especially for fresh produce, a certain area of the land that the farmer is farming is often contracted to supply all the products produced in the land. This way, the firm can secure the stable supply of certain produce with significant seasonal price fluctuation, while the farmer can be guranteed with fixed income from the land contracted.

ž B2B channel is newly emerging for distribution to the IFFS sector. Several B2B businesses that intend to substitute the existing supply chain of food materials for food industry, including IFFS sector, are already operating in the market and many more are preparing to come to the market. The major benefit of B2B channel will be lowered logistics cost from the elimination of intermediaries and the realization of the economy of scale when the system is fully adopted by all members in supply chain. Improved efficiency of procument process will be another significant benefit. Our Home Co., the market leader of commercial IFFS sector, has adopted an Internet-based bidding system for procuring various food materials and has already achieved a double digit cost reduction in most items procured through the method. The company is planning to establish a separate B2B business that will supply food materials procured through the Internet bidding system to small food service businesses. Recently, three firms in the commercial IFFS sector (CMD, 63 City and Exofresh) and two family restaurant chains (TGIF and Marche) jointly launched a cooperative B2B business, FOODMERCE.COM, that will procure the food materials needed by the members collectively in an effort to achieve the economy of scale in procurement. The firm also seeks to expand the service to non-member organizations in the North-East Asian countries in the long run.

C. Sector profile

ž The concept of commercial institutional feeding food service business was first introduced to Korea in the late 1980's when the market for the business was first generated as a result of the 1986 Asian Games and the 1988 Olympics held in Korea. Before then, institutional feeding was simply regarded as a not-for-profit service by an organization for its own employees or members. Conventionally, each organization was responsible for providing its constituents with free meals (mainly lunch) as part of compensation, and the meal was provided either through in-house restaurants operated by the organization itself or through regular restaurants which got a reimbursement contract for the meals supplied to the organization's employees.

ž The growth of commercial IFFS sector has been mainly driven by Chaebols (Korean conglommerates) since each Chaebol had its own in-house market of considerable size. Before the introduction of commercial IFFS, Chaebols were relyng on all different kinds of unsystematic feeding methods for hundreds of thousands of employees around the country everyday. By establishing its own commercial IFFS business, each Chaebol could reduce the operation cost significantly while generating additional revenue. Consequently, most of the major Chaebols, including LG, Samsung and Daewoo, entered the business around late 1980's and early 1990's.

ž Following Chaebols, many companies, including international ones such as Sodexo from France and Abela Group from England, entered the market. Currently there are about 200-300 businesses in the market, most of which are very small in size and only about 50 companies are registered as corporation type businesses. The commercial IFFS market is mainly led by a few major companies as evidenced by the fact that the top five companies take 35% of market share by value in 1999.

ž Competition for new customers has gotten tougher as each Chaebol ran through its in-house customers and headed outside for new market. Currently, the percentage of revenue coming from in-house customers is about 40 - 60% for a Chaebol IFFS firm. New companies' entering into the market also has stimulated the competition. For example, Hyundai and the National Agricultural Cooperative Federation joined the market in 2000.

Name	Established Year	Sales Revenue (1999)	No. of Outlets	No. of Daily Meals Provided	Location
Our Home Co. (LG)	1989	$254 Million	300	450,000	National
Everland Co. (Samsung)	1994	$200 Million	250	390,000	National
Cheiljedang Co.	1994	$147 Million	340	380,000	National
Shinsegae Food System Co.	1993	$90 Million	140	150,000	National
Arakor Company Ltd. (Daewoo)	1991	$58 Million	150	180,000	National
CMD Co., Ltd.	1991	$48 Million	140	135,000	National
Hanwha Development Co.	1994	$29 Million	100	100,000	National
63City Co.	1997	$25 Million	53	50,000	National
G-Net Co. (Hyundai)	2000	$125 Million (2000/planned)	NA	200,000 (2000/planned)	National

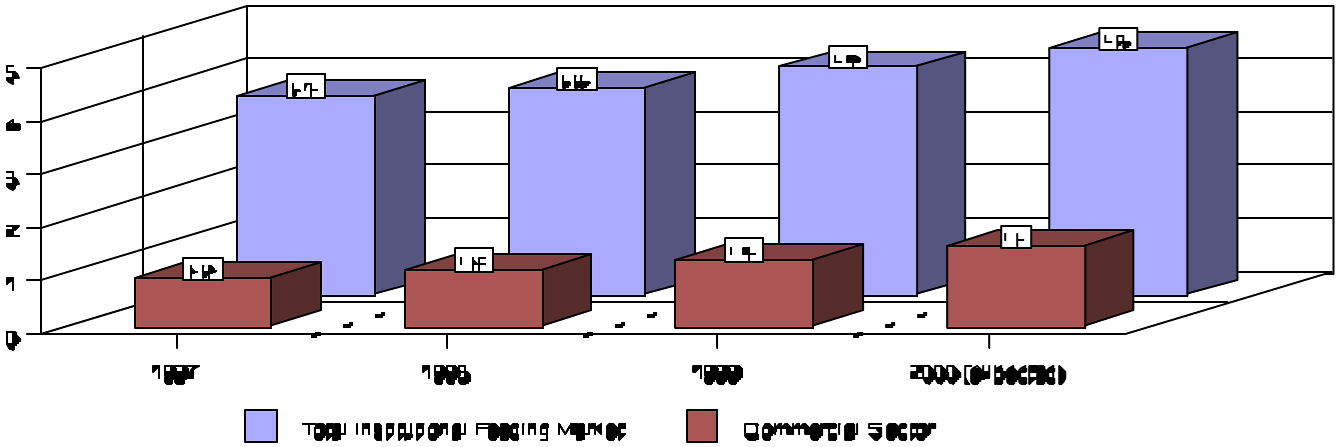


Table 1 - Major Commercial Institutional Feeding Food Service Firms
(Source: The Food Service Economic News)

Figure 2 - Institutional Feeding Food Service Market (Unit: $ billion USD)
(Source: Expert Interviews)

ž The total institutional feeding food service market grew by 5% each year on average between 1997 and 1999, reaching about $4.3 billion USD in 1999. The share of commercial IFFS sector grew consistently from 24% ($0.9 billion USD) in 1997 to 30% ($1.2 billion USD) of total IFFS market in 1999.

ž The commercial IFFS sector has a good growth potential in coming years. Currently, only about 30% of the total institutional feeding market is taken by commercial IFFS sector, compared to 95% in Japan. Proven cost and efficience benefits of commercial IFFS over in-house feeding system is expected to drive the switching to the commercial service. Government's plan to adopt institutional feeding in all schools below college level in near future also offers new growth potential for commercial IFFS sector.

ž An outlet that provides a minimum of 300 daily meals is usually regarded as a break-even size of operation in commercial IFFS sector. The level of operation profit for a major company is around 10-15% of revenue.

ž The cost of food material comprises about 50-60% of total cost of operation for a commercial IFFS business, which is much higher than that of regular restaurant business, which is about 20-30%. Consequently, companies are vigorously seeking ways to reduce the cost of food material. Exclusion of intermediaries in supply channel through direct import and B2B, realization of the economy of scale through M&A and strategic alliance in procurement, improvment of operation efficiency through introduction of IT system in procurement process are three major approaches that commercial IFFS sector is taking currently. For example, two mid-size companies, Pulmuwon and CMD, announced a merger in July 2000. FOODMERCE.COM, a joint procurement cooperative with B2B perspective, launched in May 2000. Many major companies have made heavy investment in developing a recipe scheduling program networked to each outlet in that the demand for food materials in each outlet is pre-planned and summed into a unified procurement plan.

ž Increasing labor cost and difficulty in maintaining enough level of experienced labor force in hundreds of outlets have led commercial IFFS sector to seek more prepared food materials which can be served with minimal time and labor in preparation and cooking at the kitchen.

ž Introduction of HACCP in IFFS is strongly emphasized by the government due to the frequent outbreak of food poisoning accidents. Most major companies are already certified with HACCP but many small companies still lack the mind for food safety. Food poisoning has been most frequent in school feedings, and not enough investment in proper facility and training has been found the main reason of the problem.

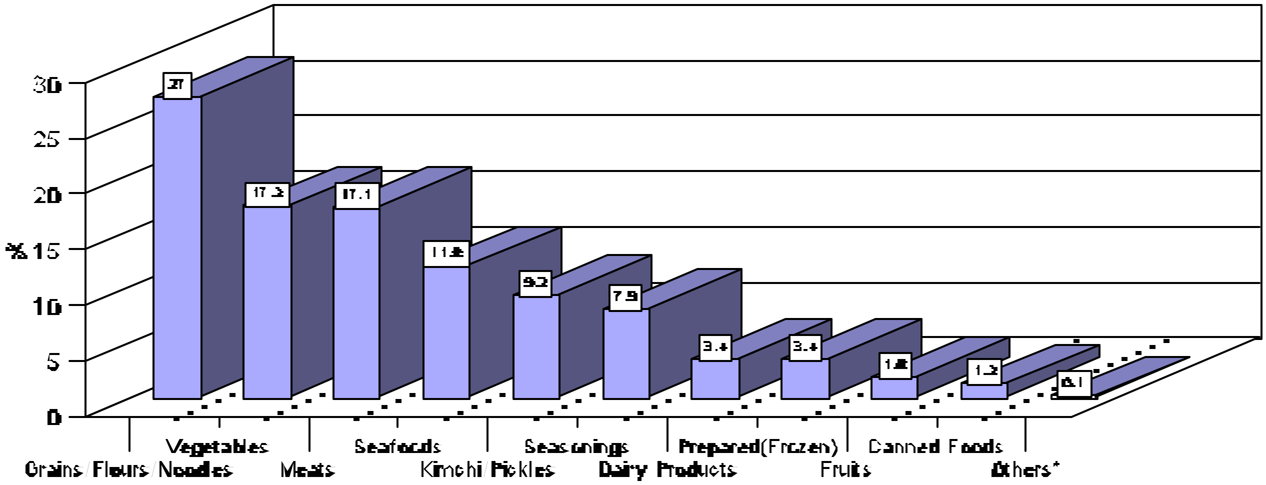
III. Competition

ž Price competitiveness and stable supply in terms of both ample volume and little price fluctuation are two major reasons for a commercial IFFS business to select imported food materials over domestic alternatives. Beef, sea foods and fresh and processed vegetable are major imported food materials used in IFFS sector.

ž According to the procurement managers of IFFS sector, the share of the US in imported food materials is quite small. Imported beef is mostly supplied from Austrailia mainly due to the cheaper price. However, US beef has a good potential as IFFS sector is currently trying to address the demand for quality meat even at an increased cost. Imported fish and seafoods are mainly supplied from China. China is also the major supplier for imported vegetables, both processed and fresh. Some frozen vegetables are supplied from the US but the volume is currently small.

ž Concerns on food safety issues such as residual agricultural chemicals and GMO are one of the major constraints that make it difficult for imported food materials to expand their shares in IFFS sector. For example, several family restaurants were forced by a major Korean NGO to declare that they would not use any GM food materials in their recipes. Pulmuwon, a mid-size IFFS firm recently declared that they would not use any GM ingredients in their foods.

ž Current volume of demands for imported food materials by each individual company is not big enough in most product categories and procurement managers often choose more expensive domestic alternatives for fear of the logistics cost from overseas.



ž Procument decision is mainly driven by price factor and many Korean procument managers are overlooking the overall competitiveness of the US products.

ž Currently, procument decision is usually made on short-term basis and imports from the overseas often can not meet the sudden demand.

ž In general, US food materials are recognized as products with superior quality to other imported food materials and are expected to increase their shares in the future as more emphasis is expected to be placed on the quality of food materials used in meals.

IV. Best product prospects

ž Major categories of food materials used in IFFS sector is shown in figure 3. The data is from one major firm in the sector and the entire sector is expected to have a similar consumption structure for food materials. There are potential markets for US products in most categories.

Figure 3 - Yearly (1999) Food Material Consumption by Value in A Major Commercial IFFS Firm (100% = $97 Million)
* Others: Beverages, Tea, etc.
(Source: Unpublished Corporate Report)

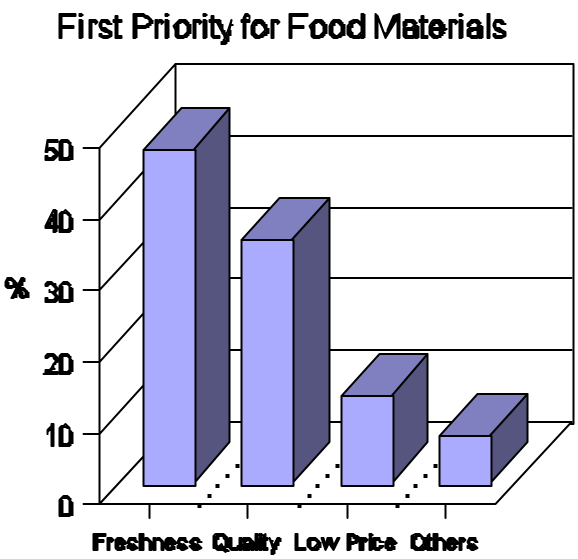
ž There are strong demand for prepared (ready-to-serve with minimal preparation at the kitchen) food materials mainly due to the cost and efficiency benefits from using them. The outlook is especially good for ready-to-serve packaged foods for microwave or oven heating. Curried stew contained in a heatable package of individual serving size is a good example for this. Seasoned meat (beef, pork, poultry) and vegetable pre-mix for popular Korean dishes are also looked for by IFFS sector. However, the recipes of prepared products should be adjusted or co-developed with Korean importers for the taste of Korean consumers.

ž Frozen or frozen dehydrated vegetables have a good potential in the market but the Korean IFFS sector needs to be educated about the competitiveness of the products in terms of price, taste, year round stable supply, nutritional quality and applicability to Korean dishes.

ž IFFS sector is gradually paying more attention to the quality of food materials over the price. Accordingly, many US food products which have been ignored by the sector due to the higher price are expected to expand their shares in the market. In this regard, US beef has a good potential in the future, and many companies are already considering switching to US beef from Austrailian beef due to the better taste.

ž Increasing demand from the customer for more international tastes has been interpreted into the development and introduction of new dishes of western tastes in IFFS sector. Pasta, steak and pizza are some of them and demands for related food materials are expected to keep increasing accordingly. New-to-market seasonings such as steak sauce and marinated sauce and seafoods such as salmon also have good potentials.

ž A recent survey done with procurement managers in food service industry (restaurants and IFFS) indicates that freshness and quality are the top priorities for procuring food materials (Figure 4). However, the survey also indicates that they actually find more problems with the price of food materials. Therefore, any US food materials with significant price advantage over local counterparts can sell to the IFFS sector. However, any uninformed US supplier needs to contact established Korean importers to know about the regulations on imports in the areas of interest



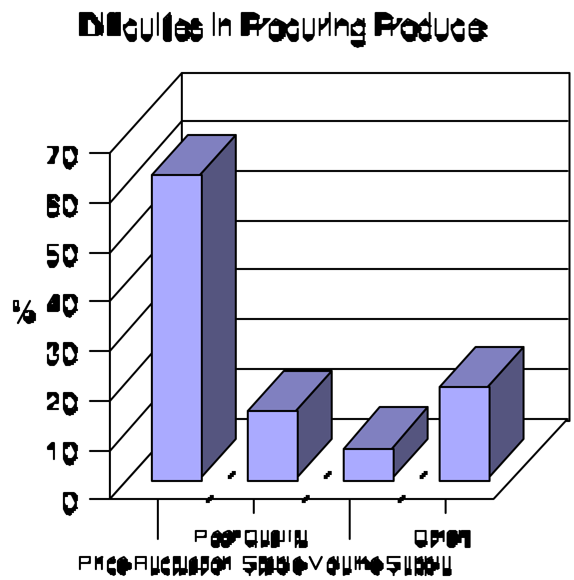


Figure 4 - Decision Making in Procurement of Food Materials in Food Service Industry
(Source: Food Service Management News, July 2000)

ž IFFS Sector is very concerned about the frequent outbreak of food poisoning accidents and has introduced several measures to get rid of the risk such as HACCP. In a same token, a few companies in the sector are using "list of high risk food materials" in that procurement of specific food materials with high food poisoning potentials are banned during certain periods of the year. For example, shells are banned during mid-summer. US suppliers need to check the status of their products to better assess the seasonal demand for their products.

V. Post Contact and Further Information

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