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Report Highlights:
The retail food sector in Korea is undergoing a rapid change as large "one-stop" hypermarkets and convenience stores edge out traditional wet markets and "mom-and-pop" grocers. Growth of advanced mass retailers, coupled with changes in consumer lifestyle and tastes, is translated into growing opportunities for imported consumer ready food products. Total imports of consumer oriented foods from the U.S. increased by 16.2 percent from the previous year to reach $1.56 billion (CIF value) in 2003.

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KOREA RETAIL FOOD SECTOR REPORT

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I. Market Summary

The retail food sector in Korea has been undergoing dramatic change ever since the opening of the first hypermarket store in 1993 and the liberalization of mass retail business to foreign ownership in 1996. The Asian economic crisis in 1998 also prompted a consolidation in the industry, favoring the growth of large national chain retailers. Traditional wet markets and mom-and-pop grocers are giving way to more advanced marketing formats, such as hypermarkets, convenience stores, and on-line retailers. Growth of these new mass retailers, coupled with changes in the consumer's lifestyle and the development of information technology, are changing the way Korean consumers purchase daily necessities, including foods. Consumers are looking for better value, convenience, new tastes, and safer and fresher products in their shopping trips, both off and on-line.

As of 2002, the size of the overall retail market in Korea is estimated at Won(W)157 trillion ($130 billion at $1=W1,200), a 2.3 percent increase from the previous year. The growth of overall retail market sales has slowed in recent years due to the sluggish economy and shrinking sales of traditional retailers. Advanced mass retailers (hypermarkets, department stores, convenience stores, and on-line shopping) garnered 33.7 percent of the overall retail market sales, or W52.9 trillion ($44.1 billion). Although diminishing, traditional retail channels are still taking significant part of the business in areas where new mass retailers have yet to penetrate. However, the shares of the advanced mass retailers are expected to rise continuously. Hypermarkets have become the single largest retail force in Korea, replacing department stores, taking 11.0 percent of the overall retail market sales, or W17.2 trillion ($14.3 billion) in 2002. The share of hypermarkets is likely to increase further as there still remains room for an additional 100-200 stores, according to industry sources. Another rapid growing segment is 'on-line' retailing. In 2002, Internet shopping garnered W5.1 trillion ($4.3 billion) of sales, while TV home shopping earned another W4.8 trillion ($4.0 billion). More people are shopping on-line for convenience and better assortment. Products purchased on-line are also becoming more diverse from cosmetics to electronics to healthy foods. Most of the leading off-line mass retailers now also operate Internet stores and home-delivery service to compete in the segment.

Table 1. Breakdown of Retail Market Sales in Korea

Segment	2001		2002		Growth %
	Sales*	Share	Sales*	Share	
Department Stores	W15.8 trillion	10.3 %	W17.1 trillion	10.9 %	8.2 %
Hypermarkets	W13.8 trillion	9.0 %	W17.2 trillion	11.0 %	24.6 %
Supermarkets	W4.9 trillion	3.2 %	W5.2 trillion	3.3 %	6.1 %
Convenience Stores	W1.7 trillion	1.1 %	W2.6 trillion	1.7 %	53.0 %
On-line Shopping**	W5.3 trillion	3.5 %	W10.8 trillion	6.8 %	103.8 %
Traditional Market	W111.5 trillion	73.0 %	W104.1 trillion	66.3 %	- 6.6 %
Total	W153 trillion	100 %	W157 trillion	100 %	2.3 %

Source: Korea Food Yearbook 2003 (The Monthly Food Journal), Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce), The Yearbook of Distribution Industry 2003 (Korea Superchain Association), Survey of Consumer Income & Spending 2003 by Korea National Statistical Office

* All sales figures are exclusive of Value Added Tax. Year 2002 data are the most up-to-date statistics available currently.
** On-line shopping includes Internet shopping, TV home shopping, and direct catalog retailing.

Table 2. Food Sales by Retail Format

Year 2002	Percent of Sales from Food Items	Total Food Sales
Department Stores	15.1 %	W2.6 trillion
Hypermarkets	43.9 %	W7.6 trillion
Supermarkets	72.7 %	W3.8 trillion
Convenience Stores	47.7 %	W1.2 trillion
Home Shopping	17.8 %	W1.9 trillion

Source: Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce)

Total food sales of the retail sector in Korea are estimated at W47.1 trillion ($39.3 billion) for 2002. In other words, food sales accounted for about 30 percent of the overall retail market sales. Hypermarkets have become the leading retail channel for food products in Korea, selling W7.6 trillion of food items in 2002. The average Korean household spent W279,500 ($233), or 15.2 percent of total expenditure, a month purchasing groceries in 2002.

Table 3. Breakdown of Per Household Average Monthly Expenditure on Grocery Purchase

Items	1998		2002	
	Spending	Share	Spending	Share
Grains	W48,356	19.9 %	W53,266	19.1 %
Meat including poultry	W38,601	15.9 %	W46,787	16.7 %
Milk and dairy products	W19,229	7.9 %	W18,877	6.8 %
Fishery products	W29,138	12.0 %	W34,785	12.4 %
Vegetables including seaweeds	W34,997	14.4 %	W36,709	13.1 %
Fruits	W22,266	9.2 %	W28,527	10.2 %
Seasonings, oils, fats	W16,157	6.6 %	W13,898	5.0 %
Bakery and snacks	W15,817	6.5 %	W18,592	6.7 %
Tea and soft drinks	W10,326	4.2 %	W12,369	4.4 %
Alcoholic beverages	W5,252	1.5 %	W6,164	2.2 %
Other foods	W4,470	1.8 %	W9,534	3.4 %
Total	W243,103	100 %	W279,506	100 %

Source: Survey of Consumer Income & Spending 2003, Korea National Statistical Office
* Note: Average size of a household in Korea is 3.2 people

Growth of advanced mass retailers and changes in consumer lifestyle and tastes are translated into growing opportunities for imported consumer ready food products. According to Korean import statistics, total imports of consumer oriented foods in 2003 increased 8.8 percent from the previous year to reach $3.78 billion (CIF value), while imports from the U.S. also grew by 16.2 percent to reach $1.56 billion. "One-stop" themed hypermarkets and large supermarkets have become the major retail channel for imported foods as they offer a shopping environment where imported products can better compete against locally manufactured or grown products in both price and assortment. For example, on average, imported foods accounted for 21.9 percent of sales of processed foods and 25.0 percent of fresh foods of a hypermarket store in 2002. In addition, large retailers are seeking ways to increase their assortment of imported foods in an effort to differentiate their stores from competitors.

An increasing number of dual-income families and single parent households has led to a growing demand for HMR (Home Meal Replacement) products in retail stores, to which mass retailers have actively responded by introducing in-store fast food and deli outlets, prepared food sections, and more microwavable (or ready-to-eat) processed foods. Another noteworthy trend is that Korean consumers are becoming more diversified in their tastes and buying power, which, consequently, creates demands for more diversified quality and price options. For example, while the success of hypermarkets has been backed by the strong demand for lower prices in middle to lower income group, sales of luxury goods of premium quality and price in department stores have also shown strong growth even under the economic slow down in recent years.

Currently, only a few of the mass retailers import food products directly. Rather, retailers tend to purchase from specialized importers. However, retailers of international origin, including Wal-Mart, Carrefour, and Costco, do import food products directly using their international sourcing arms. Mass retailers of local origin are seeking ways to increase their assortment of imported foods, including via direct importing, but any rapid move is unlikely in the near future for they lack experience and expertise on international sourcing. Large retailers are also giving more attention to private label brand products, including food items, for higher profits as well as for building store image. Hypermarkets of international origin have moved quickly to launch a variety of imported private brand food products, ranging from sauces to olive oils to canned fruits. However, local mass retailers are again moving at a much slower pace.

Along with advancements in mass retailing, the Korean distribution system has also rapidly developed. More mass retailers are now equipped with a nationwide, temperature controlled distribution network of trucks and warehouses. But small to medium size retailers in general rely on third party independent logistics service. Many food importers have their own distribution force within major metropolitan markets but again in general use third party distributors when supplying stores in suburban regional markets.

Due to the recession in the world economy and the local credit debt instability that continued in 2002 and 2003, the growth of the retail sector has slowed down. Department stores sales were especially hard hit by the recession in 2003, as regular consumers switched to more affordable options.

Thorough research about the Korean market and regulations is necessary for any U.S. exporter newly entering this market. Korea has well established regulations and procedures on food imports, as well as complex tariff and tax codes, which often make an entry of a new-to-market product a time and labor consuming process. In addition, certain food additives approved for use in the U.S. may not be approved in Korea. Exporters must be willing to conform exactly to the Korean labeling and documentation requirements. Building relationships with established importers is the approach that has been proven most efficient in overcoming these entry challenges.

Table 4. Advantages and Challenges Facing U.S. Products in Korea

Advantages	Challenges
47 million consumers in a densely populated area. Affluent population, per capita annual income = $10,000.	Markets outside metropolitan areas have low awareness level of imported foods.
Government import barriers are falling and on-going free trade talks are likely to improve market accessibility further. Korea imports 70 percent of its food and agricultural needs.	High margins/markup on imported products coupled with import tariffs and taxes deteriorate price competitiveness against local products.
Younger generation has affinity to western tastes and imported foods.	Few large retailers import directly. Local retailers in general lack experienced labor force and international sourcing networks.
Consumers are familiar with U.S. foods and dietary culture. There is a general acceptance of and confidence in imported U.S. foods.	Consumers are generally biased toward locally produced products. They have concerns on the safety and quality of imported products.
Rapid growth of advanced retail formats offers more opportunity to a variety of imported foods. International retail chains are leading the growth of the market, making the shopping environment more favorable to imported products.	Meat and poultry imports are subject to complicated import inspections and require proper sanitary certificates and documentation. Fresh fruit and vegetable imports are frequently restricted for phytosanitary issues. Certain food additives approved for use in the U.S. may not be approved in Korea.
Comparatively lower import tariffs on consumer oriented, processed products.	Korea maintains a GM food labeling regulation, which requires additional documentation for non-GM products.

II. Road Map for Market Entry

A. Advanced Format Mass Retail Sector - Hypermarkets, Supermarkets, Convenience Stores, Department Stores(food section), On-line Shopping

A-1. Entry Strategy

The current best strategy to enter the advanced retail market sector with new-to-market consumer ready food products is to contact and work with an established importer as few retailers import directly. This may change in the future as mass retailers are seeking ways to increase direct imports.

? Established importers should be able to provide market intelligence, up-to-date information, guidance on business practices and trade related regulations, sales contacts with existing and potential buyers, and market development expertise.
? The type of contract between the importer and exporter varies from joint investment partnership to exclusive agent-ship to non-binding broker-ship mainly depending on how the exporter sees the role of the importer in market development. The most common practice is maintaining a non-binding seller-buyer relationship during the test-market period and then up grading to a more binding option if the market shows bigger potential.
? There are many things that the U.S. exporter should follow closely with the importer during the initial stage of export. The Korean government maintains very strict regulations on food

imports and requires various certificates/documents and product information before approving import of a new-to-market food product. Therefore, the exporter must provide the importer with necessary documents and information to submit to the government. More detailed regulatory information on food safety and labeling can be found in FAS report, #KS3041, (www.fas.usda.gov).
? Protecting the company/product trademark and patents is an important issue in Korea and can be easily handled by working with local attorneys.

The amount of time taken from looking for an importer to finally getting the product on the shelf in Korea may vary from as short as a couple of months to several years. Again, the key is meeting the right partner.

Sometimes importers procure new products from U.S. brokers or middlemen rather than directly from manufactures, as many U.S. food manufacturers are currently not interested in exporting. Using brokers and middlemen works especially well for small food businesses that are not knowledgeable about international-level sales and marketing. Local Wal-Mart and Costco stores import part of their food products directly using their sourcing networks, so working directly with their purchasing headquarters in the U.S. is the best way to gain entry into these chains.

The amount of slotting fee that a retail store would charge for adopting a new product varies depending on the market potential of the product. Local retail stores are eager to add new products to their shelves as they strive to meet the consumer's strong demand for new tastes, but at the same time are very concerned about the risk of carrying something new to the market. That is why local retailers often ask for promotional support instead of slotting fees for new products. Promotional support includes in-store advertisement, in-store free sampling, and other point of purchase (POP) sales promotions such as sweepstakes, coupons, and games. Free sampling is the most common tactic used as it costs less than others and is easier to administer. In-store promotions are highly recommended for launching new-to-market products since local consumers in general look for educational experience when making a buying decision on new products.

Package design is a very important marketing factor in Korea and exporters should consider developing a new design that can better attract Korean consumers. Although most Koreans read English, adding Korean on the package can improve the exposure level. The current trend in packaging is to emphasize "freshness", "new tastes", "fun", and "environmentally friendly" concepts. Another noteworthy issue in packaging is the Korean language label requirement. This added stick-on label can deteriorate the appearance of the product and the exporter should keep in mind the resulting look of the product when discussing the label design with the importer. Korean language labels are commonly designed and printed by the importer and attached to the products in the duty free area before customs clearance.

Most of the major retail companies in Korea are horizontally integrated and operate a variety of different retail formats, encompassing department stores, hypermarkets, supermarkets, convenience stores, and on-line shopping. For example, Lotte Shopping Co. Ltd. has under its umbrella "Lotte" Department Stores, "Lotte Mart" hypermarkets, "Lotte Lemon" supermarkets, "Seven Eleven" convenience stores, and "Lotte.com" Internet shopping mall. This integration is aimed at achieving better economy of scale and market coverage. Entry into one section of an integrated retailer can easily lead to an access to the whole system.

Attending a Korean food show could be a time and cost saving way to gain access to a wide range of the food trade in Korea from importers to retail operators to media. Currently, Food & Hotel Korea, a trade-only international food show, is the only event that FAS/USDA has endorsed in Korea. The U.S. Agricultural Trade Office (ATO) in Seoul maintains a list of importers of various categories of consumer ready food products and food ingredients and has on-going marketing activities that provide new-to-market U.S. food exporters with an opportunity to meet important players in the Korean food trade. Contacting the ATO is highly recommended for new-to-market U.S. exporters who seeks opportunities in the food retail market in Korea.

A-2. Market Structure

Few mass retailers currently import food products directly. Instead, purchasing managers of the retail chain in general rely on independent importers for sourcing imported products. These purchasing managers tend to be risk averse and many are not familiar with foreign products or brands. This limits the availability of imported consumer ready foods to the Korean consumer. The independent importers are required to bear a great amount of the risk of placing a new product on the shelf. Agents of foreign food exporters are another group that handles significant amount of import food traffic in the sector. Independent importers and agents may supply mass retailers without middlemen but use wholesalers or brokers when supplying small retail stores or wet markets in suburban regional markets.

It takes at least two weeks for a container ship from a western U.S. port, and four weeks from an eastern port, to arrive at a port in Korea. In general, most imported consumer ready products enter the country through the port of Busan. The amount of time that the product sits in the port for sanitary inspection and customs clearance varies from one day to a few weeks depending on the kind of inspection the product is subject to. The close inspection that new-to-market products and randomly selected existing products are subject to may take as long as ten working days. Once the products are cleared from the customs office, they are transported to the importer's warehouse for storage. Importers may have warehouses in more than one location. From the importer's warehouse(s), products are distributed to retailers' warehouses, or directly to individual retail stores. More importers are using a third party logistics service for warehousing and trucking products. When the supply chain includes wholesalers or middlemen between the importer and the retailer, products from the importer's warehouse are distributed to the stores via the wholesaler's warehouse.

However, distribution to a department store is quite different from the above path. In Korea, the department store grocery section operates as a collection of food retail outlets leased to a multiple number of tenants. In addition to fixed amount of lease deposits paid up front, the department store gets a fixed percentage of the sales made by each food outlet. Consequently, distribution of imported foods to the department store segment is inefficient and markups are high. Each tenant is responsible for the procurement and inventory management of the products he/she sells. Department stores are less interested in operating the grocery section directly, as grocery products are not as profitable as non-food items.

The city of Seoul and the surrounding area within 25 miles account for about half the population and more than 70 percent of buying power in Korea. Aggravating traffic conditions and high land price in this area are making distribution of products time consuming and costly. Due to the difficulty of building additional mass retail stores in Seoul, traditional markets and mom-and-pop stores are still playing a significant role in food retailing. However, large supermarkets and hypermarkets are expected to replace traditional retailers eventually in old metropolitan markets, starting from outskirt residential areas. The growth of hypermarkets and chain supermarkets has been more obvious in newly developed towns and outside of Seoul where preplanning of land usage allowed easy entry of mass retail stores. Penetration of convenience stores has been a lot easier and faster in old metropolitan areas, replacing mom-and-pop stores.

A-3. Company Profiles

A-3-1. Hypermarkets

The rapid growth of hypermarkets continued in 2002 with the opening of an additional 37 new stores across the nation. There still remains room for additional 100 to 200 new hypermarket stores in this market, according to industry experts, but it is expected that the M&A (merger and acquisition) and consolidation trend will prevail in the industry as the market nears saturation. The growth of this segment has been mainly driven by a few leading companies as evidenced by the fact that the top three chains accounted for 24 out of the 37 new stores opened in 2002. In addition, the market share of the top five companies has continued to rise from 50.5 percent in 2000 to 75.8 percent in 2002.

Table 5. Description of an Average Hypermarket Store in Korea (2002)

Annual Sales	W88 billion
Share of Foods in Total Sales	Food: 49.7%, Non-food: 50.3%
Share of Imported Foods in Total Sales	5.8 %
Size of Store	12,500 square meter
Number of Employees	130 fulltime, 89 part-timers
Number of SKU	31,303 (25,494 in 2001)
Number of Consumers Daily	6,858
Per Consumer Purchase Amount	W34,205

Source: Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce)

Table 6. Profile of Major Hypermarket Chains (2002)

Retailer Name	Ownership	Sales	# of Stores	# of Stores Opened in 2002	Locations
E-mart (by Shinsegae Co.)	Korea	W5.6 trillion	49	8	National
Lotte Mart (by Lotte Shopping Co., Ltd.)	Korea	W2.3 trillion	32	8	National
Home Plus (by Samsung-Tesco Co., Ltd.)	U.K. & Korea	W2.4 trillion	21	8	National
Carrefour	France	W2.0 trillion	25	3	National
Wal-Mart	U.S.	W1.0 trillion	15	6	National
Kim's Club (by New-core Co., Ltd.)	Korea	W0.61 trillion	14	1	National
Hanaro Club (by KAC Inc.*)	Korea	W0.60 trillion	6	0	National
Freshmarket (by Mega Mart Co., Ltd.)	Korea	W0.68 trillion	6	1	National

LG Mart (by LG Mart Co., Ltd.)	Korea	W0.63 trillion	7	2	National

Source: The Yearbook of Distribution Industry 2003 (Korea Superchain Association)
* KAC: Korean Agricultural Cooperative Inc.

A-3-2. Chain Grocery Supermarkets

Although traditional independent supermarkets have given way to hypermarkets and convenience stores, the consolidation of the industry has left room for large size supermarkets to grow. Especially, in regional markets with a population less than 100,000, where the collective buying power is not big enough to rationalize an entry of a hypermarket store, large full-line grocery supermarkets have become the leading food retailer. All the major supermarket chains have spent the last few years restructuring their businesses and repositioning stores to fill in the niche between hypermarkets and convenience stores. The restructuring has resulted in an aggressive "scrap and build" process in that a considerable number of existing stores was replaced by new ones. Improvement in store accessibility, one-stop shopping capability, convenience and customer service have been the emphasis of the new stores. Striking features that differentiate a new store from an old one include; first floor location, increase in both store size and product assortment, bigger emphasis in HMR and fresh produce section, more private brand products, sizable parking lot, more in-house service outlets, such as pharmacy, laundry and bank, and on-line shopping/delivery service. Another noteworthy issue in the industry is the entry of Lotte Shopping Co., Ltd. and Shinsegae Co. into the supermarket business in recent years, which was prompted by the saturation of hypermarket and department store segments.

Table 7. Description of an Average Newly Opened Grocery Supermarket Store in Korea (2002)

Annual Sales	W10 - 15 billion won
Share of Foods in Total Sales	70 % - 80 %
Size of Store	*1,800-3,300 square meter
Number of Employees	15-20 full-timers, 40-80 part-timers
Number of SKU	5,000 - 6,000 SKU
Number of Consumers Daily	1,000 - 1,500
Per Consumer Purchase Amount	W7,000 - W10,000

Source: Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce), Monthly Chain Store
* Conventional grocery supermarket stores: 600-900 square meter.

Table 8. Profile of Major Supermarket Chains (2002)

Retailer Name	Sales	# of Stores	# of Stores Opened in 2002	Locations
LG Supermarket (by LG Mart Co., Ltd.)	W670 billion	66	8	National
Hanwha Store & Mart (by Hanwha Stores Co., Ltd.)	W410 billion	27	0	National
Haitai Supermarket (by Haitai Stores Co., Ltd.)	W230 billion	36	2	National

Lotte Lemon (by Lotte Shopping Co., Ltd.)	W50 billion	9	5	National
Top Store (by Seowon Distribution Co., Ltd.)	W490 billion	32	0	Kyoungsangdo
Bada Mart (by *NFFC)	W120 billion	22	0	National

Source: The Yearbook of Distribution Industry 2003 (Korea Superchain Association)
*NFFC: National Federation of Fishery Cooperatives

A-3-3. Convenience Stores

The growth of convenience stores has been explosive in recent years and is expected to continue in years to come at the expense of traditional mom-and-pop grocery stores. The year 2002 alone saw the opening of 1,983 new stores across the nation, while only 173 existing stores closed. The total number of convenience stores in Korea reached 5,680 at the end of 2002 and another 2,000 to 3,000 new stores are expected to open every year in the coming years. Introduction of more fast food items and prepared meals has been the industry's top priority in product procurement in recent years. Another area of emphasis has been adding more private brand products for higher mark-ups. In an effort to attract more consumers, convenience stores now offer a wide range of additional services, including postal service, delivery service, and banking.

Table 9. Description of an Average Convenience Store in Korea (2002)

Annual Sales	W644 million won
Share of Foods in Total Sales	47.7 %
Size of Store	89 square meter
Number of Employees	1.9 full-timers, 5.0 part-timers
Number of SKU	3,000 SKU
Number of Consumers Daily	674 (706 in 2001)
Per Consumer Purchase Amount	W2,617

Source: Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce)

Table 10. Profile of Major Convenience Store Chains (2002)

Retailer Name	Sales	# of Stores	# of Stores Opened in 2002	Locations
LG 25 (by LG Mart Co., Ltd.)	W702 billion	1,128	348	National
Family Mart (by Bokwang Family Mart Co., Ltd.)	W720 billion	1,429	526	National
Seven Eleven (by Korea Seven Co., Ltd.)	W650 billion	1,403	402	National
Mini Stop (by Daesang Distribution & Service Co., Ltd.)	W299 billion	677	271	National
Buy The Way (by Dongyang Mart Corporation)	W225 billion	503	200	National

Source: Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce)

A-3-4. Department Stores

The advent of hypermarkets in Korea has suppressed the growth of the department store segment and has resulted in aggressive M&A of independent regional department stores by national chains. The segment garnered W17.1 trillion of sales in 2002, which is up 8.2 percent from the previous year. However, taking the sales from the seven newly opened stores in 2002 by the leading companies into consideration, the sales of existing stores actually decreased or stayed the same. The growth of the segment is mainly led by the top three national chains - Lotte, Shinsegae and Hyundai - as evidenced by the fact that these three chains accounted for 75 percent of the total sales of the segment in 2002, which is a big increase from 41 percent in 1998. The major chains are trying to reposition their product assortments and services to target more affluent consumer groups in an effort to differentiate themselves from on-line retailers and hypermarkets. One noteworthy trend is that department stores are less interested in the grocery business as non-food items are their major profit source. The contribution of grocery products in the overall sales decreased again in 2002 to mark 15.1 percent (18.6 percent in 2001 and 21.1 percent in 2000).

Table 11. Description of an Average Department Store in Korea (2002)

Annual Sales	W221 billion won
Share of Foods in Total Sales	15.1 %
Size of Store	17,200 square meter (17.8 % of the space is leased out to third party retailers)
Number of Employees	334.7 full-timers, 975.5 part-timers
Number of SKU	30,000 - 50,000 SKU
Number of Consumers Daily	14,516 (17,515 in 2001)
Per Consumer Purchase Amount	W43,725

Source: Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce)

Table 12. Profile of Major Department Store Chains (2002)

Retailer Name	Sales (Million won)	# of Stores	# of Stores Opened in 2002	Locations
Lotte Department Store (by Lotte Shopping Co., Ltd.)	6.9 trillion	20	5	National
Hyundai Department Store (by Hyundai Dept. Stores Co., Ltd.)	3.8 billion	14	2	National
Shinsegae Dept. Store (by Shinsegae Co.)	2.3 trillion	7	0	National

Source: The Yearbook of Distribution Industry 2003 (Korea Superchain Association)

A-3-5 On-line Shopping

Changes in consumer life-style and development of information technology have fueled the rapid growth of on-line shopping that includes Internet retailing and TV home shopping. Large portions of the population now have access to high-speed Internet either at home or at work. Virtually all kinds of food products that are found in regular retail stores are sold on-line and even conventional retailers now also operate on-line stores coupled with home delivery service. Food products have more potential in Internet retailing than in TV home shopping. Currently there are four TV home shopping channels.

Table 13. Description of an Average On-line Shopping Company in Korea (2002)

	TV Home Shopping	Internet Shopping
Annual Sales	W554 billion	W78 billion
Share of Foods in Total Sales	17.8 % (mainly food supplements)	13.5 %
Ages of Major Consumers	31-40 Yr (29.8%) 41-50 Yr (28.4%)	21-30 Yr (37.2%) 31-40 Yr (41.5%)
Number of Orders Daily	13,599	2,602
Per Order Purchase Amount	W112,988	W75,082

Source: Analysis of Retail Industry Performance 2003 (Korea Chamber of Commerce)

Table 14. Profile of Major On-line Retailers (2002)

Retailer Name	Sales	Year Established	Business Type
Lotte.com Inc.	W159 billion	2000	Internet shopping
Interpark Corporation	W135 billion	1996	Internet shopping
CJ Home Shopping Inc.	W1.43 trillion	1995	TV Home shopping & Internet shopping
LG Home Shopping Inc.	W1.80 trillion	1994	TV Home shopping & Internet shopping

Source: Company IR Information

B. Traditional Wet Markets and Mom-and-Pop Grocers

The traditional wet markets and mom-and-pop grocers accounted for about 66.3 percent of the food retail market as of 2002. Traditional retailers still prevail in old metropolitan areas where traffic and real estate infra structure make an entry of a large size supermarket or hypermarket store physically difficult. Banning mass retailers' shuttle bus operation enforced by the Korean government in July 2001 has somewhat restricted the reach of mass retailers to these areas. However, the on-going development of old neighborhood in metropolitan areas is likely to make room for mass retail stores. At the same time, car ownership is now quite common for most Korean families, and more consumers are willingly driving to a hypermarket or large supermarket store despite the distance, seeking lower prices and one-stop shopping convenience. The Korean government's strong initiative to identify the actual income of independent businesses by increasing the usage of credit cards has suppressed the profit level of traditional retailers, which now have to comply with elevated tax and social security responsibilities.

Traditional wet markets in Korea take the form of large wholesale markets and local neighborhood markets. They tend to specialize in fresh products, including produce, fish, and meats, rather than processed foods. Imported products that are distributed in significant volume through traditional markets include fresh fruits and vegetables, processed fruits, dried vegetables, seafood, meat, spices, cereals, and oils. The wholesale markets serve as major source of supply for the mom-and-pop grocers and street vendors. Consumers may also purchase at these wholesale markets, and do so to obtain fresh products at a price lower than in a downstream mom-and-pop outlet. Independent wholesale distributors are still playing an important role in supplying suburban regional food retail markets but are facing increasing competition from hypermarkets and supermarkets.

With the growth of the advanced mass retailers, the share of the traditional retailers in Korea will continue to decline in the years to come.

III. Competition

The domestic food industry is the major competitor to U.S. exporters in many products. This is natural, as Korea has a well-developed food industry, for both processed and fresh products. The domestic food industry is geared to the Korean consumer and produces both traditional and trendy foods. The domestic horticultural industry supplies a variety of produce in good quantity and quality, frequently greenhouse grown. However, the local food processing industry is very sophisticated and relies heavily on imported ingredients. The Korean consumer, nevertheless, is generally biased toward locally grown and manufactured products and willingly pays a premium.

With the on-going lifting of trade barriers in food products as well as consumers' strong demands for new-to-market tastes and products, competition from other international suppliers is increasing. For the consumer ready processed foods, European countries and Australia are major U.S. competitors. For meats and dairy products, Australia, New Zealand, and France are major competitors. For fishery products, Norway, China, Thailand, and Vietnam are major competitors. China and Chile are major competitor for fresh fruits and produce. The growth of imports from China has been significant in recent years in many products, including fishery products, fresh produce, processed vegetables, seasonings and spices, and poultry meat. China is also likely to rapidly expand their export of processed products to Korea in the future. Chile is likely to increase exports of both fresh and processed agricultural products to Korea as the free trade agreement signed between the two countries is in effect as of April 2004.

Market promotion by other competitors is similar to the activities organized by U.S. suppliers, and include in-store promotions, educational training and seminars, food shows, reverse trade missions, and trade servicing. Australia and France operate sizable promotional agencies in Korea dedicated to food exports.

IV. Best Product Prospects

A. Products Present in the Market Which Have Good Sales Potential

The largest and fastest growing categories of imported retail products include; fresh fruits (orange, grape, cherry), fruit juices, fruit jams, canned fruits, processed vegetables (canned, frozen, and dried), tree nuts, cookies and snack foods, candies and confectionary, honey, tea and coffee, soft drinks, alcoholic beverages (beer, hard liquor, and wine), seafood (fish, clam, and seaweed), cheese and butter, ice cream, pet foods, sauces and spices, pasta noodle, cooking oils (olive, grape seed, and canola).

B. Products Not Present in Significant Quantities but Which Have Good Sales Potential

The growing demand for new-to-market tastes and products is expected to increase the sales of the following products; processed turkey meat, specialty cheeses, soup and broth, ethnic sauces and spices, prepared foods (packaged HMR products), organic products (both fresh and processed products). Private brand products also have good potential.

C. Products Not Present Because They Face Significant Barriers

? Imports of fresh fruits and vegetables are frequently restricted for phytosanitary reasons. The Internet home-page of the Korean National Plant Quarantine Service has the up-to-date information on plant (including fresh fruits and vegetables) import restriction and regulation in English (www.npqs.go.kr.). Outbreaks of animal diseases, such as swine cholera, avian-flu virus, and BSE, also frequently restrict imports of related products into Korea. U.S. suppliers may contact established importers or ATO Seoul for up-to-date import restriction information and regulation on animal products.

? Korea utilizes a "positive list" system for importing agricultural products meaning any product not listed in the regulation is import banned. Many fruits from the U.S., including pomegranate, are currently not importable as they are yet to be registered in the regulation.

? Imported fresh fruits and vegetables, including cherry, orange, and shelled walnuts, from the U.S. that have potential pest risk are subject to a mandatory methyl-bromide fumigation treatment before being shipped to Korea or at the bonded area in Korea. This fumigation may damage the quality of products.

? Many products, including rice, honey, fresh potato, and pop-corn, are subject to import quotas that restricts open market access.

? The Korean Food Additive Code defines standard specifications for individual food additives and usage standards. Korea utilizes a "positive list" system for food additives meaning any food additive or its usage not listed in the code is prohibited. As of July 2003, Korea had a positive list of 605 approved food additives. Most additives and/or preservatives are approved and tolerance levels are established on a product-by-product basis. Even though there may be an established CODEX standard for a given food additive, if that food additive is not registered in the Korean Food Additive Code or even if registered but usage in a certain food product is not specified, use of that food additive in the given food product is prohibited. This means that only the food additives that are registered in the Korean Food Additive Code are allowed to be used in food products, in accordance with the usage standards specified in the Food Additive Code. Working with an established importer is the most efficient way to check whether a product meets the Korean Food Additive Code or not.

V. Post Contact and Further Information

? For further information about the Korean agricultural market, please contact:

Local Address:
U.S. Agricultural Trade Office
Room 303, Leema Bldg.
146-1 Susong-dong, Jongro-gu, Seoul 110-140, Korea

U.S. Mail Address
Agricultural Trade Office
American Embassy-Seoul
Unit #15550
APO AP 96205-0001

Tel: 82-2-397-4188
Fax: 82-2-720-7921
E-mail: atoseoul@fas.usda.gov
Internet: www.atoseoul.com

? **For more information on how you can register for USDA/FAS's Supplier List:**

The United States Department of Agriculture's Foreign Agricultural Service (USDA/FAS) offers information and services that can be beneficial to both new and experienced exporters. For example, the U.S. Suppliers List is a searchable database of over 5,000 U.S. exporters and their products, which is used by USDA/FAS to help facilitate connecting potential buyers with U.S. suppliers. This database is used by more than 85 USDA/FAS overseas offices, including ATO Seoul, Korea to help export agents, trading companies, importers and foreign market buyers locate U.S. suppliers. It is also used to recruit U.S. exporters to participate in market development activities sponsored by USDA and federal export programs.

You can register online for this service at http://www.fas.usda.gov/agexport/exporter.html

For more information, please contact;

AgConnections Team
AgExport Services Division, Foreign Agricultural Service, Washington, DC
Tel: 202-690-4172
Fax: 202-205-2963
E-mail: joyce.estep@fas.usda.gov
Website: www.fas.usda.gov/agx/agx.html

? For further information about sanitary and phytosanitary requirements, please contact:

U.S. Animal Plant and Health Inspection Service
Room 303, Leema Bldg.
146-1, Susong-dong, Jongro-gu
Seoul 110-140, Korea
Tel: 82-2-725-5495
Fax: 82-2-725-5496
E-mail: aphis@kornet.net
Website: www.aphis.usda.gov

? For information on the commercial and industrial products in Korea, please contact:

Foreign Commercial Service

Korean Address:
U.S. Embassy, 82, Sejong-ro,
Jongro-gu, Seoul, Korea

U.S. Mailing Address:
U.S. Embassy Seoul
Unit 15550-FCS
APO AP 96205-5550

Tel: 82-2-397-4535
Fax: 82-2-739-1628
E-mail: Seoul.office.box@mail.doc.gov
Website: www.buyusa.gov/korea