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Retail Food Sector Report 1999

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Report Highlights: The retail food sector in Korea is undergoing a rapid change, as large retail formats and convenience stores edge out traditional markets and “mom and pop” grocers. The change will progress from the retail outlets to the distribution system, eventually leading to lower prices and greater variety to consumers. Though independent companies currently handle most food product imports, hypermarkets and other chain stores will likely import directly in the future.

Includes PSD changes: No
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RETAIL FOOD SECTOR REPORT

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I. Market Summary

The average Korean household will spend about \$4,000 on food products this year, driving a vibrant retail food sector. This sector is undergoing a revolution in South Korea, with traditional markets, mom and pop stores, and even department store food sections giving way to supermarkets and hypermarkets. This restructuring in food retailing is already bringing about changes in distribution channels, as well as consumer purchasing habits.

While the advent of the hypermarket in Korea came about only 4 years ago with a change in local laws, recent studies indicate this new format has already garnered 20 percent of the retail food market. The number of hypermarkets is expected to grow from about 100 today, to 200 by 2005. Hypermarkets (known as “discount stores” in Korea) are generally located in suburbs or satellite cities, outside of major city centers. Not only are land costs lower, but locations are ideal next to high density blocks of apartment buildings, populated with young families.

Supermarkets have been common in Korea since the 1980's, but the economic crisis of 1997 and 1998 has prompted a consolidation in the industry, one that is likely to continue. While in the past supermarket chains tended to be small, the trend is for larger numbers of outlets in a chain, with more efficient distribution systems. Convenience stores are a relatively recent arrival, but have quickly filled a gap of consumer demand. Some chains already boast 500 outlets, situated both in congested city centers, as well as suburban areas.

The future of the retail sector in Korea is likely to be a greater market share by hypermarkets, supermarkets, and convenience stores. This will come at the expense of traditional markets, mom and pop stores, and to a lesser extent, department stores. A small but rapidly growing segment of the retail industry (though not yet a player in the food sector), is direct sales from television and the internet.

Currently, few of the large retailers import products directly. Rather, the retailers purchase from specialized importers. Most of these importers have their own distribution networks. Many industry sources predict the large retailers will be driven to importing directly in the name of efficiency.

Korea has the reputation of being a difficult market to enter. However, most U.S. exporters now selling here will also opine that it is “worth the trouble”. It is noteworthy that the United States generally maintains balanced trade with Korea, and sometimes achieves a trade surplus – quite different from the situation with many other Asian countries! Exporters must be willing to conform exactly to labeling requirements and export documentation. Certain food additives approved in the United States are not approved in Korea, approval of new additives or ingredients is lengthy and difficult. The Food Additive code currently approves over 500 additives.

An important aspect of exporting to Korea is the personal relationship that a seller forms with the importer. This relationship generally must be formed before an export sale is made. One should not expect to make a sale solely by fax or email contact, though this is possible.

The Korean Retail Food Market:

Advantages	Challenges
46 million consumers in a densely populated area. Affluent Population (per capita income \$10,000 annually)	Inefficient and Costly Distribution
Government import barriers are falling. Korea imports 70 percent of food needs.	High margins/markup on imported products.
New retail formats provide lower cost products to consumer.	Few large retailers import. There is a lack of commitment to promote new products.
Younger generation of Koreans more willing to try imported products, adapt to western tastes.	Korean food culture is very strong, change is slow, and an aversion to imported products still exists among some.

Table 1: Value of overall retail food sales over the past 5 years.

Unit: Million US\$ (Exchange Rate: \$/1,200Won)

Description	1994	1995	1996	1997	1998
Superstores/ markets a/	3,515	4,323	4,840	6,760	7,321
Convenience stores b/	346	425	478	546	521
Traditional market	N/A	N/A	N/A	N/A	N/A

a/:Source: The yearbook of distribution industry '99 by Korea Superchain Association

b/:Source: Convenience Stores Management Tendency '99 by Korea Association of Convenience Stores

Table 2: Value of imported Consumer Ready vs. Domestic Food Products over the past 5 years

Unit: Billion US\$ (Exchange Rate: \$/1,200 Won)

Description	1994	1995	1996	1997	1998
Imported Food (CIF value)	1.73	2.23	2.49	2.6	1.42
Domestic Products (ex factory price)	19.5	21.9	24.8	25.6	N/A

Source: Korea Trade Information Service (KOTIS)

Source: Report of Mining & Manufacturing Survey 1998 by National Statistical Office Republic of Korea

Table 3: Number and type of retail outlets (1998)

Description	Number of outlets
Superstores/markets	1,343
Convenience stores	1,978
Traditional market	2,652

Source: Nationwide Wholesale & Retail Business Statistics issued by Korea Chamber of Commerce

II. Road Map for Market Entry

A. Entry Strategy

The entry strategy for superstores, supermarkets, and convenience stores is currently similar in Korea. The current best strategy to enter the market with new processed food products is to contact and work with a reputable importer. This may change in the near future, as hypermarkets assume a larger role in importing. Many of these importers are independent, and supply a wide range of retail outlets. Others may be larger food processing firms, interested in importing “private label” products to expand their lines. The exporter must support the importer by providing proper labeling and documentation to facilitate the import process.

The ATO in Seoul maintains a current list of importers of various categories of processed foods and food ingredients. Best of all, we provide an unbeatable venue for an exporter to introduce new products to the market, and meet importers, at the Great American Food Show! The next addition of this event will be held in Seoul March 14 to 16, 2000.

B. Market Structure

Few large supermarket or hypermarket chains now import directly. Instead, most importers of consumer ready food products operate independently, offering products for the supermarket purchasing managers. These managers tend to be risk averse, many are not familiar with imported products or brands, and are wary of trying new products. This limits the availability of imported processed foods to the Korean consumer. The importer is required to bear a great amount of the risk of placing a new product on the shelf.

The structure of distribution and the market is undergoing change due to entry of the hypermarkets. Traditionally, most imported processed food products enter the country through the port of Pusan. From there, the products are transported to an importers warehouse, and would be distributed to individual department stores as needed. In the department stores, the supermarket is generally located in the basement or the first floor. Importers must lease space, and even supply sales staff to sell their products. In effect, these department stores operate as a collection of “mom

and pop” outlets under one roof. Distribution is inefficient, markups are high. Imported products are “segregated” in gourmet style sections, and consumers pay a high price for the convenience of shopping in central urban areas.

In the case of hypermarkets, importers deliver their products to the distribution center of the hypermarket. The products are then distributed through the distribution channel of the hypermarket. Though a significant amount of processed food products are imported and sold in these large format retail markets, only a portion are recognizable and packaged as major U.S. brands.

Most hypermarkets and supermarkets have a deli section, with hot prepared foods to go, sushi, and foods prepared for cooking at home. The peak shopping time in many retail food stores is from 4 to 6 on weekday afternoons, when housewives (or women working outside of the home) purchase food for the evening meal, as well as other future needs.

The Processed Imported Food Distribution Channel

Ship to Warehouse

- * Customs broker meets product at vessel
- * Operator transports product from vessel to dock
- * Operator transports product from dock to customs yard

Warehouse to Inspection

- * Operator transports product from customs yard to bonded warehouse – Customs and quarantine inspection.

Pusan to Seoul

- * Operator transports product from bonded warehouse to delivery truck
- * Truck driver transports product to Seoul
- * Operator unloads product to Seoul warehouse

Seoul Distribution

- * Driver delivers to second tier distributor warehouse
- * Driver delivers to third tier (neighborhood) distributor
- * Delivery by van/small truck to retailer

The distribution channel for products destined for retail sale in Korea is long and complicated. It evolved to distribute products to many neighborhood “mom and pop” outlets, and for the most part, has not yet changed to accommodate large retail outlets. Imported products face the additional challenge of passing through the port and customs clearance procedures.

About 90 percent of imported processed foods arrive at the port of Pusan, and are transported overland to Seoul. About half the population of Korea lives within 25 miles of Seoul.

Distribution within Seoul itself can be complicated. Distribution tends to be by area and neighborhoods. It is possible for the product to pass through several distributors on the way from a main warehouse to the retail store. It may typically take one to two months for products leaving the U.S. West Coast to reach consumers in the Seoul area, and

longer if the products originate from a Gulf port.

The distribution system tends to be slow and expensive, with imported products on the retail shelf costing 200 to 700 percent of the equivalent price in the United States. However, it is reliable, and importers are adept at working within this system.

The rapid increase in the number of larger retail formats, such as discount stores, has exposed the limitations of current distribution channels. Some retail and HRI businesses are already “leapfrogging” this cumbersome distribution system by importing direct. This is bound to occur more and more frequently in the future, and will result in substantial cost savings. Presumably, competition will translate these cost savings into lower prices to consumers.

C. Company Profiles

Table 4: 1. Hyper markets or super Centers, Club and Warehouse Outlets 1/, Super stores 2/ and Supermarkets in Department Stores 3/

(Exchange Rate : \$/1,200 Won)

Retailer Name and Outlet Type	Ownership	Sales (1998)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
E Mart 1/	Korea	\$499 Mil.	15	Seoul/ Nationwide	Purchase from Importers
Kims Club 1/ food culture is very strong, change is slow, and an aversion to imported products still exists among some.	Korea	\$310 Mil.	15	Seoul/ Nationwide	Purchase from Importers
Hanaro Club 1/	Korea	\$151 Mil.	2	Seoul	N/A
Carrefour 1/	France	\$142 Mil.	8	Seoul/ Nationwide	Direct Import/ Purchase from Importers
Magnet 1/	Korea	\$129 Mil.	6	Seoul/ Nationwide	Purchase from Importers
Costco 1/	U.S.	\$125 Mil.	3	Seoul/ Nationwide	Direct Import/ Purchase from Importers
Walmart 1/	U.S.	N/A	4	Seoul/ Nationwide	Purchase from Importers

LG Distribution 2/	Korea	\$225 Mil.	59	Seoul/ Nationwide	Purchase from Importers
Hanwha Distr. 2/	Korea	\$152 Mil.	46	Seoul/ Nationwide	Purchase from Importers
Seowon Distri. 2/	Korea	\$139 Mil	30	Seoul/ Nationwide	Purchase from Importers
Nonghyup Distri. 2/	Korea	\$92 Mil	13	Seoul/ Nationwide	N/A
Lotte Department Store's Supermarket 3/	Korea	\$499 Mil.	10	Seoul/ Nationwide	Purchase from Importers
Hyundai Department Store's Supermarket 3/	Korea	\$375 Mil	11	Seoul/ Nationwide	Purchase from Importers
Shinsege Department Store's Supermarket 3/	Korea	\$47 Mil	5	Seoul/ Nationwide	Purchase from Importers

Source: Report of Retailers' Management Tendency by Korea Chamber of Commerce and Industry Contract

2. Convenience Stores

Convenience stores are growing rapidly in Korea, and in some aspects, are replacing the neighborhood mom and pop outlets. The first convenience store opened in 1988, over 2000 outlets are now in operation, and this number could double in 3 to 5 years. Though they do not carry fresh fruits and vegetables, many sell staple foods as well as a variety of snack foods, microwaveable foods, ice cream, and a wide range of beverages.

U.S. exporters can target these chains of convenience stores for candies, snack foods, and beverages, though none currently import directly.

Table 5: Company Profiles of Convenience Stores (1998)

Retailer Name and Outlet Type	Ownership	Sales (1998)	No. of Outlets	Locations (city/region)	Purchasing Agent Type
LG25	Korea	\$141 Mil.	496	Seoul/ Nation wide	Purchase from Importers

Family Mart	Japan has 20% and Korea has 80%.	\$134 Mil.	493	Seoul/ Nation wide	Purchase from Importers
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Lawson a/	Korea	\$69 Mil.	262	Seoul/ Nation wide	Purchase from Importers
7-11 a/	Korea	\$43 Mil.	171	Seoul/ Nation wide	Purchase from Importers
Buy the way b/	Korea	\$42 Mil.	161	Seoul/ Nation wide	Purchase from Importers
Mini Stop b/	Korea	\$38 Mil.	160	Seoul/ Nation wide	Purchase from Importers
Circle K	Korea	\$29 Mil.	111	Seoul/ Nation wide	Purchase from Importers
AM PM a/	Korea	\$18 Mil.	112	Seoul/ Nation wide	Purchase from Importers
LG Star	Korea	\$6 Mil.	94	Seoul/ Nation wide	Purchase from Importers

Source: Convenience Stores Management Tendency '99 by Korea Association of Convenience Stores

a/: Technological introduction from U.S.

b/: Technological introduction from Japan

3. Traditional Markets and Mom and Pop Independent Grocers

The traditional “mom and pop” grocers carry a wide range food products, generally including a small stock of fruits and vegetables. They may carry some imported products, but mainly locally produced process foods (which may be produced from imported ingredients).

While we certainly support the concept of the small, independent grocer, we do not see this as a dynamic sector where marketing of U.S. processed food products will dramatically increase. In fact, with the growth of the supermarkets, hypermarkets, and convenience stores, the share of processed food products sold by these small grocers will most likely decline significantly over the next ten years.

Traditional markets in Korea take the form of large wholesale markets, and local town markets. They tend to specialize in produce, fish, and meats, rather than processed foods. The wholesale markets serve as sources of supply for the small mom and pop grocers. Consumers may also purchase at these wholesale markets, and do so to obtain fresh products at a price lower than in a downstream market outlet. Again, we do not recommend an exporter target this market format.

III. Competition

The domestic food industry offers the major competition to U.S. exporters in most categories. This is natural, as the domestic industry is geared to the Korean consumer tastes, and produces traditional foods. The domestic horticultural industry produces superb quality, frequently greenhouse grown. The local processing industry is very sophisticated, and often uses imported ingredients. The Korean consumer is generally biased toward locally produced products.

Several for European owned companies (Carrefour and Tesco) are present in the market, with the former being one of the few retail operations which currently carries out direct importing.

On the processed food side, the U.S. maintains about a 35 percent share. Major competition comes from the European food processing industry. On meats, and cheeses, Australia, New Zealand, and Europe are the major competitors. On certain products, other countries are strong players, such as is the case with fruit juices, where Brazil supplies almost half of the market. In most cases, the competition to a U.S. food product is locally produced, and not made and exported foreign competitor. A notable exception is wine, where Europeans dominate the market.

IV. Best Product Prospects

Red Meat	Fresh Citrus, certain Vegetables
Poultry Meat	Dairy Products
Seafood	Canned, Frozen Fruits and Vegetables
Snack foods	Confectionary and Candies
Wine	Pet Food

V. Post Contact and Further Information

For further updated information on how to export to the Korean market, look for the Export Guide to Korea, available December 1, 1999.

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