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Korea - Republic of

Food Service - Hotel Restaurant Institutional

HRI Food Service Sector Report 2018

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Report Highlights:
South Korea's HRI Food Service sector continues to grow as the nation's socio-economic changes continues to spur consumers' spending on dining out. In 2016, sales for the sector totaled W119 trillion Korean Won ($106.1 billion), up 10% from the previous year. South Korean buyers have globalized and sophisticated taste and their food culture is increasingly dynamic. As a result, the sector will generate steadily growing demand for products of innovation, higher value, consistent quality and specifications customized for the industry. These changes, along with implementation of the KORUS FTA, will offer more export opportunities for wide varieties of U.S. food products in the coming year.

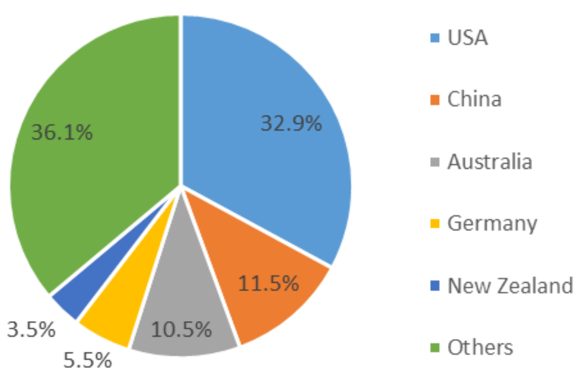
Market Fact Sheet: South Korea

Executive Summary

South Korea is the 12th largest economy in the world with a national GDP of $1.53 trillion and a per capita GNI of almost $30,000 as of 2017. It is about the size of the state of Indiana and has a population of 51 million. Over 90% of Koreans live in urban areas. Korean consumers maintain strong demand for healthy diet, diversified choices, and new tastes. The country relies heavily on imports to fulfill total demand. Korea is the fifth largest export market for American agriculture. The United States was the leading supplier of imported agricultural products to Korea by accounting for $7.9 billion or 23.5% of Korea's total agricultural imports of $33.8 billion in 2017.

Imports of Consumer-Oriented Products

Korea's imports of Consumer-Oriented Products totaled $12.8 billion in 2017, or 37.9% of overall agricultural imports. The United States remained the leading supplier in the segment by accounting for a record $4.3 billion or 33.4% of total imports. Despite elevated competition from export-oriented competitors, the Consumer-Oriented segment offers increased export opportunity for various American products, including beef, pork, fruits, tree nuts, dairy products, confectioneries, beverages, and further prepared foods.



Food Processing Industry

Korea maintains a strong food processing industry that manufacturers a wide variety of processed foods, beverages, and additives. There were over 28,000 food processing companies in Korea as of 2016 which generated over $68.5 billion of sales. Korean food processing companies rely heavily on imported commodity and ingredient products. Korea's imports of basic and intermediate agricultural products amounted to $12.8 billion in 2017. American products accounted for $3.3 billion or 25.8% of total imports, used for feed, industrial and food manufacturing.

Retailing Industry

Sales of food products in the Korean retail industry totaled about $75.9 billion as of 2016, which was 22.8% of overall retail industry sales. Grocery supermarkets were the leading food

Quick Facts CY 2017

Imports of Ag. Products from the World

- Basic Products	US $4.9 billion
- Intermediate Products	US $7.9 billion
- Consumer-Oriented Products	US $12.8 billion
- Forest Products	US $3.2 billion
- Seafood Products	US $5.0 billion
- Total	US $33.8 billion

Top 10 Consumer-Oriented Ag. Imports

Beef ($2.3 billion), Pork ($1.5 billion), Frozen Fish ($1.4 billion), Dairies ($854 mil), Fresh Fruits ($1.2 billion), Tree Nuts ($406 mil), Coffee ($655 mil), Chocolate Confectioneries ($324 mil), Bakeries ($367 mil), Alcoholic Beverages ($706 mil)

Top 10 Growth Consumer-Oriented Ag. Imports

Eggs, Specialty Nuts, Lamb Meat, Tea, Beer, Animal Offal, Preserved Vegetables, Beef, Butter, Cherries

Food Industry by Channels (2016, ROE W1,120/$1)

- Retail Food Industry	US $75.9 billion
- HRI Foodservice Industry	US $106.1 billion
- Food Processing Industry	US $68.5 billion
- Food & Agricultural Exports	US $6.8 billion

Top Korean Retailers

EMART, LOTTE Mart, HOME PLUS, COSTCO, GS Retail (GS Super, GS25), BGF Retail (CU), Korea Seven, E Land Retail, Lotte Department Store, Shinsegae Department Store, Hyundai Department Store, Hanwha Galleria, CJ O Shopping, GS Home Shopping, SK Planet, Ebay Korea

GDP/Population

Population: 51.2 million
GDP: US $1.53 trillion
GDP per capita: US $29,891

Strengths/Weaknesses/Opportunities/ Challenges

Strengths	*Weaknesses*
- Well established market with modern distribution channels - Consumer income level continues to increase	- High logistics cost to ship American products - Consumers have limited understanding of American products
Opportunities	***Challenges***
- Strong consumer demand for value, quality, and diversity - KORUS FTA reduces tariff barriers for American products.	- Elevated competition from export-oriented competitors - Discrepancies in food safety and labeling regulations

Data and Information Sources: Korea Ministry of Food & Drug Safety, Korea National Statistics Office, Korea Int'l Trade Association, CIA Factbook retail channel, followed by hypermarket discount stores, convenience stores, on-line retailers, and department stores. On-line retailers and convenience stores are likely to lead the growth of food sales in the industry in the coming years as Korean consumers pay more emphasis to convenience and value. At the same time, fast expansion of on-line retailers will force conventional retail channels to restructure space and product strategies to attract consumer traffic.

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SECTION I. MARKET SUMMARY

Rapid evolvement of the South Korean (hereinafter Korea) economy and urbanized consumer lifestyles generate bigger demand for quality, value, and diversity in the Korean HRI Food Service sector. The sector continues to grow as the nation's socio-economic changes continue to spur consumers' spending on dining out. In 2016, sales for the sector totaled W119 trillion Korean Won ($106.1 billion), up 10% from the previous year.[1] Korean households' monthly per capita spending on dining out has continued a solid growth for several consecutive years, reaching W138,619 won or about $123 million in 2017.[2] Per capita, Korean households spent 47.6 % of F&B expenditures (or 13.3% of total consumption expenditures) on dining out.

Convenience is another key consumer trend as daily lifestyles of Koreans is grow busier. Rapid increases of dual-income families and single member households have led to a growing demand for Home Meal Replacement (HMR) products in retail stores as well as take-out meals in restaurants. Delivery service is extremely well developed in Korea as people do not want to waste time in the heavy traffic. The speedy growth of on-line shopping, including home-delivery service by restaurants and bars, is also a result of increased demand for convenience.

As these trends continue coupled with expanding HRI business, the sector will generate steadily growing demand for products of innovation, higher value, consistent quality and specifications customized for the industry.

Table 1. Advantages and Challenges for American Products in Korea

Advantages	Challenges
Korean consumers are eagerly looking for new-to-market products and international tastes as income levels continue to rise.	Consumers are biased toward local products. A recent series of food safety scandals by imported products made the market to be more concerned about quality & safety of imported foods.
Korea depends on imports for its food and agricultural needs. On-going elimination of import barriers will improve market access and price competitiveness of imported products.	Many American fresh fruits have no access to Korea and certain food additives approved in the USA are not allowed to use in Korea. Host country government changes its food safety or labeling standards frequently.
The KORUS FTA will help American products compete in Korea under reduced import tariffs.	Imported food products still face regulatory barriers. Advantages of KORUS FTA could be diluted as competitors actively pursue FTA's with Korea.
Korean consumers maintain a high level of sensitivity to the safety and quality of food offered in the market. Korean traders are making extra efforts to source products from more trusted origins, including the United States, to regain consumer confidence.	Price is a main factor for purchasing decisions in the HRI Food Service sector in Korea. American products face strong competition by cheaper products from exporters such as China and EU.
Modern, large-scale businesses are leading the	Many American suppliers do not have enough of an

[1] 2017 Major Statistics of Food Industry, aT Center (www.aTFIS.or.kr)
[2] 2017 Monthly Household Expenditure Survey, Korea National Statistical Service (http://kosis.kr)

growth of Korean HRI Food Service sector, providing a more efficient market environment and distribution capacity for imported products with new tastes, high value, stable supply, consistent quality, and catered specifications.	understanding of the Korean market and are not fully ready to offer catered products and services. American suppliers should consider modifying their local product specifications or recipes to increase exports to Korean market.

SECTION II. ROAD MAP FOR MARKET ENTRY

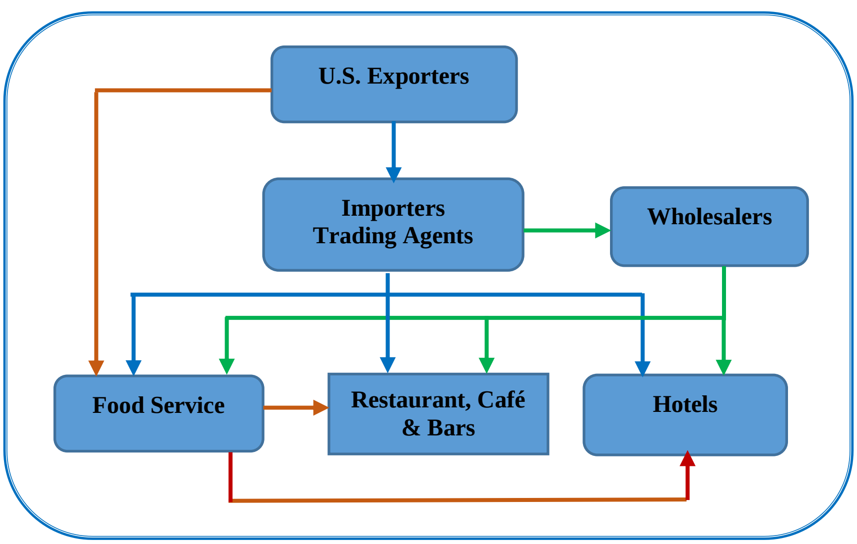
II-1. ENTRY STRATEGY

In general, Korean HRI Food Service providers rely heavily on independent importers or intermediary distributors for imported food products. Although leading players are making increased efforts to expand direct imports from foreign suppliers for lower cost and improved product assortment, their current attention is targeted to a limited number of high volume products such as fresh fruits, livestock meat, and seafood. For contact listings of established Korean import distributors and retail store buyers, please contact the United States Agricultural Trade Office (ATO) Seoul. The USATO Seoul also organizes U.S. pavilions at the annual Seoul Food and Hotel Show and Busan Int'l Seafood & Fishery Expo and offers support to U.S. exhibitors by providing market briefings and arranging business meeting lounges. In addition, ATO Seoul also offers various marketing tools and trade facilitation assistances on behalf of American suppliers who seek to enter the Korean market.

American suppliers are recommended to refer to the resources listed below for additional information and guidance needed to establish an efficient entry strategy for Korea:

- Korea FAIRS report provides Korean government regulations and standards on imported food and agricultural products.
- Korea Exporter Guide provides market entry guidance for American suppliers.
- ATO Seoul website (www.atoseoul.com) provides various information about the Korean market, including product briefs, food news clippings, KORUS FTA, and links to other resources and organizations.
- Korea Country Commercial Guide published by the U.S. Commercial Service is another outstanding source of information about exporting to Korea.

II-2. MARKET STRUCTURE AND DISTRIBUTION

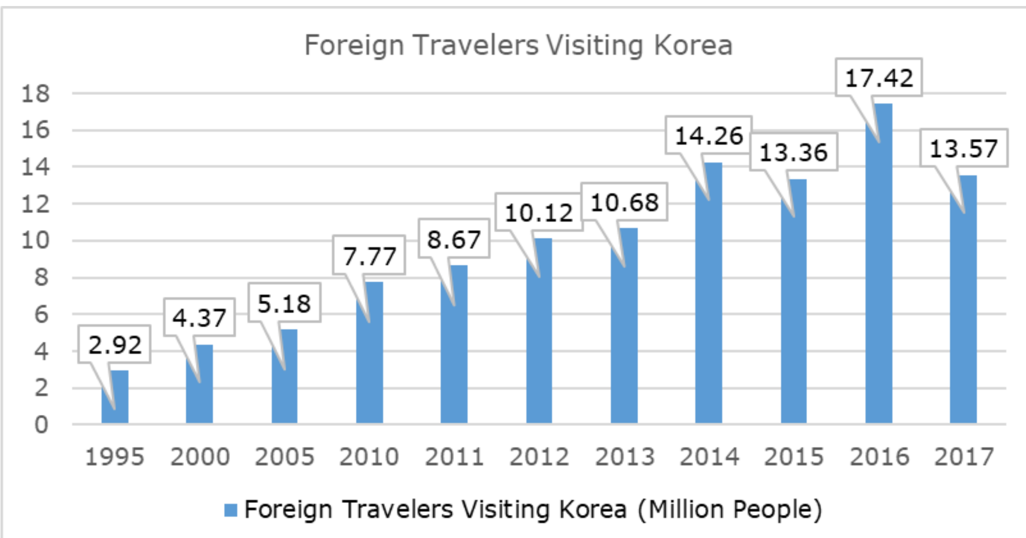


Market Structure: Korea's Hotel, Restaurant and Institutional (HRI) Food Service industry is divided into three major segments based on type of business and distribution channels.

Distribution: Large-scale restaurant companies and broad-line foodservice distributors expand in the market replacing small-scale or independent business operations. On the consumer side, South Korean buyers have globalized and sophisticated taste and their food culture is increasingly more dynamic so that each industry segment is actively seeking collaboration among different distribution channels.

Hotel Industry

To meet the lodging demand by increasing number of foreign travelers, Korea's hotel room supply continues to increase. In 2016, there were 815 hotels in Korea, compared with 716 in 2014, reflecting a growth rate of 14% in only two years. Guestroom sales showed a 20% increase from 2014. However, F&B sales showed a decline of 12% that is mostly attributable to a substantial decrease in sales for five and four star hotels, due to increased consumer concerns about a sluggish economy and lessened corporate entertainment spending. View more tables and charts for the industry details.



Source: Korea Tourism Organization Data (www.visitkorea.or.kr)

Restaurant and Bar Industry

Until the mid-1990's, the HRI foodservice sector in Korea has been mainly composed of small-scale, independent (or family-operated) restaurants and bars due to the Korean government policy restricting large corporations from entering the sector. In addition, the restaurant and bar industry has been a major refuge for retirees during the Asian economic crisis in 1997-2000 and the recent 10 years of global economic downturn. In 2005, about 90% of the restaurants and bars in Korea were small businesses with less than five employees and the percentage has been slowly dropping to 86% in 2015. Meanwhile, a recent restructuring trend favoring expansion of large-scale businesses became very strong. Between 2005 and 2015, the number of large-scale restaurants and bars that hired 10 or more employees increased 72% while the number of small establishments hiring less than 5 employees increased only 19%.

The restructuring trend in the sector has also promoted a rapid growth of the franchise foodservice business as elevated competition forced the industry to adopt economies of scale. For more efficient consumer marketing, recipe development and ingredient supply, a large number of small-scale restaurants and bars have been replaced with establishments under the franchise business network. As of 2016, 20.6% of the restaurants and bars in Korea were under franchise operation, up 5.4% from 2014.

Overall Korea's restaurant & bar industry has been showing steady growth for several years. In 2016, the total cash register sales of the industry was W119 trillion, up 41.8% from W84 trillion in 2014. Full-service restaurants remained the top segment of the industry by accounting for 52.3% of the restaurants & bars in the country in number, or 58.2% in cash-register sales. Alcohol beverage bars were second largest in number (18.3%) but fell to third largest in sales (9.7%). The quick service restaurant business, third largest in number (14.8%), showed solid growth and ranked the second largest in sales (12.6%).

The alcohol beverage bars segment recorded the least sales growth (3.7%) between 2014 and 2016 in the industry due to increased health concerns and reduced corporate representation expenses. The industry forecasts that the new 52-hours workweek law by the Korean government will move up the closing hours of corporate workers, reducing the number of office dinners and drinking occasions. On the other hand, café (non-alcohol beverage bars) business grew by 92.6% from 2014 and institutional feeding restaurants showed sales growth of 58.8% during the same period. Strong consumer interest in new tastes, busier lifestyles, and concerns for a sluggish economy are likely to boost the sales in these segments in the coming years. View more tables and charts for the industry details.

Institutional Feeding & Broad-line Distributors Industry

The institutional sector in Korea involves distribution to schools, corporate headquarters, manufacturing facilities, hospitals, military bases, and entertainment facilities such as amusement parks and golf resorts. In 2015, cash register sales for this sector accounted for about 7.1% of the total HRI market, which is mainly supplied by local importers, wholesalers and, to a lesser extent, large-scale, broad-line distributors. The industry estimates total sales for the foodservice sector in 2017 at about W12.4 trillion won, up 7.1% from the previous year.

Expansion of larger-scale restaurants and bars as well as franchise businesses in the HRI Foodservice sector should generate further growth of large-scale, broad-line distributors and the rapid growth of these distributors is likely to continue in the coming years at the expense of older distribution channels that involve multiple layers of small and medium-sized middleman distributors. The industry forecasts that large-scale distributors will account for more than 15% of product distribution in the sector by 2020. View more table for the industry details.

SECTION III. COMPETITION

The outlook for American products in the Korean HRI Food Service sector is excellent for wide varieties of agricultural products, such as beef, pork, condiments and sauces, dairy products, nuts, fresh and processed fruits, processed vegetables, alcohol beverages, and edible offal. In addition, on-going trade liberalization should create new opportunities for the products under restrictive import barriers. These changes, along with implementation of the KORUS FTA, will offer more export opportunities for wide varieties of U.S. food products in the coming year.

The ATO Seoul website (www.atoseoul.com) provides up-to-date information about Korea's food and agricultural imports:

- Korea's Agricultural Import Statistics: This spreadsheet, updated monthly, provides a summary of Korea's agricultural imports on four-digit HS product code level.
- Korea's Agricultural Import Trends Presentation: this presentation, published quarterly, provides a summary of competition between the U.S. and competitors for key products.

Table 2. Top 20 Korean Imports of Consumer-Oriented Agricultural Products and Competition

Product Category/HS Code	Gross Imports 2017 ($ million)	1st Supplier	2nd Supplier	U.S. Ranking (M/S)
Beef, Frozen/HS0202	1,543	U.S. (51%)	Australia (41%)	1 (51%)
Pork, Chilled or Frozen/HS0203	1,527	U.S. (26%)	Germany (25%)	1 (26%)
Food Preparations NESOI/HS2106	1,214	U.S. (58%)	N.Z. (7%)	1 (58%)
Beef, Chilled/HS0201	720	U.S. (55%)	Australia (45%)	1 (55%)
Cheese and Curd/HS0406	536	U.S. (39%)	N.Z. (15%)	1 (39%)
Bread, Pastry, Cakes, Biscuits/HS1905	367	Malaysia (17%)	U.S. (16%)	2 (16%)
Bananas/HS0803	365	Philippines (79%)	Ecuador (10%)	NA (0%)
Other Preserved Fruits & Nuts/HS2008	331	China (30%)	U.S. (15%)	2 (15%)
Other Nuts/HS0802	324	U.S. (92%)	Australia (4%)	1 (92%)
Chocolate Food Preparations/HS1806	324	U.S. (25%)	China (12%)	1 (25%)
Citrus Fruit, Fresh/HS0805	295	U.S. (88%)	S. Africa (5%)	1 (88%)
Beer made from malt/HS2203	263	Japan (27%)	China (14%)	7 (7%)
Other Vegetables, Prepared, Not Frozen/HS2005	257	China (75%)	Thailand (10%)	3 (8%)
Edible Offal/HS0206	248	U.S. (39%)	Australia (38%)	1 (39%)
Vegetables, Frozen/HS0710	241	China (90%)	Vietnam (6%)	3 (2%)
Sauces & Preparations/HS2103	223	China (38%)	Japan (21%)	3 (15%)
Sugar Confectionery/HS1704	219	China (21%)	Germany (19%)	4 (10%)
Wine/HS2204	210	France (32%)	Chile (19%)	4 (12%)
Spirits, Liqueurs, Alcohol less than 80%/HS2208	205	U.K. (72%)	China (6%)	3 (5%)
Poultry Meat & Offal/HS0207	200	Brazil (85%)	U.S. (7%)	2 (7%)

Source: Global Trade Atlas

SECTION IV. BEST PRODUCT PROSPECTS CATEGORIES

Table 3. Top 15 Fastest Growing Korean Imports of Consumer-Oriented Agricultural Products*

Product Category/HS Code	Gross Imports 2017 ($ million)	Growth from 2016	U.S. Growth	U.S. M/S
Birds Eggs, Shelled/HS0408	28	482%	3,540%	51%
Coconuts, Brazil Nuts, Cashew/HS0801	81	86%	586%	2%
Lamb, Mutton, Goat	121	75%	0%	0%

Meat/HS0204**				
Tea/HS0902	16	53%	-24%	7%
Beer/HS2203	263	45%	79%	7%
Guts, Bladders, Stomachs/HS0504	75	39%	28%	47%
Vegetables, Preserved/HS0711	27	34%	0%	0%
Beef, Chilled/HS0201	720	32%	82%	55%
Butter/HS0405	51	30%	25%	8%
Cherries, Peaches, Apricots/HS0809	161	28%	32%	90%
Cheese and Curd/HS0406	536	25%	24%	39%
Fruit Juices/HS2009	187	23%	35%	36%
Pork, Chilled or Frozen/HS0203	1,527	20%	14%	26%
Coffee, Roasted/Not Decaffeinated/HS090121	158	20%	18%	45%
Cider, Perry, Mead/HS2206	27	18%	14%	9%

*Note: Limited to products that Korean imports were $10 million or larger
**Note: The United States has yet to re-establish market access due to Korean BSE concerns.

SECTION V. KEY CONTACTS AND FURTHER INFORMATION

Post Contact

U.S. Agricultural Trade Office Seoul (ATO)
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U.S. State Departments of Agriculture
U.S. State Regional Trade Groups (SRTG)
U.S. State Offices in Korea
American Chamber of Commerce (AMCHAM)

Host Country Government

Ministry of Agriculture, Food & Rural Affairs (MAFRA)
Ministry of Food & Drug Safety (MFDS)
Ministry of Trade, Industry & Energy (MOTIE)
Ministry of Foreign Affairs (MOFA)