

Country Market Profile: Korea

Euromonitor reports that the South Korean (hereinafter referred to as “Korea”) economy might strengthen only slightly this year, reflecting the economic and social upheaval caused by COVID-19, as well as sluggish growth in exports, particularly in the electronics industry, which has been adversely affected by the slowdown in China. The expansionary fiscal policy should boost public investment and the launch of South Korea’s 5G network in the fourth quarter should provide some impetus. A monetary stance of accommodation and more robust fiscal stimulus should support a recovery in 2021. Annual rates of growth in real Gross Domestic Product (GDP) are expected to be around 2.2% in 2020-2027. Worst case scenarios call for a recession of less than 1% as of early May 2020.

Korea had become the second largest epicenter of the spreading coronavirus epidemic after China, with known cases jumping from 51 reported cases on February 18 to 5,766 reported cases on March 5 and then many more. The outlook for the first quarter moderated in recent weeks as the outbreak has disrupted supply chains and is expected to weigh heavily on Chinese demand for Korean manufactured goods.

Inflows of Foreign Direct Investment (FDI) have been gradually trending downward. One reason is that China, Taiwan and Japan have been all able to attract funds previously destined for Korea. Another is that the government has made little headway in its attempts to deregulate markets. A rapidly ageing population threatens to slow economic progress in the longer term.

South Korea’s population is rising slowly and amounted to 51.8 million in 2020 (CIA World Factbook Est.). The country will add only about half a million more inhabitants between 2020 and 2030. Median age in 2020 was 43.2 years, significantly above the regional average and 10.6 years greater than the figure for 2000. Perhaps the most important population shift which is occurring is a large increase in the number of those over 65 years. In 2020, this group made up 16% of the total and it will account for 25% by 2030.

Long-run projections by the United Nations (UN) suggest that Korea could have one of the oldest populations of any country in the world by 2050. The fiscal impact of ageing will be great, given the rapid pace of demographic change. If participation rates remain stable, the absolute size of the labor force will begin to decline before the end of this decade. With its labor force contracting, Korea could face a fall in the potential growth rate without remedial action. Improvements in the working environment for females are essential in view of the looming labor shortages.

Korea has joined 16 free trade agreements since 2003 and expects negotiations with Vietnam to be concluded soon. In March 2018, Seoul and Washington agreed to revise their free trade agreement. The agreement will improve U.S. access to Korea’s automobile market and require Korea to curb its steel exports to the U.S. in return for an exemption from higher U.S. steel tariffs. The pact was signed in September 2018.

USDA’s Agricultural Trade Office (ATO) in Seoul, hereinafter referred to as “Post”, reports that the U.S. is the leading exporter of agricultural products to Korea with a 24% market share. While

total U.S. bulk agricultural exports to Korea dipped in 2019, exports of consumer-oriented products such as meat, dairy, and processed products continue to grow. Despite escalated competition from export-oriented competitors, consumer-oriented American products continued to lead the expansion of the export market in Korea, which reflected Korean consumers' increased demand for better value, quality and diversity. The Korea-United States Free Trade Agreement, (KORUS) implemented in 2012, coupled with on-going evolvement of the Korean food market, should generate greater export opportunities for American products in Korea in the coming years.

Advantages and Challenges for U.S. Products in the Korean Market:

Advantages:

- Korea is a fast-paced market where new ideas and trends are eagerly tried and accepted
- Local processing, retail, and foodservice industries continue to expand
- Rising consumer incomes drive demand for more diversified and sophisticated choices
- Korea depends heavily on imports to fulfill its food and agricultural needs
- Consumers maintain strong attention to new international food and consumption trends as their exposure to foreign food culture expands
- Korean consumers maintain elevated concerns about food safety. Many consumers recognize the United States as a trusted origin for quality agricultural products
- Implementation of the KORUS FTA generates new opportunities for U.S. suppliers by reducing tariff and non-tariff barriers

Challenges:

- A series of food safety scandals associated with imported products from risky origins in recent years has led the general public and traders to be more concerned about the quality and safety of imported products
- Imports of many products face restrictive regulatory barriers. Certain food additives approved for use in the United States may not be allowed in Korea
- The Korean government makes frequent changes in its food safety/labeling standards, which adds risk and cost to traders
- Local retailers in general have yet to establish expertise on international sourcing. As a result, the flow of imported products to the retailer usually includes multiple layers of intermediary distributors, which adds cost and inefficiency to the supply chain
- Retailers are risk averse and reluctant to accept new imported products of short shelf life or weak brand recognition
- American products face elevated competition against export-oriented competitors. Evolving tastes of consumers promote entry of competitor products from more diversified origins.

Imports of American consumer oriented food products into Korea in 2019 totaled over US\$4.7 billion, an increase of 3% from the previous year and the highest total on record. Korea now ranked 4th as an overall destination for these products, and about US\$1.6 billion ahead of 5th place China even though those exports grew 34% in 2019. Korea is the 4th largest market for

U.S. processed food exports, which totaled over US\$2.9 billion in 2019 and grew 16% over the previous year, an another record high. Top U.S. exports of processed foods in 2019 included:

- Food Preparations
- Fats and Oils
- Prepared/Preserved Seafood
- Processed/Prepared Dairy Products
- Non-Alcoholic Beverages
- Processed/Prepared Vegetables And Pulses
- Prepared/Preserved Meats
- Beer and Wine
- Chocolate and Confectionery
- Snack Foods

Food consumption trends in Korea, which reflect on-going socio-economic shifts among the general Korean public, include a rise of affluent consumer groups, retirement of baby boomers, more women in the labor market, downsizing of the family, well-traveled/educated young generations, urbanization, and adoption of information technologies. As a result, products and businesses that offer good value, high quality, health/nutritional benefits, new and diversified tastes, and convenience are showing strong growth in the market.

Retail Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Korea had been estimated to reach nearly US\$27.8 billion in 2019. That represents an increase of 8.5% or US\$2.1 billion since 2015. Korea is now the 4th largest packaged food market in the Asia Pacific region and is the 18th largest market in the world. By the year 2024, the retail sales in the packaged food market in Korea is expected to increase 9.7% to US\$31.2 billion, or US\$2.8 billion more. High growth products in the forecast include:

- Soups
- Ready Meals
- Baked goods
- Sweet Biscuits, Snack Bars and Fruit Snacks
- Breakfast cereal
- Dairy products

Post reports that Korean retail food sales totaled US\$93.2 billion in 2017, accounting for 28% of total retail sales. Grocery supermarkets were the leading retail channel for food products in the Korean retail industry with an estimated 41.6 trillion won (US\$36.8 billion) of food sales in 2017, followed by hypermarkets (17.2 trillion won or US\$15.3 billion). In terms of growth, on-line retailers and convenience stores led the growth of food sales in the industry in recent years

due to increased consumer demand for convenience and value. On the other hand, hypermarkets and department stores saw stagnant growth not only due to escalated competition from on-line retailers but also because of limited room in the market to build new stores. As a result, retailers are making efforts to restructure their operation and product strategies to cope with increased competition and evolving consumer taste.

Euromonitor reports that Lotte Super is the largest supermarket operator in South Korea and continues to lead the channel in 2019. However, it has started to close some of its outlets, namely those that do not record high enough sales, in an effort to restructure its retailing strategies under Lotte Group. Lotte Group operates in various retailing channels, including hypermarkets and supermarkets. While both businesses are suffering due to demographic and lifestyle changes in South Korea, Lotte Group plans to combine both channels to locate supermarkets within hypermarkets in a shop-in-shop style by specializing the food category within supermarkets in order to provide various types of products to attract a broader range of consumers.

While other major players are struggling to open new outlets, GS Supermarket is able to enjoy growth taking more shares from competitors with its food categories. GS Supermarket introduced four discounter outlets which provide lower price range items compared to its other regular outlets. In addition, in some GS supermarkets, the premium section was expanded to provide organic and premium brand items. Since GS Group has convenience stores as well, it is expected to enjoy success by targeting the increasing number of single-person households.

According to Euromonitor, since lifestyles and demographics among South Korean consumers are changing quickly, hypermarkets continue to lose popularity. The number of single-person households is increasing rapidly especially in urban areas and the average age to get married is also rising, while the birth rate has recorded the lowest level in the world since 2017. Given this situation, many consumers no longer need to make bulk packages of groceries anymore, rather visiting supermarkets and convenience stores for smaller-sized packages instead, resulting in the decreasing popularity of hypermarkets.

The food category is becoming more important for hypermarkets, as non-food but daily essential items have been shifting to e-commerce already. As consumers care about the freshness and quality of food items compared to other categories, hypermarket players are expanding their food sections in store, including fresh food, packaged food and foodservice. Foodservice areas offering grab-and-go sandwiches and sushi rolls are also becoming popular, evidenced by Homeplus introducing a food court inside of some of its outlets, named “All about food”, which is a combination of its private label ready meal items and foodservice restaurants where consumers can buy their ready meal products as well as enjoy the experience of eating while shopping.

Though the number of outlets and sales value are both decreasing, E-Mart continues to lead the hypermarkets channel in South Korea. Shinsegae Group, which owns E-Mart, is investing heavily to reinvigorate E-Mart sales by focusing on its online delivery business. SSG delivery service which provides a time option for consumers to receive packages is becoming more popular. Homeplus, which is the second largest player, also focuses more on its online business as it starts to use some of its outlets as logistics hubs for online delivery purposes, trying to cover a larger area of South Korea. Hence, the competition between hypermarket players is expected to be more intense in the online arena as well.

Euromonitor reports that Korean convenience stores recorded strong growth over the past five years in South Korea, thanks to the increasing number of single-person households and quickly changing lifestyles. As the market matures, however, the growth rate is slowing in terms of both number of outlets and retail sales value. In addition, South Korea's government is trying to limit convenience store outlet numbers, preventing the opening of another convenience store within 50m to 100m distance to protect competition from each other. Thus, convenience store operators are expected to focus more on increasing sales value by offering various promotions and developing new private label products under the stricter regulation.

CU and GS25 are the two largest convenience store fascias in South Korea and have been competing intensely to take the number one spot. GS25 ranked number one convenience store in 2019 in terms of both number of outlets and retail sales value, while CU used to have the greatest number of outlets in 2018. Both CU and GS25 are aggressively developing food items for the increasing number of single- or two-person households, for example, fruit packages for one person, and salads and sandwiches as a simple meal. In addition, CU is undertaking a strategy to increase the size of outlet space for newly-opened outlets to improve its food category so that consumers can easily purchase and eat the food in store. While both CU and GS25 have started to seek further opportunities abroad such as in Vietnam, competition between the two is expected to become more intense.

While CU and GS25 are competing with each other, other players are also speeding to catch up. 7-Eleven, the third largest player, has over 10,000 outlets in South Korea, while emart24, which came into the market late in 2014, is aggressively opening new stores, thanks to its parent, Shinsegae Group, which is one of the largest retailing groups operating across various channels in South Korea.

Best Product Prospects:

The outlook for American food exports to the Korean retail sector is excellent for a wide diversity of products, including beef, pork and poultry, seafood, processed vegetables, fresh and processed fruits, nuts, dairy products, juices, alcoholic beverages, condiments and sauces, processed organic foods, bakery goods, snacks and confectionery.

Food Service Sector Highlights:

Post reports that South Korea's Hotel, Restaurant and Institutional (HRI) food service sector continues to grow as consumers spend more on dining out and look for more convenience in their busy lives. In 2017, HRI sales totaled W128 trillion Korean Won (US\$113.5 billion), up 8%.

Korean consumers place a high premium on convenience as busy urban lifestyles leave little time for traditional home cooked meals. In the past, households with three or more people were the norm. Today over half of households consist of one to two members and more women have joined the workforce. These demographic trends have led to growing demand for home meal replacement (HMR) products in retail stores as well as take-out meals in restaurants. The demand for convenience has also driven rapid growth in online food sales and restaurant delivery services. Many online retailers now offer next day delivery service for orders placed the night before. These trends are expected to continue, driving further growth in HRI sales in the future.

The HRI sector in Korea was mainly composed of small-scale independent or family-operated restaurants and bars until the mid-1990s due to government policies restricting large corporations from entering the sector. Large scale and chain restaurants have been gaining ground since then. Between 2005 and 2015 the number of restaurants and bars with 10 or more employees increased 72%, while small establishments with 5 employees or less increased only 19%. During those ten years the portion of small restaurants and bars fell from 90% to 86%. Franchise foodservice businesses have also increased as heightened competition has favored economies of scale. In 2017 16.9% of restaurants and bars in Korea were franchise operation, up 0.2 percentage points from 2016.

The institutional sector in Korea includes food service and distribution to schools, corporate headquarters, manufacturing facilities, hospitals, military bases, and entertainment facilities such as amusement parks and golf resorts. This sector accounted for 7.4% of the HRI market in 2017. It is mainly supplied by local importers, wholesalers and, large-scale distributors. The expansion of large-scale and franchise restaurants should generate more opportunities for large-scale distributors in the coming years. Large-scale integrated distributors are expected to displace older distribution channels that involve multiple layers of small and medium-sized intermediary distributors. Industry analysts forecast that large-scale distributors will account for more than 15% of product distribution in the sector by 2020.

The outlook is excellent for a wide variety of agricultural products, such as beef, pork, condiments and sauces, dairy products, nuts, fresh and processed fruits, processed vegetables, alcohol beverages, and edible offal. On-going trade liberalization should create new opportunities for products that currently face restrictive import barriers. These changes, along with the ongoing implementation of the KORUS FTA, will offer more export opportunities for wide varieties of U.S. food products in the coming year.

Food-Processing Sector Highlights:

Post reports that Korea has a strong food processing industry that manufactures a wide variety of food and beverage products. They had over 29,000 food processing companies generating US\$66.1 billion in sales in 2018, up 4% from that of 2017. As a result, the Korean food processing industry offers an outstanding opportunity for imported agricultural products for processing use, including basic commodities such as wheat and soybean, intermediate ingredients such as vegetable oils and fruit juice concentrates, and food additives such as flavors and coloring agents.

Korean food processing companies rely heavily on imported commodities and ingredients. Imports of basic and intermediate agricultural products totaled US\$13.2 billion in 2018. About 30% (US\$3.9 billion) of these imports, used for feed, industrial and food manufacturing came from the U.S.

Despite challenges from competitors, the United States is expected to remain the leading supplier of food and agricultural products to Korea for years to come, not only for commodities and intermediate products, but also for consumer-oriented products. The United States accounted for 24% of total Korean imports of food and agricultural products in 2019.

The Korean market reflects global food trends. The rise in single-person households and the increase in women's participation in the workforce are influencing food purchasing patterns. Consumers want convenient and value-for-money food products that suit their lifestyle. And at the same time, consumers continue to seek healthier and higher quality food options. The home meal replacement (HMR) market has been growing since 2010. The HMR market is estimated to have reached 3.7 trillion (US\$ 3 billion) KRW in 2018, more than doubled the size of the market in 2015. Until recently HMRs were viewed as simple packaged products consumed by single-person households with busy lifestyles. Single-person households accounted for 27.6% of total households in 2016 and are expected to account for 30% of households in 2020. Small portion HMR products have seen rapid growth due to this trend. Over the past few years companies have also introduced HMR products that provide complete meals for larger households.

CJ Cheil Jedang is the number one food processor in the HMR market. Its instant rice brand “Hat Ban” reached annual sales of 300 billion KRW (\$264 million) in 2017, accounting for more than 70% of the instant rice market. In November 2018, CJ Cheil Jedang acquired the U.S. frozen food company Schwan’s Co., one of the largest global food companies in the pizza, pie, and Asian appetizer market, for US\$1.84 billion. CJ plans to use the acquisition to expand its market share in the North American processed food market. CJ is also investing aggressively in the Korean market, including 200 billion KRW (US\$176 million) for HMR research and development and 540 billion KRW (\$476 million) to build a manufacturing plant in Jincheon by 2020. Other food processing companies such as Ottogi and Dongwon F&B are investing in their own HMR brands. Ottogi plans to invest 61 billion KRW (\$54 million) to expand its processing line, and Dongwon F&B plans to build a new manufacturing plant.

Best Product Prospects:

Products present in the market which have good sales potential in this sector include beef and pork fresh, chilled and frozen, edible offals, sausage casings, dried fruit, fish and seafood, spices, cheese and curd, tree nuts, wheat and meslin, soybeans and soybean oil, chocolate, food preparations, malt, fruit juices including concentrates and extracts and essences.