



# Korea: Retail Channels

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## Summary

For the past couple of years, Korea has experienced slow-growing economy coupled with demographic changes, and Korea's retail ecosystem is beginning to diversify itself to correspond to that change. Consumers, unlike the past, eagerly seek out 'value' in their purchasing decision and the notion that a high priced items equals high quality has now turned into a newly emerged term called 'value consumption';

- For instance, while a consumer may shop at department stores to buy luxurious items such as a purse and shoes, his or her next shopping destination would be cosmetic road shops in town that offer high quality products relative to price, and some of these brands aggressively market themselves as great substitutes for high-end brands with similar packaging and concepts. This tendency was further strengthened since 2008 when the world economy was severely hit by recession.
- As the recent recession continues to trigger the notion toward 'value consumption', outlets and warehouse-type store chains are growing faster than department stores and regular discount store chains. Lotte Mart, one of the biggest discount store chain retailers, has launched the first membership-based wholesale chain 'Vic' (Value in Customer) in June 2012 with the aim of becoming a contender for 'Costco', the U.S. based membership operating nine stores nationwide. E-Mart has been also operating a non-membership based wholesale chain 'Traders' since 2010.

Additionally, the rising consumer power of those who live by themselves has become a global trend and the number of single-person households in Korea is mushrooming as well;

- According to Statistics Korea, there were 4.03 million single-person homes in Korea as of 2010, accounting for 23 percent of the total 17.33 million household. In 1980, single households accounted for only 4.8 percent, rising to 9 percent in 1990 and 15 percent in 2000. The ratio of single-person homes has grown five-fold over the last 30 years and doubled over the past two decades.
- Retail players offer a variety of products tailored for one-member households, ranging from vegetables with small size wrappings to so-called single electronics. Increasing number of drug stores is one great example on how Korean retailers are responding to this new demographic change.
- As part of Korea's efforts to protect "mom-and-pop" stores, the Korean government imposed a rule closing big-box discount chains on Sunday. Since these large store chains are under such influence, convenient stores, on the contrary, continues to grow even faster than before and is adequately responding to the growing needs of single-person households.

Lastly, CS Korea would like to note that a growing number of Korean consumers began to purchase U.S. products directly from its website or other retail mediums (i.e. Bluefly, Neiman Marcus, Nordstrom, Bloomingdales and etc.) by utilizing delivery agency in the U.S.;

- Consumers first compare the retail price point in Korea with that of the U.S., and if the combined price with its shipping cost and commission fee is still relatively lower than buying it domestically, consumers rather choose to endure 2-3 week shipping period to save cost.
- This trend among so-called 'the wired generations' is ultimately reflecting on the new shift of Korean consumers' perception toward 'value consumption'. More and more, we are witnessing consumers surpassing our prediction and potentially posing some threats to traditional retail ecosystem that fails to adapt to such change.
- For example, one U.S. fashion company recently decided to lower its retail price up to 40%. The company has been publicly criticized for its 'high-pricing policy' to upgrade its image in Korea from 'casual' to 'high-end'. Korean consumers perceived such attempt as being overly manipulative and started to purchase parallel import items or directly buying from the U.S. websites against this policy.

In this report, we are going to examine how consumers' change of perception and its demographic shift are affecting what we often refer to as Korea's fast-changing retail ecosystem.

## Market Demand

**Showrooming** – 'Showrooming' practice continues to gain momentum in Korea's retail environment. The term 'Showrooming' refers to a free-riding behavior where customers evaluate product at brick-and-mortar stores to identify their best fit product, but end up buying this product not at the store but at a competing online retailer to take advantage of lower prices. The proliferation of mobile devices has made it so easy for consumers, mostly in their 20s and 30s, to purchase items that satisfies his or her expectation to achieve the another booming concept, 'value consumption'. This of course is posing a major threat to U.S. companies whose distribution channels in Korea are highly dependent on off-line retailers. Therefore, it is imperative that companies maintain consistent pricing across all channels, but in case of U.S. companies, the better term should be 'all channels across all countries'. Recently, a lot of Korean consumers are starting to buy U.S. products directly from its U.S. website through buying/or delivery service providers operating warehouses across the states. If the U.S. retail price is too much lower than that of Korea, consumers would rather order online and wait 2 weeks for the product to be delivered at great inconvenience. Some U.S. companies often try to leverage its brand image up to an upper level in international markets but Korean consumers will be counting on U.S. companies to offer them a fair deal as they are always ready to find someone else who will.

**Rental Service** – Traditionally, Korean consumers have been long known for its strong obsessiveness towards the concept of 'having'. But the conventional idea of possessing is now being redefined as more and more consumers are now inclined to enjoy more by not necessarily having or buying. According to Korea's Rental Association, the number of rental service providers in Korea is about 25,000 (as of December 2012) and the size of market excluding rental cars has grown rapidly from 2.8 billion (2006) to 9.5 billion (2011). As rental businesses begin to boom, the range of products/or services have become gradually diversified, ranging from home appliances including TVs, refrigerators and laundry washing machines to laptops, PCs, mattresses, massaging chairs and cars. The scope of rental services are being expanded to other categories as well, such as luxury items such as high-priced imported cars and leisure lifestyle products such as camping equipment and high-end golf clubs. This significant surge in demand for rental services seemed to have been boosted by Korean consumers' change of perception towards the ownership as well as the continuing world economy downturn. But the short product life cycle with the recent technological development is also attributable to this change, as consumers nowadays easily become impatient with long-term ownership of a product.

**Do It Yourself (DIY)** – In 2012, the size of products/furnishings purchased for the interior of homes in Korea was USD 2 billion. The DIY market was about USD 95 million (of that USD 2 billion), which was a 25% increase from 2011. The number of DIY woodcraft stores grew at an extremely fast rate. According to a report by LG Research Institute (LGRI) there was an astounding increase of some 1,500 DIY woodcraft stores nationwide. LGRI noted that 20 percent of people in their 20s and 30s are now beginning to make their own small-sized DIY furniture. When the DIY market first emerged in early 2000, it was primarily targeted for men as it was thought to require a certain degree of physical strength. However, 21% percent of women in this LGRI survey showed interest in DIY products whereas only 14% of males demonstrated interest. This recent LGRI survey shows that the ‘trend setters’ for the DIY market in Korea are housewives who spend more time at home than their spouses. According to the OECD, Koreans work 2,193 hours a year. Average hours worked among other OECD countries is 1,750. However, it is anticipated that the number of hours worked will steadily go down as Korean consumers focus and shift more on leisure, spiritual and hobby-oriented aspects of their lives.

## Market Data

Sales figure on different retail channels are listed below.

- Department Stores

Over the last three years, department stores have steadily grown at a consistent double-digit growth rates, but in 2012, it significantly decreased to 4.9% even with four additional locations being newly launched that same year. Traditionally, department stores in Korea have never stopped expanding the number of its stores even when the world recession severely damaged domestic economy in 2008. This year, however, department stores are not planning to open any additional location but instead will be solely geared towards its outlet store expansion. Experts said that slow-growing world economy is the major factor that contributes to an overall decrease of consumer spending and in fact the sales of luxury items is significantly going down among other product categories.

### *The Total Sales and Number of Department Stores in Korea by Year*

Unit: US\$ Billion

Year	2006	2007	2008	2009	2010	2011
Number of Stores	83	84	82	83	93	93
Sales	16.0	16.5	17.2	19.0	21.1	23.6

(US\$1=KW1,150)

Source: Statistics Korea

### *Key Department Stores in Korea*

Unit: US\$ Million, %

Ownership	Company	Number of Stores (as of 2013)	Sales in 2011	Market Share in 2011	Website
Lotte Shopping	Lotte Dept. Store	31	10,437	43.5	<a href="http://www.lotteshopping.com">http://www.lotteshopping.com</a>
Shinsegae	Shinsegae Dept. Store	10	4,687	19.6	<a href="http://www.shinsegae.co.kr">http://www.shinsegae.co.kr</a>
Hyundai Dept.	Hyundai Dept. Store	13	1,251	5.2	<a href="http://www.ehyundai.com">http://www.ehyundai.com</a>
Hanwha Galleria	Galleria Dept. Store	5	1,095	4.6	<a href="http://www.galleria.co.kr">http://www.galleria.co.kr</a>
Aekyung	AK Plaza	5	1,478	6.2	<a href="http://www.akplaza.co.kr">http://www.akplaza.co.kr</a>
E-Land Retail	NC Dept.	12	1,091	4.6	<a href="http://www.ncshopping.com">http://www.ncshopping.com</a>

	Store				
	Donga Dept. Store				
Daewoo Intl. Dept. Store	Daewoo Dept. Store	1	177	0.7	<a href="http://www.daewoodept.co.kr">http://www.daewoodept.co.kr</a>
Daegu Dept. Store	Daegu Dept. Store	2	151	0.6	<a href="http://www.debec.co.kr">http://www.debec.co.kr</a>
Grand Dept. Store	Grand Dept. Store	1	96	0.4	<a href="http://www.granddept.co.kr">http://www.granddept.co.kr</a>
Daedong Dept. Store	Daedong Dept. Store	1	83	0.3	<a href="http://www.ddstore.co.kr">http://www.ddstore.co.kr</a>
Say Dept. Store	Say Dept. Store	1	31	0.1	<a href="http://www.saydept.co.kr">http://www.saydept.co.kr</a>
Small Business Distribution Center	Happy Dept. Store	1	64	0.3	<a href="http://www.haengbok.com">http://www.haengbok.com</a>
Kyung-Yu Industry	Taepyung Dept. Store	1	19	0.1	<a href="http://www.taepyungmall.com">http://www.taepyungmall.com</a>
Megamart	M Dept. Store	1	36	0.2	<a href="http://www.mdepart.com">http://www.mdepart.com</a>
Others (nonmembers of Korea Dept. Stores Assoc.)			3,272	13.7	N/A
Total			23,968	100	N/A

(US\$1=KW1,150)

Source: The Yearbook of Retail Industry 2012

- Discount Stores

While the official sales figure for each discount retailer haven't yet to be released, discount stores collectively exhibited a growth rate of 1.4% in 2012, but the actual revenue has fell since the country's inflation rate last year was 2.2%. It in part is due to the increasing number of smaller retailers such as convenient store and drug stores, but industry analysts also attributes it to President Park's on-going campaign pledge of 'economic democratization', followed by her predecessor' attempt to help the economically weak. In April 2012, the government imposed a rule closing big-box discount chains on Sundays and the U.S.'s Costco (Korea being Costco's most lucrative market) initially ignored the restriction, but the government imposed financial penalties on Costco and other Korean discount stores and Costco did begin comply by closing its store on the second and fourth Sunday in late 2012.

### Current Status of Discount Retailers in Korea

Unit: US\$ Million, %

Ownership	Company	Number of Stores		Sales in 2011	Market Share in 2011	Website
		2012	2013			
Homeplus	Homeplus	129	134	10,000	31.7	<a href="http://corporate.homeplus.co.kr">http://corporate.homeplus.co.kr</a>
Lotte Shopping	Lotte Mart	97	104	6,011	19.1	<a href="http://www.lottemart.com">http://www.lottemart.com</a>
Grand Dept. Store	Grand Mart	1	1	96	0.3	<a href="http://www.granddept.co.kr">http://www.granddept.co.kr</a>
Korea Ag. Cooperative Marketing	Hanaro Club	6	6	722	2.3	<a href="http://www.nhhanaro.co.kr">http://www.nhhanaro.co.kr</a>

Emart	Emart	143	139	11,373	36.1	<a href="http://store.emart.com">http://store.emart.com</a>
New World	New World Mart	7	7	28	0.1	<a href="http://www.nwmart.co.kr">http://www.nwmart.co.kr</a>
Megamart	Mega Mart	9	13	582	1.8	<a href="http://home.megamart.com">http://home.megamart.com</a>
Costco Korea	Costco Wholesale	7	9	1,814	5.8	<a href="http://www.costco.co.kr">http://www.costco.co.kr</a>
E-Land Retail	Kim's Club	37	38	893	2.8	<a href="http://www.ekimsclub.com">http://www.ekimsclub.com</a>
	Donga Mart	2	2			<a href="http://www.dong100.com">http://www.dong100.com</a>
Total		438	453	31,519	100	

(US\$1=KW1,150)

Source: The Yearbook of Retail Industry 2012

### Comparison of Sales between Department Stores and Discount Stores

	2011	2012	2013 (as of May)
Department Stores	24.0	25.3	10.6
Discount Stores	36.7	38.6	15.7

Unit: US\$ Billion

(US\$1=KW1,150)

Source: Statistics Korea

#### TV Home Shopping Networks

Soon after Korea's first Home shopping channel, "39 Home Shopping by CJ" aired in 1995, large Korean conglomerates moved quickly to launch their own TV home shopping networks here. In 2000, "39 home shopping" was re-named to "CJ Home Shopping" and the "Woori Home Shopping" network, which specialized in featuring small and medium size companies' products, was bought by Lotte in May, 2007. NS Home Shopping began as the only network that specialized in agricultural products and, to this date, they still require a certain percentage of its air time to feature agricultural products. While home shopping business in Korea is getting near saturation point, it is still expected to grow further as the major companies are beginning to offer a more diverse range of products and continue to upgrade their customer service. Some major companies have turned their sight abroad over the past few years, especially in Asia where the popularity of Korean pop culture is still going strong.

### Sales from Television Home Shopping Companies in Korea

Unit: US\$ Million, %

	GS (1994)	CJ O Shopping (1994)	Hyundai (2001)	Lotte (2001)	NS (2001)	Total
2010	483	180	339	457	248	1,707
	28.3	10.5	19.9	26.8	14.5	100%
2011	565	558	484	553	254	2,414
	23.4	23.1	20.0	23.0	10.5	100%
2012	617	692	489	582	268	2,648
	23.3	26.1	18.5	22.0	10.1	100%

(US\$1=KW1,150)

Source: The Yearbook of Retail Industry 2012/DART

Web-sites of Television Home Shopping Companies in Korea:

GS – <http://www.gsshop.com>

CJ – <http://www.cjmall.com>

Hyundai – <http://www.hyundaihmall.com>

Lotte – <http://www.lottemall.com>

NS – <http://nsmall.com>

- Online Shopping Malls

Korea is one of the most wired countries in the world with over 97% of households having access to broadband internet, according to recently updated statistics. The size of online shopping business is constantly growing, with off-line retailers tapping into online business to further escalate the market share. One noticeable trend is a recent increase in sales of daily necessities, such as bottled water, diapers, detergent and powdered milk, and it demonstrates that online shopping industry is benefiting from the accelerated government regulation imposed on large discount chains. Additionally, social commerce industry is expanding rapidly as a mainstream online shopping channel with a low entry barrier, but consumer complaints have been constantly on the rise and distrust have built up on diverse cases, which include refusal for refund, exaggeration of discount rates or sales, and selling fake luxury brand goods.

Additionally, Korean consumers, mostly in their 20s and 30s, are beginning to purchase U.S. items directly from its websites. For those companies that do not offer direct shipping to Korea, consumers can utilize a delivery agency in the U.S. that are operating warehouses across the states. The basic idea is that once a consumer places an order on the U.S. website, they put the U.S. address acquired by the delivery agency, and once a product arrives in a warehouse, these agencies conduct an inspection to make sure if there is any defects and damage to the item and ensure that the item gets safely delivered to Korea, and this process can ultimately decrease the risk of international delivery system as they act as a mediator from the beginning of the purchase to the end. KORUS FTA is reinforcing such phenomena even more as under the treaty, items in some categories can be exempted from duty if the price of the item cost under \$200 (plus delivery fee).

#### Sales from Online Shopping Malls

Unit: US\$ Million, %

Year	2006	2007	2008	2009	2010	2011	2012
Sales	7,204	8,701	10,488	12,178	14,748	16,513	19,244
Annual Growth Rate	40.1	20.8	20.6	16.1	21.1	12.0	16.6
Number of Online Shopping Malls	2,260	2,825	3,625	4,572	5,439	6,815	N/A

(US\$1=KW1,150)

Source: Statistics Korea

#### Top 10 Online Shopping Malls

Unit: US\$ Million, %

Name	Year of Establishment	Sales in 2012	Market Share in 2012	Website
GS Shop	2000	784	4.1	<a href="http://www.gsshop.com">http://www.gsshop.com</a>
CJ Mall	2001	744	3.9	<a href="http://cjmall.com">http://cjmall.com</a>
H Mall	2001	691	3.6	<a href="http://hyundaihmall.com">http://hyundaihmall.com</a>
Shinsegae Mall	1997	570	3.0	<a href="http://mall.shinsegae.com">http://mall.shinsegae.com</a>

NS Mall	2002	268	1.4	<a href="http://www.nsmall.com">http://www.nsmall.com</a>
Auction	2000	546	2.8	<a href="http://www.auction.co.kr">http://www.auction.co.kr</a>
G market				<a href="http://www.gmarket.co.kr">http://www.gmarket.co.kr</a>
Lotte.com	2000	816	4.2	<a href="http://www.lotte.com">http://www.lotte.com</a>
AK Mall	2009	390	2.0	<a href="http://www.akmall.com">http://www.akmall.com</a>
Interpark	2006	394	2.0	<a href="http://www.interpark.com">http://www.interpark.com</a>
Total Online Mall Market		19,244	Total Market Share of Top 10: 27.0	N/A

(US\$1=KW1,150)

Source: The Yearbook of Retail Industry 2012/DART

- Convenience Stores

Convenience stores in 2012 exhibited the highest growth rate among other retail players. One of the its driving forces has to be its low entry barrier that lures Korea's early retiree, as Korean workers face much early retirement than those of Western countries. The average capital needed to open a convenience store is approximately 20,000 USD and plus rental fee. Thus, some of those laid-off choose to run convenience stores or other similar service establishments due to its relatively low setting-up expenses. Such an outward trend of convenience store also originates from Korea's increasing number of single person's household and the intensified government regulation on big discount chains. While convenient store is also under the influence of the regulation, they are only restricted by the distance from other stores of the same brand. However, the convenience store market is becoming highly saturated with the average sales of individual stores declining in the past three years. In line with the revised Pharmaceutical Affairs Law, convenience store began selling over-the-counter (OTC) drugs since November 2012 as a part of its attempt to diversify its product categories.

### Opening Overview of Convenience Stores

Unit: US\$ Million, %

Ownership	Company	Number of Stores (as of 2013)	Sales		Market Share in 2011	Website
			2010	2011		
GS Retail Co., Ltd.	GS25	7,400	1,816	2,256	35.6	<a href="http://www.gsretail.co.kr">www.gsretail.co.kr</a>
Korea Seven Co., Ltd.	7-Eleven	7,270	847	1,176	18.5	<a href="http://www.7-eleven.co.kr">http://www.7-eleven.co.kr</a>
BGF Korea Co., Ltd.	CU	8,000	1,923	2,263	35.7	<a href="http://www.bgfcu.com">http://www.bgfcu.com</a>
Ministop Korea	Ministop	1,900	510	598	9.4	<a href="http://www.ministop.co.kr">http://www.ministop.co.kr</a>
C.SPACES Co., Ltd.	C-Space	112	49	48	0.8	<a href="http://cspace.co.kr">http://cspace.co.kr</a>
Total		24,682	5,145	6,341	100	N/A

(US\$1=KW1,150)

Source: The Yearbook of Retail Industry 2012

▪ Outlet Stores

As the number of Koreans who have traveled to western countries continues to grow, more and more consumers have become familiar with outlet stores that feature high end brands at discounted price. Apparel and fashion accessories, such as bags and shoes, make up the most of product category, and food products are rare to find, whereas house wares and interior design is becoming increasingly popular. Most of the fashion outlets are geared to liquidating older, discontinued, and past season stock. As Korea is continuing to struggle with the world economy crisis, consumers' change in perception towards 'value consumption' is furthering major retailers' outlet expansion, especially in the suburban area in which the real estate is less expensive. For example, Shinsegae Simon, a 50:50 joint venture between Shinsegae and U.S. commercial real estate company Simon Property, plans to increase the number of its suburban outlets to eight by 2020 including the existing two in Paju and Yeosu. The number of shoppers to suburban outlets has been showing two-digit growth every year and it is expected to grow even further whereas department stores are recording sluggish growth.

*Key Outlet Stores in Korea*

Ownership	Company	Number of Stores		Sales (US\$ Million) in 2011	Market Share (%) in 2011	Website
		2012	2013			
E-Land Retail	New Core Outlet	18	19	1,694	83.3	<a href="http://shop.newcore.co.kr">http://shop.newcore.co.kr</a>
	2001·Outlet	10	10			<a href="http://shop.2001outlet.com">http://shop.2001outlet.com</a>
Kyung Bang	Times Square	1	1	62	3.0	<a href="http://www.timesquare.co.kr">http://www.timesquare.co.kr</a>
Tonbo Allive Dept. Store	Allive Outlet	1	1	2	0.1	N/A
Savezone I&C	Save Zone	6	9	145	7.1	<a href="http://www.savezone.co.kr">http://www.savezone.co.kr</a>
Orange Factory	Orange Factory	26	43	81	4.0	<a href="http://www.orangefactory.com">http://www.orangefactory.com</a>
Shinsegae Simon	Premium Outlet	2	3	50	2.5	<a href="http://www.premiumoutlets.co.kr">http://www.premiumoutlets.co.kr</a>
Total		64	86	2,034	100	N/A

(US\$1=KW 1,150)

Source: The Yearbook of Retail Industry 2012

\*Note: 4 of Orange Factory outlets launched in 2008 are as shop-in-shop in Lotte Mart

- Drug Stores / Health & Beauty Stores

American style drug stores were not present in Korea until CJ opened its first Olive Young store in 1999. The market soon grew as other Korean conglomerates, such as Kolon and GS, entered the market. While drugstores in other countries are more like general stores that sell food, drugs and personal care goods, the ones in Korea mainly sell cosmetics. Boons by Shinsegae and Lohb's by Lotte entered the market after Olive Young, but for now it appears that they have failed to challenge the frontrunner and have postponed any further expansion upon unwelcome attention as exorbitant expansion by large companies is seen to hurt mom-and-pop stores. Café Bene, one of the biggest Korea-owned coffee franchising companies, launched its drugstore chain, called December 24, in mid-2012 and open the first stores in Seoul to jump into the booming market but they soon decided to withdraw from drugstore business only five months later as they failed to make headway in this saturated market.

**Overview of Health and Beauty Stores in Korea**

Unit: US\$ Million, %

Ownership	Company	Number of Stores (2012)	Number of Stores (as of 2013)	Sales in 2011	Market Share in 2011	Website
CJ Olive Young	Olive Young	191	339	184	71.6	<a href="http://www.oliveyoung.co.kr">http://www.oliveyoung.co.kr</a>
GS Watsons	GS Watsons	47	85	65	25.3	<a href="http://www.watsons.co.kr">http://www.watsons.co.kr</a>
Kolon Wellcare	W-store	86	120	8	3.1	<a href="http://www.wstore.co.kr">http://www.wstore.co.kr</a>
Total		324	544	257	100	N/A

(US\$1=KW1,150)

Source: The Yearbook of Retail Industry 2012

- Natural & Organic Specialty Stores

Although Pulmuone, the food and beverage company, launched a small natural & organic food store here in 1981, this industry sector was not actively recognized until early 2000, when the health and well-being trends really took off in Korea. Today, with more consumers focused on eating healthy food and living a healthy lifestyle, the trend has expanded to include other products, such as detergents, cosmetics, apparel, and other daily commodities. Despite a saturation of almost all retail channels in Korea, this sector is one of the few that promises further growth. Especially with the concerns over the safety of food coming in from China, more consumers are turning to natural and organically produced local food products, and food products take up 90% of shelf space in these specialty stores.

**Overview of Environmental Friendly / Organic / Natural Specialty Stores**

Unit: US\$ Million, %

Ownership	Company	Number of Stores (as of 2013)	Sales in 2010	Sales in 2011	Market Share in 2011	Website
Hansalim	Hansalim	158	130	41	20.5	<a href="http://www.hansalim.or.kr">http://www.hansalim.or.kr</a>
ORGA Whole Foods	ORGA Whole Foods	63	55	59	29.5	<a href="http://www.orga.co.kr">http://www.orga.co.kr</a>
The Chorokmaeul	The Chorokmaeul	335	85	100	50	<a href="http://www.choroc.com">http://www.choroc.com</a>
Total		556	270	200	100	N/A

((US\$1=KW1,150)

Source: The Yearbook of Retail Industry 2012/DART

- Duty Free Stores

Today, one out of four Koreans travel outside the country at least once a year. As a result, duty free stores have become very popular, as they feature products that are about 30% lower than department stores. As international travel was long considered a luxury lifestyle in Korea, these duty free stores tend to feature high end fashion and cosmetic brands, such as Chanel, Prada, Louis Vuitton, etc., and duty free stores add weight to the brand value as prestige products. Lotte is the strongest player in this market and their best sales generating stores can be found on top floors of Lotte Department stores.

### Overview of Duty Free Stores

Unit: US\$ Million, %

Ownership	Company	Number of Stores (as of 2013)	Sales in 2011	Sales in 2012	Market Share in 2012	Website
Lotte Hotel	Lotte Duty Free	12	2,367.7	2790.0	50.7	<a href="http://www.lottedfs.com">http://www.lottedfs.com</a>
Korea Tourism Organization	Duty Free Korea	5	196.1	231.1	4.2	N/A
Hotel Shilla	The Shilla Duty Free	7	1,326.3	1562.9	28.4	<a href="http://www.shilladfs.com">http://www.shilladfs.com</a>
Jeju Free Intl. City Development Center	JDC Duty Free	2	294.2	346.7	6.3	<a href="http://www.jdcdutyfree.com">http://www.jdcdutyfree.com</a>
Chosun Hotel	Shinsegae Duty Free	1	126.1	148.6	2.7	<a href="http://www.ssgdfs.com">http://www.ssgdfs.com</a>
Dongwha	Dongwha Duty Free Store	1	191.5	225.7	4.1	<a href="http://www.dutyfree24.com">http://www.dutyfree24.com</a>
Jeju Tourism Organization	Jeju Duty Free	1	37.4	44.0	0.8	<a href="http://www.jejudfs.com">http://www.jejudfs.com</a>
SK Networks	Walkerhill Duty Free	1	130.8	154.1	2.8	<a href="http://www.skdutyfree.com">http://www.skdutyfree.com</a>
Total		30	4670.1	5503.1	100	N/A

((US\$1=KW1,150)

Source: Korea Customs Service

\*Note: Shinsegae Duty Free has taken over former Paradise Duty Free as of December 2, 2012.

## Best Prospects

**DIY furniture:** In 2012, the size of products/furnishings purchased for the interior of homes in Korea was USD 2 billion. The DIY market was about USD 95 million (of that USD 2billion), which was a 25% increase from 2011. The number of DIY woodcraft stores grew at an extremely fast rate. However, Korea's furniture industry, especially the domestic players are on the brink of collapse due to a combination of factors. Leading furniture makers have seen their revenue deteriorate sharply over the past few years. Korea's real estate market is in slump and thus Koreans do not move as often as they used to and thus, do not buy as much furniture as before. Domestic furniture companies have lost price competitiveness as a result of surging labor, land and other operational costs, paving the way for cheaper foreign furniture makers to make inroads into this market as it is challenging for local firms to compete with cheaper furniture from China and Southeast Asia. Also, domestic producers have not made sufficient investment over the years to improve their design skills, and this is why U.S. DIY manufacturers hold potential as their designs can certainly carry distinctive competitiveness edge compared to the domestic ones at a more reasonable price. Domestic makers import particle boards to produce finished furniture products and pay 8 percent tariffs, whereas some foreign producers will not pay any import duties when bringing its finished goods into the country. IKEA, the world's large seller of ready-to assemble furniture and home accessories from Sweden, bought 78,198 square meters of land for 234.6 billion won (\$200 million) from Gwangmyeong City in 2011 and was recently granted an approval to open the first store. IKEA's advance into this market is expected to reshape the industrial landscape, and Korea may develop a major DIY culture for the coming years.

**Organic Products:** As more and more consumers are becoming sophisticated on what they consume and put on their body, the demand for organic food and non-food products has grown to be about USD 3.2 billion in 2012. With this demand, a new form of retailers has emerged – organic specialty stores. At first, with the desire to consume healthy food and be healthy, the demand for organic products was limited to agricultural products. However, starting late 2004, a wide range of organic products began to spread among trendy professional women and housewives, such as organic personal care products, laundry and washing detergents, and even pet food products. CS Korea has received inquiries from U.S. detergent manufacturers wanting to expand into this market for the past couple of years but we have only discovered that it is difficult to penetrate the over-saturated market unless the product is organic or holds high brand awareness. Capitalizing on this trend, many organic specialty stores that previously focused on agricultural product began expanding their product lines to include organic personal care, organic supplements, organic cotton, natural detergents, and more. Furthermore, organic personal care products can now be found in department stores, online malls, health and beauty stores, and on TV home shopping channels.

**Senior Citizen Products:** Korea is an aging society. The elderly population was approximately 5.8 million, or 11.8 per cent of the whole population in 2012. The number of senior patients diagnosed with Alzheimer's disease is also increasing annually, and some reports say that about 10 percent of the whole senior population aged over 65 suffers from the disease, and 30 percent of the whole population for those who are aged over 80. However, Korean families are shifting more toward "nuclear families" and away from "extended families," and that is driving demand for various products designed to aid senior citizens lead independent lives. Products like nutritional supplements, medical insurance packages, senior travel packages, and other commodities that focus on reducing the burden of performing daily house chores are now common on TV home shopping channels and online malls. Beauty care products as well as fashion items designed for senior citizens also hold great potential. Also, as this market segment is relatively at an early stage, many importers are sourcing goods from outside country, Japan, with its longer focus on its own significant senior citizen population, is gaining an increasing share of products designed to meet the needs of Asian seniors. As Korean society ages and with Koreans' "Hyo" (filial piety) rooted deeply in their minds, this market segment was named as one of the "Blue Ocean markets" by industry experts.

## Key Suppliers

Suppliers of products vary by retail channel, as each retail channel is unique in products they feature. To receive a customized list of suppliers in different product categories, please contact Maria Galindo at [maria.galindo@trade.gov](mailto:maria.galindo@trade.gov)

## Prospective Buyers

This is the age group of actual purchasers at different retail channels:

- Department Stores: Major customers are in their 50s and up
- Discount Stores: Mostly families in 30s and 40s
- TV Home Shopping Channels: Housewives in their 30s and 40s
- Online Malls: Teens to 30s
- Convenient Stores: Students and business people in their 20s and 30s
- Outlets: Teens to 30s shopping for fashion items
- Health & Beauty Stores: 20s and 30s
- Environmental Friendly / Natural & Organic Specialty Stores: Housewives in their 30s and up
- Duty Free Stores: 20s and up

## Market Entry

Most Korean store retailers normally do not source products directly from U.S. exporters. Instead, they act as a landlord, renting its space to brand owners and importers, and receiving monthly commissions based on sales, which runs between 25 – 35%, depending on the product category and brand. On top of this monthly commission, tenants are required to submit additional payment on seasonal basis as marketing cost and fund monthly marketing plans to draw more customers to the retailers. In cases where dedicated sales staff persons are required, some retailers, such as department stores, discount stores, outlets and duty free stores, often pass on all related costs including training, uniforms, and payroll, to the brand operator.

As you can imagine, these hurdles are very burdensome to importers and brands operators in terms of cost and resources, making it impossible for smaller companies to feature their products in offline stores. Another major obstacle for smaller companies is that department stores will often not extend space to brands that lack international recognition or those brands that are also sold in discount stores or online malls, as department stores prefer to set a clear distinction on the products they carry from other retailers.

Thus, one common way for smaller brands to put their feet in large retailers, such as department stores, discount stores, and duty free stores, is to work with a distributor who serves the role of a “vendor.” These vendors will have obtained a certain reserved space in the retailers, for instance, a corner stall on the personal care products floor of a department store, and will work with a number of brand owners to fill the space and form a multi-brand shop. The vendor also places direct-hire sales staff, with their own uniform, in the section, to eliminate the burden of having to hire and train sales staff for smaller companies. In this case, the monthly commission is higher, as it needs to cover both the retailer and the vendor, but some brand operating companies have no choice but to use this method to avoid the issues related to hiring and maintaining full-time sales staff.

Due to the high cost of commission, and the extra layers of distribution that often is applied in featuring products in offline retailers, it is important to keep this in mind when negotiating export pricing structure with Korean importers.

## Market Issues & Obstacles

The diversity of product lines offered by the various retailers in Korea makes it difficult to pinpoint market issues. Thus, the following is focused on the best prospects identified above:

**Organic Products:** Korean consumers are hardly able to distinguish the difference between 'naturally' and 'organically' made products because there is yet no official entity that governs and grants organic certification in Korea. This can be a major hurdle for U.S. products that are USDA certified as they not only need to market their product but also educate Korean consumers on how organic and trustworthy their product is. U.S. companies need to compete with locally made products that claim to be 'organic' even when the product actually contains only 10% of organic ingredients.

**DIY Furniture:** Some skeptics assert that DIY culture is not still major in Asia. In 1986, when IKEA first entered the Japanese market they didn't understand the Asian culture and nearly failed. They didn't provide assembly services. In China, IKEA began to provide delivery and assembly service to localize its market strategy. IKEA is entering the Korean market in 2014 and is also expected to tweak its strategy in a similar fashion.

**Senior Citizen Products:** As for senior citizen products, the biggest challenge is that there isn't any large offline retailer that is specialized in such product categories so many such products are sold via online malls. Since many senior citizens do not use the internet, they are largely dependent on others to handle the online ordering process. Japanese products are the main competitor for U.S. senior products industry. Japan, which has a greater number of seniors in society than Korea, is often perceived to have products specifically designed for the needs of Asian seniors.

## Trade Events

CS Korea regularly supports US exporters to visit and/or exhibit in the many trade events around Korea. Most shows of note are concentrated in Seoul. Our office is offering special Group Gold Key Programs for companies interested in participating in these events. Please contact Maria Galindo at [maria.galindo@trade.gov](mailto:maria.galindo@trade.gov) should you be interested in benefitting from our customized services during any of these events.

Name: Imported Goods Fair 2014

Date: TBA

Venue: COEX

Organizer: Korea Importers Association

Exhibits: Food & beverage, children's items, home decoration, bathroom supplies, jewelry & accessories, sports & leisure items, electric & electronic appliances, vehicles, tools, daily necessities, trade & travel service

Website: <http://www.igf.co.kr/eng/main/index.asp>

Name: 2014 Seoul Gift Show

Date: TBA

Venue: COEX

Organizer: Korea Federation of Handicrafts Cooperatives

Exhibits: Gifts, handicrafts & decorative products, kitchen & tableware, fashion accessories, beauty supplies, smartphone accessories, pregnancy & childbirth & kids supplies, general merchandise, etc.

Website: [http://www.seoulgiftshow.com/index\\_e\\_2013.html](http://www.seoulgiftshow.com/index_e_2013.html)

## Resources & Key Contacts

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