

EXPORTER BUSINESS TIPS

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A. Where to Start

Market Research:

The first step recommended for new-to-market American suppliers is preliminary research to determine if there is a potential market for its product in Korea. The research should cover key issues including consumption trends, size of the market (imports), major distribution channels, current import tariffs and local taxes, and Korean government regulations and standards. The research, together with consultations with partner Korean importers down the road, should help the supplier to tell if any modifications to the existing product would be needed to meet the demand and regulations in Korea. The Foreign Agricultural Service (FAS) under the United States Department of Agriculture (USDA) is a useful source of information and resources available to the supplier. In particular, the Attaché reports for Korea that cover various products and industries are available on the FAS website (www.fas.usda.gov). Offices in Korea under USDA/FAS can also provide the supplier with catered assistance for both market intelligence as well as links to other relevant sources of support (please see Section VII of this report for contact information). Additionally, the United States Department of Commerce is another important source of information for non-agricultural products. In particular, the “Country Commercial Guide” published by the department includes a wide range of useful information (the supplier should register for access to the guide at: www.buyusa.gov/korea/en/).

Establishing Korean Partners:

While executing the preliminary market research, the supplier is recommended to develop dialogues with potential business partners (importers) in Korea. Lists of Korean importers by product or by industry are available from the USDA/FAS offices in Korea. The lists are based on the offices' own contact database as well as the Korea Trade Information Service (KOTIS) database updated by the Korea International Trade Association (KITA). Korean importers in general are seeking new business opportunities with foreign suppliers and would be willing to provide in-depth market intelligence if they are interested in the supplier's product or business offers.

An effective tool for developing contacts with Korean importers is exhibiting in established food trade shows. Korean business people place high value on personal interaction when developing business with new foreign suppliers. In particular, the Seoul Food & Hotel, the only show officially endorsed by USDA/FAS in Korea, has been an outstanding venue for new-to-market American suppliers to meet with a large number of key importers and distributors in Korea. Registration information to join the U.S. Pavilion of the show is available from the organizer (www.seoulfoodnhotel.co.kr, E-mail: rhoad@oakoverseas.com). Other international food trade shows that attract a sizable number of Korean food importers include FoodEx Japan (www3.jma.or.jp/foodex/en/), FMI Show (www.fmi.org), National Restaurant Show (<http://show.restaurant.org>), SIAL Show France (www.sialparis.com), and ANUGA Show Germany (www.anuga.com).

Another tool recommended is joining official trade delegations to Korea organized by various American agricultural export promotion organizations, such as Strategic Trade Regional Groups (STRG, e.g., Food Export Association of the Midwest USA), State Departments of Agriculture, and USDA Cooperators (e.g. U.S. Dairy Export Council). Some of the states and USDA cooperators maintain representative offices or contractors in Korea. Contact information of these organizations is available from USDA/FAS Korean offices.

Korea has well established regulations and procedures on food imports, as well as complex tariff and tax codes, which often make the entry of a new-to-market product time and resource consuming process. Working with reputable importers is the approach that has been proven most efficient to overcome these barriers. Established importers are well aware of market demand/supply intelligence, local business laws and practices, distribution channels, and most of all are the best source for up-to-date government regulations on imported foods.

As the dialogue develops further and the potential business partner is narrowed down, the supplier would be asked to submit product sample and preliminary price offer. Sample products shipped to Korea are subject to the same local regulations and import inspections, and therefore should allow the supplier and the importer to check if the product meets local standards. It also helps verify the Harmonized Tariff (HS) Code (and subject import duties) that the product is classified by the Korean authority.

Once the test sample shipment finds no issue against local regulations, and an agreement on price and transaction terms is reached, both parties would move forward to sign a contract for actual business. Letter of credit (L/C) is the most common and recommended payment terms used between new business partners. The type of business relationship agreed between the U.S.

exporter and the Korean importer may vary from a market exclusive, long-term business agreement to a non-binding, one-time purchase order mainly depending on how the exporter sees the role of the import partner in market development. The most common practice is maintaining a non-binding seller-buyer relationship during the test-market period and then upgrading to a more binding option if the partner shows bigger potential. It is also recommended that the contract include an agreement on the method of resolution for any trade dispute that may arise from the transaction.

Meeting Local Tastes:

One of the common mistakes that new-to-market American suppliers often make is viewing Koreans as the same category of consumers in the neighboring countries, Japan and China. Although it is true that people in these three far eastern Asian countries share some parts of their histories and cultures, Koreans' tastes for foods are different in many ways from the neighbors. Consequently, products that are catered to the taste of Korean consumers will have higher chance of making a successful entry into Korea. Personal visits to Korea should be the best way to develop understanding about the local taste. Information gathering through Internet or associating with Korean American communities in the states could also be an efficient tool.

Meeting local tastes could mean anything from modifying package design to reformulating the recipe. Package design, in particular, is a very important factor in Korea, and exporters should consider developing a new design that can better attract Korean consumers. Although many Koreans can read English, adding Korean language on the label can significantly improve the level of exposure on the shelf. Another noteworthy issue in packaging is the separate Korean language label required on imported products. This added stick-on label can detract from the appearance of the product. Exporters should discuss the design of the Korean language label with the importer for a better look. Korean language label is in general designed and printed by the importer and hand-attached to the product in the duty free warehouse at the port of entry before the customs inspection.

B. Local Business Customs & Practices

Korea is a country of tradition. While Korean importers understand international business customs and practices, paying attention to cultural differences and localities in the way of thinking will facilitate building a trusted business relationship. The following are some business tips that American suppliers should keep in mind when dealing with Korean businessmen.

Initial Communication:

Partly because of the strong influence of Confucianism philosophy running through the society, Koreans try to be formal when they develop a contact with new people. As such, cold calling (or cold e-mailing) could be problematic in Korea. Koreans would take extra steps or efforts to make the initial communication as formal as possible. For example, e-mails or letters would include unnecessary 'protocol' information, such as lengthy greetings or elaborated introduction about the person in charge, less critical to the business subject. Initial communication may not be considered official or meaningful unless done in a formal way (e.g., use of official letterheads or seals) or by a proper person in charge. Communication exchanged between the working level staffs may not take effect until the senior level staff are introduced to the discussion later and

give reconfirmation on the preliminary agreement already made. Therefore, the American supplier should try to match the formality of the Korean counterpart particularly during the initial stage of contact. As a result, progress of the initial communication could be slow.

Relationship Building & Social Networking:

Koreans put high value on personal interactions when developing new relationship, so they prefer to deal face-to-face. The American supplier may see little progress in negotiation until there is a face-to-face encounter made with the Korean counterpart. As a tool to supplement the personal interaction, Koreans seek introductions or comments by mutually connected third parties. Koreans love socializing and participate actively in various bodies of social media such as religious organizations, school alumni groups, political parties, and birth place associations. Any of these bodies of social network can help the American supplier develop and expand relationships in Korea. It is notable that many Koreans are also actively engaging in on-line social network media such as Blogs, Internet Cafes and Communities, Facebook, and Twitter.

Language:

Although English is the most common foreign language used in Korea and is officially taught in public schools, many Koreans find it difficult to communicate in English. Therefore, the American supplier should be very careful when writing or talking to the Korean counterpart in English. For every communication, try to use plain words, make the sentences as simple and clear as possible, avoid using slangs or trendy expressions, and ask for confirmation that the Korean counterpart has fully understood the idea. When corresponding through written communication, start with words of appreciation, clearly mark the recipient's name, title, and division (as many Koreans have the same last name), indicate a reasonable time frame for a response, and close with additional words of appreciation. By cultural nature, Koreans rarely say, "no" directly. Instead they often say the issue is "difficult." If there is anything unclear or confusing, it is best to ask directly and clearly what additional information or explanation is needed. When there is no satisfying reply, there is nothing wrong with politely asking again.

Name Cards:

Exchange of name cards is usually the first item of business expected at the very beginning of a face-to-face encounter. In Korea, people seldom call others by their first names. Instead, they use surnames (such as Mr. Lee) or title and surname together (such as President Lee). Never use a first name unless the person specifically asks to be called by his/her first name. Having the back side of a business card translated and printed in Korean should help the Korean recipient better understand and remember you. One thing to note is that Koreans put their surnames ahead of first names when they write their names in Korean. For example, in a Korean name 'Hong Gil-Dong', the surname is 'Hong'. Korean names are difficult for Westerners to tell if the contact is a male or a female. Title of job is much diversified in a Korean organization, so the title of job on a Korean business card could be misleading as there could be limited matching titles in an American organization (for example, 'Manager of Sales Department' title on a Korean business card could mean 'Sales Executive' up to 'Vice President of Sales' in an American company).

Meetings:

Clearly defined and listed agenda provided in advance helps the meeting stay focused and generate successful outcomes. It is likely that the meeting will include a senior staff member who speaks little English, so usually a designated junior staff member of the Korean company translates on behalf of the Korean party. However, regardless of the fluency of the translator from the Korean side, the American supplier should be prepared to provide all materials in writing. For important meetings, the American supplier should also consider hiring a professional interpreter to avoid confusion or misunderstanding. Take time before the meeting to ensure that your interpreter is familiar with the terms that you will use. Small talk is a good way to break the ice at the beginning of a meeting. Pay attention to the seating arrangement - usually the most senior staff member will sit at the head of the table. Allow the Korean party to talk enough before giving your reply, but it should not be seen impolite to stop the talk and ask for clarification or further information.

Evening Gatherings:

Korean businessmen often gather after work over dinner and drinks not only for socialization but also for business. As an old Korean saying goes, “real businesses develop in (unofficial) evening gatherings after work”, Korean businessmen tend to extend the official talk started during the work hour into the dinner or even to a late evening ‘drinking gathering’ following the dinner particularly when they want to make significant progress in the negotiation. Therefore, American suppliers are encouraged to actively participate in evening gatherings especially when dealing with the older generation Korean businessmen. Although Koreans are wary of people who refuse to drink or who drink moderately, foreigners are given some flexibility especially if you explain that you have health or religious reasons for abstaining. A useful, cultural point to note in this situation is that it is impolite to pour one's own drink. As such, participants should not be bashful about pouring for others in the table.

Dress Code:

Koreans take first impression from the look of a person very importantly. It is recommended to wear a business suit and tie when meeting or visiting Korean importers for the first time regardless of the weather (in the heat of summer most Koreans do not wear a tie) unless you intend to deliver a specific idea by wearing special attire.

Resolving Conflicts:

Koreans do not like to appear "lost face" when dealing with conflicts. Therefore, even a small concession offered by the American supplier will help resolve the conflict more quickly. Visible anger is not useful in a confrontation. Instead, silence is a more effective method of conveying displeasure. Apologizing can also be useful and does not always mean that you feel you were wrong. Lastly, never point your criticism directly at one specific person, but try to share the issue with the entire group of staffs involved in the Korean company. Law suits are very expensive and time consuming way to resolve conflicts. Therefore, it is always recommended to include an alternative measure in the contract how potential business disputes would be resolved. The following is a clause often used by the Korean traders - “All disputes related to this contract shall be finally settled by arbitration in the country of the respondent. In case the respondent is a Korean importer, the arbitration shall be held at the Korean Commercial Arbitration Board. In case the respondent is an American supplier, the arbitration shall be held at an American commercial arbitration association.” The internet home-page of the Korean

Commercial Arbitration Board contains some useful information:
http://www.kcab.or.kr/servlet/kcab_adm/memberauth/5000

C. General Consumer Tastes and Trends

Represented by steamed rice, Kimchi (fermented cabbage), and Bulgogi (marinated beef), traditional Korean cuisine is still the mainstream of the Korean diet. However, globalization of the market and change of consumer lifestyle have made today’s Korean diet quite different from what it was 5 years ago. Like consumers in developed countries everywhere, Koreans are looking for new taste, better value, convenience, high quality, and most of all, safe and healthy products in their daily diet.

Due in part to the aging population, there is a heavy emphasis among the general public on healthy eating, which is interpreted into a strong demand for organic and functional foods. In particular, 'Well-being', a theme that has evoked new consumer movement of seeking both physical and psychological health by adopting more wholesome way of life, remains one of the most influential ideas in the market. As an old Korean proverb "food and medicine are from the same source" says, Korean's long-held belief in health-improving efficacy of foods still prevails and contributes to the on-going popularity of functional foods as well as regular foods that target specific health concerns.

It is important to note that Korean consumers are extremely sensitive to food safety issues as they have been exposed to many big and small food safety scandals over the years, including BSE, Avian Influenza, GMO, and Melamine risk from Chinese processed foods. Internet has become a handy source of food safety information for many Koreans in spite of the fact that it is often misleading. Food safety issues of any magnitude can potentially develop into a “food scare” rumor on the Internet and have a detrimental impact on the reputation and sales of the associated products over night. Korean consumers’ general preference for national brand products is partly rooted in concerns for food safety.

Table 3: Aging Korean Population (unit: 1,000 people)

Age Group	1995		2010 (Estimate)		Growth
	Number	Share	Number	Share	
0-14	10,236	23.0 %	7,907	16.2%	-22.7 %
15-64	31,678	71.1 %	35,611	72.9%	12.4 %
65 +	2,640	5.9 %	5,357	11.0%	102.9 %

Source: Korea Statistics Office

Improved economic conditions allow Korean consumers to pay more attention to quality and diversity in diet. In particular, better-traveled young consumers, many of whom are educated in foreign countries, are ushering more international products and food culture into the market. While Japan served for many years as a reference market for Koreans to monitor and adopt new foreign food culture, today’s Korean consumers are tracking more diverse international markets, including California, New York, and Paris, for new foreign food ideas and trends. However, at the same time, the call for better value is also emphasized in the market

mainly due to the on-going retirement of the Korean baby boomer generation as well as the slow-down of the local economy under recent global financial crisis.

Convenience is a strong driving force behind many consumer trends as everyday life of Koreans gets busier. For example, rapid increase of dual-income families and single parent households has led to a growing demand for Home Meal Replacement (HMR) products in retail stores as well as for quick service restaurants. Delivery service is extremely well developed in Korea as people do not want to waste time in traffic. Rapid growth of on-line shopping is also rooted partly in the demand for convenience (of course, high real estate cost is another factor that drives stores to go into 'cyber space').