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Agri-Food Canada

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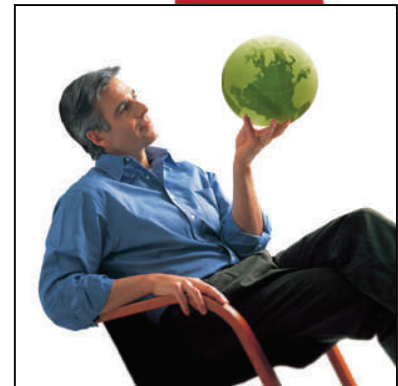
Packaged Food in South Korea



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▶ **EXECUTIVE SUMMARY**

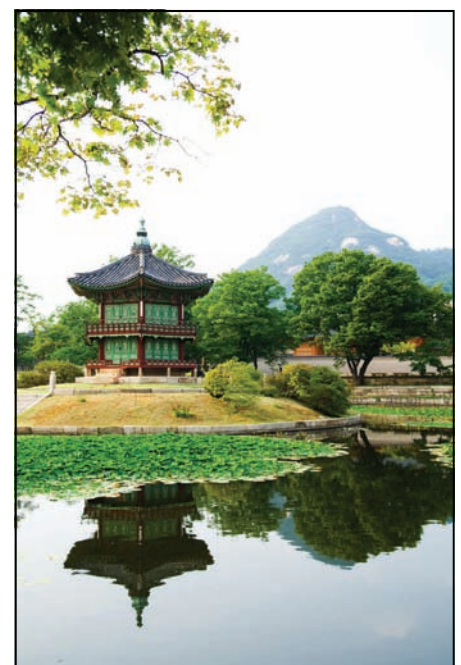
South Korea's packaged food market is ranked 15th largest in the world, with a value of US\$20.0 billion in 2010. Rising incomes have driven market growth and pushed consumer agri-food imports to US\$5.7 billion. At the same time, consumer demand has evolved with recent socioeconomic changes. An aging population, growing income disparity, and busier lifestyles have generated interest in health and wellness and convenience-oriented food products. These developments have fostered the trends of product premiumization and value consciousness.

The packaged food market is fairly concentrated, with major South Korean manufacturers controlling significant portions of their respective subsectors. The retail sector that imports and distributes packaged food is similarly concentrated. Hypermarkets and supermarkets distribute the vast majority of packaged food and compete against brand names with their own private labels. Canadian firms thus face entry barriers, but also have opportunities to supply distributors and capitalize on present market trends.

Despite the considerable growth in this market, Canadian exports have fallen in recent years. Competitors, especially the United States and Brazil, are increasingly gaining market share. However, Canada remains the eighth-largest processed food exporter to South Korea, and key exports include meat, cereals, and fish and seafood. Canada is currently in free trade negotiations with South Korea.

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▶ **COUNTRY PROFILE**



▶ **Geography**

South Korea is centrally located in Eastern Asia, bordered by North Korea and surrounded by China and Japan. As the southern half of the Korean Peninsula, it is enclosed by the Yellow Sea, the Sea of Japan, and the Korea Strait. It is near Asia’s largest ports, including Shanghai, Shenzhen, Kaohsiung, and Nagoya.

The physical landscape is largely mountainous and inadequate for agricultural self-sufficiency. Mountains and hills constitute the terrain in the north and the east, while coastal plains characterize the west and the south. Despite a temperate climate and ample rainfall, there is little arable land for food production. Key natural resources include coal, lead, graphite, and tungsten.

▶ **Demographics**

South Korea’s population totals 48.6 million people, and is aging due to a number of factors. Between 2000 and 2010, the mean age of the population rose from 32.5 years to 37.9 years, and life expectancy increased from 75.9 years to 80.2 years. There has likewise been a demographic shift as the proportion of the population under age 40 declines, while those middle-aged and older increases (Table 1). The proportion aged 65 and older also increased from 7.3% to 10.2%, while the proportion below age 14 fell from 18.4% to 15.2%. As a whole, South Korea has the lowest birth rate in the world and fertility rates continue to decline.

Table 1: Population Distribution by Age Group, in Thousands

Age Group	Population		Age Group Share	
	2000	2010	2000	2010
Babies and Infants (0-4)	1,816	1,671	4.0%	3.5%
Kids (5-9)	4,093	3,329	8.9%	6.9%
Tweens (10-14)	2,513	2,336	5.5%	4.8%
Teens (15-19)	4,908	4,685	10.7%	9.7%
Twenties (20-29)	7,945	6,623	17.3%	13.7%
Thirties (30-39)	8,280	7,848	18.0%	16.2%
Middle-Aged (40-64)	13,056	16,999	28.4%	35.1%
Seniors (65+)	3,374	4,928	7.3%	10.2%

Source: Euromonitor International

Table 2: Most Populous Cities in South Korea, 2010

Rank	City	Population	Region
1	Seoul	9,878,100	Sudogwon
2	Busan	3,453,800	Yeongnam
3	Incheon	2,574,100	Sudogwon
4	Daegu	2,465,100	Yeongnam
5	Daejeon	1,503,200	Hoseo
6	Gwangju	1,469,800	Honam
7	Suwon	1,107,200	Sudogwon
8	Ulsan	1,079,800	Yeongnam
9	Seongnam	952,800	Sudogwon
10	Changwon	925,500	Gyeonggi

Source: Euromonitor International

The population is highly urbanized, with more than 80% of South Koreans living in major cities. There are eight cities with over one million inhabitants (Table 2). The special region, Seoul National Capital Area, has 25 million people alone, and serves as the industrial centre of the country. Many of South Korea’s largest cities line the eastern and southern coasts.



▶ COUNTRY PROFILE (CONTINUED)

▶ *Economy*

South Korea's economy is the thirteenth-largest in the world, with a gross domestic product (GDP) of US\$1,015 billion in 2010 (Table 3). Its growth relies heavily on manufacturing exports, which account for one-third of GDP. Major industries include electronics, telecommunications, automobiles, steel, chemicals, and ship-building. The labour force has 25 million workers, with a low unemployment rate of 3.7% in 2010. Inflation remains stable at 3.0%. A recovery has been underway since the global economic downturn of 2008 and 2009, but slower-than-expected growth could hurt consumer confidence.

Table 3: Economic Indicators in US\$ billions

Indicator	2010
GDP	1,014.8
Exports	464.3
Imports	422.4
Trade Balance	41.8
Labour Force (millions)	24.9
Unemployment Rate	3.7%
Inflation Rate	3.0%

Source: Euromonitor International

In 2010, food inflation was 11.6%, the highest of any country in the Organisation for Economic Cooperation and Development (OECD). This was due to rising international food commodity prices, domestic shortages, and an outbreak of foot-and-mouth disease. The South Korean government has announced it will increase the supply of vegetables, meat, and seafood to keep prices stable.

▶ CONSUMER PROFILE

▶ *Income*

South Koreans have rising incomes but also face increasing costs of living. Per capita disposable income rose 35.3% from US\$9,574 in 2000 to US\$12,955 in 2010, and household disposable income increased 11.2% from US\$31,447 to US\$34,955. There are now more upper and upper-middle class households than ever before. However, the household cost of living rose by 6.8% to reach US\$28,567. Income is increasingly spent on housing, communications, and alcoholic beverages and tobacco. Household debt has similarly reached record levels, due in large part to higher housing costs.

▶ *Households*

Overall, household size is on the decline in South Korea. An increasing number of people live alone, and fewer couples are having children (Table 4). Between 2000 and 2010, single-person households increased by 38.8%, reflecting the trends of later marriage and rising divorce rates. In addition, couples are delaying child-rearing, and the number of empty nesters (couples whose children have moved out) is rising.

Table 4: South Korean Households, in Thousands

Household Type	Households		Household Share		Growth 2000-10
	2000	2010	2000	2010	
Single Person	2,450	3,401	15.5%	18.5%	38.8%
Single-Parent Family	1,047	1,142	6.6%	6.2%	9.1%
Couple Without Children	2,306	3,514	14.6%	19.2%	52.4%
Couple With Children	7,665	8,663	48.6%	47.2%	13.0%
Others	2,297	1,618	14.6%	8.8%	-29.6%
Total	15,765	18,338	100.0%	100.0%	16.3%

Source: Euromonitor International



▶ CONSUMER PROFILE (CONTINUED)

▶ Health

Health awareness is growing, as aging South Koreans are keen to pursue longevity. Consumers have become increasingly cognizant of the importance of exercise, as well as the risks associated with diseases and rising obesity rates. Between 2000 and 2010, the obesity rate rose from 2.9% to 11.4%, while the overweight proportion of the population reached 39.8%. In addition, health expenditure tripled to US\$1,350 per capita. Recent incidents involving food contamination have drawn further attention to the safety and quality of food.

▶ Food Expenditure

South Koreans are spending more on food, with food representing 14.2% of total consumer spending. From 2005 to 2010, food expenditure grew by 11.1% to reach US\$73.3 billion (Table 5). This came largely from the increased consumption of bread and cereals, meat, vegetables, and fruit – which account for a combined 59.5% of food expenditure. In the coming years, food expenditure is expected to grow by 17.5%, with the largest gains coming from fruits and vegetables.

Table 5: Consumer Expenditure on Food in US\$ millions

Segment	Expenditure		% Growth	
	Value	Share	2005-2010 Total	2010-2015 Total
Bread and Cereals	12,000	16.4%	8.5%	8.1%
Meat	11,135	15.2%	8.7%	14.0%
Vegetables	10,851	14.8%	10.8%	21.1%
Fruit	9,675	13.2%	17.5%	20.5%
Fish and Seafood	8,327	11.4%	5.9%	11.2%
Milk, Cheese and Eggs	6,462	8.8%	17.7%	20.3%
Sugar and Confectionery	6,078	8.3%	11.8%	26.1%
Oils and Fats	4,739	6.5%	11.0%	18.0%
Other Food	4,071	5.5%	13.3%	32.8%
Total	73,339	100.0%	11.1%	17.5%



Source: Euromonitor International

▶ CONSUMER TRENDS

▶ Convenience

Time constraints are driving the demand for convenience products and more timely ways of shopping. The increase in single-person households, the rising number of women in the workforce, and longer work commutes have reduced the time available for grocery shopping and home meal preparation. Convenience foods in smaller packages, such as ready-meals and instant noodles, have gained popularity. Moreover, this trend has stimulated the growth of one-stop shopping at hypermarkets, and has spurred internet retailing.

▶ Health and Wellness

Increased health awareness has generated demand for health food. South Koreans have shown interest in foods made with natural ingredients, fewer preservatives, and an absence of monosodium glutamate (MSG). There has been a shift toward chilled processed foods, as they are perceived to be fresher than frozen and dehydrated foods. South Koreans have also gravitated toward organic and domestically produced food, and have demonstrated a willingness to pay more for higher quality.

▶ **CONSUMER TRENDS (CONTINUED)**



▶ **Consumption Polarization**

Income disparity among households has influenced the recent consumption patterns of product premiumization and value consciousness. In general, households without children have more disposable income per member than households with children. As such, they have a willingness to pay more for health, convenience, and quality. Indeed, households with children are more price-sensitive, thus contributing to the emergence of private label products.

▶ **Product Innovation**

Packaged food innovation reflects the trends described above. Of the 2,759 new product launches between 2000 and 2010 in South Korea, 1,568 (56.8%) had natural/health claims and 981 (35.6%) had convenience claims (Tables 6 and 7). Products under the “demographic” category largely represented products aimed at children, the health-conscious, and premium buyers. Popular demand grew quickly, as the number of launches in 2010 was much larger than the number in 2005.

Table 6: Product Launches of Packaged Food by Claim Category

Claim Category	Total Launches 2000-2010	Share of Total	Launches	
			2005	2010
Natural	1,568	56.8%	47	439
Demographic	1,049	38.0%	55	266
Convenience	981	35.6%	39	317
Functional	434	15.7%	27	214
Ethical and Environmental	138	5.0%	2	48

Source: Mintel

Table 7: Product Launches of Packaged Food by Top Ten Claims

Claim Category	Total Launches 2000-2010	Share of Total	Launches	
			2005	2010
No Additives/Preservatives	1,070	38.8%	25	316
Vitamin/Mineral Fortified	771	27.9%	77	84
Premium	680	24.6%	26	185
Children (5-12)	613	22.2%	43	119
Microwaveable	555	20.1%	37	160
Added Calcium	405	14.7%	33	32
Organic	321	11.6%	13	79
Low/Reduced Sugar	312	11.3%	26	58
Time/Speed	227	8.2%	0	69
Digestive	157	5.7%	11	88

Source: Mintel



Source: Mintel

▶ MAJOR SUBSECTORS



▶ Overview

South Korea is the fifteenth-largest packaged food market in the world. The nutritional food and staples category accounts for over half of this sector, while impulse and indulgence food makes up over one quarter (Table 8). In recent years, price competition and reduced demand have cut sales by 4.3%. Between 2010 and 2015, this sector will likely experience further downward pressure on prices, as sales growth is forecast to be negative despite volume gains. Meal solutions is the only subsector expected to grow in both sales and volume.

Table 8: Sales of Packaged Food, in US\$ millions and % Growth

Subsector	Sales 2010		Value Growth		Volume Growth	
	Value	Share	2005-2010 Total	2010-2015 Total	2005-2010 Total	2010-2015 Total
Nutritional Food and Staples	11,491.3	54.0%	-7.4%	-4.1%	-7.2%	-0.3%
Impulse and Indulgence Food	5,849.5	27.5%	-2.4%	-0.5%	3.6%	4.8%
Meal Solutions	3,942.2	18.5%	2.7%	5.6%	6.9%	10.8%
Total	21,283.0	100.0%	-4.3%	-1.3%	-4.4%	1.7%

Source: Euromonitor International



▶ Nutritional Food and Staples

Valued at US\$11.5 billion in 2010, nutritional food and staples is the largest subsector, with dairy, rice, and noodles as its major segments (Table 9). Sales shrank by 7.4% between 2005 and 2010, especially in rice and baby food. The reduction in the child population and the growth of smaller households will likely lead to further decline in dairy and baby food sales. Despite government promotion of rice-based products (rice chips and rice bread, for example), the demand for rice is diminishing, as South Koreans have recently shown greater interest in Western cuisine. Meal replacement products is the segment with the highest sales growth forecast.

Source: Shutterstock

Table 9: Sales of Nutritional Food and Staples by Segment, in US\$ millions and % Growth

Segment	Sales 2010		Value Growth		Volume Growth	
	Value	Share	2005-2010 Total	2010-2015 Total	2005-2010 Total	2010-2015 Total
Dairy	4,459.2	38.8%	-3.7%	-0.5%	-5.6%	1.8%
Rice	3,135.7	27.3%	-24.5%	-20.6%	-14.1%	-7.3%
Noodles	2,138.5	18.6%	5.9%	2.1%	15.0%	13.2%
Oils and Fats	672.7	5.9%	7.4%	12.7%	12.0%	19.4%
Baby Food	523.8	4.6%	-10.4%	-7.3%	-5.7%	-8.9%
Meal Replacement	252.5	2.2%	249.2%	47.8%	33.3%	12.5%
Breakfast Cereals	155.4	1.4%	-7.1%	-7.1%	-3.4%	1.0%
Spreads	145.1	1.3%	-6.0%	-5.4%	3.5%	4.1%
Pasta	8.4	0.1%	6.6%	10.3%	17.2%	17.6%
Total	11,491.3	100.0%	-7.4%	-4.1%	-7.2%	-0.3%

Source: Euromonitor International

▶ MAJOR SUBSECTORS (CONTINUED)



▶ Impulse and Indulgence Food

Driven by ice cream and baked goods sales, the impulse and indulgence food subsector is valued at US\$5.8 billion. Sales decreased by 2.4% between 2005 and 2010 despite volume growth (Table 10). Major segments include ice cream, baked goods, and confectionery, as these segments account for three quarters of total sales. Future decline is likely, given the health concerns about sugar and the shrinking market of child consumers. Snack bars and ice cream, however, are expected to experience growth.

Table 10: Sales of Impulse and Indulgence Food by Segment, in US\$ millions and % Growth

Segment	Sales 2010		Value Growth		Volume Growth	
	Value	Share	2005-2010 Total	2010-2015 Total	2005-2010 Total	2010-2015 Total
Ice Cream	1,801.8	30.8%	2.0%	6.5%	2.1%	9.6%
Baked Goods	1,531.6	26.2%	4.7%	2.6%	11.6%	8.2%
Confectionery	993.1	17.0%	-11.4%	-10.2%	-4.2%	-0.9%
Biscuits	795.8	13.6%	-10.2%	-6.1%	-3.6%	2.6%
Sweet and Savoury Snacks	719.7	12.3%	-3.8%	-4.6%	1.9%	-3.7%
Snack Bars	7.5	0.1%	-2.3%	8.1%	0.0%	16.7%
Total	5,849.5	100.0%	-2.4%	-0.5%	3.6%	4.8%

Source: Euromonitor International



▶ Meal Solutions

Meal solutions is the smallest subsector at US\$3.9 billion in sales, yet it grew the most at 2.7 % over the past five years (Table 11). The major segments are sauces, dressings and condiments, chilled processed food, and canned/preserved food. This subsector is a beneficiary of recent health and convenience trends. There has been a shift toward chilled processed food, since it is perceived as being healthier and fresher than frozen and dehydrated foods. Popular interest in convenience has generated demand for ready meals. In the next few years, meal solutions is expected to be the fastest-growing subsector at 5.6% in sales and 10.8% in volume.

Table 11: Sales of Meal Solutions by Segment, in US\$ millions and % Growth

Segment	Sales 2010		Value Growth		Volume Growth	
	Value	Share	2005-2010 Total	2010-2015 Total	2005-2010 Total	2010-2015 Total
Sauces, Dressings and Condiments	1,290.0	32.7%	8.3%	8.3%	8.3%	11.0%
Chilled Processed Food	1,191.1	30.2%	1.1%	7.5%	7.9%	13.6%
Canned/Preserved Food	747.4	19.0%	-2.2%	1.9%	2.0%	9.4%
Frozen Processed Food	541.7	13.7%	-1.9%	-3.2%	5.8%	2.7%
Ready Meals	118.5	3.0%	15.3%	26.1%	21.4%	27.1%
Soup	53.5	1.4%	5.8%	-5.0%	-6.0%	-6.4%
Total	3,942.2	100.0%	2.7%	5.6%	6.9%	10.8%

Source: Euromonitor International

▶ **MARKET STRUCTURE**



The packaged food manufacturing sector has a four-firm concentration ratio (the market share held by the top four firms, abbreviated to CR4) of 27.2% (Table 12). While this gives the appearance of a competitive sector, some subsectors and the segments within them are highly concentrated, with ratios that exceed three-quarters. The category of nutritional food and staples is fairly competitive with a CR4 of 32.2%, while meal solutions maintains 52.2%, and impulse and indulgence food has 61.4%. Segments with high CR4s indicate difficult market entry, as incumbents likely have extensive supply chain networks and the ability to outlast new entrants in price-competitive situations. Several companies dominate multiple segments, and since 2005, market concentration has only increased across subsectors and in the sector as a whole.

Table 12: Four-Firm Concentration Ratios (CR4)

Subsector	CR4			Top Companies, 2009
	2005	2009	Change	
Nutritional and Staples	29.2	32.2	3.0	Seoul Dairy, Nong Shim, Maeil Dairy, Namyang Dairy
Impulse and Indulgence	59.9	61.4	1.5	Lotte Confectionery, Orion, Haitai Confectionery, Artisanal
Meal Solutions	42.4	52.2	9.8	CJ Cheil Jedang, Daesang, Dongwon F&B, Lotte Ham & Milk
Overall	21.7	27.2	5.5	Lotte Confectionery, Nong Shim, Seoul Dairy, CJ Cheil Jedang

Source: Euromonitor International

▶ **Key Manufacturers**

CJ Cheil Jedang is largely a producer of meal solutions, with leading market shares in ready meals, chilled processed food, and sauces, dressings, and condiments. It had sales of US\$3.0 billion in 2009, and operates eighteen factories. The company has a reputation for product innovation. It does not manufacture for private labels.

Nong Shim is the leading manufacturer of instant noodles and sweet and savoury snacks, both of which make up 60% of its sales. The company had sales of US\$2.0 billion in 2007. Nong Shim is known for its development of instant noodle cups. It maintains six factories in South Korea.

Lotte Confectionery produces impulse and indulgence products, and is the market leader in confectionery, bakery products, ice cream, and sweet and savoury snacks. Its sales in 2009 were US\$1.0 billion. It has four factories in South Korea.

▶ **TRADE**

▶ **South Korea's Imports**

South Korea's goal of agricultural self-sufficiency has been unattainable thus far. A lack of arable land, low agricultural productivity, and increasing urbanization have kept the country a net importer of food. Despite high tariffs and import quotas, agri-food imports have increased substantially in recent years.

Table 13: Top Agri-food Suppliers in US\$ millions

Country	Imports			Share	
	2005	2010	Growth	2005	2010
United States	718.5	1,577.3	119.5%	19.9%	27.7%
China	541.4	861.2	59.1%	15.0%	15.1%
Australia	655.2	771.6	17.8%	18.1%	13.5%
New Zealand	292.4	286.2	-2.1%	8.1%	5.0%
Philippines	177.0	284.9	61.0%	4.9%	5.0%
Canada (11 th)	107.4	123.5	15.0%	3.0%	2.2%
World	3,616.6	5,695.0	57.5%	100.0%	100.0%

Source: Global Trade Atlas



In 2010, South Korea imported over US\$5.7 billion of consumer agri-food from around the world, up 57.5% over imports in 2005 (Table 13). Imports from the United States, China, and Australia accounted for more than half of this amount. The United States raised its share of South Korean imports to 27.7% between 2005 and 2010. At US\$123.5 million, Canada was the eleventh-largest supplier to South Korea, which is up from US\$107.4 million in 2005. However, Canada's market share slipped from 3.0% to 2.2%.

Beef, pork, and fruits and nuts account for half of South Korea's consumer agri-food imports (Table 14). These commodities have experienced significant sales and volume growth in recent years, with high double-digit growth in some cases.

Table 14: South Korea's Top Consumer Agri-food Imports, in US\$ millions

Commodity	Imports 2010		Growth 2005-2010	
	Value	Share	Value	Volume
Beef Products	1,185.6	20.8%	61.3%	48.5%
Fruits and Nuts	887.3	15.6%	71.2%	23.7%
Pork Products	712.5	12.5%	15.2%	9.1%
Vegetable Products	620.9	10.9%	71.9%	15.3%
Dairy Products	379.8	6.7%	70.6%	17.8%
All Commodities	5,695.0	100.0%	57.5%	-

Source: Global Trade Atlas

▶ **Canada's Exports**

In 2010, Canada exported US\$116.6 million in consumer agri-food to South Korea, an increase of 13.1% since 2005 (Table 15). Valued at US\$94.6 million and accounting for 81.1% of all exports, pork was the major export commodity, primarily pork that is fresh, chilled, or frozen. Dairy as well as fruits and nuts grew significantly between 2005 and 2010, but were much smaller in value compared to pork products. While beef is South Korea's largest consumer-oriented agri-food import, Canadian beef was absent from the South Korean market for nearly nine years under a ban that was implemented in 2003, following the detection of bovine spongiform encephalopathy (BSE) in Canada. On January 20, 2012, South Korea lifted the ban on Canadian beef under 30 months of age, opening the door to Canadian beef once again. Overall, South Korea accounts for 1.0% of Canada's consumer-oriented agri-food exports.

Table 15: Canada's Top Consumer Agri-food Exports to South Korea in US\$ millions

Commodity	Exports 2010		Growth 2005-2010	
	Value	Share	Value	Volume
Pork Products	94.6	81.1%	15.5%	-10.4%
Dairy Products	4.0	3.4%	219.2%	296.5%
Fruits and Nuts	3.3	2.8%	464.4%	221.6%
Vegetable Products	2.9	2.5%	-62.6%	-67.5%
Chocolate	1.8	1.5%	38.1%	-36.2%
All Commodities	116.6	100.0%	13.1%	-

Source: Global Trade Atlas

Canada and South Korea are in negotiations for a free trade agreement (FTA) that would allow Canadian exports to this market to remain competitive with the preferential suppliers who have concluded Free Trade Agreements with Korea, including Chile, the United States, the European Union as well as several countries of the Association of Southeast Asian Nations (ASEAN). South Korea currently applies an average most-favoured-nation (MFN) tariff of 52.6% on its imported agricultural goods to non-preferential suppliers.



► DISTRIBUTION CHANNELS

► Overview

Supermarkets and hypermarkets sell the majority of South Korea's packaged food (Table 16). Two-thirds of sales are made through supermarkets and hypermarkets, and small grocery retailers take up another 21.8%. There has been a trend toward the consolidation of distributors to achieve economies of scale. The growth of hypermarkets in recent years has taken away market share from small grocery retailers. Over the next five years, supermarket sales are expected to decline by 4.9%.

Table 16: Shares of Packaged Food Sales

Distribution Format	Distribution Share		
	2005	2010	Change
Supermarkets and Hypermarkets	65.1%	66.3%	1.2%
Small Grocery Stores	23.0%	21.8%	-1.2%
Other Grocery Retailers	5.9%	6.0%	0.1%
Non-Grocery Retailers	3.6%	3.3%	-0.3%
Non-Store Retailing	2.3%	2.6%	0.3%

Source: Euromonitor International

Supermarkets and hypermarkets rely heavily on packaged foods to generate sales. Packaged food accounts for 84.5% of supermarket sales and 37.4% of hypermarket sales. The growth of supermarkets and hypermarkets will further push demand for packaged food, whether they are recognized brands or private labels.

Canadian packaged food exporters work predominately with independent importers and distributors, as South Korean retailers are reluctant to import unless high product volumes are involved. All distribution channel stakeholders, including agents, importers, distributors, and retailers, are known to seek substantial discounts to handle and market foreign products. Overall, South Korea is a highly competitive and price-sensitive market for imported goods.

► Market Structure

Market concentration among South Korean grocers has increased over the past five years. Between 2005 and 2009, the four-firm concentration ratio (CR4) grew from 31.0 % to 44.6 %, due in large part to the consolidation and expansion of major retailers, such as Shinsegae, Samsung Tesco, Lotte Shopping, and GS Retail. This growth came at the expense of small, independent retailers, many of whom were absorbed by these national chains. The concentration ratios in the hypermarket and supermarket subsectors are sufficiently high for these subsectors to be oligopolies (Table 17).

Table 17: Four-Firm Concentration Ratios (CR4) by Distribution Format in US\$ billions, 2007*

Distribution Format	CR4	Sales	Top Companies
Hypermarkets	87.2%	19.8	Shinsegae, Samsung Tesco, Lotte Shopping
Supermarkets	86.2%	1.7	GS Retail, Lotte Shopping, Samsung Tesco
Convenience Stores	82.8%	3.1	Bokwang Familymart, GS Retail, Korea Seven
Department Stores	75.4%	11.1	Lotte Shopping, Shinsegae, Hyundai
Online Retailers	68.8%	1.4	GS Home Shopping, CJ Home Shopping, Hyundai

Source: USDA Foreign Agricultural Service

*Note: Retail and distribution data can lag by several years, depending on the source. However, market shares and concentration ratios do not vary significantly on a yearly basis.



▶ KEY RETAILERS

Table 18: Grocery Retailer Indicators and Market Shares, 2008/2009

Retailer	Sales US\$ millions	% of Grocery Sales	Number of Outlets	Market Share (%)			
				Hypermarket	Supermarket	Department Store	Convenience Store
Lotte Shopping	8,317	46	203	16	8	47	-
Shinsegae	7,006	70	165	35	2	17	-
Samsung Tesco	4,083	90	326	26	7	-	-
GS Retail	2,537	85	3,512	2	9	2	31
Hyundai Dept Store	634	15	11	-	-	22	-

Source: Euromonitor International

Lotte Shopping is the largest packaged food retailer in South Korea, with sales of US\$8.3 billion in 2008 (Table 18). It is the market leader in the department store channel but also operates hypermarkets and supermarkets. Grocery products make up less than half of the company’s revenues, as it is also in the businesses of foodservice, entertainment, and toy and apparel retailing. The company has a private label that offers packaged food, beverages, fresh food, and household goods.

Shinsegae is primarily a hypermarket retailer but also operates supermarkets and department stores. In 2009, it generated US\$7.0 billion in sales, of which 70% came from grocery products. *Shinsegae* acquired Wal-Mart Korea in 2006, converting those outlets into E-Mart discount stores. *Shinsegae* has a private label that offers a variety of food and household products.

Samsung Tesco is a joint venture between Samsung Corporation and Tesco Holdings, and is considered the only foreign grocery retailer to have successfully adapted to the South Korean market. It is present in the hypermarket and supermarket channels, and maintains an extensive line of private label products. *Samsung Tesco* had sales of US\$4.1 billion in 2008, of which 90% came from grocery products.

GS Retail is the market leader in the supermarket channel and also a major convenience store chain. It had sales of approximately US\$2.5 billion in 2008, of which 85% came from grocery products. *GS Retail* also earns revenues from foodservice outlets and drugstores, and has a private label that markets packaged food and household goods.

Hyundai Department Store operates only in the department store channel and positions itself as a high-end retailer. It had sales of US\$634 million in 2008, of which only 15% came from grocery products. It does not have a private label.

▶ DISTRIBUTION TRENDS

▶ Private Labels

South Korean retailers, primarily hypermarkets and supermarkets, are increasingly offering private label products to their customers. At the same time, consumers are visiting hypermarkets and supermarkets more often for their grocery needs. The economic downturn has made consumers price sensitive, so private labels have grown quite popular. To attract customers, retailers are expanding their product lines and promoting loyalty programs. Private label penetration in packaged food is currently 1.9% but was only 0.7% five years ago. Penetration is higher in dried processed food (6.2%) and ready meals (4.9%). Retailers such as *Lotte Shopping*, *Samsung Tesco*, and *GS Retail* already have thousands of private label items.



▶ DISTRIBUTION TRENDS (CONTINUED)

▶ Consolidation

Large grocery retailers are absorbing smaller retailers in an effort to expand their number of outlets and diversify their retail formats. Retailers want multiple channels including hypermarkets, supermarkets, convenience stores, department stores, and online businesses. For instance, Lotte Super purchased Big Mart and Nice Mart, and Shinsegae bought the hypermarket division of E. Land Group.

▶ Internet Retailing

With over 80% of South Korea's population connected to the Internet, online grocery shopping is the fastest growing retail segment. Online grocery shopping offers lower prices than store-based retailing and is compatible with the busy lifestyle of South Koreans. Internet retailers have extended delivery service to more areas. Its growth has taken market share away from small, independent retailers. Many hypermarkets and supermarkets have recently opened up internet shopping websites.



▶ Regulation

The dominance of major grocery retailers in South Korea has led to the consideration of two regulatory bills that would limit their expansion. One bill requires local government approval for the development of large retail establishments (1,000 to 3,000 square metres in size) within 500 metres of traditional markets. The other bill would allow small retailers to claim uncompetitive conditions as a reason to force the temporary closure of supermarkets and hypermarkets. The passage of such legislation could restrain packaged food growth and distribution.

▶ OPPORTUNITIES IN PACKAGED FOOD



Premium Iced Green Tea
7-Eleven's Private Label, South Korea
Source: Mintel

▶ Growth of Private Labels

The expansion and dominance of South Korea's major grocery retailers have contributed to the emerging presence of private label products. Increasing price sensitivity among consumers and their growing preference for one-stop shopping at hypermarkets and supermarkets have further driven private label demand. Canadian packaged food companies can leverage their manufacturing experience and expertise to supply these private labels.

▶ Changing Consumer Lifestyles

Rising household incomes, busier lifestyles, and concerns over food safety and quality have generated demands for premium products, convenience products, and health foods. Since these demands are similar to those found in most Westernized countries, Canadian companies can capitalize on their existing knowledge to better market these products to South Koreans.



▶ CHALLENGES IN PACKAGED FOOD



▶ *Entry Barriers*

The substantial market concentration in both the product and retail markets, as well as the linkages between them, could serve as entry barriers for Canadian packaged food manufacturers. Some subsectors have highly uncompetitive conditions, especially for foreign entrants. In retail, the major grocery distributors have considerable bargaining power that could be used to extract significant discounts from Canadian exporters.

▶ *Trade Barriers*

South Korea's free trade agreements with the United States, the European Union, and several ASEAN countries put Canadian firms at a disadvantage against their foreign competitors. They face an average MFN tariff of 52.6% on their products. Frequently changing food regulations and complex labelling requirements also present difficulties. However, free-trade negotiations are ongoing between Canada and South Korea.

▶ CONCLUSION

South Korea represents an affluent market of packaged food consumers. Socioeconomic changes have led to growing demand for convenience products and an interest in health and wellness. Rising income disparity has further contributed to the dual trends of product premiumization and value consciousness. Canadian companies can thus prosper by leveraging their positive reputation and manufacturing abilities to supply private label products, and capitalize on emerging consumer trends. Since both the manufacturing and retailing markets are concentrated, Canadian firms need to work with South Korean distributors in order to obtain wider product exposure.



New packaged food product introductions to South Korea, July 2011
Source: Mintel



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The Government of Canada has prepared this report based on primary and secondary sources of information. Although every effort has been made to ensure that the information is accurate, Agriculture and Agri-Food Canada assumes no liability for any actions taken based on the information contained herein.

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