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Korea, Republic of

HRI Food Service Sector Report

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Report Highlights:

Dramatic changes in lifestyle and dietary culture of Korean consumers along with the remarkable development in socio-economic environment have been interpreted into a rapid growth of the food service sector over the past thirty years. The sector grew at about 10% by value annually through 1980's up to mid 1990's and is expected continue to grow at 2-4% in coming years. The outlook for US suppliers to the sector is excellent for a variety of food products.

Includes PSD changes: No
Includes Trade Matrix: No
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I. Market Summary

Dramatic changes in lifestyle and dietary culture of Korean consumers along with the remarkable development in socio-economic environment have been interpreted into a rapid growth of the food service sector over the past thirty years. The amount of food budget that a Korean citizen spent on eating out reached \$37.1 (\$1 = Won 1,100) per month in 1999, up sharply from \$10.2 in 1990. In other words, a Korean citizen spent 35.5% of his/her food expenditure, or 9.9% of total spending, eating out in 1999, up from 20.3% and 6.5% respectively in 1990. Although the food budget has gradually lost its share in total consumer spending over the past decade, eating out has consistently increased its share in both food budget and total spending. The food service sector garnered approximately \$27.2 billion of cash register sales in 1998, up from \$7.1 billion in 1982 (adjusted figure for inflation). The sector grew at about 10% by value annually through 1980's up to mid 1990's and is expected continue to grow at 2-4% in coming years. The number of food service business also has shown a rapid increase, reaching 543,000 in 1998 with total 1.2 million employees. However, 99.7% of businesses in the sector are family-operated type of small businesses, and 94.6% hire less than 5 employees as of 1998. In addition, about 67% of businesses earned less than \$45,000 in sales in 1998. Although taking comparatively small share of the sector currently, incorporated type food service businesses, especially franchise family restaurants, fast food chain businesses and institutional feeding businesses, have shown a strong growth in recent years. Especially, now the economy has fully regained its strength and stability from the recent economic crisis, the sector is evolving rapidly into more diverse formats with more new-to-market cuisines to meet the consumers' ever strong demand for new and international tastes and high quality foods. The outlook for US suppliers to the sector is excellent especially for beef, pork, poultry, dairies, seafood, frozen & dehydrated vegetables, alcoholic beverages, sauces and spices, bakery products and fruits.

z Advantages

1. Strong consumer demand for new tastes is interpreted into the growth of western cuisine.
2. Popularity of American culture carries over to American food.
3. Changes in life style and dietary culture fuel the development of food service sector, especially in the incorporated type business segment where the biggest potential for imported products exists .
4. Domestic food supply are gradually losing price competitiveness.
5. US suppliers are able to supply reliably large volumes and consistent quality year round.
6. On-going lifting of regulations in import and distribution channel offers new opportunities to US suppliers.

z Challenges

1. Korean food regulations and practices result in delays and additional costs.
2. Third countries with price advantage have aggressive market development efforts.
3. Korean consumers are suspicious about the safety and nutritional value of imported foods.
4. The volume of demand in individual company is too small in most product categories to justify the customization cost for special cutting and packaging as well as the logistics cost from the US.
5. Procurement decision in the sector is mainly driven by price factor only, and procurement managers often overlook the overall benefit of using quality US products.

II. Road Map for Market Entry

A. Entry strategy

z Any US supplier who seeks to sell his/her products to Korean HRI food service sector first needs to understand the sector's specific needs for the food materials that the supplier is specialized in. For example, most of the dishes served in Korea are based on the contemporary dietary(cuisine) culture of Korea and may require special specifications or conditions even for the same food materials used for the same kind of dishes served in the US. Consequently, the US supplier may need to adjust their existing processing lines for different cutting and packaging, or may have to develop totally new products that can meet the needs of the sector. Coming to Korea and establishing direct contacts with various people in the sector will be the best way for a new-to-market US supplier to gain comprehensive understanding of the sector's needs for the food materials that the supplier is specialized in.

z It is also important for a US supplier to understand the changing tastes of Korean consumers so that the supplier can develop a new market for its products by introducing new-to-market food materials for new recipes. For this, the US supplier needs to be in close contact not only with Korean companies in the sector but also with various information sources on Korean dietary culture.

z Once a US exporter is ready to supply the products that can meet what the sector needs, aggressive promotion of the products is needed. For this, participating in food shows in Korea or organizing its own seminars and tasting events targeting procurement managers of the sector could be a cost effective and time saving method.

z Because of the variables involved, there is no one best way to enter the Korean market and be successful. However, success is unlikely without local representation and personal visits. What form this local representation takes depends on the exporter, the products and the Korean representative. Unless the US supplier has a specific idea on this, working with an established importer during the initial stage of market entry is highly recommended. Established importers are well aware of up-to-date information and guidance on business practices and trade-related laws, sales contacts in distribution channels of Korean market and, most of all, are the best source of current information on labeling and inspection required for customs clearance of imported food products. The ATO in Seoul maintains listings of potential importers and provides them to those U.S. suppliers who wish to explore market opportunities in Korea.

B. Market structure

z The distribution channel of food products for HRI food service sector is shown in Figure 1. Imported food products are mainly supplied through importers, wholesalers, special vendors and hypermarket (discount store) retailers. The special vendor designates those wholesalers who got an exclusive contract with a food service business to supply certain food materials on long term basis. They are usually specialized in procuring specific items such as meat and seafood in big volume both domestically and internationally, and often provide pre-cook processing services in their facilities such as washing, cleaning, and cutting into certain sizes as ordered from the buyer. In recent years, discount retailers such as hypermarkets and membership warehouse clubs have become an important supplier of fresh and processed food materials for many family-owned small restaurants.

z In spite of the rapid growth of modern retail formats, such as discount store chains and supermarket chains of national presence and logistics infrastructure since the opening of the wholesaling and retailing market to

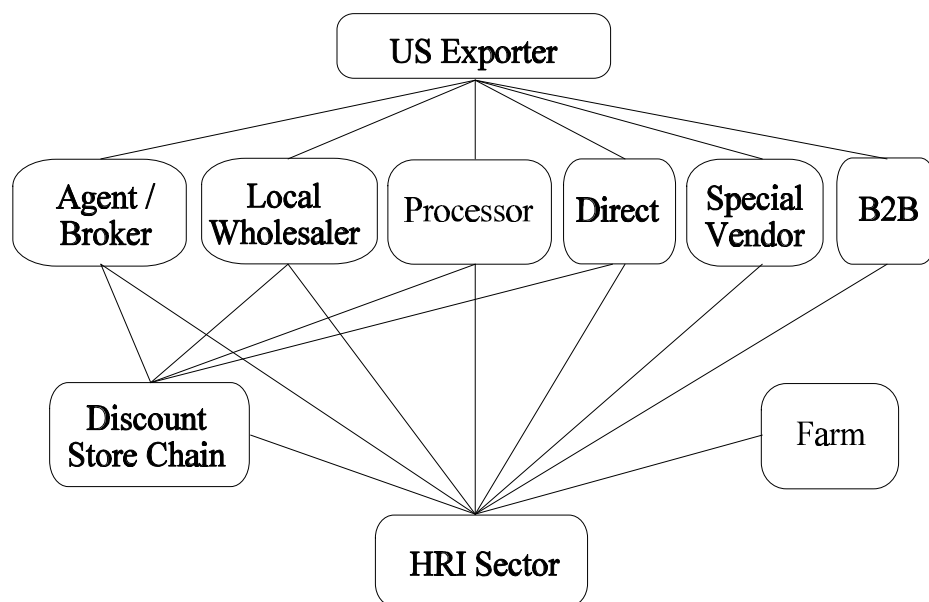


Figure 1 - Distribution Channel for HRI Food Service Sector

great deal to the cost of food products in Korea whether they are local or imported. Korea Tourist Supply Center Co., a cooperative food importer/wholesaler, is a notable national supplier of imported foods for hotels and restaurants registered as tourism hotels and tourism restaurants.

z On going price competition has led the food service sector to seek more direct import of food materials from the overseas suppliers for cost reduction by eliminating intermediaries. However, lack of expertise in import and comparatively small transaction volume in most importable food items have kept most companies from moving towards direct import. Only a few major firms in the sector, mostly franchise restaurant chains, fast food chains and institutional feeding businesses, have switched to direct import for a limited number of items that have comparatively large transaction volume such as beef and seafood.

z Direct procurement from farm is also emphasized by major firms of the sector for cost reduction. In a direct supply contract between a food service business and a farmer, especially for fresh produce, a certain area of the land that the farmer is farming is often contracted to supply all the harvest to the buyer. This way, the buyer can secure the stable supply of certain produce with significant seasonal price and volume fluctuations, while the farmer can be guaranteed with fixed income from the land contracted.

z B2B channel is newly emerging as an integrated distribution channel for the sector. Several B2B businesses both in wholesale and retail level are already operating in the market and many more likely to enter the market. The major benefit of B2B channel will be lowered logistics cost from the elimination of intermediaries and the realization of the economy of scale when the system is fully adopted by all members in supply chain. Improved efficiency of procurement process will be another significant benefit. Our Home Co., the market leader of institutional feeding segment, has adopted an Internet-based bidding system for procuring food and non-food items and has already achieved a double digit cost reduction. On May, 2000, three institutional feeding businesses and two family restaurant chains jointly launched a cooperative B2B business, FOODMERCE.COM, that will procure the food materials needed by the members collectively in an effort to achieve the economy of scale in procurement. Meat market is expected to become where the biggest competition of B2B businesses will take place as the market faces open competition from January, 2001.

foreign ownership in mid 1990's, very few companies in wholesale level currently have national distribution systems or carry a complete range of products, whether imported or local or both. This means that retailers and end consumers in HRI sector must deal with a large number of distributors or wholesalers to have access to the full range of imported products that are available. Importers must deal with many different distributors and/or retailers if they want to gain national distribution for their products. These inefficiencies, together with the inadequate transportation infrastructure, add a

C. Sub-Sector Profiles

1. Hotels

Name of Hotel	Room Sales	Food Sales*	Locations	# of Hotels
Lotte	\$95 Mil.	\$113 Mil.	Seoul, Pusan, Cheju, Kyungbuk	5 (1 open in 2000)
Hyatt	\$48 Mil.	\$65 Mil.	Seoul, Pusan, Cheju	3
Shilla	\$47 Mil.	\$84 Mil.	Seoul, Cheju	2
Hilton	\$42 Mil.	\$39 Mil.	Seoul, Kyungju	2
Inter-Continental	\$31 Mil.	\$42 Mil.	Seoul	2 (1 open in 2000)
Westin Chosun	\$29 Mil.	\$37 Mil.	Seoul, Pusan	2
Sheraton Walkerhill	\$26 Mil.	\$80 Mil.	Seoul	1
Litz-Carlton	\$20 Mil.	\$24 Mil.	Seoul	1
Radisson Plaza	\$19 Mil.	\$22 Mil.	Seoul	1
Marriot	N/A	N/A	Seoul, Pusan	2 (all open in 2000)

Table 1 - List of Major Five Star Hotels in Korea

Source: Monthly Hotel & Restaurant, July 2000

* 1999, Food sales include sales revenues from all subsidiary facilities of the hotel, including fitness club, convention hall, wedding hall, and parking. Sales of restaurant businesses outside the hotel are also included.

Year - 1999	5 Star	4 Star	3 Star	2 Star	1 Star	Others	Total
Number of Hotel	29	47	175	116	65	15	447
Room Sales	\$464 Mil.	\$185 Mil.	\$149 Mil.	\$43 Mil.	\$12 Mil.	\$14 Mil.	\$867 Mil.
# of Lodgers	6.0 Mil.	4.5 Mil.	6.0 Mil.	2.0 Mil.	0.7 Mil.	1.5 Mil.	20.6 Mil.
Occupancy Rate	73%	73%	58%	49%	40%	46%	62%
Food Sales*	\$790 Mil.	\$238 Mil.	\$163 Mil.	\$26 Mil.	\$8 Mil.	\$10 Mil.	\$1.24 Bil.
% Revenue from Intl. Travelers	58%	45%	30%	25%	22%	5%	48%

Table 2 - Business Statistics of Hotels under Tourism Hotel Category, 1999

Source: Monthly Hotel & Restaurant, July 2000

* Food sales include revenues from all subsidiary facilities of the hotel, including fitness club, convention hall, wedding hall, and parking. Sales of restaurant businesses outside the hotel are also included.

z The hotel sector made a significant progress both in business volume and management skills during 1980's, especially through '86 Asian Games and '88 Olympics. The sector is expected to grow rapidly in coming years mainly due to the ever strong demand for accommodations from business and tourism. Rapid

internationalization in business environment in recent years, particularly since the economic crisis of 1997, has resulted in a strong demand for accommodations for business travelers from overseas in five and four star hotels in Seoul. Changes in life style of consumers have been interpreted into increased demand for lodging in major tourism areas around the country since mid-1980's. In addition, national hosting of big events in international scale, such as ASEM 2000 Summit and World-Cup Games 2002, brings the sector another important opportunity to grow.

z Reflecting the ever strong demand for additional hotels, significant amount of new investment both from local and international sources has been made to open new hotels. For example, Marriot newly opened its flagship 5-star hotel, 'JW Marriot', in Seoul in September 2000, after taking over another 5-star hotel in Pusan in January 2000. Inter-Continental opened a new 5-star hotel in Seoul in February 2000, targeting the ASEM 2000 Summit. Day's Inn Worldwide entered the market in September 2000 with an ambitious plan to build a chain of 50 hotels and 450 motels under its brand around the country by 2002. Many other major players in the sector, including Shilla, Plaza, Novotel-Ambassador, Ramada-Renaissance and Holiday Inn, are also planing to add a total of 2,000 new rooms by opening small to medium scale hotels around the country in a couple of years in an effort to catching up with the serging demand from business and tourism.

z The sector, especially in 5 & 4 star segments, still lacks the management skills appropriate for the growth in business volume. Most of the five and four star hotels are currently operated by international hotel chains under license agreement.

z In addition to the 447 hotels registered under the tourism hotel category designated by Korean government, there are about 35,000 motels, inns and bed & breakfast around the country, serving the need for accommodations of the general public.

z The hotel sector has been a major entry channel for quality imported foods and international cuisines. The sector, especially the five star hotels, also has been a major target for marketing efforts from international exporters since the customers of the segment are mainly comprise the opinion leading group of the society.

z Sales from the food service outlets in hotel is a major revenue source for the upscale five, four and three star hotels in Korea. Hotel sector is also paying more attention to catering business outside the hotel and wedding service. Especially, in recent years, many major hotels have expanded their food service businesses outside their hotels by opening many premier restaurants, bakery shops and cafeterias in major business buildings, retail stores, train stations, airport terminals, shopping centers, country clubs and sports complexes. However, several hotels withdrew from the external restaurant business as a result of the recent economic crisis.

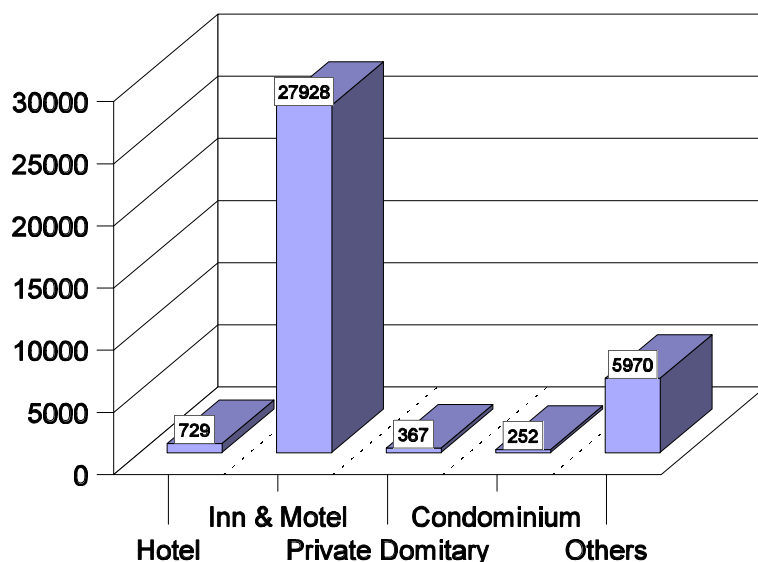


Figure 2 - Number of Businesses in the Hotel Sector
Source: Korea Bureau of Statistics (1998)

2. Restaurants

Year	GNP*	Major Event
1900 - 1950's	N/A	<ol style="list-style-type: none"> 1. Birth of restaurant business (mainly traditional style drinking places with lodging function). 2. Total of 166 restaurants in business in 1945.
1960's	\$100 - \$210	<ol style="list-style-type: none"> 1. Most consumers had very low income and limited food supply. 2. Western foods, mainly wheat flour and dried milk, first introduced to the general public through the food aid from UN and U.S.
1970's	\$248 - \$1,644	<ol style="list-style-type: none"> 1. Birth of modern food service industry. 2. Big number of family-owned small restaurant businesses opened. 3. Improvement in the diet of the general public due to rapid economic development. 4. The first franchise restaurant (Nandarang, 1979) and the first international fast food restaurant (Lotteria, 1979) opened.
1980 - 1985	\$1,592 - \$2,158	<ol style="list-style-type: none"> 1. Westernization of dietary culture rapidly penetrated into the general public. 2. Introduction and rapid expansion of franchise restaurants (mainly hamburger, noodle, fried chicken and draft beer chains). 3. International restaurant brands entered the market, including Americana(1980), Burger King(1982), Wendy's(1984), KFC(1984), Pizza Hut(1984), Baskin Robbins(1985).
1986 - 1990	\$2,194 - \$4,197	<ol style="list-style-type: none"> 1. Rapid growth of food service industry, especially in fast food restaurant, family restaurant and franchise restaurant segments. 2. Introduction of institutional food service business through '86 Asian Games and '88 Olympic Games (Seoul Catering(1989), LG Mart(1989)). 3. Dining out became a regular dietary pattern of the general public. 4. McDonald's(1986), Dennys(1987), Pizza Inn(1988), Cocos(1988), Crown Bakery (1988), Chicago Pizza(1988), Domino Pizza(1989).
1990's	\$5,883 - \$10,076**	<ol style="list-style-type: none"> 1. Participation of major Korean conglomerates in food service industry. 2. Diversification of food service industry with introduction of new cuisines, such as fusion foods, and new formats, such as Karaoke. 3. Many international brands rushed into the market, including Hardies(1990), TGIF(1991), Haggendaz(1991), Subway(1992), Pandarossa(1992), Sizzler(1993), Mister Pizza(1993), Sky Lark(1994), Kenny Rogers(1994), Popeye's(1994), LA Farms(1994), Bennyigans(1995), Tony Roma's(1995), Planet Hollywood(1995), Marche(1996), Hardlock Café(1996), Outback Steak House(1997), Chilis(1997).

Table 3 - Development of Food Service Industry in Korea

Source: Na, J.K., Understanding Food Service Industry, Baeksan Publishing Co., 1998

* GNP: Gross National Production (Per Capita)

** As of 1996

z Table 3 summarizes the history of the development of the food service industry in Korea with the restaurant

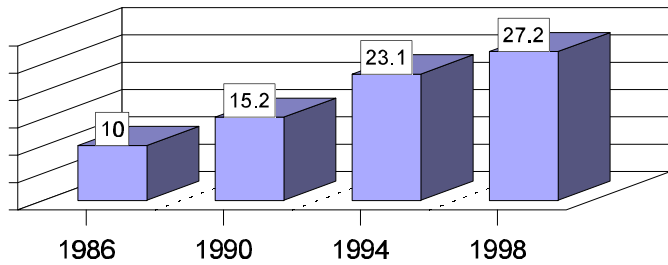


Figure 3 - Growth of the Total Food Service Sector (\$ Billion Dollar)

Source: Korea Bureau of Statistics, Chung and Hwang, 1999 (adjusted figures for inflation)

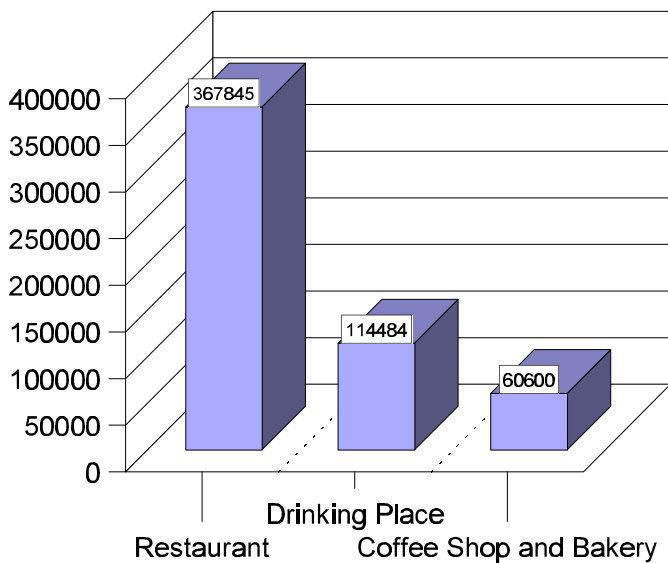


Figure 3 - Breakdown of the Food Service Sector by Business Type (Unit: Number), 1998

Source: Korea Bureau of Statistics

z Although taking comparatively small share of the sector, incorporated type food service businesses, especially franchise family restaurants, fast food chain businesses and institutional feeding businesses, have shown a strong growth in recent years. This trend reflects the Korean conglomerates' increased attention to the food service sector. Most of the major conglomerates, including Lotte, Doosan, Shinsegae, Cheilchedang, LG, Samsung, Hyundai, Daesang and Daehan Sugar, have moved aggressively into the market since mid-1990's, while many more are seeking ways to join the market through joint venturing with international brands yet to be introduced to the market.

segment at the center of the scene.

z The food service sector garnered approximately \$27.3 billion dollar of cash register sales in 1998, up from \$7.1 billion in 1982. The sector grew at about 10% by value annually through 1980's up to mid 1990's and is expected continue to grow at 2-4% in coming years.

z The number of businesses in the sector also has shown a rapid increase in the past twenty years, reaching 543,000 in 1998 with total 1.2 million employees. However, 99.7% of all businesses in the sector are family-operated type of small businesses, and 94.6% hire less than 5 employees as of 1998. In addition, about 67% of all businesses in the sector made less than \$45,000 of annual sales in 1998.

z The sector can be further broken down into three sub segments, restaurant, drinking place and coffee shop & bakery, according to the classification by the Korea Bureau of Statistics. Korean style restaurants dominate the restaurant segment with 63% of share by number as of 1998, up from 36% in 1986, followed by Chinese, snack chain restaurants (i.g., fast food restaurants), and Western style restaurants.

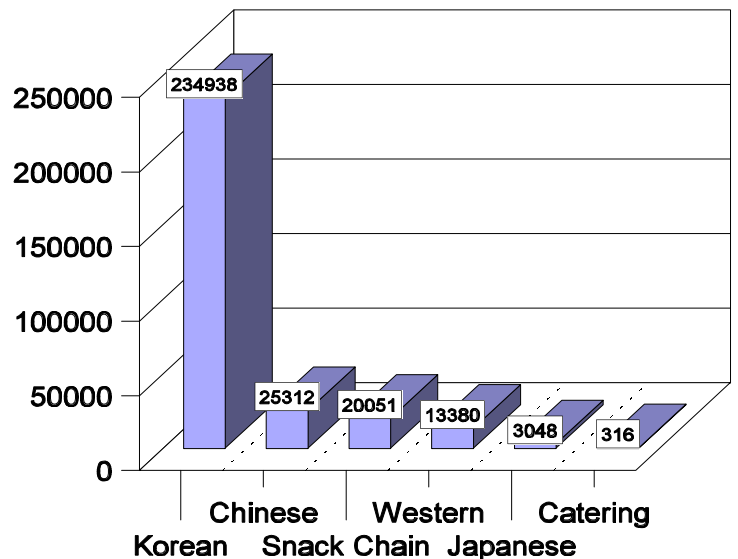


Figure 4 - Breakdown of the Restaurant Segment by Business Type (Unit: Number), 1998

Source: Korea Bureau of Statistics

z Introduction of new formats and new cuisines have been a major propellant for the growth of the restaurant segment in recent years. Recent trend of franchising a successful restaurant with unique menu and interior design has added significant number of new restaurants to the segment. The popularity of ‘fusion food’ in recent years also has resulted in opening of new restaurants in the segment. Other formats that have led the growth of the segment include: Italian restaurants, French restaurants, Vietnamese restaurants and lunch box outlets.

Company Name	Brand	Sales (1999)	Number of Outlets	Nationality
Lotteria Co.	Lotteria	\$318 Mil.	470	Japan/Korea
Shinmac Mackim Co.	McDonald's	\$173 Mil.	175	USA
Genesis Co.	BBQ	\$164 Mil.	1,050	Korean
Doosan Co.	KFC	\$127 Mil.	152	USA
TS Haemaro Co.	Popeye's	\$106 Mil.	160	USA
Doosan Co.	Burger King	\$45 Mil.	62	USA
BR Korea	Baskin Robbins	\$34 Mil.	460	USA
Seajin Food System Co.	Hardies	\$16 Mil.	22	USA
Haggendaz Korea Co.	Haggendaz	\$9 Mil.	13	USA

Table 4 - Company Profiles of Major Fast Food (Hamburger, Chicken, Ice Cream) Restaurant Chains
Source: Korea Food Service Information Ltd.

z Westernization of dietary culture and consumers' ever busier lifestyle have been interpreted into the rapid growth of fast food and family restaurant chains. Nine out of the top ten companies in the food service sector are fast food and family restaurant chains of international heritages.

z The fast food segment is led by hamburger chains, followed by chicken, pizza and ice cream chains. Most of the major fast food chains are expanding rapidly by adding new stores in major cities around the country. In addition, chains are putting heavy emphasis on price competition, development of new recipes of local tastes and joint promotional activities with non-food businesses such as movies and cartoons.

Company Name	Brand	Sales (1999)	Number of Outlets	Nationality
Asian Star Co.	TGIF	\$35 Mil.	12	USA
Dongyang Confectionary	Bennygangs	\$26 Mil.	9	USA
Cocos Korea Co.	Cocos	\$26 Mil.	31	USA
Cheilchedang Co.	Sky Lark	\$20 Mil.	18	Japan
Dukwoo Ltd.	Marche	\$10 Mil.	4	Swiss
Eo Corporation Co.	Tony Romas	\$7 Mil.	4	USA

Great Field Co.	Outback Steak House	\$7 Mil.	3	USA
Cheilchedang Co.	VIPS	\$7 Mil.	3	USA
Barons International Co.	Sizzler	\$6 Mil.	2	USA

Table 5 - Company Profiles of Major Family Restaurant Chains

Source: Korea Food Service Information Ltd.

z Family restaurant chains were most seriously hit by the economic crisis in 1998, losing significant portion (20 - 30% of sales over the previous year) of their businesses. Since the crisis, chains have put heavy emphasis on reducing operation costs, mainly through cutting the costs of labor and food raw materials, and increasing sales revenue through strengthening customer service and direct marketing efforts targeting young professionals and other loyal customer groups. Introduction of new dishes targeting the changing tastes of young consumers has been another area of emphasis for all major chains.

z Reflecting the strong recovery of consumer's buying power, family restaurant chains are seeking major expansion in the next few years. Major chains are planning to open about 50 new stores within the year 2000.

Company Name	Brand	Sales(1999)	Number of Outlets	Nationality
Pizza Hut Korea Co.	Pizza Hut	\$167 Mil.	160	USA
EL International Co.	Pizza Mall	\$32 Mil.	48	Korea
DPK International Co.	Domino Pizza	\$27 Mil.	124	USA
Mister Pizza Korea Co.	Mister Pizza	\$14 Mil.*	110	USA
G&B Food Service Co.	Pizza Paza	\$6 Mil.	47	Korea
Namyang Dairy Co.	Pizza Piatti	\$3 Mil.	10	Korea

Table 6 - Company Profiles of Major Pizza Restaurant Chains

* Mister Pizza uses fixed-amount licensing fee, and sales data are only for 16 directly-owned stores

Source: Korea Food Service Information Ltd.

z Having recovered from the impact of the economic crisis in 1998, pizza restaurant chains are once again expanding rapidly mainly by developing the delivery market. During 1999, Domino Pizza and Mister Pizza increased the number of stores by 32% and 57% respectively over the previous year.

z Currently, delivery market takes about 40% of the total pizza market. The market leader, Pizza Hut, plans to increase the revenue from the delivery market up to 85% by the end of this year by opening more 'delivery service only' stores.

3. Institutional Feeding Food Service

Name	Established Year	Sales Revenue (1999)	No. of Outlets	No. of Meals Serving Daily
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Our Home Co. (LG)	1989	\$277 Million	300	450,000
Everland Co. (Samsung)	1994	\$218 Million	250	390,000
Cheilchedang Co.	1994	\$160 Million	340	380,000
Shinsegae Food System Co.	1993	\$98 Million	140	150,000
Arakor Company Ltd. (Daewoo)	1991	\$63 Million	150	180,000
CMD Co., Ltd.	1991	\$52 Million	140	135,000
Hanwha Development Co.	1994	\$32 Million	100	100,000
63City Co.	1997	\$27 Million	53	50,000
G-Net Co. (Hyundai)	2000	\$136 Million (2000/planned)	NA	200,000 (2000/planned)

Table 7 - Profiles of Major Institutional Feeding Food Service Companies

Source: Korea Food Service Information Ltd.

z The commercial institutional feeding food service was first introduced to Korea in late 1980's through '86 Asian Games and '88 Olympic Games, and now there are about 200-300 businesses competing in the segment. However, most of the companies are small in size and only about 50 are registered as corporate style businesses. The segment has grown up to about \$1.4 billion (\$1=Won 1,100) in 1999. The segment is mainly led by a few major companies as evidenced by the fact that the top five companies of the segment took about 40% of market share by value in 1999.

z Although many organizations are still relying on their own traditional not-for-profit kitchens to prepare meals for their employees, commercial institutional feeding service is rapidly penetrating into commercial and public organizations with cost and efficiency benefits. Government's on-going plan to adopt the commercial institutional feeding service in all schools under college level within a few years from now also offers the segment an important opportunity to expand.

z Company cafeterias have been the major market for the segment. However, the segment is expanding into a variety of new areas, including cafeterias in hospital, airport, theme park, school and prison due to increased competition in the segment. Some of the major companies in the segment are also expanding into regular restaurant businesses.

z The cost of food material comprises about 50-60% of total cost of operation for a commercial institutional feeding business, which is much higher level than that of regular restaurant business, about 30%. Consequently, companies in the segment are vigorously seeking ways to reduce the cost of food materials. Exclusion of intermediaries in supply channel through direct purchasing/import and B2B, realization of the economy of scale through M&A and strategic alliance in procurement, improvement of operation efficiency through introduction of information technology in procurement process are three major approaches that the segment is taking currently. For example, two major companies in the segment, Pulmuwon and CMD, announced a merger in July 2000. FOODMERCE.COM, a joint B2B procurement cooperative of several food service businesses, launched in May 2000. In addition, most major companies in the segment have made heavy investment in developing a information network between the headquarter and each outlet in that the demand for food materials

in each outlet is pre-planned according to the menu selected by the outlet and summed into a unified procurement plan for the headquarter.

z Increasing labor cost and difficulty of maintaining enough level of experienced labor force in hundreds of outlets have led most major companies in the segment to seek more prepared food materials which can be served with minimal input of time, labor and skills in preparation and cooking at the kitchen of individual outlet.

III. Competition

z The primary competition for US suppliers are their domestic Korean counterparts. However, high costs and increasing price pressures on the food service sector have opened the door for increased imports. For example, whiskies that are served in local drinking places are now 100% imported products. Beef and seafood markets are also dominated by imported products.

z On-going lifting of import barriers, mainly tariffs and regulations against open competition, for many agricultural products resulted from the WTO trade agreement also opens new opportunities for US suppliers.

z Procurement decisions in the food service sector are mainly driven by price factor alone and many Korean procurement managers often overlook the overall benefit of using high quality products. Australia and China have aggressively expanded their shares in beef and seafood market respectively mainly based on strong price competitiveness over US products. In addition, all international competitors are putting heavy resources in various promotional activities and financial support to their exporters.

z Korean consumers are suspicious about the safety and nutritional value of imported foods. Recent debate on the safety of GMO products are also exacerbating the situation. Several family restaurants were forced by a major Korean NGO to declare that they would not use any GM food materials in their recipes. Pulmuwon, a major food processor, recently declared that they would not use any GM ingredients in their foods.

z China has become a leading supplier of various agricultural products to the food service sector with low price and geological advantage. However, increased awareness about the value of using high quality products in the sector, along with the Korean consumer's strong concern on the consistent quality and safety of Chinese products, is likely to be interpreted into a negative competitive effect on products from China in near future.

IV. Best Product Prospects

A. Products Present in the Market Which Have Good Sales Potential

1. Beef and Pork

Beef is currently imported under a Korean government set quota. However, quotas will be eliminated on January 1, 2001, and imported beef is likely to expand its market share due to open competition in import and distribution channel. Although Australia has been a strong competitor for the food service sector with its price competitive grass fed, carcass beef, US beef is leading the imported beef market with 58% of market share in 1999. The food service sector gradually gains more understanding of the benefit of using quality US beef for higher consumer satisfaction on taste. Since the shelf-life for vacuum-packed chilled beef definition by the Korean Government was changed to "manufacturer determined shelf life" as of June, 1998, substantial growth of the import from US in the category has been made. Introduction of premium grade US beef in retail channel

with price promotion that started on August 2000 will also expand the share of US beef in the food service sector. Although facing tough competition from domestic and international suppliers, pork market also has a good potential for US suppliers.

2. Poultry

Korea is an excellent market for poultry products with a strong demand from the food service sector. In 2000, poultry imports are projected to reach nearly 15% of domestic production. However, US suppliers are facing stiff competition with low-cost products from China and Thailand. On May 2000, China was lifted from the import ban on poultry and poultry products imposed on 1997 due to the Hong Kong Avian Influenza outbreak. In addition, tough sanitary inspection regulation by the Korean government makes it very difficult for fresh poultry meat from the US to penetrate into the market.

3. Seafood

Korea is a huge seafood market with great potential. The domestic fleet and catch are keep decreasing mainly due to the depletion of near water fishery resources and increased international restrictions on deep sea fishing. Total imports of fishery products by Korea amounted to over \$1 billion in 1999, up 109% from \$499 million in 1998. Imports from US also increased to \$120 million in 1999, up by 56% from 1998. Although holding high market shares for several species, including frozen Surimi, frozen Angler and Roes of Alaska pollack, US is facing fierce competition from as many as 70 countries in the market. For example, among 4,508 metric tons of Salmon imports in 1999, US took only 2.8% of share. As the Korean food service sector gains more understanding of the quality value of US seafood supply over price, increase in market share and demand is likely.

4. Frozen Fruit

Fruit-based products are gaining consumer popularity for their natural, healthy image, array of flavors, high quality, and convenience. With the increased consumption of such products and limited production capacity, Korea depend heavily on imported frozen fruit to meet its needs in processing and food service sector. Korea's imports of frozen fruit increased by 400% to \$13.9 million in 1997 from \$2.8 million in 1993. The US supply reached \$2.3 million in 1997, up sharply from \$0.05 million in 1993. The US is the major supplier of high quality frozen strawberries, cherries and blueberries.

5. Fresh Fruits

Korea is an excellent market for US orange. The US was the sole supplier of orange to Korea until August 1999 when South Africa was first allowed for orange export to Korea. Fruit imports from US during the first six months of this year increased by 152% to \$58 million over the same period of last year. Orange accounted for 92% of the total fruit imports from the US. Other major fruits imported into Korea in 1999 are bananas (mainly from Philippines and Ecuador), table grapes (mainly Chile), pineapples (all Philippines), kiwi fruit (mainly New Zealand), lemons (mainly US), grapefruit (all US) and cherries (Mainly US and New Zealand). Apples are import banned from the US due to phytosanitary reasons.

6. Fresh, Frozen and/or dehydrated Vegetables

Korea is self-sufficient in almost all vegetables. Although the market for US vegetables is currently very small, there is potential. Supplies of local vegetables are often disrupted in Summer months due to intermittent periods of dry weather and heavy rains and also in winter. Onions are imported in large volume from the US. Currently Korean government requires fumigation practices with methyl bromide on imported vegetables. Once fresh vegetables are fumigated, they lose freshness. Once the fumigation issue is resolved, there will be a

greater potential for imported fresh vegetables. Rapid growth of fast food and family restaurant chains are also resulting in ever strong demand for the supply of fresh vegetables of little price and volume fluctuations year round. Imports of major vegetables in 1999 were onions (mainly from US and New Zealand), Garlic (all China), Carrots (all China), Cabbage (mainly China), Lettice (mainly US and Australia) and Chicory (mainly US). Due to the development in large chain restaurant business including institutional feeding service, demand for frozen and/or dehydrated vegetables is expected to grow significantly in near future.

7. Dairy Products

With on-going Westernization in dietary culture, Korea has a good potential for US suppliers of cheese, ice cream, whey and other dairy products. Most competition comes from Denmark, Canada, New Zealand and Australia.

8. Alcoholic Beverages : Wine, Hard Liquors and Beer

Korea is traditionally one of the markets of heaviest alcoholic beverages consumption. As traditional rice wine consumption loses most of its share, western style products are dominating the market. During the economic crisis in 1998, all major local alcoholic beverage businesses merged with international players, wide opening the market to direct international competition.

9. Bakery Pre-mixes Including Frozen Dough

Although the import volume of pre-mixes is still small, the increasing popularity of Western style bakery products has increased pre-mix imports in recent years by 600% to \$3 million in 1997 from \$0.5 million in 1993. The US suppliers took 63% of the imported pre-mix market in 1997.

B. Products Not Present in Significant Quantities But Which Have Good Sales Potential

Spices and sauces, prepared foods, organic fruits and vegetables, certain vegetables that are not locally available (e.g., asparagus).

C. Products Not Present Because They Face Significant Barriers

Currently, apples are import banned for sanitary reasons. Rice is also banned from import except the one which will be used as an ingredient for processed foods (i.g. cookies).

V. Post Contact

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