

e-Exporting to Korea - A Guide for British Companies

UK Trade & Investment

**E-EXPORTING
IS**

GREAT

BRITAIN & NORTHERN IRELAND

in partnership with

 **Intralin** <



UKTI's E-Exporting Programme aims to help UK companies sell their products or services to millions of global consumers and grow their business through online exports.

UKTI's E-Exporting Programme helps UK companies who are:

- New to selling online
- Already selling online, but need help with specific issues
- Experienced in online sales, but are looking to sell on multiple platforms globally

The programme enables you to:

- Arrange a free meeting through your local UKTI office to get expert international trade advice and support, and access to UKTI's global network of contacts
- Meet an e-commerce adviser where relevant to help develop and implement an international online strategy
- Set up on e-marketplaces quickly and also identify new e-marketplaces around the world
- Access better than commercial rates to list on some e-marketplaces, including lower commission fees and 'try for free' periods
- Join our mailing list for opportunities to hear from industry experts, network with like-minded individuals and find out about e-commerce trends
- Access the E-Navigator - This is an intelligent database with information on the world's top e-commerce platforms. UK companies will be able to use the tool to identify overseas e-marketplaces to sell through, based on consumer search data, country selection and product category. The E-Navigator will be publicly launched in November 2016 as part of UKTI's new digital service.

For more information on UKTI's E-Exporting Programme, visit gov.uk/e-exporting and follow **@UKTIcommerce on Twitter.**

UK Trade & Investment

UK Trade & Investment (UKTI) works with UK based businesses to ensure their success in international markets through exports. We encourage and support overseas companies to look at the UK as the best place to set up or expand their business.

To find out more about how we can help you in the UK and overseas, please visit our website at: www.ukti.gov.uk

Contact us

Opportunity.Korea@fco.gov.uk
e-exporting@ukti.gsi.gov.uk

Follow us

Facebook: UK in ROK
Twitter: @UKTI_Korea
@UKinKorea
@UKTI



UK Trade
& Investment

About Intralink

Intralink develops and executes sales, licensing and investment strategies for European and American companies targeting new markets in East Asia. Through our proven Surrogate Sales Program™, we provide companies with a low risk, cost effective and practical means to target these markets, generate new or incremental revenues, and establish an in-country presence through a local subsidiary, partnership or acquisition.

In addition, we offer a range of pre- and post-market entry services, including opportunity assessments, distributor and supplier searches, investment

coordination and local representation. We work with our clients to commercialise technology, bring products to market, secure Foreign Direct Investment, and source capital from strategic investors.

Our clients are start-ups, small and medium-sized enterprises, government organisations and multinational companies in the automotive, energy, healthcare, retail, technology and other high-growth sectors. Through our team of over 60 full-time bilingual employees based in Asia, Europe and North America, we offer a transparent and hands-on approach, extensive in-country contacts, and over

25 years of market experience.

Founded in 1990, Intralink is headquartered in Oxford, England, and has offices in London, Berlin, Silicon Valley, Boston, Shanghai, Tokyo, Seoul and Taipei.

Contact us

jonathan.cleave@intralinkgroup.com

Follow us

Twitter: @Intralink_Asia
@Intralink_Korea



Contents

1. e-Exporting Opportunities for British Brands	4	4. Cross-border Online Shopping	20
2. Korea Overview	6	4.1. Market Overview	20
3. e-Commerce in Korea	8	4.2. Key e-Export Categories	23
3.1. Market Overview	8	4.2.1. Food & Beverages	23
3.2. Key Characteristics	10	4.2.2. Fashion	24
3.2.1. Policy	10	4.2.3. Beauty & Cosmetics	26
3.2.2. The Consumer	11	4.2.4. Baby Products & Toys	27
3.2.3. m-Commerce	11	4.2.5. Home & Living	29
3.2.4. Payments	11	5. Market Entry Strategies	32
3.2.5. Delivery	12	5.1. Market Entry Methods	32
3.2.6. Customer Service	12	5.1.1. Level 0: Using a Global e-Commerce Platform	32
3.3. Open Markets	13	5.1.2. Level 1: Website with Shipping Options to Korea	33
3.3.1. Gmarket (eBay)	15	5.1.3. Level 2: Website Localisation	34
3.3.2. Auction (eBay)	15	5.1.4. Level 3: Dedicated Customer Support	35
3.3.3. 11th Street (11ST)	16	5.1.5. Level H: The Hybrid	36
3.3.4. Coupang	16	5.1.6. Level 4: Multi-channel	37
3.3.5. WeMakePrice	17	5.2. Marketing	38
3.3.6. Ticket Monster	17	5.2.1. Level 1: Adding Korea to Current Digital Media Plan	38
3.3.7. Naver Corp	17	5.2.2. Level 2: Social Media and Local Internet Personality Sponsorships	39
3.4. Online Shopping Malls	18	5.2.3. Level 3: Using Local Digital Media Agency	39
		6. Logistics and Customs	40
		6.1. Logistics	40
		6.2. Customs	41

Table of figures

Figure 1: Retail and e-Commerce Sales Growth	8
Figure 2: Cross-border e-Commerce Market Size (GBP)	20
Figure 3: Overseas Direct Purchase Clearances by Country (% of Total)	21
Figure 4: Product Categories Purchased Directly from Overseas (% of Total)	21
Figure 5: Korea's e-Commerce Landscape	22
Figure 6: Search Engine Market in Korea	39
Figure 7: Manifest Clearance	42
Figure 8: Rapid Entry / Simplified Clearance	43
Figure 9: Standard Clearance	43

The exchange rates used in the report are as follows: GBP 1 = USD 1.46 = KRW 1,740

In this report, "Korea" is used to refer at all times to South Korea

An Overview of e-Exporting Opportunities

South Korea's e-Commerce market is thriving and offers British retailers and brands huge opportunities. With rising disposable incomes, a technologically savvy and increasingly outward-looking population, and an Internet and mobile telecommunication infrastructure that is among the best in the world, Korea is at the forefront of both domestic and cross-border e-Commerce trends.

British goods enjoy a strong reputation among Koreans and are known for their design, quality and heritage. Whereas US e-commerce platforms have dominated the overseas direct purchasing market in Korea until now, market watchers believe that direct purchases from the UK, along with China and Germany, will see substantial growth over the coming years.

The Korean e-Commerce Market

Korea boasts the world's seventh largest e-commerce market and trails only behind China and Japan in the APAC region. The e-commerce market was worth GBP 25bn in 2015 (9% of total retail sales) and, with 13% year-on-year growth, is expected to

surpass GBP 32bn by 2018. The country's e-commerce industry is very competitive, with open market platforms (Gmarket, 11th Street), social commerce platforms (Coupang, Ticket Monster) and online shopping malls (SSG, Lotte Mall) all vying for market share. It is also a market dominated by domestic brands – the global giants of e-commerce such as Amazon or eBay have either failed to penetrate the market and to secure a foothold.

Korea's advanced Internet infrastructure plays a key role in facilitating the growth of e-commerce. Korea is the only country in the world that boasts average download speeds of over 20Mbps. m-Commerce is particularly well developed in Korea with over 80% of the

country's population subscribed to LTE services, each browsing on an average of 2.3 mobile devices. One third of smartphone users make a purchase with their phone at least once a week and retail mobile conversion rates are twice as high as the UK. Some e-commerce websites in Korea record as much as 70-75% of their transactions on mobile.

Cross-border e-Commerce in Korea

Korean cross-border e-commerce has grown considerably over the past decade and surpassed GBP 1bn in 2015. Local consumers are increasingly turning to foreign websites to secure better prices and purchase products that are not available, or too expensive, domestically. The

current government is supporting crossborder shopping as a way to lower Koreans' cost of living and to tackle the common practice of domestic importers, distributors and retailers inflating prices. US e-commerce sites account for 74% of all cross-border e-commerce sales in Korea, while Chinese sites make up 11%. Within the EU, Germany is the number one player with 5.4%. Although the UK accounts for an impressive 11% of total global Internet retail sales, only 1.4% of cross-border e-commerce transactions conducted in Korea involve the UK.

Key e-Export Categories

British goods enjoy a strong reputation among Koreans and British products are often marketed in the country with specific reference to their origin. Men's fashion, accessories, confectionery, home décor, highend beauty and grooming products are just a few examples of the UK's strengths in retail. There is a clear overlap in the areas in which the UK excels and the products that are increasingly sought by Koreans looking to make overseas direct purchases. Key cross-border categories include:

- Fashion (premium/mass apparel, outdoor wear, accessories, etc.)

- Beauty & Cosmetics (small-batch cosmetics, organic cosmetics, male grooming, perfumes, etc.)
- Baby products & Toys (organic/hypoallergenic baby cosmetics, clothes, educational toys, etc.)
- Food & Beverage (health supplements, organic food, confectionery, etc.)
- Home & Living (home décor, kitchen/tableware, bed/bathroom accessories, pet accessories, etc.)

Market Entry Options for e-Exporters

There is a range of strategies for UK brands to choose from in order to address Korean consumers' needs directly, some of which require little effort and/or investment. On the low-cost end of the spectrum, it is simply possible to add a Korea shipping option at checkout. For an already growing Korean customer base, a more targeted approach would entail website localisation. Beyond this it may also be worth investing in a dedicated Korean customer service centre, as Koreans demand excellent after-sales service. Finally, it is possible to explore hybrid business models that involve working directly with local e-commerce platforms that are in some cases able to be the de facto distributors in the country.

On the other hand, e-commerce is increasingly understood to play a complimentary role to offline sales rather than replacing brick-and-mortar sales channels. Korean consumers, as elsewhere, engage in webrooming (researching a product online and the making the purchase in-store) and showrooming (visiting a store to research and select a product before buying it, usually for a cheaper price, online). Therefore, finding a distributor that can develop the right offline channels for a company's products remains important for increasing both awareness and trust in a new foreign brand.



Korea Overview

Key Points

- Korea is the world's 11th largest economy with a GDP of just under GBP 1tn
- Korea is open for trade. It is the only country in the world to have Free Trade Agreements with the EU, the US and China
- The EU makes up 9% of Korea's global trade. The UK is Korea's second largest EU trading partner
- The Korea-EU FTA allows tax-free imports of products with a value of less than GBP 104
- Korea's rising incomes, focus on convenience, high population density and world-class Internet infrastructure underpin a rapidly growing cross-border e-Commerce market

Economy

Korea is a dynamic economy with a GDP of just under GBP 1tn in 2015. Global names such as Samsung, Hyundai, Doosan and LG have powered the country over the last half century to become the 11th largest economy in the world with a GDP per capita of close to GBP 20,000. The Korean economy grew by 2.6% in 2015 which, although good by global standards, is less than the high single-digit growth that the economy enjoyed in its recent past. As the companies that dominated Korea's growth over the last fifty years became more and more entrenched across all sectors of the economy, successive governments have tried to mitigate the country's dependence on a small number of large conglomerates.

Since the turn of the century, Korea has placed trade liberalisation at the forefront of its foreign policy. The country has signed more free-trade agreements (FTA) than any other and is the only country

in the world to have FTAs with the European Union, the United States and China. In comparison with Japan, which has relied more on its large domestic market, Korea has traditionally been a much more outward-facing economy and now ranks as the 7th largest trading nation in the world. The country's main trading partners are China (25% of total exports and 16% of total imports), the United States (10% of exports and 8% of imports) and the European Union (9% of both exports and imports).¹

The Korea-EU Free Trade Agreement

In May 2010 Korea became the first Asian country to sign a FTA with the EU. The Korea-EU FTA was implemented on July 1st 2011. The majority of import duties were removed immediately and the remaining duties, with the exception of certain agricultural products, will be eliminated on July 1, 2016. Since the FTA was signed, the value of Korean imports from the EU increased from GBP 32.7bn in 2011 to

GBP 43bn in 2014. The EU has become Korea's third-largest trading partner and its top foreign investor.

The UK is Korea's second largest export market (GBP 3.99bn) and its second largest import market (GBP 5.14bn) within the EU, trailing only behind Germany. UK exports to Korea grew by 47.5% between 2010 and 2014. In 2015 Korea was the second largest market in Asia/Oceania for UK goods exports (excluding the logistics hub of Hong Kong) and a top 20 market worldwide. The UK's main exports to Korea are industrial and B2B in nature, but retail, led by health and beauty products, jewellery, beverages and spirits, is on the rise.

The Korea-EU FTA allows products with a value of less than GBP 104 per shipment to pass through customs within a couple of business days, without additional duties or taxes paid by the customer. Products valued up to GBP 1,380 can be imported by Koreans for personal use with reduced paperwork. e-exporters can skip a lot of formalities required of traditional exporters, such as product registration, safety testing, labelling, etc., as long as the customer is importing the product for his or her own use.

Population and Lifestyle

Korea has a population of just over 50 million, approximately half of whom lives in or around the Seoul metropolitan area. This area includes Seoul city, Gyeonggi province that surrounds the capital city, the port city of Incheon and satellite cities such as Bundang and Ilsan. Seoul is divided by the Han River, with the old city situated north of the river and the trendy Gangnam district located to the south of the river. Other major Korean cities include Busan, Daegu and Daejeon.

Korea's meteoric economic growth has taken its toll. Koreans work more than 2,000 hours a year, which is considerably more than the 1,669 hours worked by UK workers.² The average woman in Korea gives birth to just 1.2 children compared to 1.9 children in the UK.³ Young Koreans are getting married later or shunning marriage altogether. One-person households account for 25% of the total and this figure is expected to climb to 35% by 2035.

While these factors present clear challenges, they are largely conducive to a flourishing e-commerce market. The extremely high population density means that 60% of Koreans live

in high-rise apartment buildings, most of which are equipped with high-speed broadband and an office where deliveries can be received even when the recipient is at work. Long working hours mean that convenience is prioritised and the low birth rate ensures a greater proportion of disposable incomes can be spent on oneself or spread across fewer children.



e-Commerce in Korea

Key Points

- Korean e-Commerce was worth GBP 25bn in 2015 and is expected to reach GBP 33bn by 2018
- Policy is increasingly favourable to cross-border e-Commerce - a great opportunity for British brands
- British brands can both e-Export and maintain a separate in-country offline distribution at the same time - parallel import policy allows for more flexibility in developing sales channels
- m-Commerce accounts for the majority of online sales - a good mobile experience is key
- Koreans generally use credit cards for cross-border e-Commerce but mobile payments are growing
- The Korean consumer is used to quick deliveries and a very high level of customer service
- The dominant e-Commerce websites in Korea include Coupang, Gmarket and Auction

3.1. Market Overview

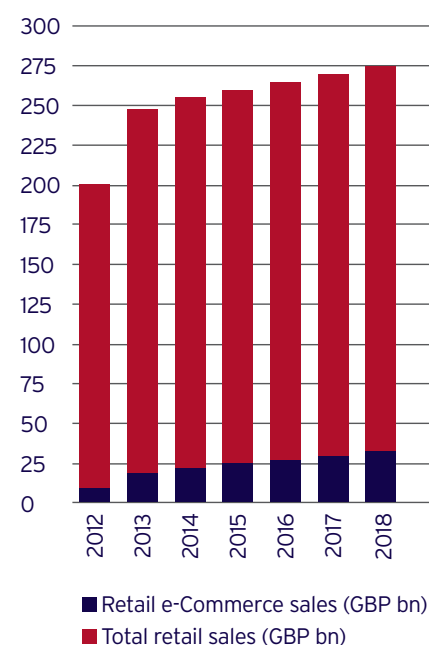
Korea is the world's 7th largest e-commerce market and APAC's 3rd largest e-commerce market after China and Japan. The industry was worth GBP 25bn in 2015, up 11% from 2014⁴ and expected to grow to GBP 33bn by 2018.⁵ e-Commerce sales volume accounts for 9.8% of the country's retail sales and it is believed that this number will grow to 12% by 2017.⁶

The Struggles of Global e-Commerce Brands

Koreans lean strongly towards solutions that are designed for Koreans and in the Korean language. Global e-commerce companies have struggled in Korea, despite their vigorous marketing efforts. Yahoo stopped producing online content after struggling against local Internet companies such as Naver and Daum. Naver and Daum also dominate the local search engine market, dwarfing the global giants, Google and Yahoo.⁷

Similarly, global brands such as eBay and Groupon struggled to penetrate the Korean e-commerce market and had to

Figure 1: Retail and e-Commerce Sales Growth



Source: eMarketer



resort to acquiring local players. Groupon, the American company best known for its “flash sales”, closed down its Korean subsidiary after failing to compete against the three domestic players, Ticket Monster, Coupang and WeMakePrice. Groupon then bought Ticket Monster for GBP 180mn in 2014 only to resell its 46% stake in April 2015.⁸ eBay followed a similar path. Unable to leverage its globally recognised brand in Korea, the company acquired Auction in 2001 and then Gmarket in 2009 for GBP 830mn.⁹

Amazon, another global e-commerce behemoth, despite being one of the most visited non-Korean websites, only opened its Korea office in late 2015. Amazon Korea focuses on outbound sales of Korean products. An Amazon Korea insider stated that Amazon.com has steady traffic amongst consumers based in Korea, but not enough of it to justify opening a full Amazon.co.kr website. It is up to merchants on Amazon whether they want to ship to Korea or not.

“

Domestic e-Commerce platforms are run by Koreans for Koreans, are fully localised, available in both desktop and mobile, work closely with local telecommunication companies to improve the mobile experience and work with domestic credit card companies to provide discounts and loyalty benefits. It is a tightly-knit ecosystem that foreign e-Commerce platforms, such as Amazon, may find challenging to break into. UK retailers should focus on utilising locally-established channels or specialised online malls.

Senior Manager – Amazon Korea

”

3.2. Key Characteristics

3.2.1. Policy

Recognising consumers' growing interest in e-commerce, the current Korean government is pushing to deregulate the digital environment. On the one hand, Korea has traditionally been a market of high consumer prices often caused by import and sales channels that were dominated by Korean conglomerates. The conglomerates enjoyed exclusive

distributorship agreements that allowed them to maintain high margins. Under pressure from increasingly well-informed consumers, the government has started to ease direct purchases from overseas as a way to ease the average Korean's living expenses.¹⁰ Indeed, foreign brands can now utilise parallel exports to Korea: they can have an offline in-country distributor while continuing to sell directly to consumers via their global shopping websites.

Also in recent years Korea has emerged as a cultural powerhouse and Korean films, dramas and pop music have become staggeringly popular across Asia. This has presented many opportunities for Korean companies looking to sell products and clothing that feature in the country's exported content. Foreigners spent GBP 208mn on Korean e-marketplaces in 2013 and this figure rose by 56.8% to GBP 335mn in 2014.¹¹ However, until recently no transaction could be made on a Korean website without a certificate of authentication which required the Active X add-on to Internet Explorer. Other browsers (e.g. Firefox, Chrome) were not compatible and there was no way to simply type in a credit card number, CVV code and authorise purchase. Not only did

this greatly hinder cross-border e-commerce it also stunted the growth of digital payment systems. The Korean government announced in March 2015 that it would abandon the mandatory use of the system in the hope of spurring cross-border trade.

3.2.2. The Consumer

Koreans are demanding customers who represent two seemingly conflicting buying behaviours: bargain seeking to save money and a strong preference for superior product quality. Online retailers generally target young mums, young adults in their 20-30s, and middle-aged females in their 40-50s.¹² These shoppers' buying preferences are mainly influenced by local celebrity endorsements, TV drama and movie endorsements, social media word-of-mouth, discussion boards, TV commercials and social media campaigns.¹³ According to Korean credit card operators, men tend to spend 15% more money online across fewer transactions, while women shop online more often but generally buy things that are less expensive.¹⁴ 50% of Korean respondents in Nielsen's 2016 survey on e-commerce said they had purchased something online in the last 6 months. The corresponding figure for Korea's neighbour, Japan, was 32%.¹⁵

The average Korean household has GBP 2,225 of disposable income each month, of which GBP 1,756 is spent and the rest is saved or invested. Living expenditures account for GBP 1,334 (while GBP 322 is paid in taxes), and these include GBP 176 on food and beverages, GBP 83 on clothing, GBP 54 on household items and around GBP 120 on other goods and services. UK exporters can therefore target a share of about 32.4% of the average household's total monthly living expenditures, or about GBP 426.¹⁶

3.2.3. m-Commerce

The Korean government has made investment in the Internet a national priority since the early 1990s and the country is well known for its leading position in broadband penetration and download speeds. The country records average download speeds of 20.5Mbps, which is the fastest in the world. By comparison, Japan records average download speeds of 15Mbps while the UK averages 13Mbps.¹⁷

Korea has also long been at the forefront of mobile technology, both in relation to handsets and the supporting network, and 80% of the population uses a smartphone. The average Korean owns 2.3 mobile devices, browses e-commerce websites on

mobile at least once a week, and completes 60-70% of his or her purchases on a mobile device.¹⁸ In fact, some local companies record as much as 70-75% of their transactions being completed on mobile. Forty-five percent of e-commerce transactions are made by smartphones in Korea versus 41% in Japan and 18% in the UK.¹⁹ Furthermore, retail mobile conversion rates are two times higher in South Korea (6.7%) than the UK (3.2%). This may be due the fact that largescreen phones (phablets) that offer a better shopping experience are extremely popular in Korea, but also suggests that the mobile experience is well-designed to get consumers from browsing to checkout seamlessly.²⁰

3.2.4. Payments

Credit cards are by far the most common payment method in Korea with 74% of all online transactions being settled by card versus the global average of 53%.²¹ Koreans own four credit cards on average, the most in the world and more than 3 times as many as the average UK citizen (1.2).²² The vast majority of Korean consumers use domestic credit cards that are tied to the international payment processing networks of Visa, MasterCard and American Express. The fact that Korean consumers prefer

to pay online with credit cards is favourable to British e-exporters as it makes the payment process straightforward. In this respect, Korea stands in stark contrast to the Chinese market where most e-commerce payments are either cash-on-delivery (COD) or made using country-specific 3rd party online payment systems (e.g. Alipay), and only 5% of 4.2 billion cards in circulation are Visa or MasterCard.²³

While credit cards are overwhelmingly dominant in Korea, with the recent abolishment of the authentication process requiring Active X, payment methods such as PayPal and Alipay have started to gain some traction. Mobile payments are also growing in popularity.²⁴ Korean enterprises are now offering easy-to-use mobile/online payment services. For instance, mobile wallets such as Kakao Pay or Naver Pay now allow for credit/debit card information to be stored on users' smartphones allowing for instant payment both online and offline.

3.2.5. Delivery

Delivery speed is extremely important to Korean online shoppers and even the tiniest delay can result in dissatisfaction, complaints and negative online reviews. e-Commerce companies recognise this fact and are exploring the use of in-house delivery systems rather than relying on traditional delivery companies. This way they can guarantee delivery terms and timelines, as well as better manage exchange and return requests. Coupang started this trend and, based on its success, the rest of the industry seems to be following suit.

3.2.6. Customer Service

Most of the large e-commerce platforms in Korea have reached 18-20 million registered users and 30,000-50,000 vendors. Executives from eBay Korea, Coupang and 11th Street all agree that the time when they could compete on prices and promotions is over and now the only way to both boost new growth and retain existing customers is to provide better customer service than the competition. Same-day delivery, hassle-free returns policies, 24/7 call centres with personalised support are just a few examples of how these companies compete for the modern Korean e-commerce customer.

Industry Insider's Tip

Coupang offers in-house, next day delivery of some commodities such as water, milk, toilet paper, baby nappies, etc. and a selection of their other best-selling products. The service is called Rocket Delivery and is akin to Amazon Prime. Korean Internet chatrooms and blogs are abuzz with talk of "Coupang Men", praising their extra-efficient delivery service, cheerful demeanours and flexibility. Other e-Commerce companies are working on replicating this model. e-Commerce insiders claim that since it is hard to compete on prices of commodities, it makes more sense to compete on customer service (e.g. fast free delivery, easy refunds/returns, etc.)

CLOSER LOOK

Strawberry Net offers tax refunds to Korean customers. If the perfumes/cosmetics ordered by the customer are subject to additional taxes, the customer can send the receipt and get a refund directly to the credit card they used for payment. Strawberry Net does it voluntarily - a show of goodwill - and does not guarantee returns every time. The company found that Korean consumers like this extra cushion very much and come back to them more often.

Korean laws relating to e-commerce stipulate that vendors shall provide refunds if products ordered are not received, or if the product is not in keeping with the way it was advertised on the website. This applies to both independent online vendors operating their own sites and those vendors using open market platforms such as Gmarket. UK e-exporters are governed by UK laws pertaining to business conduct in e-commerce and can therefore handle complaints, refund/exchange requests according to the UK regulations and their own policies, to which users agree when purchasing goods. It is strongly

Industry Insider's Tip

Most successful e-Exporters to Korea do not charge customers shipping fees on return/exchange, respond to inquires very quickly and do not ask too many questions. Korean customers generally expect that if, for instance, they did not like the colour of the product when it arrives, that is reason enough for the vendor to grant a free-of-charge return/exchange. Also, complaint handling can be a frustrating experience for both the seller and the buyer if the process is not conducted in Korean.

recommended, however, that e-exporters provide a high level of customer support to meet the expectations of Korean consumers and to ensure that negative feedback is not circulated on the Korean Internet - something that it is difficult for an e-exporter to find out about or remedy.

3.3. Open Markets

As elsewhere, there are two main online sales channels in Korea: open markets and online shopping malls. An open market is a website that serves as an e-commerce platform for vendors of all sizes to display their products and connect with consumers. These platforms help facilitate online transactions, taking a fee - usually a percentage of the sales value - from the vendor in return. This is the model employed by

companies such as eBay and Alibaba.

Interpark, established in 1996, is generally considered the pioneer of Korean e-commerce. A second generation of e-commerce retailers - open market platforms such as Gmarket and Auction - came to dominate the landscape in the early 2000s. Since 2010, online retailers such as Coupang, Ticket Monster, and WeMakePrice, initially borrowing from Groupon's social commerce concept, have emerged as the sector's heavyweights. These companies soon evolved into e-commerce companies more akin to Amazon, in that they combine an online shopping mall with an open market, offering a platform for independent vendors but also carrying own their stock of the most popular products and brands.



Coupang is a rising star not only of online retail, but of the tech industry in Korea as a whole. It was able to reach GBP 690mn (USD 1bn) in gross merchandise value in only 13 quarters from its inception in 2010, becoming the fastest e-commerce company in the world to achieve that figure. Coupang is now moving away from social commerce and transforming itself into “Korea’s Amazon”. Coupang is currently focused strongly on growth rather than profits. The company received an investment from Softbank of GBP 700mn in 2015, which valued the company at close to GBP 3.5bn. Korean consumers often engage in pre-purchase research to

aid in their decision-making process. Some research tools include price comparison services such as Naver, direct dialogue with sellers via website Q&A sections, information exchange with other users via message boards, and visiting physical locations where products are displayed (showrooming) before buying online. Webrooming - the practice of doing product research online to complete the purchase in a brick-and-mortar store - is also increasingly cited as a buying pattern and 37% of Korean consumers said that they conducted online research before buying groceries offline in 2014.²⁵ One reason for this is that online store product descriptions

have the amount of detailed information rarely attainable offline, unless experienced sales staff can be questioned. In terms of local online shopping, the most popular product categories are clothes and fashion accessories (18%), travel and entertainment (17%), home and car accessories (12%), computers, computer parts and accessories (11%) and food (8%).²⁶ These are the products, either domestically manufactured or imported, that tend to be widely available for purchase offline as well, but people choose to buy them online for convenience or price competitiveness. More and more Koreans are choosing to buy commodities this way.

Key Player Profiles

3.3.1. Gmarket (eBay)

Website	global.gmarket.co.kr				
Established	2000	Employees	899	Revenue (2015)	GBP 482mn
Overview	<ul style="list-style-type: none"> • The open market leader, focused on fixed-price sales. A subsidiary of eBay Korea, the site has a 38.5% market share, a total of 70,000 registered vendors, 19 million registered users and sees millions of transactions each month • Gmarket mostly caters to Korean consumers but the website offers limited availability in English and Chinese. It offers international shipping to over 50 countries • Gmarket is integrated with other Korean web services. It is possible to search for Gmarket items directly via Korea's largest search engines - Naver and Daum • Gmarket's revenues come mainly from sellers, who pay (1) a fee based on an item's selling price, (2) a fee based on the starting price, and (3) an advertising fee. The sales fee (5-8%) is negotiable and can add up to 10-15% with other fees • Gmarket is investing into new revenue streams - reselling, same-day delivery, etc. 				

3.3.2. Auction (eBay)

Website	www.auction.co.kr				
Established	1998	Employees	899	Revenue (2015)	GBP 482mn
Overview	<ul style="list-style-type: none"> • As a subsidiary of eBay Korea, Auction is one of the biggest open markets in Korea with a 26% market share and a total of 20 million users • Auction started as Korea's first online auction marketplace but the model is losing popularity relative to the discount-based fixed price model • With 20 different categories offered, Auction also features the \$1 auction, a co-auction, a second-hand marketplace, and luxury items section • Auction partners with certain Korean companies, such as department stores and electronics companies, to offer them a separate branded corner on its website 				

3.3.3. 11th Street (11ST)

Website	english.11st.co.kr				
Established	2008	Employees	800	Revenue (2014)	GBP 828mn
Overview	<ul style="list-style-type: none"> • Owned by SK Planet and part of the SK Group, 11th Street is the only domestically owned and funded e-commerce marketplace in Korea • 26.1% market share, 22,000 registered vendors and 21 million registered users • The website is offered in English and Chinese, and has a branch in Malaysia • 11th Street takes margin from sellers which is usually between 6-7% (with marketing fees this can be climb to 15%) • 11th Street acts as a vendor for some of the most popular products, which it buys in bulk and ships from its domestic warehouse • 11th Street provides a variety of partner discount and loyalty programs in association with its mother company SK Telecom • 11th Street also offers worldwide shipping services to more than 50 destinations 				

3.3.4. Coupang

Website	www.coupang.com				
Established	2010	Employees	1,200	GMV (2015 est)	GBP 2bn
Overview	<ul style="list-style-type: none"> • Coupang is the world's fastest-growing e-commerce company that grew to GBP 690mn of gross merchandise value (GMV) from Q1 2011 and Q3 2013 • 55.2% of social commerce market share • The company started as a Korean equivalent of Groupon, but quickly expanded to partnering with independent merchants and reselling physical goods • Coupang currently offers a curated selection of diverse merchandise, including baby goods, fashion, beauty products, consumables and home goods • Coupang, with its subsidiary Coupang America, offers a Coupang Global service whereby it purchases popular products in bulk in the US and sells them to Korean customers via with a guaranteed "within 5 days" delivery • Coupang offers a domestic same-day delivery service (Rocket Delivery) • Mobile sales account for more than 50% of sales and 70% of transactions • The company's is valued at GBP 3.5-4.8bn and has taken investment from Softbank 				

3.3.5. WeMakePrice

Website	www.wemakeprice.com				
Established	2010	Employees	1,200	Sales (2015)	GBP 1.4bn
Overview	<ul style="list-style-type: none"> • Formerly known as Namu Internet, WeMakePrice is the second-largest social commerce website with 19.9% of social commerce market share • WeMakePrice puts special emphasis on items and services including restaurant coupons, spas/aesthetic treatments, exhibits, and travel packages • Unlike other social commerce companies in Korea, WeMakePrice is actively engaged in holding public events such as Beauty Fairs that feature popular domestic cosmetics brands and tutorial sessions with famous makeup artists 				

3.3.6. Ticket Monster

Website	www.ticketmonster.co.kr				
Established	2010	Employees	1,000	Sales (2014)	GBP 967mn
Overview	<ul style="list-style-type: none"> • Ticket Monster (abbr. TMON), along with Coupang and WeMakePrice, is a leading social e-commerce company with 24.9% market share in Korea • The company operates in three main verticals: Goods, Local and Travel, and offers over 47,000 Stock Keeping Units (SKUs) through various partnerships with 15,000 merchants • In 2014, 70% of TMON's transactions were completed on mobile devices and its customer base continued to expand into multiple age segments • In 2015, private equity investor Anchor Equity Partners and KKR acquired a controlling stake of Ticket Monster from Groupon 				

3.3.7. Naver Corp

Website	shopping.naver.com				
Established	1999	Employees	2,204	Revenue (2014)	GBP 2.2bn
Overview	<ul style="list-style-type: none"> • Naver Corporation is a Korean Internet content service provider and developed Korea's first indigenous search engine in 1999 (now over 80% market share) <ul style="list-style-type: none"> - Naver's services also include digital maps and instant messaging • Naver launched its mobile shopping platform in 2015 • Naver Pay, makes Naver a one-stop platform for mobile shopping • Naver launched "Global Window" in January 2016, where it introduces foreign products and SME merchants from overseas who offer shipping to Korea <ul style="list-style-type: none"> - Currently focuses on products from UK, France and Germany - Five main product categories: fashion, beauty, living, kids and F&B - Customer service (Q&A, Shipping, Return, etc.) all in Korean - Shipping costs depend on sellers. Standard rate from UK is GBP 10 				

3.4. Online Shopping Malls

Online shopping malls are websites operated by brands that carry an assortment of that company's own products or private labels and are usually designed as an addition to an existing bricks-and-mortar retail operation. Online malls can also be shopping websites operated by large retailers carrying an assortment of products provided by different brands and vendors. In both cases the website operator keeps stock of the goods that it sells. Examples of online shopping malls include The Body Shop and Shinsegae Online Mall.

Large traditional retailers such as Shinsegae, Hyundai Department Store and Lotte, have been playing catch-up with Internet-only retailers for e-commerce market share. While still small relative to e-commerce companies in terms of online sales market share, they operate their own online malls and work with open markets, registering as "Premium Vendors". One of the more common tactics that these companies employ is to consolidate multiple existing e-commerce sites that they operate (e.g. separate grocery, premium fashion and home shopping sites) into single online offerings.

Shinsegae Group

Korea's oldest department store and largest hypermarket chain was formerly part of the Samsung Group. The Shinsegae Group consists of Shinsegae Department Store (10 stores, luxury brand positioning), Emart (137 super and hypermarkets accounting for over 50% of the group's revenue), Shinsegae Food (importer and distributor of foods), Chosun Hotel, Starbucks Korea and other subsidiaries. The group recorded combined revenues of GBP 13.3bn in 2014.

SSG.COM (www.ssg.com): Owned by the Shinsegae Group, SSG.COM is an online shopping mall where consumers have access to a number of Shinsegae-owned shopping malls, including Shinsegae Mall, Shinsegae Department Store, Emart Mall, Emart Traders and Boons Apothecary.

Lotte Group

Subsidiaries of the Lotte Group include Lotte Department Store (31 stores, 48% market share), Lotte Mart (114 stores), Lotte Chilsung (soft and alcoholic beverage manufacturer and licensor), Lotteria (Korea's top fast food franchise), Lotte Hotel, Lotte World (amusement park), Toys"R"Us and many others. The group's combined revenues in 2014 were GBP 38bn.

Ellotte (www.ellotte.com):

Launched in 2013, Ellotte is an online shopping mall owned by Lotte Department Store. It differs from Lotte's other online malls in that it only carries products from Lotte Department Stores along with newly launched premium brands.

LOTTE.COM (www.lotte.com):

Launched in 2000, LOTTE.COM is Lotte Department Store's main online shopping mall, offering products from its department stores as well as individual sellers.

Lotte Homeshopping

(www.lotteimall.com): Launched in 2001, Lotte Homeshopping operates its online mall, Lotte iMall, offering products sold via TV home shopping as well as online catalogues.

Hyundai Department Store Group

The Hyundai Department Store Group (HDSG) deals with retail and distribution of food and other products, food manufacturing, food services, media and entertainment, logistics, finance and IT services. The company currently operates two online shopping malls that are designed to appeal to the premium market. The group's combined revenues were GBP 6bn in 2014.

The Hyundai

(www.thehyundai.com): Launched



in January 2016, The Hyundai offers nearly all products from both Hyundai Department Store and Hyundai Homeshopping. The difference is that the users of Hyundai Credit Card get additional benefits.

Hyundai Hmall (www.hyundaihmall.com): Owned by Hyundai Homeshopping, Hyundai Hmall is a shopping mall focused on items traditionally sold via TV home shopping, a market that is still large in Korea.

GS Retail

GS Retail (www.gsshop.com) is a subsidiary of the GS Group, one of Korea's largest conglomerates and formerly part of the LG Group. GS Retail focuses on medium and small-size retail. They have a network of over 8,000 GS25 convenience stores, 260 GS Supermarkets and 105 Watson beauty stores (a 50-50 joint venture with the Hong Kong-based health and beauty chain). The group's 2014 revenues were GBP 350mn.

CJ Group

Originally the food manufacturing division of the Samsung Group, CJ is now a formidable retail player, especially in pharmaceutical, cosmetics and F&B. The CJ Group operates the nation's largest pharmacy chain - Olive Young - with over 460 stores nationwide. It also operates an online mall (www.cjmall.com) with a variety of products and membership benefits. The group's revenues reached GBP 11bn in 2014.

Cross-border Online Shopping

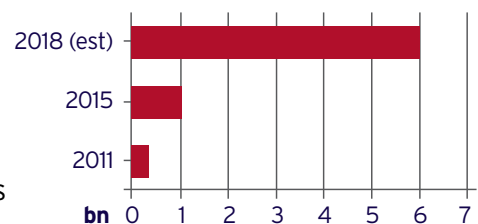
Key Points

- Korea's cross-border e-Commerce industry reached a value of GBP 1bn in 2015 and is estimated to be worth GBP 6bn by 2018
- Key Korean cross-border e-Commerce categories include fashion, cosmetics, baby products, food & beverage, and home & living
- The UK accounts for 1.4% of cross-border online shopping shipments to Korea - there is huge untapped potential for British brands
- The Korea-EU FTA, signed in 2011, ensures British brands are well placed to exploit this market

4.1. Market Overview

While many global brands in areas such as fashion, food and beverages or beauty and cosmetics have enjoyed popularity amongst Korean consumers since as far back as the 1980s, small and medium-sized retailers were, until recently, at a disadvantage due to geographical and sales channel barriers. The value of cross-border online shopping exceeded GBP 1bn in 2015, a six-fold increase compared to GBP 302mn in 2011.²⁷ This value of the industry is expected to reach GBP 6bn by 2018.²⁸ With the growth and diffusion of the Internet, inexpensive shipping methods, and the help of EU-Korea Free Trade Agreement, British retailers of all sizes can now address Korean consumers' needs directly.

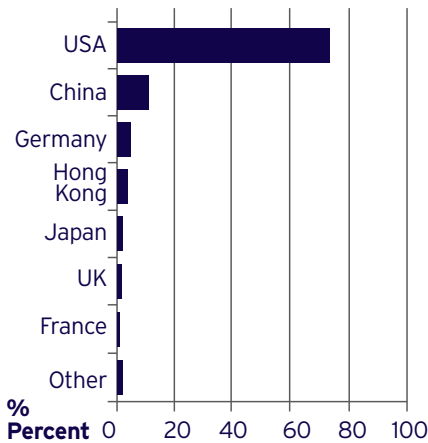
Figure 2: Cross-border e-Commerce Market Size (GBP)



Source: Hyundai Research Institute

The UK accounts for only 1.4% (219,000 of customs clearances in 2015) of the total purchases from overseas websites - a number which could be significantly higher and suggests that there are huge opportunities in cross-border e-commerce for British brands.²⁹ In a poll conducted by a Korean economic newspaper in 2015, only 14.6% of respondents replied that they had made a purchase directly from the UK versus 95% from the US.³⁰

Figure 3: Overseas Direct Purchase Clearances by Country (% of Total)



Source: Korea Customs Service

Industry Insider’s Tip

The practice of importing products from abroad for personal use via e-Commerce is called “jik-gu”, which translates to “direct purchase”. There are many chatrooms and forums on the local Internet where Koreans share their experiences of using foreign websites, and discuss product selections and prices. Products bought this way for one’s own use do not need to be safety-tested, equipped with a local language label or locally certified. However, they can be subject to additional duties and taxes.

Korean consumers can engage in overseas direct purchasing in three main ways:

- Use local e-commerce websites that facilitate transactions with foreign vendors, usually via local agents (Gmarket, 11th Street, Ticket Monster, etc.)
- Use buying agents that purchase products overseas and ship them to Korea (Poombuy, Wizwid, etc.)
- Use local or global shopping malls and e-commerce platforms (Coupang, Amazon, etc.)

Figure 4: Product Categories Purchased Directly from Overseas (% of Total)



Source: Korea Customs Service

Koreans have been using foreign websites to shop online since the mid-2000s. Originally it was a niche sector dominated by buying agents (Poombuy, Wizwid, etc.), who buy and ship products from a foreign country on the customer’s behalf, and shipping agents (Malltail, iPorter, etc.) who provide shipping

addresses (warehouse) in the seller’s country and handle international shipping to Korea at a fee. These services are still operational (those shopping on Amazon.com and eBay.com still often use shipping agents as not all merchants offer shipping to Korea), but have suffered as more Koreans purchase products directly from overseas sites and more foreign websites offer affordable worldwide delivery options.

Based on a poll run by MBN News, the most common reasons for using cross-border online shopping are:

- Cheaper price (71.4%)
- Brands not available in Korea (20.6%)
- Larger variety of products available (5%)
- Better quality of products (i.e. lower likelihood of counterfeit products) (3%)³¹

According to one market research company, in 2015 the most frequently used overseas e-commerce websites by Koreans were:

1. Amazon.com (all categories)
2. eBay.com (all categories)
3. iHerb.com (dietary supplements, functional food)
4. Shopbop.com (female fashion)
5. 6pm.com (apparel, shoes, bag, accessory)
6. Amazon.co.jp, DrugStore.com, Walmart.com, Rakuten.com and others³²

In 2015 Coupang emerged as the main disruptor on the cross-border online shopping scene. A Coupang executive explained that to keep up with the cross-border trend, the company has established a warehouse and buying offices in California where they directly approach manufacturers of the top 6,000 products that Koreans buy from US websites (eBay, iHerb, Amazon, etc.), buy the products in bulk and sell to Korean consumers through their online storefront. Since the products go directly to consumers using standard international shipping (maximum GBP 144, in accordance with the U.S.-Korea FTA), Coupang does not have to deal with safety testing, registration or complicated customs procedures. This model is now being replicated by Ticket Monster, 11th Street and Gmarket.

Figure 5: Korea's e-Commerce Landscape

e-Commerce	Facilitating Services	Payment
Local e-Commerce platforms <ul style="list-style-type: none"> • Gmarket • 11th Street (11ST) • Auction • Coupang • Ticket Monster (TMON) • WeMakePrice 	Search engines <ul style="list-style-type: none"> • Naver • Daum • Google • Bing 	Local credit card companies <ul style="list-style-type: none"> • Shinhan Card • KB Kookmin Card • Hyundai Card • Samsung Card • Lotte Card • KEB hana Card
Global e-Commerce platforms <ul style="list-style-type: none"> • Amazon • eBay 	Local couriers <ul style="list-style-type: none"> • Korea Post • CJ Korea Express • Hanjin • Hyundai Logistics • Logen • Ilyang Express 	Bill to mobile <ul style="list-style-type: none"> • SK Telecom • Korea Telecom • LG U+
Local online shopping malls <ul style="list-style-type: none"> • Shinsegae (SSG.com) • el Lotte (ellotte.com) • GS Shop • Hmall 	Global couriers <ul style="list-style-type: none"> • Royal Mail • DHL • FedEx • UPS 	Mobile Payment System <ul style="list-style-type: none"> • KakaoPay • Samsung Pay • Naver Pay (N Pay)
Global online shopping malls <ul style="list-style-type: none"> • iHerb • ASOS (asos.com) • Strawberry Net (strawberrynet.com) • Shopbop 	Shipping agents <ul style="list-style-type: none"> • malltail • iPorter 	Global payment processors <ul style="list-style-type: none"> • VISA • MasterCard • American Express • JBC
Buying agents <ul style="list-style-type: none"> • Poombuy • Wizwid 		

CLOSER LOOK

Ticket Monster is keen to work on establishing purchasing teams and warehouses in the US and Europe - potentially the UK. Ticket Monster is interested in working more with European brands as it recognises Coupang's relative strength in understanding the US market and its products. In the near future Ticket Monster would like to become Korean consumers' main supplier of and channel to premium European goods.

4.2. Key e-Export Categories

Based on interviews with executives from Korea's key retail groups and e-commerce companies, the most attractive sectors in e-commerce for British retailers include Food & Beverage, Beauty & Cosmetics, Fashion, Baby Products & Toys, and Home & Living. That is not to say that these are the only sectors worth exploring but generally fast moving consumer goods are well suited for cross-border e-commerce. There are only three countries in the world where e-commerce accounts for more than 4% of all FMCG market: UK (6%), France (4.3%) and South Korea (13.2%). The figure for

Korea is expected to grow to 30% by 2025. All of these sectors have different competitive landscapes and offer different opportunities and challenges.

4.2.1. Food & Beverages

The food and beverage industry may be one of the most interesting yet challenging industries in Korea for foreign brands to find their place. Food and beverage currently comprises nearly 14% of all overseas direct purchases in Korea and local market experts still see significant growth potential. Cross-border e-commerce in F&B has its obvious limitations, but most products that are not quickly perishable can be traded this way without particular restrictions.

Vitamins, Dietary Supplements and Functional Foods

There is a heavy emphasis among the Korean public on healthy eating. Koreans purchase substantial amounts of functional food online via websites such as iHerb.com, Amazon.com or Coupang.com. Sales of dietary supplements and functional foods, which include fish oil, anti-oxidants, and vitamins, were worth GBP 160mn in 2015. The demand for regular foods that are associated with health benefits, such as organic food, blueberries, and quinoa, have also increased dramatically. In January

2016, 15 of the top 20 bestselling goods on Coupang's "Coupang Global" subsection were health supplements and vitamins, three were sauces and spices, with cosmetics making up the final two products.

“

Koreans are crazy about healthy food, such as vitamins, fish oil, protein powders, kale chips and other functional foods. We saw the growing popularity of global e-marketplaces and effectively decided to become one for our Korean customers. We built our warehouse in California to stock up on products and ship them to our customers while still offering Coupang's familiarity and the highest level of customer service. Every month we look at the top 6,000 best selling products on top 10-20 American websites, and buy as many of those products as we believe we can resell to Korea.

Senior Director - Coupang

”

It should be noted, however, that the Korean F&B market can be characterised by dietary fads. Greek yogurt, gluten-free pasta, probiotics, cleansing juices and bubble teas are just some examples of short-lived crazes that come and go on a seemingly random basis. Typically, these fads appeal to large portions of the consumer base (larger than in the west) for a short time (shorter than in the west). Dietary fads sweep the market and disappear completely usually on 3-to-6-month cycles. They offer both a big opportunity for fast-movers, but also can be the undoing of an overconfident retailer.

CLOSER LOOK

A prime example of a short lived fad in Korea is the “Kkokkomyeon” craze that elevated a minor player, Paldo, to the domestic market leader briefly in the late 2011. Released in August 2011, Kkokkomyeon was an instant noodle product created by a popular Korean comedian together with Paldo. The product gained sensational popularity with over 100 million packs sold within the first five months. However, as the buzz subsided, sales fell sharply to just 14 million packs by February 2012.

Sweets, Desserts and Confectionery

Notwithstanding Koreans love for healthy foods, cross border e-commerce has also seen an increase in the popularity of sweets, snacks and other similar products. Accompanying the astonishing popularity of coffeeshops, cafés and bakeries in Korea, offline sales of sweets, cakes, cookies and other desserts have been growing at a double-digit pace over the last five years. But Koreans’ sweet tooth is evolving, and so are the ways their cravings can be satisfied.

“

Due to the increasing demand for high-end desserts among Korean consumers, famous and upscale foreign desserts brands (Magnolia Bakery, Joe & The Juice, Mont St. Clair, etc.) have entered the Korean market, usually through a partnership with local department stores. We have seen a 300% growth in sales in recent years. Now is the time to make it available to even more people via e-Commerce and we are working on a same-day delivery service to facilitate it.

Dessert Category Buyer -
Hyundai Department Store

”

The most popular products imported from overseas in this category in January 2016, based on combined statistics from Coupang and iHerb, were crisps, nachos, organic chocolate, multigrain cookies, waffle/pancake mixes, lozenges and sweet waffle/pancake sauces. Based on industry insiders’ comments and cross-referenced with cross-border e-commerce website statistics, British e-exporters could also see opportunities in the following product areas: black, green and herbal teas, jams and preserves, spices, condiments and sauces and nuts, nut butters, dried fruit and spreads.

4.2.2. Fashion

Fashion is one of the most popular categories in cross-border online shopping in Korea, accounting for 16% of all overseas direct purchases in 2015. According to Nielsen, 77% of South Koreans claim to have bought clothes online in the past year, which is more than any other country (the corresponding figure for the UK is 67%).³³ Koreans largely engage in direct overseas purchasing of clothes and accessories not because the brands are not available in Korea, but because they cost less overseas – consumer prices in this category are perhaps the most inflated of all – and are available in a wider selection.

Sportswear and Outdoor

Sports and outdoor wear accounts for 26% of Korea's apparel industry and outdoor brands from abroad are popular among consumers. With a growing interest in a diverse range of sports and activities (e.g. soccer, hiking, golfing, biking, camping, etc.), the demand for sportswear that is functional yet versatile enough to adjust to different types of weather and activities has increased.



CLOSER LOOK

New Balance (www.newbalance.com), the American sportswear brand, is immensely popular in Korea amongst teens and people in their twenties. The product available in Korea is manufactured in China and Southeast Asia under the licence by the E-Land Group. While offline sales of the brand are strong, more and more Korean consumers are turning to cross-border e-commerce seeking a wider selection. New Balance footwear purchases from the US are continuously near the top of most popular e-commerce websites such as Gmarket, 11th Street, Auction and Coupang.

Watches, Accessories and Jewellery

Traditionally most designer watches and jewellery in Korea were sold in department stores with high levels of customer service but also very high sales margins. Korean consumers now seek cheaper options on cross-border e-commerce websites. Products from this category regularly appear near the top of crossborder e-commerce websites in Korea. Other popular products include wallets, belts, purses, suitcases, etc.

Good examples of overseas fashion brands and retailers e-exporting to Korea include:

- Pandora (US) (www.pandora.net)
- Daniel Wellington (EU) (www.danielwellington.com)

- Jomashop (US) (www.jomashop.com)

Casual Wear

Seoul is considered one of the most fashion-forward places in Asia.³⁴ People often look online not only for brands they know and like but also for new items to add to their wardrobes. Brands like Abercrombie & Fitch or Polo Ralph Lauren are some of the bestsellers. Some notable examples of casual fashion websites popular in Korea are Shopbop (www.shopbop.com) and 6PM (www.6pm.com). One of the most interesting success stories in this category is ASOS, a company that has a partially localised website, dedicated Korean support staff and engages in a range of localised marketing events.

CLOSER LOOK

ASOS (www.asos.com) generally targets young, empowered females that are active on social media. The company reached out to Pikicast, a BuzzFeed-like website in Korea, and offered special discount codes for their readers. It successfully raised its brand awareness among Korean consumers by directly engaging them via relevant social media.

4.2.3. Beauty & Cosmetics

More Koreans claim to have bought beauty and personal care products online in the past year than any other country (62%).³⁵ Online sales of cosmetics reached GBP 110mn in 2015, representing approximately 11% of all products purchased directly from overseas that year.³⁶ Moreover, Koreans are increasingly purchasing at-home aesthetic devices such as sonic facial cleansers, high-tech massage rollers and laser hair removal systems. Gmarket claims that sales of beauty devices increased 23% in 2015 compared to the previous year and Auction saw sales of skincare and massage devices rise 394% in 2015 over the year before.³⁷

Natural Cosmetics

Organic, natural and paraben-free beauty products have become popular among health-conscious Korean consumers. As many of these products are still difficult to find on the shelves, they are mainly bought on foreign websites such as Amazon and eBay. Although online retail is not yet the preferred channel for mid-to-high-end cosmetic brands in Korea, growing popularity of websites such as Strawberry.net suggest that Korean consumers have begun to look beyond department stores to find better deals, as well as to find foreign brands that are not available in Korea.



CLOSER LOOK

Avalon Organics

(www.avalonorganics.com) is a US-based natural organic health and beauty products manufacturer. It is considered one of the most popular foreign hair care brands in Korea. As conscious consumers have come to focus more on the quality of ingredients, many organic cosmetics brands, including Avalon Organics, have rapidly gained in popularity. Avalon Organics' products were originally available on a few foreign websites, including iHerb, but are now easily found on major Korean online malls as well as offline drugstores and department stores.

Medicinal Beauty Products

European cosmetics that are now easily found in local pharmacies were introduced to the Korean market in early 2000s, first by Korean dermatologists and later by various Korean buying agents based in Europe. European brands of cosmetics have been popular in skin care with 21% of shoppers claiming their favourite brands are French labels. Their mild ingredients and increasing brand awareness have a strong appeal to Korean consumers, and have experienced remarkable growth in the market. Bioderma, for example, has enjoyed a

double-digit growth rate every year since it entered the Korean market. The company currently uses both online and offline sales channels in the Korean market. Medicinal cosmetic makers must make sure, however, that all of the ingredients in their products can be imported for personal use without additional certificates (see section 6). Korea Customs Services and UKTI South Korea can provide the latest information on the matter.

Good examples of other successful medicinal cosmetic brands in this category include:

- Bioderma (www.bioderma.com)
- Uriage (www.uriage.com)
- La Roche-Posay (www.laroche-posay.com)



“

The barriers between the different channels of distribution in the cosmetics industry will soon break down due to the Korean consumers' ability to find the best quality brands regardless of the channels of distribution. Channels of distribution will become more diversified to include existing channels, such as pharmacies, online malls, drug stores, TV home-shopping channels, as well as new online channels such as social networks and personal blogs.

Representative - *Bioderma Korea*

”

Men's Care

Korea's male skincare market doubled in value from 2009 to 2014. The average Korean male uses 13 grooming products a month and spends more on such products than their counterparts in any other country. Korea accounts for 21% (GBP 390mn) of global spending in this entire industry.³⁸ The trend started from basic skincare products, such as face masks, but quickly spread to makeup products, such as tinted moisturisers. Recently introduced foreign men's care

brands have gained in popularity largely due to creative online buzz marketing in Korea.

CLOSER LOOK

Bulldog Skincare

(www.bulldogskincare.com) is a manufacturer of men's skin care products based in the UK. The brand entered the Korean market in 2013 through a partnership with Olive Young, one of the most popular beauty drugstores in Korea. The bulldog products are currently available on a number of major e-Commerce websites such as Gmarket, Auction and Coupang. But with retail prices above the global average, many customers still turn to cross-border online shopping websites.

4.2.4. Baby Products & Toys

Baby products are heavily sought after online. Nearly 10% of all e-imports consisted of baby products (about 6% from the F&B and 4% from the baby products and toys categories) in 2015 and 40% of all baby product sales completed in Korea in 2015 were made online, a figure that is expected to grow even further.

Baby Food, Cosmetics and Clothes

Online shopping is particularly well developed in this category in Korea with 79% of all nappies, 72% of all baby food and 58% of all wet tissues bought online, representing the largest online shares of any product category.³⁹ The top e-imports in the baby product category across multiple cross-border e-commerce sites in January 2016 included baby formula, organic baby food (jars, pouches), hypoallergenic bath products, feeding bottles and micro-fleece swaddles and blankets. Imported powdered milk, in particular, has been gaining popularity among young Korean mothers who are keen to use foreign brands, such as Aptamil and Holle, in the belief that imported brands generally have better and safer ingredients. In 2014 sales of powdered milk purchased directly from German e-commerce websites amounted to GBP 20mn, making it one of the major e-imports from Germany.⁴⁰

Educational Toys

The toy market is led by Lego, due to its educational value that Korean parents hold in high esteem, and local brands featuring popular Korean cartoon characters such as Tobot or Pororo. Global toy manufacturers such as Hasbro or Mattel have a combined market share of less than 5 percent as Korean children grow up with different, local characters. Therefore, British toy makers could take advantage of eexporting, especially if the product boasts educational appeal and is not linked to characters that are unknown in Korea. A good example of a successful e-exporter in this category is the US-based Learning Resources (www.learningresources.com).

“

Young mothers rule the e-Commerce industry in Korea. They are always on the go. They do not have time to go to a supermarket to buy baby oil and diapers. They take out their smartphones and order diapers in bulk online. While doing so, they also fill in the shopping cart with other things – food, snacks, clothes, etc. Almost all of our category buyers think of mothers in their 20-30s first when building their product selections.

**Baby & Kids Category Buyer -
11th Street**

Parents these days are all about their children's well-being and education. They want their children to have the highest quality care there is. They will order baby products and preschool educational items on foreign websites as many parents are scared of dangerous knock-offs from China.

**CEO - Gymboree Music & Play
Korea (Gymworld)**

”

CLOSER LOOK

Aptamil

(www.aptaclub.co.uk/products) is a popular baby powdered milk product manufactured by Danone (Germany). Foreign-made baby formula, including Aptamil, first became popular in China, especially after a local product containing industrial chemicals killed six infants in 2008. Direct overseas purchases of baby powdered milk started to increase dramatically in Korea in early 2013. Aptamil products are available through a number of purchasing agents as well as on Ticket Monster.

4.2.5. Home & Living

Korean households are known for their discrepancy between high-tech home appliances, such as LCD screen-equipped refrigerators and ultra-flat UHD television sets, and low-quality furniture, tableware and kitchenware. The market was dominated by local and Chinese manufacturers who dictated design and pricing, but recently global brands, such as IKEA, H&M Home and Zara Home, have set up successful brick-and-mortar stores in the country.

The largest IKEA store in the world opened in Korea in 2015 and has been a great success to date. Costco recorded record growth in tableware and kitchenware sales in 2015, chiefly amongst people in their 40s and 50s. H&M and Zara, on the other hand, attract people in their 20s and 30s with flagship stores in trendy retail areas of Seoul. More and more products in this category appear on cross-border e-commerce websites as well, including Laura Ashley with its special corner on 11th Street.⁴¹

The aforementioned brands also saw growth in sales of bed spreads sheets, bathroom linen (e.g. towels, etc.), and bedroom and bathroom clothing (robes, pajamas, slippers, etc.). Consumers value attractive modern design and affordable

pricing. While home and living products are still not the most popular in terms of cross-border online shopping, many industry insiders agree that they will be the “next big thing” in the e-commerce space.

“

Koreans still do not have much to choose from in terms of home décor and furniture. IKEA is a blessing and is likely to stimulate the market. Koreans have been buying things from IKEA in the US using shipping agents for years now, and they still are because IKEA in Korea is expensive. We need more options, more fashionable brands to offer their products to consumers in an affordable way. We have this category amongst our strategic growth areas for 2016 and beyond..

Business Development Manager -
GS Retail

”

To date, few online stores offer shipping options to Korea for home and living items and in most cases Korean customers need to use buying or shipping agents to make overseas purchases. Interest in this area is growing quickly, especially among newlyweds in Korea. Popular items range from kitchenware and small home appliances to furniture and beddings. A number of high-end products, such as kitchenware from Lenox (US) and Portmeirion (UK), are available in major department stores in Korea but more and more people are purchasing these types of products through cross-border e-commerce.

CLOSER LOOK

According to Malltail, one of the most popular buying and shipping agents in Korea, direct orders of popular products for newlyweds (e.g. coffee machines, microwaves, kitchenware, etc.) increased 25% from August to September 2015 due to the approaching peak wedding season. As European online retailers usually try to get rid of their old inventories towards the end of every year, they put clearance markdowns on products starting from early fall, which has attracted more consumers in Korea, especially young couples.

Currently overseas companies that deliver their products to Korea include:

- Bed, Bath & Beyond (US)
(www.bedbathandbeyond.com)
- Overstock (US)
(www.overstock.com)

Pet Products

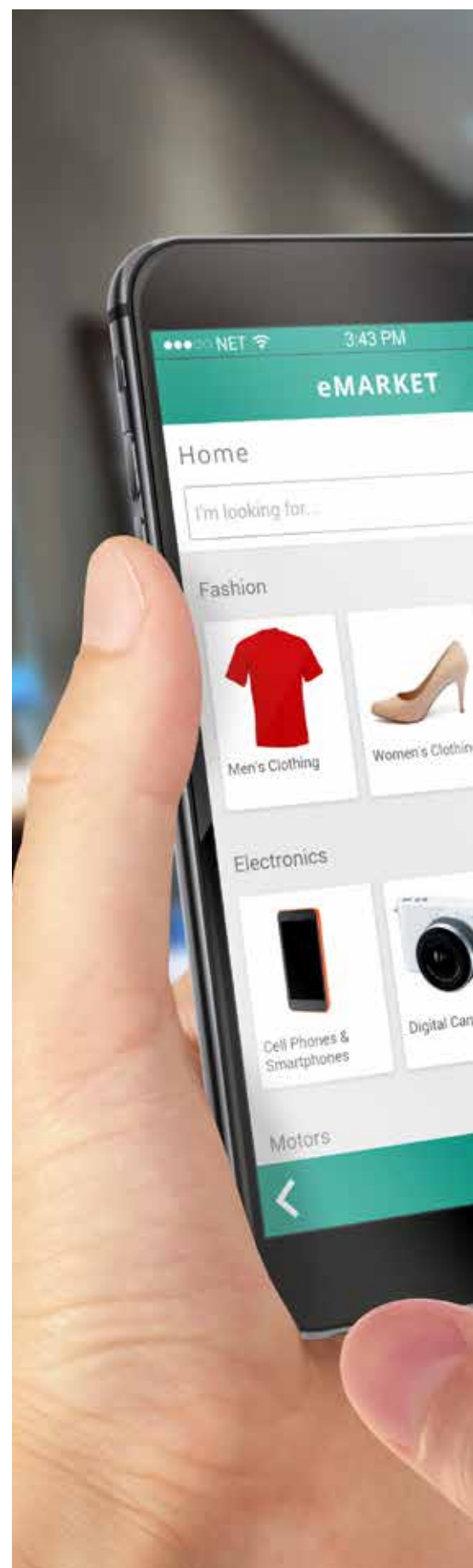
Another interesting opportunity for British e-exporters is pet accessories. Koreans have embraced the trend of humanising their pets - grooming and dressing them up, fitting apartments with dedicated pet amenities, etc. In fact, Korea's pet industry grew 80% to GBP 1.16bn in 2015 from GBP 690mn in 2010. This figure is expected to reach GBP 3.5bn by 2020.⁴² According to Auction, sales of pet products increased by 25% in 2015 compared to 2014. Pet furniture sales saw a growth rate of 129%, followed by pet shower and bath supplies (60%), grooming kits (33%) and perfume and hair dye products (36%).

Sales of pet strollers, in particular, have risen by 145% in 2015 compared to 2014.⁴³ Pet strollers usually cost from GBP 58-116, but in the case of the British high-end brand, Norton Pet, they can cost up to GBP 290. Norton's pet stroller products were considered one of the most popular pet care products in 2015 and were featured on various open markets, including 11th Street and Auction.

CLOSER LOOK

Ruffwear

(www.ruffwear.com) is a manufacturer of premium canine outdoor gear based in the United States. The company entered the Korean market in 2015 through a partnership with Korean importer/distributor of camping and lifestyle products. Initially introduced to consumers through cross-border online shopping, Ruffwear products are currently available through various channels, including a flagship store in Seoul, camping-related retailers and Galleria's online shopping mall.





Market Entry Strategies

Key Points

- e-Exporters can adjust the level of resource needed to sell their products to Korean customers
 - e-Exporters can work alone or with local e-Commerce companies
 - Localised marketing and brand awareness are crucial - teaming up with local agencies or Internet personalities can be a great way to spread a brand's message
 - The most successful strategy is often multi-channel, exploiting both online and offline opportunities
-

5.1. Market Entry Methods

Traditionally, retail businesses looking to expand into new markets considered a few standard routes which included setting up a local entity in the form of a wholly-owned company or a joint venture with an established local partner, licensing their brands to locally experienced master licensees or franchisees, or working with a local distributor. These methods are still valid and indeed advisable in many situations - relying solely on e-exporting may not work for everybody. However, e-exporting is a good way for British brands to understand more about the Korean market and its consumers, and build the foundation for a future multi-channel presence. e-Exporting represents a great opportunity for those brands that

offer relatively niche products at low volumes, as it allows higher margins. It is also a flexible approach for those who offer a hot product that fits with a current market trend.

5.1.1. Level 0: Using a Global e-Commerce Platform

Placing your products on Amazon, eBay, Rakuten or Alibaba, with shipping to Korea enabled, is arguably the most basic way to reach Korean consumers as an e-exporter. Koreans are already familiar with the websites and use them frequently. However, brand awareness, brand exposure and brand visibility are likely to be low and, without a coordinated and localised marketing strategy, sales to Korea are likely to be sporadic.



Key Advantages:

- Cheap, low effort, easily accessible
- Able to address multiple markets under a trusted marketplace brand name

Key Disadvantages:

- Not personal, not targeted at specific consumers
- Not in Korean
- Difficult to find products without brand awareness and/or defined need

Things to Consider:

- Utilising the e-commerce marketplace's built-in tools (usually paid) to promote products upon keyword search is crucial
- Understanding the marketplace's fee structure is important as it can vary across sites and categories. It is recommended to have a good sense of potential margins and the marketplace's business model

CASE IN POINT

Sabrent

(www.sabrent.com) is a manufacturer of computer peripherals and accessories based in the United States. The company uses a number of e-commerce marketplaces to sell and promote its products, including Amazon, Overstock.com and BestBuy. Its 4-Port USB is one of the best selling products in Amazon's electronics category. Sabrent uses Amazon's "Fulfillment by Amazon," a service that lets sellers store their products in Amazon's fulfillment centres. Amazon takes care of packing, shipping and customer service. Many products bought by Koreans on Amazon follow this path.

5.1.2. Level 1: Website with Shipping Options to Korea

For small businesses that already operate an online store as a part of their website, adding an international shipping option at checkout is a good starting point. Global couriers such as DHL, UPS or FedEx offer special e-commerce packages for small and medium-sized businesses. The delivery option offering should be versatile allowing customers to choose from different price points relative to the speed of delivery, etc.

Key Advantages:

- Cheap and available with a currently existing shipping plan
- Can receive free or cheap consulting from global couriers' e-commerce teams
- Eliminates most middlemen
- Easy to track and analyse sales and related patterns by territory

Key Disadvantages:

- Lacks localisation, local personality and local appeal
- Product may not be noticed unless the customer knows what he or she is looking for

Things to Consider:

- Multiple options for shipping speed should be offered. International customers, just like domestic customers, exhibit distinct preferences across the price-versus-speed spectrum
- Indicating delivery in estimated business days instead of a specific date is a good way to avoid possible conflict with customers
- Note that Koreans celebrate different holidays to westerners (e.g. Lunar New Year as opposed to Solar New Year), and these should be factored in when planning delivery schedules

- The language and layout of the website may be unfamiliar to some Korean customers. While Koreans, especially younger ones, can generally read English, Korean is preferred.
- Korean web design follows different rules and trends. Koreans are used to having a huge amount of information and product pictures when shopping online

CASE IN POINT

Houseology

(www.houseology.com) is a UK-based premier online interior design store, working on various residential and hotel projects across the world. It offers international shipping to over 80 countries, including Korea. There is no standard shipping price as it depends on the size and weight of the boxes but the price is automatically calculated at checkout when the address is entered. The company also accepts extended returns (within 35 days of receipt) for a refund but shipping costs and other duties and taxes are not refunded.

5.1.3. Level 2: Website Localisation

Retailers that experience an increase in enquires or sales from Korea may want to take advantage by building a fully localised subsection of their e-commerce website. This is also a good option for those who already have good brand recognition in Korea and want to skip the previous, lower-engagement steps. Korean consumers will appreciate a shopping experience tailored to them and trust-building, so crucial online, is more effective when conducted in the customer's native tongue. Localising a website may be the most effective way to increase the customer base and to turn accidental shoppers into repeat shoppers.

Key Advantages:

- Increased localisation, local personality and local appeal
- Increased ease of use for Korean customers and a better shopping experience
- Increased likelihood of repeat purchases

Key Disadvantages:

- Requires time and investment
- Requires professional translation and regular updates

Things to Consider:

- Localised websites require regular reviews as well as

updates when new products are released. It therefore requires sustained investment, rather than a one-time effort

- Displaying costs and prices in the customer's currency is important to turn visitors into customers as it builds trust in the seller and increases the likelihood of conversion to sales
- Levels of localisation vary from simply translating a few existing pages to tearing down the website and building a new shopping experience that fully reflects the local e-commerce culture. Translation should be done by a professional as poor translation could create a negative impression

CASE IN POINT

ASOS

(www.asos.com) is a British online fashion and beauty retailer that sells over 850 brands as well as its own range of clothing and accessories. ASOS ships to more than 237 countries, including Korea, from its central distribution centre in the UK. Although not fully localised to support the Korean market, ASOS offers a few pages translated into Korean, where it shows how to navigate the website along with its company introduction

5.1.4. Level 3: Dedicated Customer Support

Korean customers are used to a very high standard of customer support and good customer support can be crucial in e-commerce as a trust-building tool. Websites that, on top of having a localised Korean version, have dedicated support in Korean (email, phone, chatroom, etc.), excel at retaining their customer base and are more likely to enjoy the effects of free word-of-mouth marketing.

Key Advantages:

- High localisation, local personality and local appeal
- Improves the customer experience and customer retention
- Direct dialogue with customers allows for more targeted improvement over time

Key Disadvantages:

- Can be costly - requires dedicated staff with native-level Korean

Things to Consider:

- Dedicated support should be of a high quality which means conducted by native or fluent Korean language speakers who are familiar with the Korean market, always very polite and focused on resolving issues with little fuss

- Ideally, support should be available 24/7, but failing that lines should be operational from 9am to 6pm, in the Korean time zone (UTC+09:00 in winter, UTC+08:00 in summer)
- Dialogue with customers may help design better marketing tools such as events, promotions, discount codes etc., which can help drive more sales
- International returns policy should be clearly visible. Korean customers expect to be able to return or exchange unwanted or faulty products hassle-free

CASE IN POINT

Strawberry Net

(www.strawberrynet.com) based in Hong Kong, is one of the largest online beauty retailers, stocking over 30,000 products. With its fully localised website, the company provides a free shipping service to over 200 countries worldwide. The company offers country specific promotions and services. It has partnered with major Korean credit and debit card companies, allowing Korean consumers multiple payment options without charging additional fees. Strawberry Net also offers first-time shoppers refunds on all duty fees and taxes they may have incurred upon entry to Korea.



CASE IN POINT

YOOX

(www.yoox.com) is an Italian online retailer of a wide variety of products, ranging from clothing and accessories to living and dining products. The company ships to over 100 countries worldwide but offers only one shipping option for Korean customers, which is the express service with a flat fee of GBP 18. Its website is designed to fully support Korean customers while providing local customer service lines.

5.1.5. Level H: The Hybrid

Companies like Gmarket, 11th Street and Auction have an option for foreign retailers based outside of Korea to open seller accounts without a Korean corporate registration number. The procedure requires submitting certain documents and the Open Market Review Teams reserve the right to reject candidates. While it is possible to organise this in English, the online storefront's interface, product descriptions, terms and conditions and customer service should be in Korean. The open market staff offers minimal support but the ongoing operation, page and product updates, dealing with customers, etc. is handled by the seller.

The key challenge is that since e-exporters are operating within a Korean website for Korean customers, they must be able to function in Korean. Customers will ask questions before purchasing that may be crucial in their decision-making, and will maintain a dialogue post-purchase by leaving reviews and comments. There will also be instances of complaints and refund/exchange requests. Without local language support the model is unsustainable. Another challenge of this model is payment. For instance, on Gmarket customers pay via a domestic online payment system or bank transfer to Gmarket's "virtual account", which Gmarket then transfers to the seller. Credit card payments are not currently available. There are two ways

foreign retailers can deal with this issue. A retailer can either sign an exclusive deal with the e-commerce company itself resulting in it becoming the de facto agent or sign a local agent that manages import procedures, product certification, open market storefront, etc.

Key Advantages:

- Selling under a well-established e-commerce brand with high penetration rates
- Access to e-commerce company's marketing, local customer support and distribution network
- Support in handling of formalities (e.g. import procedures, Korean labelling, delivery, etc.)



CLOSER LOOK

To become a Global Seller on Gmarket and Auction a non-Korean merchant should submit:

- Business registration certificate
- Bank statement
- Photocopy of identification document (passport preferred)
- Seller registration form
- Seller confirmation letter

Documents will be reviewed within 3-7 days. If the decision is positive, one can start uploading products on the website. The platform will help handle payments via bank transfer to the seller. The platform will take commission which is negotiated with each vendor separately.

Key Disadvantages:

- Requires initial investment in business development activities (e.g. meetings with agent/partner, product testing, market research, etc.)
- Splitting of the sales margin with the local agent/partner (for e-commerce, typically 10-20% of sales)
- Suitable for relatively well-known brands with high sales volume potential

CASE IN POINT**Macy's and 11th Street**

(<http://shop.11st.co.kr/koreasjworld>). NYC's famous Macy's Department Store has a small corner on 11th Street's Global Shopping subsection through which shoppers can order items to be shipped to them from the US. The online storefront is operated by SJ Company, a Korean agent. SJ Company is responsible for relaying product orders to Macy's from 11th Street and handles payments and local customer support. Macy's ships the product to the buyer directly upon receiving funds from SJ Company which takes a commission fee.

5.1.6. Level 4: Multi-channel

A multi-channel approach that utilises both offline and online shopping channels can still be the most effective strategy for those looking for sustained growth in the Korean market. With new technologies such as m-commerce and mobile payments, augmented reality, QR codes, Internet of Things, etc., savvy retailers are finding new ways to make online and offline work together.

This strategy requires a local presence in the form of a carefully selected and dedicated partner with market expertise and technical knowledge. The partner would typically handle product importation, certification and labelling, as well as marketing, B2B sales to offline retail channels (hypermarkets, department stores, pharmacies, etc.) and partnerships with local e-commerce platforms (Gmarket, 11th Street, Coupang, etc.). The brand can in turn focus on parallel e-exports to Korea via its global website or global e-marketplaces.

Key Advantages:

- Often the most comprehensive and universal method, suitable for most retailers and brands
- Full localisation including customer support
- Full market coverage

- Field for creative sales techniques and marketing (showrooming, webrooming, etc.)
- Local market expertise and support from the partner

Key Disadvantages:

- Can be costly and time consuming
- Requires careful planning and careful selection of the right partner

Things to Consider:

- An experienced partner that can commit to developing a brand's presence in the local market is key. UK brands may be tempted to work with large retail groups, but smaller distributors can be a better fit
- Large retail groups are fierce competitors, siding with one often eliminates the possibility of working with another, limiting market reach. Small distributors can often work with multiple groups
- UK brands should make sure that the agreement with the local partner is not restrictive in the sense that it does not stipulate that the brand cannot e-export to Korea using its own channels

- Brands need to think of creative ways to make online and offline work together. Some examples include offering digital coupons that can be redeemed in a brick-and-mortar store, and free delivery/discount code vouchers offered upon physical purchase to input during the customer's next online purchase.

CASE IN POINT

Cath Kidston

(www.cathkidstonkorea.co.kr): Cath Kidston entered the Korean market through a partnership with a Korean importer/agent, Starluxe (www.starluxe.co.kr), in 2011. The products are currently found in 22 stores and online shopping malls in Korea, all of which are managed by the Korean distributor. The online shopping mall offers free shipping for orders over GBP 29.

5.2. Marketing

All of the aforementioned e-export strategies will benefit greatly from a dedicated marketing mix for the Korean market, the elements of which should be familiar to all retailers. Their effectiveness and cost will vary. It should be noted that Korean consumers value stories behind brands they choose. The brand's origin, its mythos, its founder/CEO – all these factors can positively influence brand perceptions and story-driven marketing messaging is very effective, through whichever medium it is delivered. Here are some of the most common marketing strategies used by e-exporters that sell to Korea.

5.2.1. Level 1: Adding Korea to Current Digital Media Plan

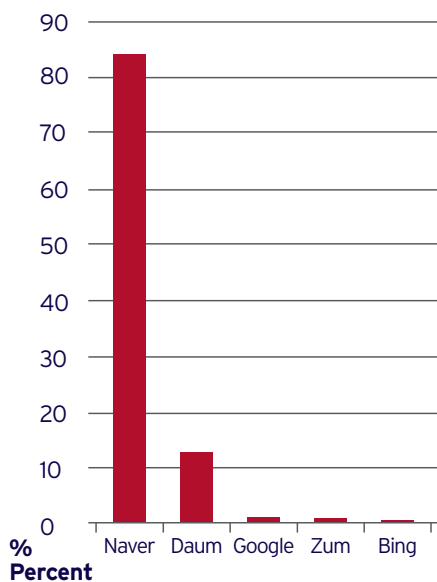
In order to increase Korean consumers' exposure to a new brand, exporters should consider expanding their current digital marketing plans to include Korea as a target territory. Marketers must remember that search engine optimisation should be optimised for the Korean search engines, Naver and Daum, which are very strong in the market.

To make the creative media content (e.g. website banners, mobile website ads, etc.) more relevant and relatable, it is advised that it be in Korean. According to local marketing specialists, the most relevant advertising channels for Korean Internet shoppers include desktop web ads, YouTube ads (although Google search is not popular, video consumption on YouTube is strong), mobile web ads, mobile app ads and Facebook ads. Marketers should also make sure that their ads appear on local-language websites that are relevant and benign to the brand (contextual targeting).

CASE IN POINT

Optimum Nutrition

(www.optimumnutrition.com) is an American health and dietary supplement brand for athletes and fitness aficionados. It uses Korea-focused contextual targeting on YouTube and certain Korean fitness websites to increase brand awareness while promoting sales through their online sales partners, iHerb and BodyBuilding.com. The company became the most recognised health nutrition brand in Korea and subsequently began to work offline with Costco Korea.

Figure 6: Search Engine Market in Korea

Source: Digital Insight Today (2015)

5.2.2. Level 2: Social Media and Local Internet Personality Sponsorships

Retailers can use Korean social media (e.g. set up localised Facebook fan page or KakaoStory page) to build brand awareness and influence word-of-mouth. This in turn should result in more search queries for the product in question. The localised fan pages should be active in order to be effective. Live dialogue is crucial and so this approach requires staff with excellent Korean language ability, at least part-time.

Another way to use social media without hiring Korean-speaking staff is to get in touch with local bloggers and Internet personalities to offer

CASE IN POINT

Daniel Wellington (www.danielwellington.com) is a Swedish/British brand of watches and accessories. In 2015 the company ran a successful social media campaign whereby it encouraged Instagram users to post pictures sporting its watches with branded hashtags. Some celebrity Instagrammers were given watches for free so that they could snap a picture and post it to their followers. The campaign spread to Korea and was featured on popular accounts with pictures of everything from cats to fashion models and designers.

sponsorships (e.g. free samples, merchandise, etc.) in exchange for mentions and “shout-outs” on their own social media channels. This is a very effective and relatively inexpensive tactic.

5.2.3. Level 3: Using Local Digital Media Agency

For those that want to develop a marketing strategy fully tailored for the Korean market, it might be best to work with a local agency. A local specialist team should allow a brand to better exploit local digital/social media, local search engines and traditional

marketing campaigns. This is the most appropriate strategy for retailers fully committed to the market or those willing to invest more heavily in exploiting the market. Local agencies know Korean consumers well and so are well placed to execute the most effective campaigns to position a brand in the local market.

Some creative agencies in Korea specialise in working with retailers from Europe. These include:

- **Asiance** (www.asiance.com): Works with fashion brands such as Calvin Klein, Gucci, cosmetic brands including Nivea and L’Oréal, F&B brands such as Danone, and e-commerce companies such as Rakuten
- **Innored** (www.innored.co.kr): Works with Ticket Monster, Northface, Reebok, M&Ms, etc.
- **Dmajor** (www.dmajor.kr): Works with Guinness, Smithwick’s, Estée Lauder, Burger King, etc.

Logistics and Customs

Key Points

- All global couriers offer shipping options to Korea, some also provide consulting services
 - Products valued below GBP 104 can be shipped to Korea duty free, and are customs-cleared within a couple of days based on Manifest Clearance
 - Products valued between GBP 104 and GBP 1,380 go through a Simplified Clearance that includes extra tax paid by customer and takes 2-9 days
 - Products valued between GBP 1,380 and GBP 4,695 go through Standard Clearance, which can take upwards of 7 days and is handled by professional customs agents
-

6.1. Logistics

Global shipping companies that offer special services for e-exporters include Royal Mail, DHL and FedEx. e-Exporters can contact their respective e-commerce teams and learn more about the services offered. Such services include consulting and handling, but also website design elements such as a delivery fee calculator to be integrated on the checkout page. e-Exporters usually work with a global shipping company. In certain cases (e.g. Standard Clearance), one may need to use customs agents as well, but those are often hired or recommended by global shipping companies. Most global couriers have preferred local delivery companies that they work with and will internally deal with the handover to the local partner. The top local couriers are Korea Post, CJ Express, Hanjin, Hyundai Logistics Company and Logen. The couriers will also be able to provide detailed information regarding potential restrictions such as forbidden substances.

CASE IN POINT

BodyBuilding.com

uses DHL e-Commerce platform for its deliveries to Korea out of warehouses in the US and the UK. DHL offers a live delivery fee calculator at the checkout page that blends with the website's overall design. BodyBuilding.com offers two delivery options via DHL: Economy, with a USD 50 basic fee, a 4-9 business day delivery time including local delivery by DHL Korea and full tracking, and Super Saver, with a USD 15 basic fee, an 8-20 day delivery time with local courier delivery and limited tracking.

6.2. Customs

DISCLAIMER

The Korean government is continuously working on making the e-commerce regulatory environment easier for both vendors and customers. It is therefore likely that the regulations presented in this report will improve further over time. British retailers considering e-Exporting to Korea should contact the [Korean Customs Service](#) for the latest updates or ask the UKTI team in Korea.

Under the Korea-EU FTA, if the shipment value is below GBP 104, the consumer pays no customs duties or value added tax and the products should pass through customs within a couple of business days. Products valued up to GBP 4,695 can be imported from the UK by Koreans for personal use with reduced paperwork. At the same time, e-exporters can also skip a lot of formalities required of traditional exporters, such as product registration, safety

testing, labelling, etc., as long as the customer is importing the product for his or her own use.

Shipments valued at above GBP 4,695 require the exporter to have an Approved Exporter status in order to benefit from tariff-free trade. Only 74% of British exporters eligible for the Approved Exporter status have applied since the FTA was signed in 2011, while others still pay tariffs that are easily avoidable. British exporters should contact the UKTI or HMRC to get professional support in the process of becoming an Approved Exporter. Note that some product categories are still subject to tariffs.

CASE IN POINT

In order to benefit from tariff reductions under the Korea-EU FTA, goods need to be accompanied by a self-issued Certificate of Origin (C/O). For goods with a value of less than EUR 6,000 (GBP 4,695), exporters can self-issue the C/O. The C/O should be written on the invoice, delivery note and/or other commercial documents and state:

“The exporter of the products covered by this document (Customs Authorization No.) declares that, except when otherwise clearly indicated, these products are of preferential origin.”

For goods exceeding EUR 6,000 (GBP 4,695), only companies with Approved Exporter status are eligible to self-issue the C/O. Interested companies should contact the UKTI or HMRC for more details on becoming an Approved Exporter.

The Korea Customs Service sets the quantity criteria under which they recognise the imported items as for individuals' use and not for commercial purposes. For instance:

- 6 bottles of vitamin supplements are the maximum import allowance at one time by one individual
- For alcohols, one bottle of less than 1L is the duty free limit but the item is still subject to the liquor tax and education tax regardless of price. Once the price goes over GBP 104 or the volume exceeds 1L, customs duties and value added tax will be applied
- For perfumes: 1 bottle of less than 60ml and below the value of GBP 104

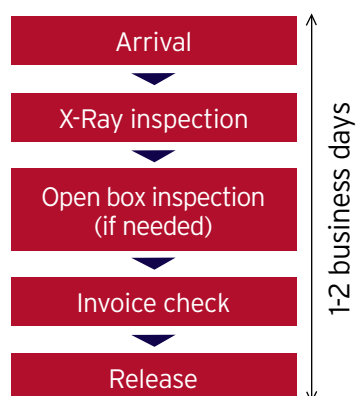
If the products are ordered by and purchased for individuals, there are three types of clearance for e-commerce B2C transactions: Manifest Clearance, Rapid Entry/Simplified Clearance and Standard Clearance.

1. Manifest Clearance

Products valued below GBP 104 (GBP 138 for packages from the US) and listed by the Korea Customs Service (KCS) as

“items available for the manifest clearance” can be processed within one business day. For this, KCS only requires that the package has an invoice or manifest attached containing a list of contents, the weight and value, and contact details of the sender and the consignee. Certain products are technically not eligible for this process but, in reality, as long as the product is valued below GBP 104, and the exporter makes sure that there is proper information attached on the invoice, there should be no issues.

Figure 7: Manifest Clearance



CASE IN POINT

Items not available for manifest clearance

Items that are excluded from importation through the manifest clearance:

- Medical products, herbal medicines, most agricultural products, health supplements, processed foods, functional cosmetics especially those with skin care effect (e.g. anti-acne, anti-aging, etc.),

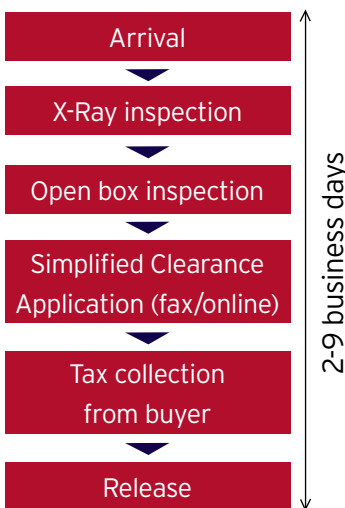
placenta-based beauty products, steroids

In some of these cases, the definitions customs officials apply can be ambiguous. To prevent being subject to unwrapping and inspection of the package, some exporters list a product's full names on the invoice. For instance, in the case of health supplements, instead of listing them as “health supplements”, exporters put full names (e.g. “Optimum Nutrition PRE” – pre-workout formula).

2. Rapid Entry / Simplified Clearance

Most packages with a value between GBP 104 and GBP 1,380 can be processed based on a simplified duty rate. The customer will have to pay an additional tax before he or she can receive the order. The KCS will calculate the tax to be paid, contact the customer to inform them and release the product only after receipt of the funds. Rapid Entry / Simplified Customs Clearance usually takes two to nine business days.

Figure 8: Rapid Entry / Simplified Clearance



CASE IN POINT

Additional import tax for individual use

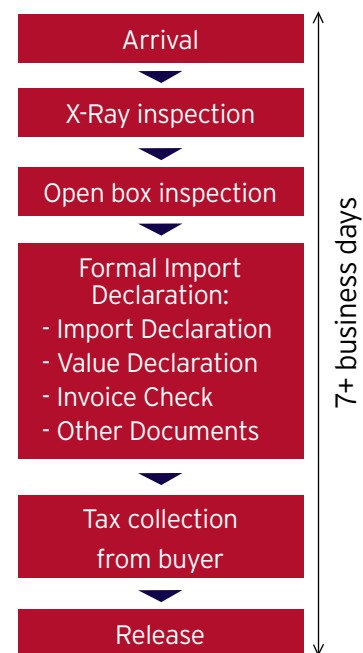
The simplified tax rate is equal to product value times average tax. The average tax is about 20% but some items can be charged at different percentages. For instance, general clothes and shoes are subject to 25% tax, fashion items made of leather are subject to 30% and the average tax on perfumes is 35% plus additional inland taxes. e-Exporters should state clearly that customers may be subject to such additional taxes as certain items including perfumes can be subject to additional inland taxes such as special excise tax.



3. Standard Clearance

If a product is valued at over GBP 1,380 or not applicable for the Manifest Clearance or the Rapid Entry, it will be subject to a standard clearance with full documentation and details to be reported to customs. In this case, a professional customs agent would be involved in the procedure that can take weeks or months if not handled carefully. Global couriers such as DHL or FedEx have in-house customs agents or can provide referrals and so e-exporters who plan to sell such products should seek consultation from a global courier.

Figure 9: Standard Clearance





- ¹ MOTIE, Trading Economics
- ² OECD Employment Outlook 2015
- ³ Population Reference Bureau 2015
- ⁴ eMarketer
- ⁵ eMarketer
- ⁶ eMarketer
- ⁷ Nielsen KoreanClick
- ⁸ Techcrunch
- ⁹ CNET
- ¹⁰ The Economist
- ¹¹ Ministry of Trade, Industry and Energy
- ¹² Park, Lee & Kim (2014)
- ¹³ Kim, Yang & Kim (2013)
- ¹⁴ Joongang Daily
- ¹⁵ Nielsen Global Connected Commerce Report 2016
- ¹⁶ KOSIS
- ¹⁷ Akamia SOTI Report, Q3 2015
- ¹⁸ eMarketer
- ¹⁹ Criteo, cEcommerce Industry Outlook 2016
- ²⁰ Wall Street Journal
- ²¹ Nielsen Global Connected Commerce Report 2016
- ²² World Consumer, CrediCards.com
- ²³ ChinaSearch International
- ²⁴ News BTC
- ²⁵ Statista
- ²⁶ Export.gov
- ²⁷ Korea Customs Service
- ²⁸ Hyundai Research Institute, December 2015
- ²⁹ Korea Customs Service
- ³⁰ MK News, Maeil Kyeongjae
- ³¹ MBN News
- ³² Macromill Embrain
- ³³ Nielsen Global Connected Commerce Report 2016
- ³⁴ FashionOne
- ³⁵ Nielsen Global Connected Commerce Report 2016
- ³⁶ Korea Customs Service
- ³⁷ Korea Herald, Feb 11 2016
- ³⁸ Euromonitor (via The Economist)
- ³⁹ Kantar Worldpanel, Accelerating the Growth of e-Commerce in FMCG 2015
- ⁴⁰ Korea Customs Service
- ⁴¹ 11th Street
- ⁴² Korea Herald, June 12 2015
- ⁴³ Joongang Daily



For further Information on this report, the Korean market and to join UK Trade & Investment South Korea's e-Exporting programme contact:

UKTI South Korea
Trade.Korea@fco.gov.uk

For further Information on the findings of this report or how Intralink can assist UK companies in South Korea and globally contact:

Michal Waszkiewicz
Project Manager, Intralink Korea
michal.waszkiewicz@intralinkgroup.com



UK Trade
& Investment

gov.uk/ukti

UKTI

UK Trade & Investment is the Government Department that helps UK-based companies succeed in the global economy. We also help overseas companies bring their high-quality investment to the UK's dynamic economy, acknowledged as Europe's best place from which to succeed in global business.

Disclaimer

Whereas every effort has been made to ensure that the information in this document is accurate, neither UK Trade & Investment nor its parent departments (the Department for Business, Innovation and Skills, and the Foreign and Commonwealth Office) accept liability for any errors, omissions or misleading statements, and no warranty is given or responsibility accepted as to the standing of any individual, firm, company or other organisation mentioned.

© Crown copyright 2016

You may re-use this information free of charge in any format or medium, strictly in accordance with the terms of the Open Government Licence.

Published May 2016
by UK Trade & Investment
URN 16/0331 APKOR