



# Market Survey Report

**ItalianWine Market in South Korea**

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## **Contents:**

1. Objectives
2. Introduction
3. Market Position of Italian wine in Korea
  - A. General market position compared to other countries
  - B. EU-Korea FTA impact on the trading situation of wines
    - i. Comparison between Italian wine import and the Chilean wine import under each FTA impact
    - ii. How Italian wines can overcome the Chileans
  - C. Market segmentation
    - i. Demographic Segmentation
    - ii. Psychographic Segmentation
    - iii. Italian Wines in the Competitive market in Korea
4. Distribution methodology
  - A. Procedure of Distribution
    - i. Off Premise Market
      1. Department Stores
        - A. Vendors
    - ii. On Premise Market

## Objectives:

Italian Chamber of Commerce in Korea researches on the information that is indicating the import situational facts and the current market positions in order to help the Italian wine companies to enter the diversified South Korean (herein after referred to Korea) market.

## Introduction

According to the study that has been conducted by UK based International Wine and Spirit Research, the consumption of wines by Korean market has been stably raised, over past years, 8.4 percent. It forecasts that the wine sales in Korea will grow between 2011 and 2015 by 26.44 percent considering the positive impact of EU- Korea Free Trade Agreement. Korea ranks currently at the third in Asian market after China and Japan. (La Journee vinicole.com, 2012). Seeing the growth in figures based on the products from Europe and the FTA impact, the statistical figures for Italian products are also likely to grow as much.

## Market Position of Italian wine in Korea

### *General market position compared to other countries*

Yearly import status of wines in Korea

(100,000 USD, %)

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Amount	46	58	68	89	150	167	112	113	132	147
Variance	55.6	26.6	16.7	31	69.7	10.7	-32.5	0.4	17.0	11.5

(KITA, 2013)

Import status of wines by countries in Korea

(100,000 USD, Tons)

2011					2012		
Rank	Country	Amount	Weight	Unit cost (\$/L)	Amount	Weight	Unit cost (\$/L)
1	France	43	3.97	10.84	47	3.93	11.97
2	Chile	29	6.46	4.49	30	6.67	5.0
3	Italy	22	4.18	5.26	25	4.70	5.32
4	USA	12	2.70	4.44	17	3.35	5.08
5	Spain	9	5.64	1.59	10	5.86	1.71

<b>6</b>	Australia	8	1.24	6.45	8	1.32	6.07
<b>7</b>	Germany	3	495	6.06	3	617	4.86
<b>Total</b>		132	26.00	5.08	147	28.08	5.23

(KITA, 2013)

European vinery market targets are getting more focused in Asia since the consumption level and the interest towards the products are gradually growing especially in China, Japan and Korea. According to the data base from Korea International Trade Association (KITA), the demand of the European wines has been increased past decades except the time when there was an economic crisis in Korea. Looking at the intensively growing interest on the wines from abroad through Vinexpo, ProWein and other vinery events, there is only bright future of European wine growth to look at in Korea.

Demands of Italian wines are fairly high in the South Korean consumer's market. Starting from 2006, Italian wines have been more demanded by consumers over American wines and have been stabilized till now that it ranked the third on the import status. Even if the unit prices have been increased in a year, the demand still remains.

#### *EU-Korea FTA impact on the trading situation*

After EU Korea FTA in July 2011, the trading situation with EU member countries has been definitely benefited; EU is Korea's fourth largest import countries and Korea is EU's 10<sup>th</sup> largest export market and one of the biggest in Asia.

	<b>2011</b>	<b>2012</b>	<b>Variance</b>
<b>EU export to Korea</b>	€32.5 Billion	€37.8 Billion	16.2%
<b>Korea export to EU</b>	€36.2 Billion	€37.9 Billion	4.7%

(European Commission, 2013)

Most of the businesses coming from EU are mostly likely to be in financial service field, machinery, and automotive industries. However, food and wine businesses have definitely been benefited under not only the strict regulation of food controlling and regulations within the country but also the home product oriented mind set of people.

Wine has been recognized as a luxurious good in Korea. Since FTA has opened the door for Korean market to contain diversified selections, people are more opened to wines from other European, North American, and South American countries rather than preferring only ones from France, as in the past years.

### *Comparison between Italian wine import and the Chilean wine import under each FTA impact*

Like the statistic result above, Italian wine import ranks on the third in Korean market after Chile. The question has always been laid that the FTA between Chile and Korea has been effective and for what reason the Chilean products are more out in the Korean market than the Italian products despite Italian products have better reputations in terms of preferences among people. Branching out of the question, it is clear that the reputation has not been the only reason of it. Italian Chamber of Commerce in Korea has investigated on the difference of Free Trade Agreement between the two and what factors have impacted on the result.

EU agricultural exported goods to Korea, in general, have fairly high tariff rate which can be up to 35% under strict regulation of origin declaration. When it comes to food, the products were not duty free at the entrance. After Free Trade Agreement in 2011, in general most of the products, 98.7% can immediately or progressive depends on categories be duty free. However, wines had 15% of tariff before 2011 from EU countries and now are duty free from the start.

On the other hand, the trading situation with Chile is more eased out. Free Trade Agreement with Chile has been conducted in 2004 establishing strong relationship with the agricultural products and raw materials. Chile is well known of its cooper export to Korea as well as some agricultural goods such as tomatoes and kiwi's due to the seasonal difference. Korea exports various home machineries for example, refrigerators, washing machines, and microwave ovens. Taking 18% of the Chilean import market, automobiles and tires are taking strong position in as well. Wineries had comparably lower tariff rate, 6% and now duty free from the start. Although the unit prices have been rising past years, Chilean products remain lower than the Italians with less tariff rates.

### *How Italian wines can overcome the Chileans*

For the Italian wineries that are trying to enter the Korean market at the current moment, the market itself is at the better position than before. Although the economic downfall in recent years has been occurred, the wine market in Korea works like the luxurious goods market; the wealthy always remains in the society considering the wines are presented as the luxurious goods. The question can be if the riches always remain, how come the Chilean wines at the lower price can take on the second rather than the Italian products. The answer can vary.

Looking at the trend of luxurious goods, for example, the consumption by the consumer with higher income that are consisting 10% of Korea's economy is much bigger in term of price values and the purchases. However, the hyper luxurious market is only targeted for the 10%. The remaining classes still desire to have some luxury in their lives too. That is when the cheaper ranges of selections come in. There will be constant demands of middle high price ranged products with fairly good reputations. Considering the cheaper rate of unit prices as well as the longer history and impact of FTA with Chile directly affect the retail



prices; the average price range of Monte Alpha, one of the most popular wines in Korea, 40,000-44,000 Korean Won. (The Korea Times, 2012).

In order to overcome the Chilean winery market in Korea, the Italian products should establish stronger competitive market position and maintain. The FTA regulations are fixed at the border. The methods of having better recognition of Italian wines can play as the key roles to have higher demand. Considering the downfall of the economy in Korea at the current moment, it could be difficult in term of settling the strong market position especially competing with the comparable lower price market of the Chilean winery business. However, persuading the high quality of the Italian wine to the broader population by aiming proper market targets, promoting its geographical originality, its brand, and other sale points can act out as a result. One of Korea's aspiring young wine writers, Yung Yong Cho, said that there is enormous potential to Italian wines. In the near future, brands will be most powerful instruments in boosting wine sales. (Wine Business, 2006) It cannot be the short term goal. The businesses should aim the long term development of market positioning in Korea.

### *Market segmentation*

While Asia positioned as the largest market for alcoholic beverages accounting for 45.7% of world consumption, Korea's wine import from all the major countries rates 85.2 million US dollars during the first half of 2013. It is 25.9% up compared to the same period in 2012. Yet, Korean wine market is still in its early stage of development. (USDA Foreign Agricultural Service, 2013) There are still plenty of spaces for import wine market to grow considering there is always a risk of getting to an unsettled market.

### *Demographical Segmentation*

The major consumer group of wines was used to be the 50 to 60s in the early 1990's. As the wine industry has grown up, it has shifted to the white collar 30 to 40s, fed by the rise of younger more highly educated consumers (Wine Business, 2006). Overall, limited population of young professionals and affluent elderly consumers are target market.

### *Psychographic Segmentation*

In Korea, drinking is considered as an important part of social life and networking even in business. Although drinking is decreasing among the elderly population for health concerns, the market is gaining new drinkers from the young and female population (USDA Foreign Agricultural Service, 2013). Besides, concerning the health issue, since there has been a large publication about red wines being beneficial for health, the consumption of red wines showed a significant growth rate. As it shows in demographic segmentation, since the age range of the most populated consumer group is shifted toward younger generations and wines have become luxurious items, drinking wine has become fashionable among younger people, particularly women (Wine Business, 2006).

### *Italian Wines in the Competitive market in Korea*

Total wine import from Italy has been increased steady in 2013. The growing popularity of Italian cuisine and being one of the quality-imaged old world suppliers have acted as the major role in the increasing figures. Especially, white wines from Italy are the best selling products among all. Frizzante style products made from Moscato grapes are now very popular among younger generations. Looking at the current trend, the Italian sparkling wines can be profitable later in the industry as well.

Market Segment	Retail Price	Major Competitors
Entry Level	Below KRW 10,000	Chile, Spain
Low-Price	KRW 10,000-30,000	Chile, France, Australia, Spain
Mid- Price	KRW 30,000-60,000	Chile, France, Australia, Spain
High- Price	KRW 60,000-100,000	France Chile, Australia
Luxury	Above KRW 100,000	France

(USDA Foreign Agricultural Service, 2013)

The retailing prices tend to rise up high after duties, liquor taxes, insurance fees, etc... Eventually, when the products are on the shelves for the consumers, the products are four times higher in price compared to the other global markets. Particularly in five star hotels and high end restaurants, the wines can be sold eight times more than when they were directly dealt from the producers. It occurs due to the high distribution cost and tight government regulations. (USDA Foreign Agricultural Service, 2013)

### **Distribution Methodology**

Like any other countries, there are high and low times of the sale of the alcoholic beverages especially something that is considered as special such as wines. The high peak times are: Korean Thanksgiving day, called *Chuseok*, Christmas, New Year's Day, Lunar New Year's day in February, Valentine's Day, and Parent's day in May. Wines in mind to high price segment are most preferable as a gift. (USDA Foreign Agricultural Service, 2013)

### *Off Premise Market*

Off premise market are taking 70% of the total wine sales in Korea. Off premise market can be divided into three streams: Large scale retail companies, Stand-alone liquor/wine shops or franchises, and convenient stores.

Large scale retail stores indicate hypermarkets and warehouse discount stores. Hypermarkets usually carry around 200 selections of wines for everyday shoppers. The products are in the price range from entry level to mid- level, under KRW 60,000. Leading retail companies are expanding their selection to "private label brand" products for better control of the price and higher store loyalty. For example, "G7" wine brand launched by Shinsaegae Emart a couple of years ago has become the bestselling wine of the store. (USDA Foreign Agricultural Service, 2013)



Large scale retail companies are trying to develop direct purchases from foreign wineries, bypassing import middlemen in the supply chain to seek a lower price. As a result, independent wine importers are likely to be further pressured to focus on products for higher-end price segments that can avoid direct competition against the retail companies in the coming years. (USDA Foreign Agricultural Service, 2013)

Stand-alone liquor/wine shops are either independent or under franchise chain operation. Some of the wine oriented liquor stores, in particular those operated directly by leading wine importers offer the most extensive selections of wine targeting serious wine consumers. These kinds of stores have diversified range of selections from mid- price through high price segment.

Convenient stores, in the other hand, have limited amount and selections of wines that are available to consumers. It is normally limited to dozen.

Many exporters seek to launch another off premise market such as online retail shop. Since it is prohibited by Korean government, the channel cannot be on project at the current moment.

### *Department stores*

Department stores are a part of the off premise channel. However, it is the biggest retail chain market in Korea, which can be different in term of approaching the specific channel of the distribution. Among major department stores, there is high competitiveness when it comes to the number of the high quality and unique brands to be in the store. Besides, the awareness of the current trend of the market plays a critical role in the retail management within.

The major department store chains are in Korea very extensive and one of the most popular places for consumers to shop in. Major department lines are: Shinsegae Department store, Lotte Department store, Hyundai department store, Galleria Department store, and AK mall. The strategic approach and great marketing skills are needed when the manufacturer wants to reach to the department store channel. Foreign winery market is growing and there are various kinds out. The brand of the winery or the kind of the wine that the producer wants to distribute through the channel should be well established enough in the market in order to be noticed by the major department stores. They are extremely sensitive to the popularity of the brands and the products. If the product or the brand is well established in Korea, it would be easier to draw their attention and get a step closer into the department stores.

Well- conducted marketing skills are crucial after entering the market in Korea. Since the wine business is still immature currently, getting exposed to the broader audience should be the target the marketing strategy in Korea. People pay more attention to the brand's name as the quality and the price is also met in a decent level at least. For example, food and wine magazines are one of the most effective ways to be exposed and reach the consumers. As the wines are considering as a trend, the trend- followers are mostly likely to read such magazines in order to be up to date like they read fashion magazines monthly bases. Additionally, the reputation of the brand is also important when advertising. As many other luxurious fashion brands, there are people that buy products for names.





Merging the well- marketed products or brands and getting well- established in shops should be the priority for the new comers to be in the department stores since they look for products based on their own needs.

### *Vendors*

When concerning getting into the major department stores and other off premise market, vendors play the most of the role in it. Department stores mostly deal with vendors in Korea to get foreign or local products inside of their shops. Vendors are divided into foreign firms and domestic firms.

Some major firms that are globally representing Korea used to import foreign agricultural goods. However, for example, since the market is growing and there are drastic growth of small and medium businesses of the sector, SK networks stopped importing and distributing foreign goods in 2011 in order to protect the smaller business firms and also because it would not match the company's future plan as the company was massively growing.

Doing a business with the major domestic firms are most effective way to get into Korean wine market due to their extensive business coverage as well as distributing not even to major distributors but also smaller scale of retail shops such as stand-alone beverage shops and franchised ones. They are the expert of the import of alchoolic beverages and distribution under the strict government laws. Department stores are mostly likely to at least see what their current products are when the vendors are proposing due to the previous relationships. Previous relationship of the business and the reputation of the companies cannot be ignored in such growing sector in Korean market.

### *On Premise Market*

On premise market accounts for approximately 30% of the total wine sales in Korea. On premise market means where consumers can directly purchase the wines and drink all in the same place such as restaurants and bars. Large scale food service companies, such as franchise restaurant chains and five- star hotels, generally buy wine directly from importers while wholesalers bridge importers and smaller- scale restaurants and bars. Under strict law in Korea, restaurants and bars are prohibited procuring alcoholic beverages from retail stores. The quality and variety of wine offered by restaurants vary widely depending on the food and target consumers of the restaurant. Dedicated wine bars and Western restaurants in five star hotels would carry the most extensive wine selections in the sector. Most of the selections are from mid- price segment to high price segment. In general, restaurants and bars add much higher mark- ups on wine than off-premise channel retail stroes. Many wines are available exclusively in restaurants and bars as the importers do not want consumer to develop price resistance to the products by making them available in retail stores at lower prices. (USDA Foreign Agricultural Service, 2013)