



# Doing Business in KOREA

## Understanding the Market

Korea is the world's 13th largest economy in terms of GDP, which was more than \$900 billion USD in 2007. Korea is home to 49 million people, 47 percent of which live in the greater Seoul metropolitan area. More than 80 percent of the population lives in urban areas.

Korea has a highly educated workforce with a strong work ethic. The stable political system, modern infrastructure and advanced production technology all contribute to the strengths of Korea's developed economy. The economy depends heavily on exports, particularly automobiles, shipbuilding, steel and flat display panels.

With regard to industrial markets, success requires first meeting technical, then commercial specifications. Equipment supply is expected to include: installation, software, operator training, spare parts and after sales service. Measures are expected to be metric; imperial measures (inches, pounds, Fahrenheit) are a disadvantage.

## Distribution and Sales Channels

### KOREAN DISTRIBUTOR (RETAIL)

Use of an established Korean distributor is highly recommended for U.S. firms wishing to enter the Korean FMCG (Fast Moving Consumer Goods) market. This allows the supplier to build on the expertise and existing client base of an established Korean firm.

### AGENT / REPRESENTATIVE

Most Korean representatives prefer an exclusive relationship. This is particularly true if considerable investment in promotion is required to develop the market. However, Korean law allows "gray imports" which makes guaranteeing exclusivity very difficult.

### FRANCHISING

There are no barriers to the franchising of any product or service in Korea. The obligations of the franchisor are more onerous than in the U.S. so it is important to do your homework.

### INTELLECTUAL PROPERTY PROTECTION

U.S. firms should register products, patents, and trademarks with the Korea Intellectual Property Office (KIPO) in order to minimize risks of patent infringements. Should the U.S. principal fail to register a trademark, their local importer/representative is entitled to do so. Recovering these rights can be difficult and costly.



## Opening an Office in Korea

To establish a company in Korea one must apply as a local corporation, a private business, a local branch or a local office. The basic procedure for establishing an office in Korea is:

- Foreign investment notification (Invest Korea or any foreign exchange bank)
- Remittance of investment capital to Korea (foreign exchange bank/carried through customs)
- Incorporation Registration (court registry office – not required for registration)
- Incorporation notification and business registration (municipal tax office)
- Paid-in capital transfer to the new business' account (foreign exchange bank)
- FDI company registration (Invest Korea or any foreign exchange bank)

## Due Diligence

Due diligence is essential before entering any type of agreement in Korea.

- Choose a partner based on their reliability, product and industry knowledge, activities and experience in related fields, financial capability, sales and distribution network, sales capabilities, key personnel, etc.
- Interview potential candidates in person at their home offices.
- Choose the right partner the first time. Changing partners is looked on with suspicion and generates a negative image for the exporting company.

## Pricing a Product

- Import duties vary but are 8 percent for the vast majority of products.
- “Luxury” goods are often subject to a special excise tax.
- The Korean government levies a 10 percent Value Added Tax (VAT) on the general consumption of all goods and services. The VAT is typically recovered at the point of sale.
- The Korean consumer is willing to pay a premium for quality. Only products with a distinctive competitive edge (quality, price, features, quick delivery, good after-sales service, etc.) will be successful.
- Consumer goods must be labeled in Korean, display the appropriate (local) address for complaints and returns, and display shelf life and warranties.

## Essential Factors for Success

- Provide appropriate training, product support and timely supply of spare parts.
- Limit the contract period to one year (with automatic renewals), lest your partner prove to be ineffective or dishonest.
- Establish clear performance goals with your Korean partner in writing.
- Build a strong personal relationship with your partner.
- Encourage your U.S. sales staff to visit Korea regularly (3-4 times per year) in order to aid communication and identify new opportunities.

## Import Requirements

Many documents are required to import products into Korea. In addition, product certification is often required (especially for consumer products e.g. food, cosmetics, electronics, etc.). The Korea Customs Service (KCS) requires submission of the following documents:

- Import declaration
- Invoice and price declaration or packing list (when required)
- Copy of Bill of Lading (B/L) or Airway Bill (AWB)
- Country of origin certificate (when required)
- Confirmation documents on goods subject to customs checks
- Tariff reduction application or tariff installment payment approval application
- Approval (application) of tax rate
- Tax payment securities certificate



## Government Procurement

A representative or office in Korea is not a prerequisite to obtaining government contracts. However, it often simplifies preparing bids, providing after-sales services and tracking parts supplies. U.S. firms are encouraged to carefully analyze tender specifications with their Korean representatives, as a bid will be disqualified if it does not comply with the tender in all details. To learn more about tenders and bids, please visit Korea's Public Procurement Service website at <http://www.pps.go.kr/english>.

## BUSINESS AND CULTURAL PRACTICES IN KOREA

- Korean consumers are highly brand conscious yet seek price competitive deals.
- Markets are trendy but trends are sharp and short.
- Korean consumers follow Japanese trends.
- Packaging, package size and labeling all must meet market expectations.
- Hypermarkets and large chains dominate the packaged, FMCG industry.
- MLM, door-to-door and home shopping are important channels for many trendy products.
- Wholesalers and distributors provide access to smaller retailers.
- Branded specialty shops are concentrated in department stores.
- Suppliers are expected to interact with industrial customers directly. Commission agents are often used to facilitate communication. Agents also handle consumables, service and service parts. Agents are normally exclusive so contracts should define contract period and set sales targets.
- Highly technical equipment that has a direct impact on production (particularly in the electronics industry) will be sourced only from companies that have adequate local presence to respond promptly to service needs of customers.

## Punctuality, Appointments and Local Time

- Be punctual to meetings. This is expected from foreigners as a sign of good business practice. Do not get upset, however, if your counterpart is late. Punctuality is also expected at social events.
- It is important that you establish a strong relationship with your contact person.
- Many meetings are quite formal, especially when senior executives are involved. The Koreans will often be lined up in order of importance. When entering a group meeting, the senior member of your party should enter the conference room first, then the next-highest-ranking person and so on.
- Your business meetings and correspondence will normally be in English. Promotional literature in English is acceptable but if possible, Korean language materials are better.
- It is difficult to make firm appointments more than a week in advance except with top level executives.
- Korean businesspeople vacation from mid-July to mid-August; avoid trying to schedule appointments at this time of year. Other challenging times are Korean Thanksgiving or "Chusok" in early fall and the Lunar New Year "Solnal" holiday.



- Many Europeans and Asians write the day first, then the month, then the year (e.g., December 3, 2010, is written 3.12.10 or 3/12/10).
- Local time is nine hours ahead of Greenwich Mean Time (G.M.T. +9), or 13 or 14 hours ahead of U.S. Eastern Standard Time (E.S.T. +14). Korea does not observe daylight savings time so the time difference varies during the year.

## Negotiating

- Find out who from the Korean side will attend meetings and match the rank of the persons represented. Status is very important, and a mismatch may prove embarrassing to both sides.
- Look for cues that your counterpart did not understand you. Ask open ended questions. Avoid yes/no questions.
- React and respond quickly to communications with your partner.
- While contracts are important, success depends more on establishing long-term relationships than insisting on legal “rights”.
- Manage dissatisfied customers carefully to avoid rapid, influential and costly negative feedback
- The market for industrial goods is highly price sensitive. Long, protracted negotiations are customary and suppliers are expected to offer price discounts. Never give your best price in your first quotation.

For more information on doing business in Korea or how to export to Korea, contact your Trade Specialist in Atlanta or the State of Georgia Korea office:

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