

Course Material No.8

ROK Market Opportunity: Distribution Channel



Course 8: ROK Market Opportunity – Distribution Channel aims to introduce Korean consumer behavior and distribution channels.

This course delivers an in-depth analysis of Korean consumer behavior and distribution channels, offering insights into how products enter the market and how consumer preferences are evolving. The course specifically focuses on assisting exporters from Central America in navigating the Korean market effectively and identifying optimal distribution strategies.

By the end of the course, learners will be able to:

- Recognize key trends in Korean consumer behavior and their influence on product sales and market entry; and
- Gain a thorough understanding of the current landscape of distribution channels in ROK and their role in both B2B and B2C markets.

Consumer Behavior

▶▶ Key Facts

- ❖ ROK ranks as the 5th largest e-commerce market in the world, reaching a record high of 228.9 trillion KRW (approximately 176.08 billion USD) in 2023. This reflects Korea's strong preference for online shopping and its rapid e-commerce growth.
 - Korean consumers favor online shopping due to its quick delivery, convenient payment options, and relatively low prices. This preference is further accentuated by the growth of mobile shopping apps.
- ❖ In Korea's offline retail sector, department stores (including hypermarkets) and convenience stores dominate the market.
 - As of 2023, total offline retail sales reached 177.4 trillion KRW, with department stores leading at 30.87 trillion KRW (17.4%) and convenience stores closely following at 29.63 trillion KRW (16.7%).
 - Convenience stores play a crucial role particularly in the sales of ready-to-eat meals and small packaged items due to their convenience and wide accessibility. Their growing presence signifies their influence in Korea's retail distribution.
 - Hypermarkets focus on fresh produce and household goods and are favored by consumers for bulk purchases. The ability to purchase a wide variety of items in one place at reasonable prices is a key factor in their selection.
- ❖ Korean consumers are increasingly interested in premium and health products. There is a growing demand for organic and high-quality imported goods, driven by heightened awareness of health and wellness.
 - Additionally, trends like zero-sugar and zero-calorie products are on the rise, as consumers seek healthier food and beverage options. This shift is a response to growing health concerns and a desire to reduce sugar intake, which has led to a notable increase in the market for low-calorie and sugar-free alternatives in ROK.

Overview of Distribution Channels

▶▶ B2B Distribution Channels

1. Wholesaler

- ❖ **Role:** Serve as central hubs for bulk trade, primarily focusing on fresh produce, livestock, and seafood.
- ❖ **Products & Distribution:** Imported products such as bananas, pineapples, and other fruits are delivered to wholesale markets, accounting for about 60-65% of distribution. From wholesale markets, products are distributed to smaller retailers, food processing, and packaging companies, traditional markets, and food vendors.

2. Food Processing & Manufacturing Companies

- ❖ **Role:** Play a crucial role in refining and repackaging raw products to be ready for retail sale or further use in food manufacturing.
- ❖ **Products & Distribution:** For items like refined sugar, nearly 94% of the total is distributed through B2B channels to food manufacturers and processors, while the remaining goes to retail. Other products, such as frozen meats and beans, are processed, packaged, and branded before distribution.

3. Others

- ❖ **Role:** This category covers industrial and specialized products that don't fit traditional food and retail distribution, focusing on supplying raw materials and components to various industries.
- ❖ **Products & Distribution:** Includes metal & mineral products (e.g., copper, nickel), chemicals, plastics & rubber products (e.g., herbicides, plastic films), machinery & parts (e.g., automotive wiring sets), and medical instruments (e.g., catheters, implants). These items are distributed directly to manufacturing companies, industrial suppliers, construction companies and healthcare institutions for industrial and professional use, bypassing typical retail channels.

▶▶ B2C Distribution Channels

1. Major Retailers (Hypermarkets & Supermarkets)

- ❖ **Role:** Provide consumers with access to a broad range of products, from fresh foods to packaged goods, all in one location. Hypermarkets are large-scale stores, while supermarkets are smaller yet still offer a wide selection.
- ❖ **Products & Distribution:** Hypermarkets dominate fresh meat sales (e.g., beef), accounting for about 55%, and also distribute processed snacks, bread, and various imported goods. They handle direct imports for a variety of items, using their in-house packaging centers for labeling and quality control before selling to consumers.

2. Convenience Store

- ❖ **Role:** Known for their accessibility, convenience stores operate long hours and serve as a quick-stop option for small packaged goods, ready-to-eat meals, and beverages.
- ❖ **Products & Distribution:** They play a crucial role in the sale of snacks and ready-to-eat items. Convenience stores account for around 51% of the snack distribution market, playing a significant role in ready-made meals, beverages, and other impulse-buy items due to their convenience and location.

3. Online & E-commerce Platforms

- ❖ **Role:** Serve as an increasingly important retail channel in Korea, offering a variety of products and convenient delivery options.
- ❖ **Products & Distribution:** E-commerce platforms distribute a diverse range of items, from fresh produce and processed snacks to household goods, electronics, and fashion items. The online sector is seeing rapid growth, driven by consumer demand for convenience, variety, and competitive prices. Digital channels play a significant role in food and beverage sales, as well as imported and specialty items.

We look forward to supporting your success in the ROK market.