Exporter Guide

FUNCTIONAL FOODS AND BIOSUPPLEMENTS MARKET IN SOUTH KOREA

Market Profile
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1 MARKET STRUCTURE

1.1 Market Overview

South Korea is a major market for functional foods and bio-supplements. Korea's 'well-being boom', low unemployment, ageing population and rising disposable incomes are increasing opportunities in the nutritional supplements market.

All claims of health benefits by functional health products must be proven and meet Korea Food & Drug Administration (KFDA) requirements. Korean buyers trust the health claims on functional health products due to these strict regulations. KFDA narrowly defines health functional food as food products that are manufactured / processed in the form of tablet, capsule, powder, liquid, granule, pellet, slice, paste, syrup, gel, jelly and bar and that contain substances or ingredients which have a functional effect on the human body.[i]

Korea's health functional food market was estimated to be worth US$1.15 billion in 2010, with imports accounting for 20 percent of the market. In 2009, Korea's functional food imports were approximately US$210 million and are expected to grow by 10 percent per annum over the next 2 years.[ii] The USA accounts for almost 50 percent of South Korea's functional food imports and this is estimated to grow once the 8 percent tariff is eliminated through the United States-Korea Free Trade Agreement (KORUS FTA).[iii] In 2009, New Zealand was Korea's 6th largest source of health functional food imports:

South Korea's health functional food imports – top ten countries (2009)

	Total No. of Cases	Conformed cases	Rejected cases	Total Value: US$mn
Total	**7,062**	**6,948**	**114**	**209.67**
USA	3,330	3,278	52	141.08
JAPAN	807	803	4	22.66
CANADA	804	792	12	11.50
AUSTRALIA	517	507	10	6.58
CHINA	435	425	10	3.31
NEW ZEALAND	334	319	15	9.04
GERMANY	114	112	2	2.49
THAILAND	111	110	1	1.85
ITALY	84	84	-	1.47
TAIWAN	66	66	-	2.36

Source: Korean Statistical Information Service

The health functional food sector in South Korea can be divided into the following major areas: red ginseng (market share of 52 percent), product-specific (8.3 percent), vitamin & mineral supplements (7.9 percent), aloe (6.7 percent) and ginseng (3.8 percent).[iv] Functional foods that do not contain one of 37 ingredients recognised by KFDA, but have received product-specific certification from KFDA are classified as product-specific. The sales of products that have been individually approved by KFDA have increased significantly as current trends encourage consumers to take an interest in more sophisticated and a greater variety of health functional foods. Among individually approved products, the popular ranges target weight-loss, liver care and bone/joint-care.[v]

1.2 Market Drivers and Growth

Korea's functional food market is expected to grow rapidly at 10 percent annually due to a number of factors such as ageing population and lifestyle.[vi]

Population growth is slowing in Korea and the average age is expected to rise significantly. By 2050, average life expectancy will increase to 86 and people aged 65 or over will account for 37 percent of the total population, resulting in the highest ageing rate in the world.[vii]

The lifestyle in Korea is becoming busier and South Koreans work the longest hours per year (on average of 2,357 hours per year) among OECD countries, resulting in an increase in lifestyle related diseases. Functional foods for the prevention of cancer and cardio-vascular diseases are growing in popularity.[viii]

Korean consumers are affluent, with their average monthly disposable income increasing 5.4 percent from US$2,200 (KRW 2.81million) in 2009 to US$2,559 (KRW 2.96million) in 2010.[ix] Consumers are prepared to provide premium care for themselves as well as their children.

1.3 Import Trends

The worldwide economic downturn in 2009 resulted in a five percent decline of Korea's health functional food imports. However, local production increased by nearly 20 percent in 2009 due to a sharp peak in demand to prevent H1N1 flu.

Korea's domestic functional food production remains strong, with 385 manufacturing establishments in 2009. However, domestic production is unable to meet the demand for high-end advanced products and these products are mostly sourced from offshore.[x]

Functional food products sourced from offshore are usually 2 to 3 times more expensive than domestic products.

Health Functional Food trade statistics in US$ millions			
	2008	**2009**	***2010f***
Import Market	220.5	209.6	*230.0*
Local Production	730.0	872.6	*958.5*
Exports	35.8	37.7	*39.5*
Total Markets	914.7	1044.5	*1149.0*

Source: KFDA and Korea Health Supplements Association via US Commercial service (NB: 2010 forecasts)

1.4 Key Players in the Market[xi]

The key players in the health functional food market are mostly well-established corporations, as KFDA's recognition is required and this involves a long and costly process.

The major international players involved in importing functional foods into Korea focus on products aimed at weight-loss or nutritional supplements. These companies include Amway (focuses on health supplements), Herbalife, Usana, Melaleuca (famous for its fibre bars) and Sunrider. Some of these players are involved in selling directly in Korea through their subsidiaries or multi-level marketing.

Due to the higher prices of imported health functional food products in Korea, the domestic market is well established.

Total number of health functional food business establishments in 2009		
Total sales establishments	**Total manufacturing establishments**	**Total import establishments**
60,688	385	2,528

Source: Korean Statistical Information Service

Domestic manufacturers are very well known among consumers and these players include CJ Corp (works with ginseng), Daesang (replacement of conventionally unhealthy foods) and Lotte (famous for its Xylitol gums). Other domestic players that work with ginseng, aloe, glucosamine and omega 3 include the Korea Ginseng Corp, Nam Yang Aloe, Kim Jung Moon Aloe, Pulmuone, Han Mi Pharmaceutical, Su-Heung Capsule, Rexgenebiotche Corp and Il Jin Pharmaceutical.

Korean consumers are open to substitutes of conventionally unhealthy foods and Korean manufacturers are working with more functional substitutes such as ginseng ice-cream and grape seed oil.

1.5 Regulatory

Information provided in this section is for reference only. When negotiating supply contracts and before beginning actual export, companies are advised to consult closely with their importer or distributor.

Duties and tariffs[xii]

The tariff for exporting most functional foods into Korea is 8 percent and the current Value Added Tax (VAT) rate is 10 percent of the dutiable value. VAT is charged on imported goods.

For more information see the Korean Customs website: http://english.customs.go.kr

Licensing and registration requirements

KFDA oversees licensing, inspection and import control. All health functional food imports need to file for an import notification. KFDA only issues import notification certificates to Korea-based firms requiring international firms to work through their Korean importers.[xiii]

Detailed information on import requirements, procedures and labelling requirements is available on the KFDA website: http://eng.kfda.go.kr

Labelling requirements[xiv]

Under the Health Functional Food Act, functional food labels are required to be written in legible Korean. Korea's labelling standards require functional food manufacturers to include:

- Product name
- Content
- Information on nutrition and functionality
- Ingredient
- Sell by date
- Storage condition
- Name and address of manufacturing factory
- Usage
- Description on use and caution

1.6 Sustainability

Most Korean organisations exposed to sustainability related issues are large export focused firms. The domestic market tends to have lower implementation levels compared to other countries.[xv] However, the market is becoming more aware and sustainable packaging is encouraged by the government through the Korea Association of Packaging Professional Engineer (KAPPE). Korea has passed its green growth legislation which may result in mandatory product carbon footprint labelling in the future.[xvi]

2 MARKET ENTRY AND DEVELOPMENT

2.1 Market Entry Strategies

Companies who are interested in exporting health functional food products to Korea should be aware of the government regulations which control the market. Exporters need to be prepared before entering the Korean market. The first step is to find out which categories their products belong to - health functional foods or not. This is necessary in order to develop a market strategy to target Korean consumers.

If products are not already recognised by KFDA as health functional foods, there are limitations on the health claims that can be used when marketing. If a certain efficacy is a key factor for appealing to consumers, companies can submit an application to KFDA for recognition of the specific ingredient as a health functional item.

Under the revised Health Functional Food Act, any company who intends to operate a health functional foods import and sales business needs to report to the relevant authorities. It is recommended that exporters make sure that the required procedures are undertaken by local Korean partners when entering into an agreement with them.

In addition, packaging is very important to Korean consumers as it gives them the first impression of the product itself. People tend to assume that the quality will be good if the product is nicely packaged. Exporters need to consider this when developing their labelling design for the Korean market.

2.2 Points of Differentiation

To successfully compete with local and global brands which are well known to the Korean consumers, it is important to differentiate your product. A recent trend in the market is the concept of "inner beauty". This is a bit of paradigm shift for cosmetics, moving from the idea of something people put on their face, to something people can eat in order to get beautiful skin. It is a good example of marketing differentiation. Consequently, the inner beauty concept has become a significant part of the functional food markets and it has been rapidly occupying more market share.

Companies can differentiate themselves based on a core capability which could appeal to the Korean consumers. Exporters need to decide which competencies they are going to highlight for Koreans to differentiate their products and marketing.

2.3 Long Term Strategic Issues for Exporters to Consider

The health functional food market exceeded US$1 billion in 2010[ii], aided by Korea's ageing society. Meanwhile, non-prescription, over-the-counter medicine has been declining over the past decade. Recently large pharmaceutical companies have been actively responding to the market by focusing on prescription medicine and launching health functional foods through their subsidiaries. This will bring about more competition in the market. It is important that exporters are ready to be responsive to such market changes in their long-term strategy.

When entering the Korean market, it is also critical to identify the right business partners, who are experienced and able to facilitate opportunities for your brand in the market place. Long-term relationship with local partners will help products to be sustainable in the market.

Products manufactured under Good Manufacturing Practice (GMP) are recognised by consumers and also encouraged by the Korean Government to ensure food quality and safety. As of January 2010, 33 percent of manufacturers have adopted GMP in Korea and it is expected to be implemented in small and medium-sized companies in phases with the support of the government.[xvii] New Zealand companies are also recommended to comply with the GMP for production when exporting to Korea.

2.4 Distribution Channels

Online sales (26 percent) have the largest market share in terms of distribution for health functional foods, followed by specialised stores (21.6 percent), hypermarkets (16.2 percent), pharmacies (13 percent), TV home-shopping channel (7.5 percent) and department stores (7 percent) in Korea.[xviii]

Small to medium-sized local importers tend to open a website for online sales to start up their business and use it as a test bed for imported items. Once a brand is established in the market, it will be easier to expand distribution channels into department stores, pharmacies, or TV home shopping.

With increased demand from people who are becoming more health conscious, sales via TV home shopping and duty free shops are solidly increasing in Korea.

2.5 Pricing

Korea is a very price-sensitive market, however people are willing to pay more for premium products. As medical expenses are climbing, people are becoming conscious of "self-care", which has created a consumer-base for health functional foods in the market.

With fierce competition, it is recommended that exporters set a reasonable price for a couple of products as "teaser" items in the first phase. Based on the price of similar products in the market, exporters can discuss with local partners appropriate price ranges which can be marketable to the Korean consumers.

3 MARKET RESOURCES AND CONTACTS

ASSOCIATIONS	
ORGANISATION	**WEBLINK**
Korea Food & Drug Administration	eng.kfda.go.kr/index.php
Korea Health Supplements Association	www.hfood.or.kr/include/aboutus.pdf
Korean Customs	english.customs.go.kr
Ministry of Health and Welfare	english.mohw.go.kr/front_eng/index.jsp
Korean Statistical Information Service	kostat.go.kr/eng
Korea Association of Packaging Professional Engineer (Korean only)	www.kappe.or.kr
TRADE EVENTS	**WEBLINK**
Organic & Natural Korea	www.organicshow.co.kr/
Natural Product Expo Asia	www.naturalproductsasia.com
OTHER NZTE PUBLICATIONS	
REPORT	**WEBLINK**
South Korea country brief	www.nzte.govt.nz
Perceptions of New Zealand in South Korea	www.nzte.govt.nz

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