

ACTION ASIA BUSINESS

ASIA NEW ZEALAND FOUNDATION • BUILDING NEW ZEALANDERS' KNOWLEDGE AND UNDERSTANDING OF ASIA

South Korea

AN OPPORTUNITY FOR NEW ZEALAND BUSINESS

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EXECUTIVE SUMMARY

The Asia New Zealand Foundation (Asia:NZ) is New Zealand's leading non-government organisation on New Zealand - Asia relations. Asia:NZ commissioned Deloitte to undertake research into and write a report on opportunities for New Zealand businesses in South Korea. This report will help New Zealand businesses to make informed decisions about pursuing investment and other business interests in South Korea.

The research has identified that to be successful in South Korea, New Zealand businesses need to:

- build market understanding,
- be the right scale,
- establish the right relationships, and
- to recognise, acknowledge and embrace the Korean culture.

TO BUILD MARKET UNDERSTANDING is about understanding the New Zealand/Korea trade relationship. This includes the relationship in general, the impact of the Free Trade Agreement, the role of the New Zealand Government and the New Zealand factor. A market understanding also involves an understanding of the obstacles to success in Korea. These obstacles range from the current economic climate, bureaucracy and corruption, the legal system, unionisation and the history of the chaebol to the Korean workforce, possible unification with North Korea and intellectual property (IP) protection. The research also identified various business opportunities in the market that could be taken up by New Zealand companies.

TO BE THE RIGHT SCALE means having sufficient money and the right people. It also involves an ability to diversify, an ability to scale up and access to legal and taxation advice. The scale requirements differ depending on the sector and the product or service.

ESTABLISH THE RIGHT RELATIONSHIPS are critical to success in Korea. First, there is a need to define the right relationship. In Korea, this involves a distributor or Korean partner and links to elite universities and their alumni.

To establish this right relationship base, a mentor, conscious effort, a level of trust, consistency and the use of incentives are required. To succeed in this area, a company needs a strong base of ethics, a general knowledge of Korea, and resilience.

TO RECOGNISE, ACKNOWLEDGE AND EMBRACE KOREAN CULTURE is critical to success in Korea. The Korean culture is very different from New Zealand's, and certain aspects of that culture need to be top of mind when doing business with Koreans. Koreans are very nationalistic, sensitive to price, time conscious and deferential towards elders and Korean society is hierarchical. They also have their own business etiquette and a unique historical experience that needs to be taken into account. To recognise, acknowledge and embrace this culture, New Zealand businesses need to resolve the language barrier, have the ability to adapt, deliver on promises and socialise with Koreans.

Korea is generally called by three names interchangeably. These are the Republic of Korea, South Korea and Korea. Throughout this report and the case studies the country is referred to as Korea.

BUILD MARKET UNDERSTANDING

Market research in Korea must go beyond a basic search and should create complete market awareness and understanding. This understanding is crucial to success as a New Zealand business in the Korean market. The following section is an overview of the Korean market. It includes the trade relationship between New Zealand and Korea, certain aspects of the market that are obstacles to success, and current opportunities that have been identified. In addition to the following analysis, a complete understanding of the specific market sector in which the business will be operating is required.

NEW ZEALAND/KOREA TRADE RELATIONSHIP

Korea is a clear opportunity for New Zealand business. It is the world's 13th-largest economy, and with a population of 48.6 million¹ it is a large and affluent market. However, before entering the Korean market, there is a need to understand the New Zealand/Korea trade relationship. This includes the relationship in its current state, the future relationship, which will be based on the Free Trade Agreement (FTA), the New Zealand Government's role in facilitating this relationship, and possible business opportunities arising from this relationship.

BACKGROUND TO TRADE RELATIONS

The New Zealand/Korea relationship began when New Zealand answered the United Nations Security Council's call to assist in the Korean War. Many Koreans today recall the countries that contributed to this war effort. New Zealand subsequently aided Korea's entry into the United Nations and assisted with economic development. Ties between the countries have been strong since.

New Zealand and Korea have a strong complementary trading relationship. The pending bilateral FTA is a logical addition to this current relationship, because it will provide new opportunities for mutual economic benefit. A New Zealand/Korea FTA will also mitigate the loss of competitiveness experienced by New Zealand exporters as a result of Korea's FTAs signed with other markets, such as the United States and Chile.

Korea is New Zealand's seventh-largest trading partner and sixth-largest export destination.² Trade complementarities are high, with Korea selling what New Zealand wants to buy (manufactured products) and New Zealand selling what Korea wants to buy (primary products). In 2008, imports from Korea and exports to Korea were of relatively equal value – New Zealand traded NZ\$1.4 billion of exports to Korea and NZ\$1.3 billion of imports from Korea.³ From 2000 to 2008, exports for overseas merchandise trade (FOB NZ\$⁴) with Korea increased by 3.3 percent.⁵ Imports for overseas merchandise trade (NZ\$ CIF⁶) from Korea have increased by 94 percent, reflecting Korean success in such markets as cars and electronics (e.g. mobile phones, televisions, heat pumps).⁷ Korea is also a major source of tourists (our fifth-largest inbound market) and international students (our second-largest market) to New Zealand.⁸

New Zealand Trade and Enterprise (NZTE) data shows that food and beverage represents 40 percent of total exports to Korea. Our key exports are wood products (30 percent of total exports), meat (15 percent), dairy products (10 percent), kiwifruit (5 percent), aluminium (3 percent) and seafood (2 percent). Korea's main exports to New Zealand are vehicles, whiteware, televisions, electronics and mobile phones – with brands such as Samsung, LG, Kia and Hyundai being household names.

On page 3, is a table reflecting key growth statistics of exports from New Zealand to Korea from 2000 to 2008. Despite the large increase in fruit and vegetable exports in the past eight years, exports of these products decreased in 2008. This was likely due to Korea's economic climate, Korea's FTAs with other competitive nations, or a combination of both. Also, despite the large percentage increase in meat exports in this eight-year period, meat exports decreased a total of NZ\$43,332,171 from 2006. This was likely due to the same factors as above, despite safety concerns of US beef (this market has now reopened post the BSE scare, increasing competition) and a re-branding of New Zealand beef to differentiate.

1 <http://www.unpan.org/Regions/AsiaPacific/PublicAdministrationNews/tabid/115/mctl/ArticleView/ModuleID/1467/articleId/18415/South-Korean-Social-Indicators-in-2008.aspx> – Last accessed 7/5/09.

2 Market Snapshots – Korea: New Zealand's next hot prospect – NZTE.

3 Statistics New Zealand – Exports for Overseas Merchandise Trade (fob NZ\$): Country of Destination by Commodity (HS2) and Period and Imports for Overseas Merchandise Trade (cif NZ\$): Country of Origin by Commodity (HS2) and Period. Market Snapshots – Korea: New Zealand's next hot prospect – NZTE.

4 'FOB' means Free on Board.

5 Statistics New Zealand – Exports for Overseas Merchandise Trade (fob NZ\$): Country of Destination by Commodity (HS2) and Period.

6 'CIF' means Cost, Insurance and Freight.

7 Statistics New Zealand – Imports for Overseas Merchandise Trade (cif NZ\$): Country of Origin by Commodity (HS2) and Period.

8 Market Snapshots – Korea: New Zealand's next hot prospect – NZTE.

KEY TRENDS IN NEW ZEALAND EXPORTS TO KOREA: 2000 – 2008

COMMODITY	PERCENTAGE CHANGE FROM 2000 TO 2008	EXPORTS (FOB NZ\$) IN YEAR 2000	EXPORTS (FOB NZ\$) IN YEAR 2008	EXPORTS (FOB NZ\$) IN 2008 AS A PERCENTAGE OF TOTAL EXPORTS
Meat and edible meat offal	282% increase	\$53,808,630	\$205,899,625	15.15%
Fish and crustaceans, molluscs and other aquatic invertebrates	31% decrease	\$44,001,564	\$30,428,068	2.23%
Fruit and nuts, edible; peel of citrus fruit or melons	628% increase	\$8,936,705	\$65,017,196	4.78%
Vegetables and certain roots and tubers	1231% increase	\$1,159,181	\$15,431,330	1.1%
Wood and articles of wood; wood charcoal	11% decrease	\$371,229,554	\$328,929,382	24.2%
Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere specified or included	118% increase	\$59,718,919	\$130,549,936	9.6%

Source: Statistics New Zealand.

Despite this strong and complementary trading relationship, the Korean Government's approach to foreign trade emphasises exports and it is slow to liberalise imports. This attitude remains deeply ingrained in both the Government and the country, regardless of continuing globalisation and liberalisation.

See Appendix II (page 37) for:

- Total exports and imports New Zealand and Korea: 2000 – 2008
- Top ten exports to Korea: 2006 – 2008
- Top ten imports from Korea: 2006 – 2008

IMPACT OF A FREE TRADE AGREEMENT

Because an FTA with Korea is currently being developed, knowing what this might look like is important. An understanding of the extent of the benefits for New Zealand industries and individual businesses can then be established.

The Ministry of Foreign Affairs and Trade (MFAT) has stated in a recent briefing that an FTA with Korea will cover goods' trade (including tariffs, non-tariff barriers and other rules), services and investment, government procurement, intellectual property (IP), labour, the environment and other rules and issues.

Based on an analysis of the KORUS agreement, the FTA between the US and Korea, it is possible to observe how Korean trade restrictions are being phased out. The KORUS agreement uses a stepped mechanism that varies according to product type. There are additional protections in place for specific agricultural goods (horticultural goods are included in this category) including apples and beef.

New Zealand horticulture exports to Korea have increased by ten percent since 2006 – making Korea the industry’s fifth most important export market.⁹ However, this strategic position could be compromised by the FTA agreements signed between Korea and the USA and Korea and Chile, decreasing the competitiveness of New Zealand production considerably. The New Zealand kiwifruit industry is an example. Although from 2006 to 2008 the value of exports of kiwifruit (NZ\$ FOB) remained relatively stable (decreasing 0.28 percent), the effects of preferential tariff rates for both California kiwifruit and Chilean kiwifruit will soon be felt. The present tariff rate for New Zealand kiwifruit is 45 percent, costing the industry NZ\$28,381,489 in 2008 alone.¹⁰ Compared with the rate given to Chilean kiwifruit, 24.8 percent and decreasing every year forward by 4.5 percent, the pricing advantage to Chilean product is substantial.¹¹ Even if New Zealand kiwifruit exporters receive treatment similar to Chile’s once our FTA has been negotiated, they will continue to be disadvantaged owing to a time lag effect.

The diagram below illustrates this time lag effect, showing the decline in comparative competitiveness of New Zealand kiwifruit as a result of Chile’s FTA with Korea. This cost is indicated by the gap between the red and black lines.

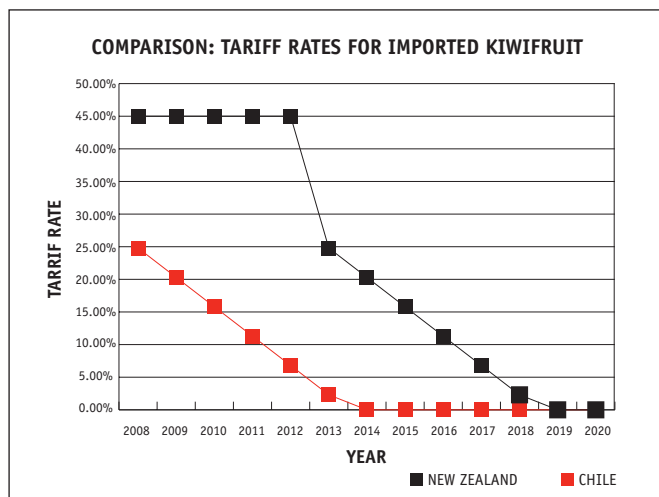


FIGURE 1: Source: Statistics New Zealand

Judging from similar FTAs, a typical FTA will take between three and five years to come into force. In this graph we have assumed it will take four years from when it was announced.

New Zealand beef exporters have recently capitalised on Korean safety concerns regarding US beef imports. A New Zealand grass-fed beef logo was launched in 2006 with the intention of further differentiating the product. A 40 percent tariff is applied to New Zealand beef imports to Korea; it is now New Zealand’s second-largest export market for beef by volume and value. However, this may not withstand the substantial drop in price of US beef in coming years as tariffs gradually decrease over a 16-year period.

The KORUS, in annex 3-A, sets out agricultural safeguard measures for the Korean agriculture sector. However, it still sees a stepped decline in tariffs from 40 percent in years one to five, to 30 percent in years six to ten, 24 percent in years 11-15 and nil in year 16. If New Zealand receives this same treatment from the pending FTA, once again there will be a time lag effect and the competitiveness of New Zealand beef exports will decline despite the differentiated brand and quality of New Zealand beef and the FTA.

However, this decline would be far more extreme if a FTA is not confirmed or if, within this confirmed FTA, tariffs for beef are not slowly diminished.

The short-term effects of the FTA with Korea may be minimal, owing to the observed stepped mechanism to reduce trade barriers. However, the long-term benefits will be significant, as tariffs and other non-tariff trade barriers are reduced to zero. Also, owing to FTAs that Korea has negotiated with other competitive nations, an FTA of our own with Korea is now crucial to remain competitive.

ROLE OF THE NEW ZEALAND GOVERNMENT

NZTE is the Government’s national economic development agency. NZTE has made a positive contribution to New Zealand businesses already doing business in Korea. NZTE resources should be utilised by New Zealand businesses wishing to commence business relations with Korea.

9 New Zealand Horticulture – Barriers to our export trade – December 2008.
 10 New Zealand Horticulture – Barriers to our export trade – December 2008.
 11 <http://www.kiwifruit.org/headers/file/Korea%20Market%20Report%202010-3-2008.pdf> – Last accessed 11/5/09.

One of NZTE's main services is to connect New Zealand businesses with Korean partners and other contacts. NZTE staff based in Korea provide hands-on assistance to New Zealand exporters. They also provide local Korean buyers, importers and distributors with information on what New Zealand business has to offer.

THE NEW ZEALAND FACTOR

When establishing a business relationship in Korea, or marketing a product, New Zealand's positive reputation can be a key factor in decision-making by Koreans. However, it is important to note that it is one of many factors, and if a business lacks 'the whole package', New Zealand's reputation will count for nothing. Korean's knowledge of New Zealand is very limited. Therefore it is not possible to rely on being from New Zealand as a point of difference.

NZTE commissioned the Nielsen Company to conduct research into the perceptions of New Zealand business culture and values. The research was carried out in Korea in September 2008.

The report found that the affection for New Zealand found with the Chinese and Japanese is not present among Koreans. This suggests that a business relationship with Korea may require more effort than New Zealand businesses are prepared to invest. It also found that New Zealand businesses can let themselves down with a relaxed 'she'll be right' response that indicates a lack of seriousness in business. The report stated that New Zealand has a transactional approach to business and a tendency to sell what it has, rather than what the market wants. The Koreans' emphasis on long-term relationships conflicts with this approach. More positively, the report found that New Zealanders carry a reputation for honesty, reliability, and trustworthiness, and New Zealand's non-corrupt business environment and a clean, green image.

The full report can be downloaded from the following link: <http://www.nzte.govt.nz/explore-export-markets/North-Asia/Doing-business-in-South-Korea/Pages/Perceptions-of-New-Zealand-in-South-Korea.aspx>.

A recent Korea Institute for International Economic Policy report¹² stated in regard to New Zealand that "it is well known for its competitiveness in the areas of high technology and agricultural (sic). Due to its geographical constraint of being isolated from the main global trade locations and small population, however, it is not an attractive export market for Korea". It also stated, "Korea's importance to New Zealand is far greater than New Zealand's importance to Korea."

This report went on to explain, "In most cases, economic benefits are one of the most important factors in defining a trade relationship between two countries however, for the Korea-New Zealand trade relationship, one must consider New Zealand's non-economically outstanding factors, which go beyond the economic realm". These factors were New Zealand's international political reputation and influence, its influence on other countries in the South Pacific region, its high income per capita and its competitiveness in the areas of agriculture and biotechnology.

Interviewees widely believed that those Koreans who know New Zealanders like New Zealanders – especially in comparison with Americans or South Africans. However, it was also identified that New Zealanders are not advanced in terms of business acumen – but are honest. Koreans consider New Zealand 'pure' and 'clean and green', which may help companies break into certain markets. Also, New Zealand teachers are held in particularly high regard by those in the education sector.

Conflicting views arose from interviewees when asked about the impacts of New Zealand's assistance in the Korean War. Some said that Koreans remember this and are grateful, while others stated that the War is seen as "unfinished business" and it therefore is not brought up at all.

In summary, New Zealanders are well received in Korea, even though they lack the level of business acumen Koreans expect. However, exposure to New Zealand and New Zealanders in Korea is limited.

¹² http://www.kiep.go.kr/eng/std_data_view.asp?scate=013002&num=180515 – Last accessed 12/5/09.

OBSTACLES TO SUCCESS

There are many obstacles to success in the Korean market. The most important obstacles the research identified were the current economic climate, the existence of bureaucracy and corruption, the legal system, unionisation, the history of the chaebol, the Korean workforce, possible unification with North Korea and IP protection. Businesses that understand the obstacles are often able to overcome them. However, they are factors that must at least be taken into account when considering doing business in Korea.

CURRENT ECONOMIC CLIMATE IN KOREA

Korea is experiencing the effects of the global economic downturn. In 2008, Korea's exports of goods declined by 11.9 percent and imports decreased by 15.3 percent. The Economist Intelligence Unit is forecasting that exports will contract by 13.6 percent in 2009 and by a further 1.7 percent in 2010 as demand remains weak. Korea is dependent on external trade, especially with the US, Korea's second-largest trading partner.

Owing to the economic position of the US and the world, exporters are downgrading their operations. Much of the impact has resulted from a decline in demand for its leading manufacturing products, including cars and electronics.

The Economist Intelligence Unit predicts internal Korean private consumption growth to contract by 9.9 percent in 2009, and a further 2.3 percent in 2010; the uncertainty undermining confidence generally. One positive factor is that although real wages contracted 2.4 percent in the third quarter of 2008, the seasonally adjusted unemployment rate remained unchanged at 3.3 percent in December.

The President Lee Myung-bak's economic team has recently been replaced and now includes those with experience from the 1997 to 1998 Asian financial crisis. Koreans hope that this experience will prevent a prolonged economic downturn.

ECONOMIC FORECAST SUMMARY – KOREA

(% UNLESS OTHERWISE INDICATED)				
	2007a	2008a	2009b	2010b
Real GDP growth	5.0	2.6	-5.9	0.3
Industrial production growth	6.9	3.0	-13.2	1.2
Gross fixed investment growth	4.0	-1.7	-15.0	-3.1
Unemployment rate (av)	3.3	3.2	6.4	6.5
Consumer price inflation (av)	2.5	4.7	-0.6	0.3
Consumer price inflation (year-end)	3.6	3.2	-1.3	1.1
Short-term interbank rate	6.6	7.0c	6.5	6.4
Government balance (% of GDP)	3.8	0.3c	-3.5	-2.9
Exports of goods fob (US\$ bn)	379.0	435.1c	319.7	330.0
Imports of goods fob (US\$ bn)	-349.6	-428.9c	-303.5	-320.9
Current-account balance (US\$ bn)	6.0	-6.2c	7.9	1.8
Current-account balance (% of GDP)	0.6	-0.7c	1.2	0.2
External debt (year-end; US\$ bn)	230.1c	222.7c	179.8	185.2
Exchange rate W:US\$ (av)	929.3	1,102.5	1,325.7	1,205.4
Exchange rate W:¥100 (av)	789.0	1,066.6	1,425.5	1,310.2
Exchange rate W:€ (av)	1,271.8	1,620.6	1,783.1	1,669.5
Exchange rate W:SDR (av)	1,426.6	1,751.8	2,023.9	1,872.0

a - Actual.

b - Economist Intelligence Unit forecasts.

c - Economist Intelligence Unit estimates.

Source: Economist Intelligence Unit, Country Report, Korea, February 2009.

EXISTENCE OF BUREAUCRACY AND CORRUPTION

Transparency International is a global civil society organisation that is recognised as the leader in information about corruption. The organisation produces reports annually of relevance to Korea's corruption relative to that of other nations.

In the organisation's 2008 Corruption Perceptions Index,¹³ which measures the perceived levels of public-sector corruption, Korea ranked 40 in the world (out of 180). New Zealand ranked number one (one meaning perceived as least corrupt), along with Denmark and Sweden. Korea's score on the Corruption Perceptions Index scale increased from 5.1 out of 10 in 2007 to 5.6 in 2008. This reflects the international community's perception of improved public sector ethics and a commitment to implementing anti-corruption measures. In the organisation's 2007 Global Corruption Barometer report,¹⁴ which evaluates how and where ordinary people feel the impacts of corruption, the organisation reported that Korea ranks in the lowest quintile (along with Denmark and Sweden).

Therefore, although Korea has a poorer ranking in the Index than New Zealand, almost all markets do. Korea is perceived to be less corrupt than other popular markets such as China (which ranked 72) and India (which ranked 85). Also, despite perceptions, when respondents were asked in Korea whether they had ever paid a bribe to obtain services, only one percent said yes. Therefore, the findings of this second report suggest Korea's reputation for corruption may be undeserved.

Interviewees with long-term experience in Korea believe that in the past 10 years, the level of corruption and bribery has decreased considerably. The Government has continued to be proactive in searching and prosecuting for corruption and there is a continued emphasis on transparency. Many companies operating out of Korea are heavily owned by foreign investors, and therefore need to maintain a clean image.

Interviewees have suggested that there have always been favours and 'lubrication' in Korean business deals, but this is low level and often helps, rather than hinders, the progress of business deals. This is not perceived as corruption by the Koreans, it is more a matter of having a friend in the right place to help.

KOREAN LEGAL SYSTEM

The Korean legal system can be confusing for businesses and individuals that are used to New Zealand's common law approach. Korea operates within a civil law system, much like in Japan and the US, in which the constitution is the basis for all law. Much like New Zealand, Korea's system comprises the legislature, executive and judiciary.

One fundamental distinction is the differing role of judges. In New Zealand we have a precedent system that judges are bound to follow. For example, if the Supreme Court makes a decision on a legal question, and that same legal question arises again in the High Court (a lower court than the Supreme Court), the judges are bound to follow the higher court's decisions. Decisions can only be overruled by the same level or higher. A substantial portion of our law is made up of these court decisions and is called common law.

In Korea, this common law is non-existent. All of the laws are contained in the constitution, and any interpretations of these laws, and any new legal questions, are dealt with at the discretion of the judge at the time. Korean judges are not bound by previous decisions of other judges, or even their own previous decisions. The constitution codifies this in Article 103, which states "Judges rule independently according to their conscience and in conformity with the Constitution and the law". In practice, judges do generally follow a precedent system, with higher court decisions being persuasive, but it is important to remember that they do not have to.

An important result of this system may be that if, as a foreign company, you are caught in proceedings with a local company, a judge may legitimately interpret the law using their 'conscience' to favour the local company. Although an appeal is possible, it is costly and there is a risk of the same result. It is preferable to avoid litigation if possible.

13 http://www.transparency.org/policy_research/surveys_indices/cpi/2008 – Last accessed 15/5/09.

14 http://www.transparency.org/policy_research/surveys_indices/cpi/2008 – Last accessed 15/5/09.

UNIONISATION IN KOREA

A key message received from many interviewees was that if a local company is already active in the market that you intend to enter, be careful. This is partly due to the unionisation of some industries. There is a strong protectionist culture in Korea, and if the current industry is threatened, or perceived to be threatened, the incoming business will be targeted.

Information from the Economist Intelligence Unit outlines the extent of the unions' reach:

"The Federation of Korean Trade Unions (FKTU) claims about 800,000 members in nearly 4,000 enterprise unions, many in small and medium-sized companies, including textiles. The Korean Confederation of Trade Unions (KCTU) claims more than 600,000 members from 1,256 enterprise unions in the motor-vehicle, shipbuilding, construction, telecommunications, transport and white-collar industries. The KCTU has earned a reputation for radical activism. They have demonstrated against free-trade agreements notably that with the United States, and against the easing of trade barriers under the World Trade Organisation".¹⁵

A wide range of industries is therefore affected by these trade unions. An example of the power of Korean unions is the rioting that followed US beef exports being allowed to re-enter the Korean market following a BSE scare. This was organised by the unions that were primarily protecting the Korean beef industry. The KCTU organised a 48-hour strike to block imported beef shipments being moved from warehouses, and several thousand protesters took to the streets. One of the biggest issues for the union was the prediction that the US beef would sell at half the price of Korean beef even before proposed discounts on US beef – therefore threatening the local industry.

These unions have been described as highly militant, even when dealing with what we may perceive as minor issues. They have been known to scare international management into collective agreements and effectively make businesses fail. The regulatory environment is also prone to turning against foreign companies if a local business or industry is threatened.

The advice from some interviewees has been to avoid these unions at all costs. However, if your business is relatively small and not perceived as a threat, you may be ignored by these unions.

THE HISTORY OF THE CHAEBOL

The chaebol were Korean corporate conglomerates such as Samsung and Hyundai. They dominated Korean export industries, making it difficult for other major companies to break into the market. Although the chaebol were somewhat liberalised by the International Monetary Fund (IMF) following the Asian financial crisis in 1997, the reality is that the chaebol of Korea and the hierarchy still exist to some extent. They are just not mentioned as openly as they were before the reform. The mentality of protectionism and chaebol thinking will take many years to change and this business thinking is still prevalent. For example, Nokia stopped competing against Samsung and LG in the manufacture of mobile phone handsets in 2003. Even Wal-Mart gave up efforts to gain market share and left Korea after selling operations to Korean conglomerates in 2006. Similar fates have occurred to foreign car-makers and global internet providers.

The Economist Intelligence Unit, when describing the influence of the chaebol in Korea, states:

"The reach of the chaebol typically extends to virtually every industry through horizontal and vertical integration. They even have the upper hand over smaller competitors in relatively new industries such as entertainment and electronic commerce. The government is trying to promote small and medium sized enterprises and the venture-capital industry, but it is generally not possible for a small company or foreign firm without chaebol connections to compete effectively."¹⁶

Some New Zealand businesses have shown they can succeed in Korea without these connections. However, one must take the power of these groups in to consideration.

15 Economist Intelligence Unit – Country Intelligence – South Korea

16 Economist Intelligence Unit – Country Intelligence – South Korea

KOREAN WORKFORCE

An annual education report from the Organisation for Economic Co-operation and Development (OECD) shows that young people in Korea's workforce are more likely to have achieved an upper secondary education than others anywhere else in the developed world.¹⁷ Koreans are also among the most likely to have university degrees. Most business workers are computer literate and are keen to adopt computer technology.

One issue, however, is the level of business English proficiency. Korea is generally lower in this area than many other Asian countries. English is now taught in Korean schools, so this situation is likely to improve with the generational shift.

Despite opposition from trade unions, Korea's labour practices have been moving toward global standards. Foreign employers are popular with the Korean workforce, not necessarily because of increased pay rates but because of other perceived benefits such as better working conditions.

POSSIBLE UNIFICATION WITH NORTH KOREA

If unification occurs, the overall economic benefits will be costly given the run-down state of the North Korean economy and if Germany's experience since the early 1990s can be taken as a guide. But it is likely to present great opportunities in the long term, if not immediately.

Relations with the North have deteriorated recently for four main reasons. First, the North implemented restrictions that affect a large industrial complex on its side of the border where many Southern small to medium enterprises employ North Korean workers to manufacture export goods. Second, the North announced in January 2009 that it considered all previous accords with Korea as null and void. Third, the North in April 2009 launched a long-range missile, which South Korean officials have condemned as a provocative act. Fourth, the North, in May 2009, announced that it had conducted another nuclear test, about which the United Nations Security Council is concerned.

Even if unification were to occur, the risks of entering the North Korean market would be likely to outweigh the business opportunities for a long time. It is important that companies dealing with South Korea keep informed of the situation, but avoid becoming caught up in the hysteria surrounding the issue.

KOREAN INTELLECTUAL PROPERTY PROTECTION

IP protection is an issue in any market, including New Zealand. The perception from interviewees has been that IP protection in Korea is not as much of an issue as it is in countries such as China, Taiwan and India. The main threats identified by interviewees are the threat of a local company developing something similar and the threat of employees leaving with intimate knowledge.

Patents, utility models, industrial designs, trademarks and copyrights are legally recognised in Korea. According to the Economist Intelligence Unit, Korea upgraded its laws on IP rights in 1995 to align them with the World Trade Organization's agreement on Trade-Related Aspects of Intellectual Property.¹⁸ It continues to update its IP rights laws to extend protection to emerging fields, such as electronic commerce and trade secrets. International pressure, particularly from the US, remains strong to introduce more protection.¹⁹

BUSINESS OPPORTUNITIES

Throughout the analysis of the Korean market, a number of possible opportunities for New Zealand businesses were identified. The following is a summary of the areas that have potential to be expanded upon by New Zealand companies in Korea.

POSSIBLE BUSINESS OPPORTUNITIES IDENTIFIED

An increased focus on consumer health and wellbeing issues has resulted in an increased demand for food products with health benefits or other functional attributes. There is also a strong demand for organic products. Owing to this, the Korean Government has developed legislation to ensure the health claims for all these products can be scientifically justified.

17 <http://www.oecd.org/dataoecd/32/24/41277858.pdf> – Last accessed 11/5/09.

18 Economist Intelligence Unit – Country Intelligence – South Korea

19 Economist Intelligence Unit – Country Intelligence – South Korea

New Zealand has a strong reputation for food safety and authenticity, and could take advantage of this health trend. With serious environmental issues plaguing Korea, a real opportunity for environmental products and technology is emerging. Korea has trans-boundary pollution issues, a high rate of carbon dioxide emissions per capita, water pollution and a culture of wasteful packaging of consumer goods.²⁰ Among countries in the OECD, Korea, in 2004, was ranked sixth in terms of greenhouse gas emissions.²¹ Its carbon dioxide emissions have doubled, rising 104.6 percent from 1990 to 2004 – this growth rate the highest among OECD members.²² Korea's current government, unlike previous governments, is recognising the environment as an important issue, and backing strategies around renewable energy, green industries and sustainable agriculture. This is an area where New Zealand's clean, green image may have a competitive advantage. Therefore New Zealand 'green' products, technology to reduce pollution, environment-conscious packaging and environmental consulting are all potential opportunities.

New Zealand is a well established location for film making and, owing to this, collaboration and training opportunities are growing. New Zealand and Korea have a film co-production agreement to facilitate screen industry partnerships between the two countries.

At the time the agreement was signed, New Zealand's Prime Minister stated that, "New Zealand and Korea have a strong film-making relationship. The successful New Zealand film *Black Sheep* was a joint venture with Korean investors, and many significant Korean films have been located here including *Silmido*, *Old Boy*, and *Laundry Warrior*". The Director of a New Zealand film and television production company we interviewed stated that the impact of Peter Jackson has meant that New Zealand is now seen as a credible supplier.

Information and communications technology is a dynamic and fast-growing sector in which New Zealand has a strong presence and reputation. New Zealand companies are already linking with large Korean companies to integrate their technologies into existing products, and there are possible opportunities for other such innovative companies and technologies.

A large opportunity exists in Korea for New Zealand companies that provide services and products for the elderly. Korea has a rapidly ageing population, and companies are capitalising on the need to provide for this population. For example, the University of Auckland has a multidisciplinary team working on a robotic assistant to measure a range of vital signs in older-care facilities, hospitals and homes. Funding has been provided by both the New Zealand Government and the Korean Government.

There are opportunities in Korea for companies that provide agricultural services. In April 2007, Korea and New Zealand signed an agricultural cooperation agreement to facilitate further cooperation. This was expected to upgrade Korea's agricultural environment to a higher level and may have a positive effect on the advancement of New Zealand companies to Korea.²³

It is also beneficial to utilise the Korean community in New Zealand. This community has been one of the main drivers of a considerable amount of the trade between New Zealand and Korea. Many of the Korean immigrants have set themselves up doing dual business activities in both New Zealand and Korea. This group of people is very instrumental in brokering smaller deals through well established connections.

There are also opportunities in Korea other than the opportunities mentioned above. Any business considering entering Korea should have a discussion with those negotiating the FTA at MFAT.

20 CIA World Fact Book – Last updated 23 April 2009 – Last accessed 15/5/09.

21 http://www.korea.net/news/issues/issueDetailView.asp?board_no=19332 – Last accessed 11/5/09.

22 http://www.korea.net/news/issues/issueDetailView.asp?board_no=19332 – Last accessed 11/5/09.

23 http://www.kiep.go.kr/eng/std_data_view.asp?scate=013002&num=180515# – Last accessed 11/5/09.

THE RIGHT SCALE

The success of a New Zealand company doing business with Korea depends on whether the New Zealand company has the right scale. Successful interviewees ranged from large (ZESPRI and Fonterra) to medium (HamiltonJet, Jack Link's and Sanford) and small (World English Service and Linden Leaves). However, even these small companies are larger than many typical SMEs in New Zealand. The right scale is therefore the right scale for the particular sector that is being entered, and the particular product or service that is being offered.

Korea is a high-risk market for new entrants. Many large companies have not succeeded in Korea, proving that scale alone will not be sufficient to succeed. The characteristics of the right scale are sufficient access to money, sufficient time, the right people, the ability to diversify, the ability to upscale and access to legal and taxation advice.

SUFFICIENT ACCESS TO MONEY

In Korea, a foreign company must have sufficient money to invest. This is because it will be expensive to gain a foothold and there is no guarantee of a return in the short run. It takes approximately four to five years to become established in the market, and only then will a return on the investment be seen. In summary, a company must have the ability to invest a large sum of money, and not expect to see it back for at least five years.

SUFFICIENT TIME

It usually takes a long time to get established in Korea. The general consensus is that it will take three to five years; it takes time to build credibility. Also, it takes a while for Koreans to take foreign business people seriously. Regular trips to Korea are beneficial to speed up this process. This timeframe however, results in many SMEs in New Zealand being unsuitable for entering the Korean market.

Even once a business is established in Korea, it takes time and a conscious effort to maintain the business relationship. Frequent communication and frequent trips will mean large periods of time will be spent in the market.

THE RIGHT PEOPLE

Because regular communication with the Korean market is essential, a company must have people who are sufficiently competent to manage this communication. Koreans only want

to deal with the chief executive officer (CEO) or equivalent of a firm, therefore the CEO or equivalent must be available for these frequent trips and daily phone calls and emails.

The cultural and language barrier is a hard one to overcome and it takes skill, patience and perseverance to conduct business relations with Korea.

ABILITY TO DIVERSIFY

The consensus around diversification of product and services offerings for the Korean market is that it is not essential but beneficial. For example, it may be more beneficial for a company to maintain a cohesive and recognisable brand. Often, differentiation for the Korean market leads to a product or service that can be used elsewhere in Asia, such as Japan and China.

ABILITY TO SCALE UP

Many interviewees considered that it is too difficult to try to enter more than one market at the same time. This means that if you are considering Korea, concentrate on Korea; do not try to enter China, Japan and India at the same time. Consistent advice was to pick one, become established then work from there. This way, if demand grows quickly, the business will have the ability to supply and the time to work out logistics properly.

When choosing a suitable market, it is important to keep in mind that if the product or service is right for Korea, Korea is a relatively good choice. Key reasoning from interviewees regarding this assumption included intense competition caused by many companies already in China, Korea's modern culture, the high level of upper to middle incomes and a high proportion of disposable income because of low living costs. Also, the geography is small and densely populated, making it logistically easier than many other markets to get goods dispersed throughout the market.

ACCESS TO LEGAL AND TAXATION ADVICE

Comprehensive legal and taxation advice from experts within Korea was identified by some interviewees as essential for success. In Korea there is the potential to be sued. Much like the US, Korea is a litigious society. Also, Korean labour laws are extremely complex. There also might be tax implications for cross-country transactions, and different investment rules to be taken into account. In summary, it is best to use professional advisors to avoid or at least minimise risk exposure.

ESTABLISH THE RIGHT RELATIONSHIPS

Personal relationships underpin all business relations with Korea. There are generally three stages to successfully engaging with Korea: market research, market entry and market growth. Depending on the stage of the business, different emphasis is placed on relationships. It is important to understand that relationships are fundamental in all stages, but in different ways.

The market research stage in Korea comprises the time from when a company first considers the prospect of conducting business with Korea, to the time the company actually enters the market and starts transacting. In practice, this generally takes about one year. The market entry stage comprises the time from when a New Zealand company enters the Korean market, up until the time the company is established in the Korean market. This can take up to five years. The market growth stage comprises the time from when the company is established in Korea, onwards. This is the stage when real rewards can be achieved from the hard work in the previous two stages.

DEFINING THE RIGHT RELATIONSHIP

The right relationship in Korea comes down to finding the right distributor or Korean partner, and making connections with university alumni.

USE A DISTRIBUTOR OR KOREAN PARTNER

If exporting to Korea, the best way to conduct business is through a distributor. Distributors are familiar with the way the market works and have the right relationships and networks. They can provide everything including networking, translation and identifying customers' needs. Attempting to conduct business in Korea without a suitable distributor or partner is very high risk and is not advised.

At the market research stage, have a set of requirements for a potential distributor to fit, before researching the market. Dealing with one distributor as opposed to many will be simpler, however to achieve market coverage it may not be possible to offer exclusivity to a Korean partner. The criteria and requirements for a distributor will ultimately vary considerably depending on the type of company entering the market. However, it is important to be proactive and to keep the ideal criteria in mind. This will prevent your being convinced by the many persuasive businessmen with an array of promises on which they cannot deliver.

Once the right distributor is found, it is important to nurture and maintain a good relationship with them. Never try to cut the distributor out of the process on any occasion, even for one transaction, as this will almost inevitably result in a deterioration of trust and reputation. Without this trust and reputation, the customer, distributor and all within their network will refuse business relations in the future. A distributor also helps to bridge the gaps caused by language and cultural barriers.

Once there is an established and stable relationship, there are opportunities to use that relationship for other business ventures, not just the original one. For example, one of our interviewees now has joint ventures (JVs) with their Korean partner in New Zealand and China.

CONNECTIONS WITH UNIVERSITY ALUMNI

A number of interviewees discussed the need for extensive networking with the 'right people' in Korea, to facilitate success. In all Korean universities, graduates remain close with their alumni, and will have broad and influential networks. 'SKY' connections are well proven at the elite and high business levels, but many of the smaller businesses and connections are from provincial or lower university alumni. Some of these alumni have wide networks and it is always beneficial to work with a person who has an alumni 'friend' in an immigration office, service office, bank or other institution. Without the alumni network of friends to get called upon at the lower levels, it is a lot slower to move business upwards or smoothly.

These 'right people' are often from three universities in Korea, Seoul National University, Korea University and Yonsei University. These three universities are collectively known as 'SKY' universities. Entry criteria to 'SKY' universities are stringent, and much of the education industry up until this level is based on obtaining the required marks in the entrance exam (the College Scholastic Ability Test).

Associations in Korea are important, especially with academics and politicians. People who are held in high regard help to make crucial relationships elsewhere. They also help to define the complex regulatory environment in which the business will be operating. Many academics, politicians and other people of high importance in Korea come from the 'SKY' universities, which is an elite group.

The entrenchment of SKY graduates in Korean society is widespread. According to the Korea Times, SKY graduates comprised approximately 80 percent of new judges appointed between 2003 and 2008, seven out of ten CEOs of the top 100 Korean companies by market value in 2007, 13 out of 14 Supreme Court judges and 61 percent of top government officials.

HOW TO ESTABLISH THE RIGHT RELATIONSHIP

To establish the right relationship, a New Zealand business needs to use a mentor, make a conscious effort, build trust, be consistent and consider the use of incentives.

USE A MENTOR

New Zealand businesses wanting to conduct business in Korea should visit Korea with someone who already knows the country well. It is important not to expect to conduct business on the first trip. This is because it takes time to get established in Korea, and it is important to have a good degree of knowledge of and familiarity with the market before conducting business transactions. It will be more beneficial to keep the first trip exploratory and relaxed. Observing the conduct of someone with experience in the market and making Korean connections through this person, is the best way to start.

CONSCIOUS EFFORT

Relationships in Korea were perceived by interviewees as being more trust orientated and more personal than relationships elsewhere. As opposed to a pure business connection, a relationship in Korea requires more effort to develop and maintain.

It will require frequent visits, almost daily communication (preferably CEO to CEO) and a lot of socialising (especially in the market research and market entry stages). Allow a night in Korea for each meeting planned.

When entry to the market has already occurred, still send the CEO (or equivalent) to conduct the business with Korea in order to avoid insult and maintain positive relationships. A conscious effort is required to maintain relationships in Korea. Once they are established, they also need to be nurtured; otherwise there is a risk of deterioration.

BUILD TRUST

It is important to build a relationship of trust with Korean partners and maintain regular contact, including going to Korea. Ensuring the CEO (or equivalent) of the New Zealand company is available to the Korean partner avoids insult. One way to deal with this difficulty is to give the individual with the most knowledge on the issues a high-status title.

BE CONSISTENT

Consistency in relationships is a key factor in success. Documenting agreements fully and concisely to reflect the needs and expectations of both parties will avoid any substantial problems later in the relationship. The arrangement has to have commitment on all levels. It is necessary to keep Korean partners informed of key personnel changes. There also needs to be an overlap when these changes occur so the relationship and understanding are continued and consistency in relations is secured.

USE INCENTIVES

Incentives are useful in Korea, with one interviewee commenting that Koreans are more responsive to incentives than other nationalities. They are especially useful in the maintenance of relationships that are not functioning well. As an example, an investment in a trip to New Zealand for its Korean distributor has proved to be extremely beneficial for one company interviewed.

ATTRIBUTES REQUIRED TO ESTABLISH THE RIGHT RELATIONSHIP

To establish the right relationship in Korea, a New Zealand company must have a strong base of ethics, a general knowledge of Korea and resilience.

STRONG BASE OF ETHICS

A company that upholds a strong base of ethics is more likely to survive in Korea. The Korean environment may tempt a foreign business to conduct unethical practices in order to achieve a higher goal or create shortcuts. However, the commercial reward from being ethical comes from developing a reputable history that can be capitalised on in the long run. It is important to set moral and ethical standards early on.

GENERAL KNOWLEDGE OF KOREA

Relationships can be aided and built by some general knowledge of Korea. Having this knowledge means an immediate connection to a new Korean contact. For example, an ability to demonstrate knowledge of Korean geography and history means Koreans immediately have a greater degree of trust and consequently may be more open in communicating what they otherwise would not. In this respect, being able to travel around Korea to develop a connection with the country is important.

RESILIENCE

When tough times hit the Korean market, it is crucial to be resilient and stay in the market. These ups and downs are inherent in the Korean market and Koreans will reciprocate the loyalty. Relationships in Korea have to be long term to be beneficial to the outside party.

RECOGNISE, ACKNOWLEDGE AND EMBRACE THE CULTURE

Korean culture is intertwined and engrained into Koreans' everyday lives, including their business lives. It is therefore crucial, throughout all of the stages of business with Korea, to recognise, acknowledge and embrace culture. Although this may take a degree of understanding and patience, it is a key component of doing business with Korea, and an absence of knowledge in this area will result in a degradation of reputation and ultimately a lack of success.

The following section briefly outlines some aspects of the Korean culture, and provides a guideline on how to recognise, acknowledge and embrace it.

THE CULTURE

Key aspects of the Korean culture include their nationalist approach to business, their price sensitivity, their consciousness of time, their respect for age and qualifications and the hierarchical nature of Korean society. They also have a specific business etiquette and knowledge of this and an outline of their history are essential.

NATIONALISTIC

Koreans are protective and nationalistic people. Korea is therefore a safe place commercially if there is no local competition. One of the main threats to a New Zealand company in Korea is a local company developing a similar product. If there is strong local competition and resistance to foreign companies (often in the form of unions) in a specific market, success will be very difficult.

PRICE SENSITIVE

Korea is a price-sensitive and price-driven market. Therefore if a company is susceptible to price fluctuations, this is a large risk factor.

TIME CONSCIOUS

Timing is driven by the Korean side. However, some interviewees have suggested the need to educate Koreans about the realities of a New Zealand company's capabilities and response times in order to manage the Koreans' sometimes unattainable expectations.

RESPECT BASED

In Korea, age and qualifications are both respected. The older you are and/or the better the calibre of your qualification(s), the more respect you are given. This is why in Korea, academics and politicians are particularly prestigious. Also, widespread networking with the 'right' people increases importance. Therefore a business should not send young and/or relatively uneducated staff to conduct business on behalf of the company in Korea. Sending such staff is likely to result in a lack of high-quality connections.

HIERARCHICAL

Although there is evidence of a generational shift emerging, the younger generation still has to report to the older generation. There is therefore a need to be wary of young, dynamic Koreans with insightful ideas. What they promise will likely have to be approved by someone up the chain of management who is not familiar with Western business practices.

BUSINESS ETIQUETTE

NZTE and the Korea/New Zealand Business Council have both compiled lists of Korean business customs for New Zealand companies. Knowledge of these customs will prevent embarrassment and aid in building long-term relationships and networks with Korean businesses. The important points from both of these lists are:

- Business cards are essential. Have the card ready when meeting people.
- Give and receive business cards, gifts, foods or goods with both hands or with the right hand. Never use the left hand alone.
- Koreans do not use red ink unless the person is dead, so it is important never to write a person's name in red ink. The only exception is when red ink is used in a *tojang* (name seal).
- Koreans write their surnames first, followed by their given names.

- Gifts are set aside to be opened later, and are never to be opened in front of a host.
- Koreans normally bow when they greet each other, but also welcome the opportunity to shake hands.
- Direct eye contact is considered discourteous and impolite during conversation.
- Sometimes what you say may not be completely understood, but a Korean will pretend to understand because they feel uncomfortable asking you to repeat yourself. It is therefore important to speak slowly.
- A suit is more appropriate than casual attire at business meetings and social gatherings.
- Tipping is neither expected nor encouraged.
- When entering someone's home, take off your shoes. This custom should be observed when you enter an *ondol* room, a traditional Korean room that has an under-floor heating system.
- Try learning how to use chopsticks to eat Korean food.
- Try to avoid jumping straight into business matters. Be patient and use a gradual approach.
- It is common practice to offer cigarettes to one another.
- *Ki-bun* means feelings, mood or a state of mind. When someone's *ki-bun* is pleasant, it is easier to deal with them on certain matters.
- *Nunchi* means tact, sense, social sense or perceptiveness. If someone does not have *nunchi* it means they are unresponsive or insensitive.
- *Ch'emyeon* means one's face, prestige or personal dignity. Koreans treasure this. If it is not properly kept, it means one's reputation is diminished. To keep it is to maintain significant interpersonal relationships in society.
- *Put'ak* means making a request or solicitation or asking a favour. The word is a noun and is followed by *hamnida* to make a formal polite verb ending.

HISTORY

It is crucial to understand Koreans' culture, interactions and history. New Zealanders who are interested in developing business relationships with Korea will find that an investment in understanding even the basics of Korean culture and history will pay dividends. There is a perception that the past 150 years of history have shaped who Koreans are today. A brief history of Korea follows.

Until the 20th century, Korea had continuously been an independent state (or collection of states) for several millennia. In 1905, Korea became a protectorate of Japan, and in 1910 it was annexed as a colony.²⁴ When Japan surrendered to the US in 1945, Korea regained its independence.

After World War II, the Republic of Korea was set up in the southern half of the Korean Peninsula while a Communist-style government was installed in the North (the Democratic People's Republic of Korea). In 1950, North Korean troops invaded Korea, beginning the Korean War. United Nations' forces assisted in defending Korea, while the North was assisted by China and the Soviet Union.

In 1953, an armistice was signed, dividing North and South Korea with a demilitarised zone.

In 1961, the military, led by General Park Chung Hee, took over the government and imposed a strict ban on political activity.²⁵ Despite autocratic rule, a commitment to economic development resulted in what became known as the 'miracle on the Han River' – over the next three decades, the Korean economy grew at an average annual rate of nearly nine percent, and per capita income increased more than a hundredfold.²⁶ However, in the late 20th century economic growth slowed, and in 1997 (owing to the Asian financial crisis) Korea was forced to accept a US\$57 billion bailout from the IMF – reforming the chaebol and liberalising its economy.²⁷

24 CIA World Fact Book – last updated on 23 April 2009 – Last accessed 15/5/09.

25 <http://www.britannica.com/EBchecked/topic/322280/South-Korea> – Last accessed 5/5/09.

26 <http://www.britannica.com/EBchecked/topic/322280/South-Korea> – Last accessed 5/5/09.

27 <http://www.britannica.com/EBchecked/topic/322280/South-Korea> – Last accessed 5/5/09.

Simultaneously, modern education developed rapidly and the growth of educational institutions and commercial and industrial enterprises in and around Korea's major cities attracted an increasing number of rural people to urban areas. There was also an emergence of a middle class during this time. By the early 21st century Korea had decreasing birth rates and an ageing population.

In 1993, the first civilian president following 32 years of military rule was elected and Korea today is a fully functioning modern democracy.²⁸ In the 2007 presidential election, the Grand National candidate, former Seoul Mayor Lee Myung-bak, won in a landslide. Korea is now the 13th largest economy in the world.²⁹

HOW TO RECOGNISE, ACKNOWLEDGE AND EMBRACE KOREAN CULTURE

A New Zealand company wanting to recognise, acknowledge and embrace Korean culture must resolve the language barrier, adapt, deliver on promises and socialise with Koreans.

RESOLVE THE LANGUAGE BARRIER

Language is critical to success in Korea. Learning a limited amount of Korean will signal interest in Korean language and culture and Koreans will appreciate the effort. There is recognition that Korea is no more difficult than other non-English-speaking countries to communicate with. However, there are five factors to consider.

TRANSLATORS

Koreans have a deeply engrained respect for their elders and will not portray the true meaning of what is to be communicated if they fear it will offend the Korean recipient. For this reason, it may be necessary to use a Westernised Korean whose Korean culture does not outweigh their loyalties to the company.

EMAILS

Emails should be used as often as possible, instead of phone calls, as the older generation's written English is better than their spoken English. Reading comprehension skills can be patchy, so using simple sentence structures, avoiding double negatives and idiomatic English is necessary. As is a degree of patience.

NON-RESPONSE

A non-response to a query may mean that the Korean recipient has not fully understood. Koreans may be shy, and out of respect will hesitate to ask for clarification. For this reason it is important to follow issues up.

BAD NEWS

It is important to know that Koreans are never going to communicate bad news. This is because to communicate bad news, it is not culturally acceptable and Koreans would rather tell a 'white lie', delay or distract from the issue. Because of this, New Zealand companies should not assume a delay in reply is merely that. It is important always to investigate further, in case there is bad news that is not being communicated.

A KOREAN/NEW ZEALANDER

A bilingual Korean familiar with Western business practice can help to facilitate communication and cultural understanding. This will assist in the maintenance of relationships, and will satisfy Korean expectations of a high level of communication.

ADAPT

Survival in Korea requires an entrepreneurial approach. This includes turning barriers into opportunities, not sticking to one plan, and adapting when situations change. It is important to have a business plan that is not set in concrete, and an understanding that in Korea, it will probably change.

DELIVER ON PROMISES

It is important always to deliver on promises. Not doing so is considered insulting, and can damage relations.

²⁸ CIA World Fact Book – last updated on 23 April 2009 – Last accessed 15/5/09.

²⁹ World Bank list 2007.

GET INVOLVED IN SOCIALISING WITH KOREANS

A number of important guidelines have emerged from various interviews regarding socialising with Koreans. Korea has a vibrant entertainment scene and if potential business partners present an invitation to socialise, this is a positive sign and the offer should be taken up.

WHAT YOU CAN EXPECT

In Korea, there is a male work and play mentality. It is not unusual for males to go out five times a week, play golf on Saturday and have a family day on Sunday. Expenses related to drinking and socialising are very normal. In the office Koreans are very serious about their work, are hardworking and work long hours, but they balance this with a large amount of social activity afterwards.

According to one of the most experienced interviewees, there are usually four stages to a typical night out. The first is dinner, to which women come but are expected to leave afterwards. Women do not attend any more of the night. The second is drinking and karaoke, which Western male businessmen will be expected to attend. The third and fourth involve progressing to multiple other venues. This is generally for the Koreans only, and foreign businessmen are not expected to attend.

THERE ARE CERTAIN THINGS YOU SHOULD AND SHOULD NOT DO

New Zealand businessmen must be prepared to make a fool of themselves and sing at karaoke. The Koreans will appreciate this. You can build a relationship of trust and personalise the relationship with a Korean business partner through this social scene. It is only necessary to socialise with Korean business partners occasionally. It is not expected that Western businessmen come every time, and this social scene is more important at the beginning of relations.

An important business rule for Western businessmen in Korea is do not organise meetings that fall at dinner time or lunch time. Many Koreans will become fidgety at 12pm and will want to go to lunch. The entire staff will tend to be out of the office from 12pm to 1pm daily.

DO THE SAME IN NEW ZEALAND AS IN KOREA

When bringing Koreans to New Zealand, make them as comfortable as possible by taking them to a Korean restaurant. This is because they may be shy and will not understand New Zealand culture and they also may not like our food. The Korean restaurant is therefore the safe option.

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JACK LINK'S

OVERVIEW OF JACK LINK'S

Jack Link's is the world's leading meat snacks brand and the world's number one jerky brand – in both volume and quality in a billion-dollar industry. The Mangere-based subsidiary (of the Wisconsin-based firm) is exporting beef jerky and other high-protein snacks to a growing global market, and New Zealand-made smoked beef snacks are in demand around the world.

Jack Link's operates 24 hours a day, six days a week and the 3,000-square-metre facility is equipped with advanced processing machinery to minimise downtime and maximise efficiency. The company exports 95 percent of its products and needs to maintain high workplace standards to meet international regulations. Its products are made from quality lean New Zealand or Australian beef. It is also licensed for halal markets.

This case study identifies the way in which barriers can be transformed into opportunities, the importance of finding the right distributor, the ability to undertake a transformation to suit the Korean market and the benefits that can be obtained, and the benefits of utilising a Korean New Zealander employee.

WHY KOREA?

Jack Link's management was put in touch with a New Zealand-born Korean who was enthusiastic about the product. At first she was hired to help break into the Korean market within New Zealand and Australia, but the next logical step was Korea itself. This employee now works in the company's office in Korea.

Jack Link's met Meat Bank, a distributor, at a Japanese food show around the same time. It has had a relationship with Meat Bank for three years. It supplied NZ\$3 million worth of product to Meat Bank in year one but this has declined owing to problems with marketing (the sales and marketing manager left the company and was replaced with the technical manager). Although Meat Bank was very enthusiastic, Jack Link's now supplies a smaller volume to it.

Because Meat Bank did not provide the extensive market initially envisaged, Jack Link's proceeded to look for another distributor to which it could sell. Management believed it could supply the Korean market in a much larger capacity. Jack Link's was approached by CJ Corporation at this time, which is the largest supplier to supermarkets in Korea. CJ Corporation is responsible for the retail marketing.

Once the relationship is formalised, it is anticipated that this will include television advertising, introducing the product to a much larger market. This is the type of infrastructure that the smaller distributor, Meat Bank, lacked.

Relationships with the New Zealand-born Korean employee and Meat Bank aided the company's entry to Korea. However, Jack Link's would have entered the Korean market without this assistance; the potential in the market was already apparent to management. Korea is generally very interested in the product, which is a clear advantage. Rankings are extremely important to Koreans and the fact that Jack Link's is ranked number one in the US increases the product's popularity.

Jack Link's aim is to increase the retail side of its business through Korea. Now and historically, a majority of the company's operations consist of sending commodity-type products to the US to be packaged. When the New Zealand dollar was high, Jack Link's lost this US business (although it subsequently got it back) and it consequently had to downsize. The exposure to the wholesale market is a substantial risk factor for the business, so increasing its retail product manufacturing operations will alleviate this risk. Korea was an obvious choice to expand into because its people are 'good meat eaters', they are familiar with what jerky is, and they are reasonably affluent.

HOW DID JACK LINK'S ENTER THE KOREAN MARKET?

The CEO believes his most valuable piece of advice for a company wanting to conduct business with Korea was to find the right partner in the market. In Jack Link's case, this was a distributor. Although Meat Bank did not turn out to be the right partner, the CEO predicts that CJ Corporation will be. Jack Link's has had a number of approaches from other distributors, but the CEO believes having one distributor in the market makes operations simpler. He noted that if a deal is done with CJ Corporation, it will want to be the exclusive distributor in Korea to ensure that other distributors do not free-ride on its marketing investment.

Jack Link's will not supply directly to the Korean market because it is too difficult. There are language and cultural barriers and a general lack of contacts. When finding the right partner in the market, Jack Link's CEO relies on gut instinct and market research. CJ Corporation was an obvious choice, however, because of its reputation for being the biggest and the best.

Jack Link's used its Korean employee to enable it to overcome cultural and language difficulties. The CEO admitted that without this it would have been difficult to communicate effectively, and this would have slowed down the negotiation process with CJ Corporation.

Modifications to Jack Link's products and packaging were made for the Korean market. The tariff rate (72 percent) for products named 'jerky' is substantially higher than for other beef products. New products named 'Jack Bites' and 'Beef Bars' have been produced to avoid the label 'jerky'. This is an example of transforming a Korean barrier into an opportunity, and has worked out to be an effective strategy for Jack Link's. These products were created for the Korean market; however, they are sold in other markets, especially other Asian markets. Also, because the products are sold in other markets, research and development costs are split and are not borne solely by Korea.

Koreans, like other Asians populations, prefer less salt in their food products than Westerners. This modification, therefore, although created for the Korean market, can be utilised in other Asian markets.

An FTA with Korea will be beneficial because the label 'jerky' is more familiar to the Korean market. Tariff rates are a barrier, even though Jack Link's has diversified to avoid the extremely high tariff rates. Existing tariffs for beef are still high relative to other markets' tariff rates.

IMPORTANCE OF RELATIONSHIPS IN KOREA

It is widely known that socialising is common in the Korean business culture. The CEO noted however, that Meat Bank was "not that sort of company". Instead of going to karaoke bars, the CEO was invited to one of Meat Bank executive's family home for dinner, which was much more comfortable. He noted that this may have been because Meat Bank was not very internationalised. Jack Link's has yet to reach this socialising stage with CJ Corporation. However, the CEO assumes that because of the scale of CJ Corporation's business, it may not go to the effort that smaller businesses would. It also may be that being the biggest and the best, CJ Corporation does not need to.

DOES THE FACT THE PRODUCT/COMPANY IS FROM NEW ZEALAND HELP?

The CEO believes that in Korea there is the general belief that New Zealand is a clean, green market. He added that there is also a good connection between New Zealand and Korea generally. Koreans like meat, they like New Zealand, and they have an awareness of the high standards of our food safety regime. They also consider New Zealand safe from BSE, which is highly beneficial for any New Zealand beef exporter.

Jack Link's' CEO said the Korean perception of New Zealand business people is probably that they are "behind the times, but honest".

WHAT HAS JACK LINK'S LEARNED?

The CEO believes it is important to get the brand into the market, even though owing to tariffs its product is more expensive than local produce. Jack Link's product is better quality than local produce and therefore once tariffs are reduced to zero, it aims to be the market leader. The right partner is essential, as in this unique market trust becomes paramount.

Culture and language were recognised as issues. The CEO believes that Jack Link's has these issues covered by its New Zealand-born Korean employee. One factor of note is that their employee in Korea attends scheduled meetings and turns up to find they are with six people from a research team as opposed to one or two. This could be daunting if it is not expected and without the understanding that this is normal practice.

SUMMARY

If the deal currently being negotiated with CJ Corporation comes to fruition, investment in Korea is likely to be a great success. It will also mean that Jack Link's becomes more of a retail-orientated business as opposed to a bulk commodity supplier to the US. This will shield Jack Link's from risk exposure regarding dollar fluctuations, and ensure it is running at full capacity. Once the FTA is in place and tariff rates are diminished, Jack Link's' goal is to become the market leader for such beef products in Korea.

KEY LESSONS:

- Barriers can be transformed into opportunities; it is the way you approach these barriers that is important. For example, in this case, a high tariff led to the diversification of an already successful product.
- It is important to find the right distributor. In this case, it meant changing to the 'bigger and better' CJ Corporation.
- The ability to transform an approach to suit the Korean market can have many benefits. The benefit in this case is that transforming from a commodity to a retail-focused approach decrease of the risk exposure for the firm.
- There are benefits in utilising a Korean New Zealander to overcome cultural and language barriers.

NEXTWINDOW

OVERVIEW OF NEXTWINDOW

NextWindow is an international leader in the development of optical multi-touch technology and the manufacture of optical multi-touch screens, overlays and original equipment manufacturers' (OEM) touch components. Its products are designed to suit all types of application, from small touch-screen monitors to large, interactive, liquid crystal display (LCD) or plasma touch screens and very large projected-image touch solutions. NextWindow's products use small optical sensors along the edge of the screen that sense where a person touches the screen and triangulate, the position. This differs from most other technologies, which use coatings or films over the screen, reducing image clarity.

NextWindow has two customer types. The first are the OEMs such as HP (its largest customer), Dell and other US and Asian PC and monitor manufacturers. The second is the professional audio visual (Pro AV) big screen customer, which integrates the NextWindow product into existing 32" to 65" LCDs or provides an overlay product. NextWindow is currently moving manufacturing to Malaysia for large-screen products and has existing manufacturing operations in Thailand and China for its volume products. NextWindow will retain its Auckland headquarters, where it will base its research and development and product development operations.

This case study shows that business relationships are different in Korea from those in other markets (including Asian markets) and that they require frequent visits, a high level of communication and a lot of socialising to ensure that they are positive and productive. The case study also identifies the benefits of hiring a Korean employee, the importance of having a high degree of market awareness, the difficulty of establishing who is who in a Korean organisation and logistical challenges of travelling around in Korea.

WHY KOREA?

Korea is NextWindow's second-largest market. Korea has two of the world's top five LCD panel manufacturers, OEMs and branded monitors – Samsung and LG. It is a very mature marketplace for interactive whiteboard education solutions, and also has a strong digital integrated display market for digital signage and conference rooms; NextWindow has three partners in this space. NextWindow also sources components from Korea.

Markets adapt to technology at different speeds. Koreans are very good adaptors and Korea makes a good model for how to adapt to new technology for other countries. It has the highest penetration of broadband per capita of any country in the world. Korea also prioritises, and has high expenditure in, education, which is a large market for this technology.

NextWindow has two target customers in Korea – LG and Samsung – and it is currently working on improving these relationships. Despite success with other top manufacturers in the US, Japan and Taiwan, NextWindow has not yet had any success with the two Korean manufacturers. The Chief Financial Officer (CFO) Martin Riegal believes there is an OEM opportunity with these large Korean conglomerates and also believes design companies are an opportunity.

These target customers, the adaptability of Koreans to new technology, and the emphasis Korea places on the education sector, made Korea an obvious choice for NextWindow.

HOW DID NEXTWINDOW ENTER THE KOREAN MARKET?

NextWindow has been conducting business within Korea for approximately four years. It has several Korean partners. Some are distributors and some integrate the NextWindow product into their own product before sending to customers. NextWindow customers are predominantly in the education sector and other niche markets.

NextWindow's largest Pro AV customer is in Korea and growth in the Korean market is significant, an estimated 50 to 70 percent each year. When communicating with its partner businesses in Korea, NextWindow deals predominantly with the CEOs because they are relatively small businesses.

IMPORTANCE OF RELATIONSHIPS IN KOREA

The CEO, Al Monro believes that NextWindow has great partners and great relationships in Korea. He also emphasises the need for frequent communication. NextWindow is considering placing a person permanently in Korea to facilitate relationships further.

The CFO and the CEO agree that having a Korean staff member in New Zealand is extremely helpful, especially to assist with the language and culture barriers (even though she only spends about two to four hours a week assisting with this). Email is the preferred mode of communication but they also receive calls almost daily from Korea.

The CEO explains that “relationships are different in Korea”; they are more trust orientated and business relationships are very personal. For example, it is very common to have dinner with all the companies he meets with in Korea, which is less common in other countries in which he works. All companies in Korea that the CEO works with stress the personal nature of the business relationships. This in turn affects the way in which a company should approach business relationships in Korea.

The CEO believes that it is important to make frequent visits to Korea. It is also important that Koreans are able to speak to someone of high importance, in this case the CEO. He adds that the companies would all like exclusivity in their markets, but because NextWindow wants to maximise market coverage, it cannot offer exclusivity.

DOES THE FACT THE PRODUCT/COMPANY IS FROM NEW ZEALAND HELP?

Being from New Zealand, the CEO explains, does not help or hinder the business. Koreans are surprised to see high-tech products coming out of New Zealand, but the CEO believes that Koreans find New Zealanders easier to deal with and more adaptable than, for example, Americans. The CEO eats Korean food and drinks soju, which he believes is perceived well.

WHAT HAS NEXTWINDOW LEARNED?

Companies should keep in mind that “success is dependent on what is intended to be sold” and where it fits in the market. This was the reason the CFO suggested it was of crucial importance to conduct market research and have a high degree of market awareness. Actually talking to people in the Korean community is very beneficial. This market awareness includes where the product or service is actually going to fit into the market; for example, the education sector in Korea is conducive to success, but other sectors may not be.

When visiting Korea, allow as many nights as the number of meetings you have planned. This is because it is rude to decline to share a meal with people after a meeting. Sometimes the CEO meets a group the night before a meeting if he has two meetings in one day so that he can meet the second company the following night. The CFO mentioned that “Korean guys will treat you [a male business partner] like a Korean guy”. From his experience, they will take the business partner out and socialise, often with karaoke.

The CEO mentioned it is sometimes difficult to know who’s who in a Korean organisation (such as LG and Samsung), and how they connect with others in different departments; “It’s a fog”. An example of such challenges included business cards not being helpful as they only indicate the work group to which the employee is assigned, providing few clues as to who is senior. Another example is when NextWindow is approached by someone from a firm and then there is no follow up. Much later, a separate approach is made by others in the firm without any apparent connection between the initiatives.

Logistics were identified by the CEO as an issue. Korea’s high-speed trains were described as “okay”, but getting from place to place on more minor lines and by taxi takes a long time and is complicated. Reading the maps and communicating anywhere other than the major stations is hard, and many of the meetings can be a long distance by taxi. He suggested that if a new entrant company is struggling with the logistics of getting to meetings, NZTE can provide help.

One last piece of advice the CEO offered to a company wishing to set up in Korea, is that everyone will claim to know the market best, and will claim to represent you the best. They will say that they are all the biggest and have the best networks. He warns companies to allow the time to really understand the market and the distribution channels before committing to any one player.

SUMMARY

The investment in Korea has definitely been successful, and is likely to be more so if relationships are forged between NextWindow and LG and Samsung. NextWindow has not been as adversely affected by the global economic downturn as some other businesses. Much of its business in Korea is in the education sector, which is somewhat sheltered by the Korean Government. Overall NextWindow is very happy with the business it does in Korea. It likes the market and it likes its partners within the market.

KEY LESSONS:

- Relationships are different in Korea from those in other markets; they require frequent visits, a high degree of communication (often with the CEO) and more socialising. They are also more trust orientated, and more personal.
- There are benefits in hiring a Korean employee to assist with communication, especially given the high level of communication required.
- A high degree of market awareness is required. It is necessary to understand where the product or service will fit in the market – “success depends on what is to be sold”.
- It is difficult to know who is who in a Korean organisation.
- The logistics of getting around in Korea can be difficult.

LINDEN LEAVES

OVERVIEW OF LINDEN LEAVES

The Linden Leaves story began in 1995 with the founding of the company in the South Island of New Zealand by Brigit Blair, the CEO. The CEO established the Linden Leaves brand to share her passion for the quality ingredients, inspirational aromatic combinations and the vast array of natural botanical bounty that New Zealand offers the rest of the world.

Linden Leaves' products are made in New Zealand using resources as locally and as close to the Earth as possible. Linden Leaves offers more than 250 products to New Zealanders and 14 international markets including Australia, the US, Canada, Germany and the United Kingdom.

This case study identifies retail channel differences between Korea and Western markets, discusses the importance of maintaining good relationships with a distributor, and emphasises the importance of having and managing the 'right relationships'.

WHY KOREA?

Linden Leaves began in Korea. The CEO had travelled to Korea a number of times on buying trips for her original business, importing old Korean furniture, and identified an opportunity. She identified a gap in the market for bath and beauty products. Her current company started as a JV with a Korean friend. They contributed NZ\$100,000 each to establish the company. This was the only way they could get money out of Korea at the time. NZTE helped her to identify contacts and she had a Korean translator.

There were very few bath and beauty product manufacturers in New Zealand at this time and the manufacturers that existed were unable to supply reliably to her. The CEO therefore decided she would manufacture the products herself, and this manufacturing company in Christchurch became what is now Linden Leaves. The CEO after a time bought her friend out of the JV, and subsequently sold the Korea-based company to a distributor in Korea. This distributor is still the distributor for Linden Leaves' products in Korea, although he now has a general manager and a sales manager dealing with the day-to-day relationship with Linden Leaves. The owner has since reduced his involvement, and relations with Korea have become frustrating.

Linden Leaves' CEO identified Korea as a good market in general for her products. Koreans spend a high proportion of their income on luxury items, although the economy has slowed this somewhat. A lot of women go to health clubs every day and they are highly brand conscious. The economic downturn could be advantageous for brands below the level of those as well known as Yves Saint Laurent, for example, as boutique brands become regarded as 'affordable luxuries'.

When Linden Leaves entered the Korean market as a boutique brand it was a rarity, but now there is an abundance of such smaller brands. These competitors however, are owned by big companies like Estee Lauder, which have taken over boutique brands and kept the names.

HOW DID LINDEN LEAVES ENTER THE KOREAN MARKET?

Linden Leaves uses its Korean distributor to carry out its business in Korea. It is the distributor who finds the markets. Department stores in which Linden Leaves' products are sold work very differently in Korea, resulting in the distributor playing a greater role. The distributor employs 18 department store girls and receives a spot in the department store to sell the Linden Leaves products. Unlike other markets, where the department store buys the products themselves then on-sells, in Korea you are responsible for selling the product yourself within the store and the store receives a margin. The distributors also receive a margin from which they pay employment and other expenses.

Owing to a deteriorating relationship with its distributor, Korea has gone from being the largest market relative to others to being one of the smallest. Korea has recently become "too difficult" and the CEO has chosen to concentrate on the markets where she enjoys working with her business partners.

Recently, the CEO held a conference for her distributors in New Zealand, and the new sales and marketing manager from the Korean distributing company attended. The CEO now has a renewed enthusiasm for the Korean market. The trip was worth investing in, especially from the Korean perspective, as the CEO now feels she can deal with this new manager easily. This manager now has an affiliation and familiarity with the brand that others in the distribution firm have lacked. The CEO is now planning another trip to Korea to capitalise on this relationship.

IMPORTANCE OF RELATIONSHIPS IN KOREA

Relationships are important everywhere, and Linden Leaves' management considers it paramount that they enjoy working with their business partners. The distributors' conference that the CEO held, which the Korean distributor representative attended, was very worthwhile from a relationship perspective. Now that the CEO has made this connection, she feels much more positive about the extent of business they will do there.

The CEO emphasised that when visiting Korea, it is paramount to send the CEO, even if someone else in the team knows more about the particular issue. The Koreans consider it an insult if you send someone lower than this. She believes that the current economic environment will not affect the relationship with Korea at all.

The CEO acknowledged that socialising is a large aspect of culture and business relationships in Korea. However, because she is a woman, she does not participate in this. For her Korean business partners dealing with Brigit was a novel experience as she was possibly the first Western business woman they had encountered. Koreans are very hospitable, and when you are there they pay for everything. You are expected to do the same when they are visiting New Zealand.

In Korea, relationships are highly valued, so it is important to persevere as if they are the 'right relationships' they will reward you. Koreans do not expect you to leave when things get tough, and they will reciprocate this. The business relationship goes beyond its commercial aspects.

DOES THE FACT THE PRODUCT/COMPANY IS FROM NEW ZEALAND HELP?

The fact that the product is from New Zealand is a significant differentiation in the beauty product market. This is because of the health perceptions associated with New Zealand's 'clean, green' image, which creates a competitive advantage. It helps the business, but businesses need the 'whole package' to succeed, including high-quality products, effective management systems and solid relationships. The *Lord of the Rings* helped to differentiate New Zealand from the wider Pacific and Australia. The distributors' conference proved beneficial, with participants being impressed with New Zealand generally.

A point worth noting was not to over-emphasise the Pacific link as this is equated with Hawaii and therefore the US. Being able to position New Zealand clearly as distant from the US is more beneficial.

WHAT HAS LINDEN LEAVES LEARNED?

Korea was identified by Linden Leaves' management as the hardest market with which to communicate. From a distance perspective, it is difficult to go to Korea and get things done, and social considerations often override the business relationships and hinder communication. Translators can also be ineffective. Even if an employee of your firm, they may not convey what you are saying if there is a risk of offending the receiver because of the deeply engrained value of showing respect for the elders in Korea.

Culture is also something necessary to get accustomed to when doing business with Korea. The CEO's experience has taught her that Asian people and businesses find it difficult to commit long term. She has also found Koreans expect instant answers, but do not give instant replies in return. She also noted, however, that if a Korean has agreed on something, they never go back on their word. The CEO's experience of dealing with smaller Korean companies has led to her to conclude Korean business people are trustworthy and sincere.

When asked if she were to choose a distributor again, what would be the best way to do it, the CEO replied that "gut instinct" would be the main method. She went on to say that liking the distributor helps and she would look for a distributor who has someone in the company of a younger generation, who understands Western ways of business and can help with the language and cultural issues. She added that experience and infrastructure are important, and so is an affiliation with your market and products. She looks for a commitment to her brand, and would ideally like them to distribute only her products, otherwise a maximum distribution of three complementary products. When asked about the extent of research she would take into this, she replied that as a SME you cannot take the time to analyse too much – "you snooze, you lose". The CEO adds that it is important not to accept all offers from distributors, and recommends being proactive instead.

SUMMARY

The business in Korea was successful for many years. For a long time, Linden Leaves only supplied Korea and did not even supply New Zealand. There is definitely still potential in Korea, but when there is any political or economic trouble Koreans stop buying.

Department stores are challenging outlets to sell through, because they hold compulsory sales in which 30 percent has to be deducted. Many Koreans know the dates of these, so they wait until the sales to buy. The current economic downturn, however, is an opportunity for Linden Leaves as opposed to a detriment owing to consumers purchasing slightly cheaper brands than usual. This may not be the case in Korea though, as Koreans may prefer to buy anything if they cannot buy the right brands. Linden Leaves has a better expectation now that it has a better relationship with a contact in Korea, and the hope is that sales will now reach or exceed the amount that they were before the relationship deteriorated.

The CEO has no regrets about the company's operations in Korea. She admits she "shouldn't have let it slip away", but relations became too difficult and it was more pleasant to do business elsewhere. To build on these relationships, she believes that she should have taken more trips and focused on relationship-building. She is once again enthusiastic about the market and looks forward to working there again.

Linden Leaves aims to build on the relationship it has with its distributors in Korea. Through working on this relationship, it aims to build its sales to the level they were previously, when Korea was its largest market.

KEY LESSONS:

- The retail channel is very different from that of most other markets, Western and Asian. Department stores especially are a point of difference that could surprise new entrants to the market, and work to their detriment.
- Even if you do get the right distributor, the relationship has to be nurtured and managed, particularly through a change in personnel.
- As with all markets, relationships are vitally important and require investments of time and effort if they are to grow.

ZESPRI

OVERVIEW OF ZESPRI

The kiwifruit industry expanded with entrepreneurial kiwifruit growers banding together to market their fruit overseas. In the late 1980s, the Kiwifruit Marketing Board was formed, which evolved to become ZESPRI International, a global marketing organisation, in 1997. It was at this time that the ZESPRI kiwifruit brand was born – with a commitment to grow and sell the best kiwifruit, which remains unchanged today.

One of ZESPRI's most significant achievements has been to find a way to bring ZESPRI kiwifruit to the market all year round, by forming partnerships with growers around the world. ZESPRI continues to be a leading kiwifruit pioneer. The company is owned by more than 2,700 growers, who are as determined as the ZESPRI board, management and staff to keep improving the quality of ZESPRI kiwifruit. ZESPRI's headquarters are located in Mount Maunganui in the Bay of Plenty – the heart of New Zealand's kiwifruit industry.

This case study identifies a number of key lessons. These are the impact of size in the Korean market and its effect on the success of operations, the advantage of being a local producer, the importance of ensuring compliance with local laws and the benefits of using Korean staff. The case study also gives an insight into the impacts of trade barriers on business.

WHY KOREA?

ZESPRI has been in Korea for about 40 years, which is a long time in Korea relative to other Western companies. Although Japan is ZESPRI's best market, Korea accounts for approximately eight percent of ZESPRI's sales. ZESPRI has enjoyed good sales volume growth in Korea, from 5,640,000 tray equivalents in 2005 to 7,536,000 trade equivalents in 2008. The economic downturn will reduce this in 2009, but ZESPRI still expects sales to be strong, assisted by increased investment in generating sales.

ZESPRI Group Chairman John Loughlin stated recently that, "Korea is a very important market for ZESPRI". He added that "New Zealand exports around 24,000 tonnes of ZESPRI GREEN and ZESPRI GOLD kiwifruit to Korea each year, and in 2008 this market was worth \$100 million to New Zealand kiwifruit growers." He also said that Korea's current tariff on New Zealand kiwifruit is the highest in the world at 45 percent. This translates into a cost of NZ\$33.3 million each year, or NZ\$8,000 per grower.

ZESPRI Branding and Marketing Director Lauchie McLean expressed frustration about Chile's market advantage. He said that because of Chile's FTA, its tariff rate is half of New Zealand's. However, with New Zealand and Korea's FTA, ZESPRI's position looks likely to improve.

The Branding and Marketing Director emphasised that despite the tariff rates, Korea is a good market and it is still meeting or exceeding expectations. He believes that the economic downturn is not reducing commitment. Korean consumers eat a high proportion of fresh fruit and Korea is a big market for organic produce.

HOW DID ZESPRI INVEST IN KOREA?

ZESPRI has two businesses in Korea. The main business is exporting ZESPRI GREEN and ZESPRI GOLD kiwifruit from New Zealand and selling it in Korea. The other business is a partnership with Korean kiwifruit growers who grow ZESPRI GOLD kiwifruit on Jeju Island, predominantly in greenhouses. They then sell that fruit in Korea. This is to ensure year-round supply to the Korean market.

The ZESPRI company that imports kiwifruit into Korea has seven staff: a market manager, sales manager, sales assistant, operations manager, marketing manager, administration assistant and financial controller. This simple business structure, with very few staff, utilises local companies to support sales and marketing operations. They work closely with the four distributors to whom they sell all of their fruit. They also work closely with public relations and marketing agencies. The branding and marketing approach has been successful and is unlikely to change.

The Branding and Marketing Director said that Korean models are sophisticated, and big name brands and supermarkets are already in place in the market. Market access requirements feed into communications and operational behaviour. The Branding and Marketing Director believes that local knowledge is crucial to success. He also believes that it is beneficial to be a local grower, or partnered with a local grower, because they have a stronger position in the marketplace. For ZESPRI, communications are no different with Korea from communications with other markets.

ZESPRI's sales and revenue increased by a large proportion when ZESPRI introduced the GOLD variety. ZESPRI GOLD was designed to meet the Asian palate and it was tested as such, but the packaging and marketing is Korean specific. It also sells class two fruit to Korea called 'family kiwi'. The Branding and Marketing Director advised that label protection is not an issue in Korea and it never has been, although he added that it is regularly monitored.

IMPORTANCE OF RELATIONSHIPS IN KOREA

The Branding and Marketing Director believes that relationships with Korea and within Korea are very important, especially because ZESPRI has so few staff located there. He adds that it will continue to work closely with its partners in the current economic environment. ZESPRI's relationships with its distributors helped to develop sales in Korea. ZESPRI has also used business services firms to assist in its administrative structures.

The Branding and Marketing Director noted that Korean politicians are ranked very highly and are held in high regard. They are helpful in facilitating relationship-building, and worth the time and effort required to build the required connections.

DOES THE FACT THE PRODUCT/COMPANY IS FROM NEW ZEALAND HELP?

The Branding and Marketing Director believes that 'New Zealand' is a key buying decision for the Asian population. New Zealand business people are well regarded, as are Australians. There are many New Zealand English teachers in Korea, but not many New Zealanders in business.

WHAT HAS ZESPRI LEARNED?

ZESPRI has learned a number of key lessons from its longstanding relationship with Korea. The Branding and Marketing Director suggested utilising specialist advice in order to achieve full compliance with local laws; local experts will alleviate significant risk. For example, income tax and customs duty compliance is very closely monitored by authorities, so it is important to have the correct business structure in place and make sure all relevant documentation is on hand. He said although there is a significant cost for legal and taxation advice, it is important to success.

The Branding and Marketing Director mentioned that Koreans have relatively higher fruit consumption than other markets, therefore quality and display are important. Koreans are less sensitive to price compared with other markets with which ZESPRI deals.

Korean staff members bridge the language and communication gap that would otherwise be a significant barrier. They also help when issues arise; "absorption has advantages". It is beneficial to bring these Korean nationals back to New Zealand on a regular basis.

SUMMARY

While ZESPRI measures its performance in many ways, one of the major targets is to maximise the return to its growers. The returns to growers from the Korean market have been excellent, and have only recently diminished owing to significant currency weakness in Korea. This investment therefore has been a success. ZESPRI is well established in Korea and has built a strong reputation. Growing locally has been a successful extension of the business, as has the GOLD variety of kiwifruit in general. ZESPRI will continue to keep the same business structures and approach to Korea. The next stage in ZESPRI's Korean relations is increasing the investment in generating sales. This stage has already begun. Also, ZESPRI is looking forward to the FTA being implemented. Once in place, this will significantly improve the returns to growers.

KEY LESSONS:

- Size has an impact in the Korean market, and it makes success easier.
- There are advantages in being a local producer and having local partners.
- Local experts alleviate substantial risk, for example to ensure compliance with local laws.
- There are benefits in using Korean staff; "absorption has advantages".
- Trade barriers have a significant impact on business.

HAMILTONJET

OVERVIEW OF HAMILTONJET

Since 1954 HamiltonJet has been working with vessel designers and builders to create waterjet propulsion systems. HamiltonJet pioneered the development of the modern waterjet more than 50 years ago, and the company continues its innovative traditions today. Constant design improvements, driven by an active research and development programme, keep HamiltonJet at the forefront of waterjet technological evolution.

HamiltonJet is creating waterjet propulsion systems suitable for commercial applications, workboats, patrol and military craft, and pleasure boats. Today, waterjets are the preferred propulsion choice where high efficiency, manoeuvrability, shallow draft capability and low maintenance are key requirements. HamiltonJet's experience extends to a global network, including regional offices in Europe, America and Asia-Pacific, together with distributors in more than 50 locations around the world.

This case study identifies the benefit of having the 'right distributor' in Korea, especially to help manage relationships with customers, the benefits of having a longstanding presence in Korea and the contrast of doing business in Korea compared with other countries.

WHY KOREA?

HamiltonJet has supplied waterjets to the Korean Coast Guard for many years. Currently the Korean Coast Guard has more than 120 vessels fitted with HamiltonJet waterjet units. Korea is now HamiltonJet's largest market in the world that has only one distributor (the US has four). Korea was an obvious choice for HamiltonJet, as it is a highly militarised peninsula, owing to its troubled history and threat from China, Japan and North Korea. Also, an efficient Coast Guard is necessary to protect Korea's large fisheries industry from poachers.

To HamiltonJet, North and South Korean unification is an opportunity rather than a threat. It could mean a significant increase in the size of the business, as an opportunity may exist to supply the entire peninsula's patrol boats. Also, poaching by Chinese fishermen has meant an increase in the Korean Government's budget for patrol boat expenses. Because HamiltonJet's income is derived from the Korean Government, it is more sheltered than other industries from the current economic downturn.

HOW DID HAMILTONJET ENTER THE KOREAN MARKET?

HamiltonJet operates through a distributor, which is its standard model. HamiltonJet has had this same distributor for approximately 15 years, and has been in Korea for approximately 20 years. The local distributor provides many services, from networking and translation to installation and maintenance. They also identify the customers' needs, although this is often a two-way discussion.

HamiltonJet's Sales Manager, Alex Evans states that it is always worth remembering that the distributor and HamiltonJet are separate companies and hence their priorities are not always the same. It takes constant work to maintain the common goal, and the distributor will need regular guidance.

The Sales Manager has been to Korea seven or eight times. He believes it takes four to five years to establish a sustainable business in the Korean market. He believes there is still room to grow in the commercial marine sector. Recently, HamiltonJet has designed and produced for the Korean Coast Guard the largest waterjet propulsion units ever produced in New Zealand. Hamilton Jet is now confident that it will win other such large design projects.

IMPORTANCE OF RELATIONSHIPS IN KOREA

The Korean hospitality ethos is very strong. The Sales Manager admits to participating in Korean karaoke, but says, "Once you have done it once, you're not expected to do it often". HamiltonJet's distributor, Dong Kang, is very good at managing relationships with the customer. This is a critical attribute for the distributor, as it is building these relationships on behalf of HamiltonJet. Although Korea has been hit badly by the economic downturn, the Sales Manager believes relationships will not be affected.

HamiltonJet is looking at ways to assist Dong Kang to penetrate markets as it would not be an option to change distributor. This, however, is not too different from other Asian markets. One tip that the Sales Manager has learnt from other companies' mistakes is to never go straight to the customer. Because relationships are critical, it is paramount to not cut out the distributor. Once the distributor finds out that a company has been straight to the customer, they will not work with that company again.

In Europe and the US, the customer focus is purely on the technological aspect of the product, whereas in Korea, the socialising and relationships are most important. The distributor therefore needs strong contacts throughout Korea, as relationships are more valuable than the technical attributes of the product. To succeed in Korea, the Sales Manager says a good reputation and long-term involvement – especially in the marine industry – are necessary.

DOES THE FACT THE PRODUCT/COMPANY IS FROM NEW ZEALAND HELP?

Once again, it is the relationships that underlie success as opposed to the country of origin of the product. The Sales Manager believes that Koreans find New Zealand business people a bit too relaxed. HamiltonJet admits that it does not always meet the distributor's expectations, but adds that this is usually because they are not feasible. However, HamiltonJet has become generally very good at keeping up with the distributor's demands.

WHAT HAS HAMILTONJET LEARNED?

HamiltonJet has learnt many lessons regarding building successful business relations with Korea. The Sales Manager emphasised that cultural sensitivity is paramount. He said that language difficulties are a barrier to success – HamiltonJet has no Korean staff and only deals in English. Even though it has had a long relationship with the distributor, face-to-face contact is very important. He said emails can become quite difficult, and it often takes patience and perseverance.

The Sales Manager finds that documentation is easier in Korea than in countries such as India. He has no concern in Korea regarding IP protection, but HamiltonJet is concerned about IP in other markets. The main threat is a local company developing a water propulsion unit. He adds that Korea is safe commercially as long as there is no local competitor.

The Sales Manager suggests that if the right distributor is found, that distributor will deal with many aspects of the day-to-day business. This direct help from someone who has an interest is highly valuable and irreplaceable. HamiltonJet's relationship is with the distributor, and the distributor manages the relationships with the customers. The Sales Manager believes that as a manufacturer, its relationship with the customer should complement its distributor's relationship with the customer. By leaving all customer contact with the distributor, there is a risk of losing the market should anything go wrong with the relationship with the distributor. HamiltonJet therefore ensures it works at the relationships with customers as well.

SUMMARY

HamiltonJet considers its business in Korea successful. HamiltonJet's expectations for the market are expanding on a yearly basis and growth is very high. The Sales Manager enjoys the Korean market. Given the recent success of the large design project, HamiltonJet is confident that it will be considered for other such large-scale projects in Korea and beyond.

KEY LESSONS:

- There are substantial benefits in having the 'right distributor'.
- There are benefits in having a longstanding presence in Korea. HamiltonJet has been in the market for 20 years.
- There is a contrast in doing business in Korea compared with other countries in which HamiltonJet has a presence, for example the hospitality ethos and the customer focus.

WORLD ENGLISH SERVICE

OVERVIEW OF WORLD ENGLISH SERVICE

Marilyn Innes is the owner, founder and CEO of World English Service Ltd. Her background includes being a senior teacher and principal in New Zealand primary schools. In 1999, she went to Korea to live and work as an English teacher in Anyang, Gyeonggi-do. Shortly after she returned, she established World English Service Ltd and has managed its growth into a leading international human resources company providing teachers of English for Korea. The CEO continues to travel to Korea frequently to maintain business networks and to monitor new developments in the Korean marketplace. She is also presently completing her PhD on Korean social values and costs related to education.

World English Service was created in 2000 and is based in Dunedin. It works solely through the Internet, recruiting native English-speaking teachers for Korea from the US, New Zealand, the UK, South Africa, Canada, Australia and Ireland. It has strong networks, local knowledge and educational connections across Korea. It works closely with an affiliate company based in Seoul. All of World English Service's income is derived from recruitment fees paid in Korea, meaning that it 'weathers the storms' of currency fluctuations and economic crises.

Until 2007, recruitment was for the private language institutes. In late 2007, World English Service moved to supply teachers to the public (state) school and opened an office in Changwon, Gyeongsangnam – World English Services Korea – to assist directly in its liaison with the Korean Offices of Education. Since 2008, World English Service has had a contract with the Offices of Education in the province of Gyeongsangnam (population 3.5 million) and is the leading recruiter for the province, filling about 80 percent of all listed vacancies. The Gyeongsangnam Office of Education is interested in any new links with New Zealand that World English Service can provide.

World English Service also holds two other government contracts to supply teachers. These contracts were offered by the Korean Government offices at the last minute. The contracts were unsuccessful from World English Service's point of view as they were judged on the number of teachers supplied in a very short period. The company did not have the time needed to make the contacts and cement the relationships.

This case study identifies a number of key lessons. The main lessons are that with Korean businesses, to fail and start again is very common, the commercial reward from being ethical is developing a reputable history that can be capitalised on in the long run, private business in Korea is centred on personal relationships, and cultural issues dominate business. Other main lessons are that rules and regulations may change overnight without reason or rationality and it is therefore crucial to be entrepreneurial to survive. The CEO has found that products-based markets are more risky than knowledge-based markets. This is something a new entrant company should keep in mind.

WHY KOREA?

The educational contacts the CEO made while in Korea in 1999, placed her in an ideal position to help them get teachers from New Zealand once she returned home. She recruited her first teachers late in 1999 and by the middle of 2000 had resigned from her teaching position and established the company.

The CEO investigated other educational opportunities. She developed catalogues to sell educational books and materials from New Zealand in Korea. She quickly learned that the product market in Korea is "fraught with risk every step of the way", not the least of which is counterfeiting or plagiarism. After evaluating this opportunity she burned all of the catalogues to avoid being tempted! A costly investigation into bringing Korean students to camps in New Zealand ended when it became apparent that she would be the last in a long line to get a commission from each student. She was also expected to underwrite all expenses in New Zealand before student numbers were confirmed. At this point she decided that she would "only sell her brain and her services to Korea, not products". She went on to explain that there are too many slick, well dressed, believable businessmen, and "until you know the market well and have the correct networking, you are unlikely to be successful".

The company sees the education market in Korea as much stronger than the market for products. The CEO believes it is the biggest and fastest-growing sector in Korea and growth continues in a recession. It is a market of opportunity, especially for foreigners. The CEO believes that this is due to Korea having a particular "zeal for education". She explains that the education market is counter recessionary and in tough times the Koreans turn to education, while limiting spending in other areas such as retirement funds and food.

HOW DID WORLD ENGLISH SERVICE INVEST IN KOREA?

World English Service uses the Internet from New Zealand, coupled with one or two visits to Korea a year, to conduct business operations. This is because it is very costly to set up a foreign-owned small business in Korea. Korea has very good Internet services and phone calls to Korea are relatively inexpensive.

Late in 2007, World English Service developed a formal agreement with its Korean partners. They established a Korean-registered company, World English Service Korea Ltd. The agreement defines the complementary roles of each company. The New Zealand company works with the applicants; their selection, paperwork and training. The Korean company works with Korean employers and applicants once they arrive in Korea. Each company receives a share of the recruitment fee and is responsible for its own costs, taxes and compliance.

Not having its own office in Korea decreases costs and allows for peace of mind for the CEO. Hiring Korean staff requires knowledge of Korean labour law, which is based on culture and is not Western. A lack of knowledge in this area can restrict business quickly.

IMPORTANCE OF RELATIONSHIPS IN KOREA

Word of mouth and recommendations from Koreans in Korea are crucial. Networks are as important as profit when measuring business success. World English Service has been able to establish an effective network through its track record and the family connections of its Korean partners. To succeed in Korea, insider knowledge is crucial, but achieving this is a matter of time – approximately three to five years.

Having a good knowledge of Korean geography and history has been beneficial for World English Service. Demonstrating this knowledge has helped the company to show commitment to Korea and therefore integrity in the marketplace. This commitment to the country was not reciprocated by either of the Korean citizens that World English Service sponsored to work in New Zealand. Their motivation was more about gaining the benefits of New Zealand residency, including free education. Both relationships were short term!

DOES THE FACT THE PRODUCT/COMPANY IS FROM NEW ZEALAND HELP?

In the CEO's opinion, Koreans' perspective of New Zealand business people is that they are very well respected, especially in the education sector. There is growth of New Zealanders working in Korea, and the CEO finds that the schools are increasingly requesting teachers who are New Zealanders. New Zealanders are known to be ethical and hardworking.

WHAT HAS WORLD ENGLISH SERVICE LEARNED?

Through her experiences in the Korean market, the CEO has learnt that it is not a place for SMEs unless they are knowledge based. The products market has the problem of "too many loops in the chain", that is, there are too many people wanting to 'clip the ticket' so that there is little profit remaining.

The CEO has also learnt that even when established in Korea, rules and regulations may change overnight without reason or rationality. For example, in 2002 regulations changed to require a four-year degree as the minimum academic qualification. The majority of World English Service's clients at the time were from New Zealand where a Bachelor's degree is typically three years. Korean legislators had based the regulation on the average US degree being four years, and without further research assumed all other countries were like the US.

The CEO worked through political and diplomatic channels to have the three-year degree eventually reinstated. Two other examples were new regulations at the end of 2007 eliminating potential teachers with any police records, including minor alcohol-related driving offences. And in 2009, new regulations prohibited recruiters from receiving fees for assisting teachers to find new public school positions at the ends of their first annual contracts.

The CEO emphasises that it is crucial to be entrepreneurial to survive in Korea. This includes turning barriers into opportunities, not sticking to one plan, and adapting when situations change. A "backup plan and a sideways plan" are needed always. An example of the CEO turning a barrier into an opportunity, and taking the 'sideways plan' option, was when the regulations changed to require a four-year degree. The CEO moved a large amount of her business to the US.

This turned out to be a successful business move, with half of World English Service's teachers now coming from the US.

Many Koreans see Westerners operating in Korea as ideal candidates for 'deals'. World English Service has been approached many times by Koreans with good ideas for JVs, within and beyond education. The CEO always treats these overtures with great caution. Often the proposer cannot get his idea approved by those above him (it is always 'him') in the hierarchy and/or has not developed a workable business plan. Many would-be Korean entrepreneurs have no knowledge of their own laws concerning business and education regulations.

The CEO has also learnt that with Korean businesses, to fail and start again is very common. "When they fail, they just re-name themselves and start again." She adds that some education franchises seem to re-brand every year. A Korean citizen who moves to a Western country or who deals with Westerners regularly takes on a 'changeable' Western name. The CEO says that it is important to note that when Koreans change their business names, they also change their Western names. It is therefore very hard to track the business records of potential partners. The CEO says that in business in Korea, one "has to be on the ball all the time and keep up by reading newspapers and the like". Two big franchises with which she has dealt have gone bankrupt and re-formed their own new businesses. She says that the Korean business model seems to be "try and try again".

Private business in Korea is centred on personal relationships. For World English Service, this has meant that while the relationship is ostensibly with a major company or franchise, it is really much more a relationship with the company staff member filling the role. If this person leaves the company, the relationship with the company is effectively over and a new relationship has to be built again from scratch. This has been less of a problem for World English Service in its relationships with the government agency in Gyeongsangnam.

The CEO believes that "if you work very ethically then you are more likely to survive as a business". She has never crossed this line and it has paid off. She believes that trying to play the same game as many Koreans will do, will probably result in losing. In Korea, the CEO believes that your ethics come back to you in the end. The commercial reward from being ethical is developing a

reputable history that can be capitalised on in the long run. She adds that you "will be asked to bend", but reassures that "you can survive without bending".

In Korea, cultural issues dominate business. World English Service knows this and works with it. The CEO suggests that it is important to know that Koreans are never going to communicate bad news. "You have to squeeze it out of them." This is because it is not culturally good to communicate bad news, and Koreans would rather tell a 'white lie', delay or distract from the issue. Because of this, it is important to look much deeper than the surface message.

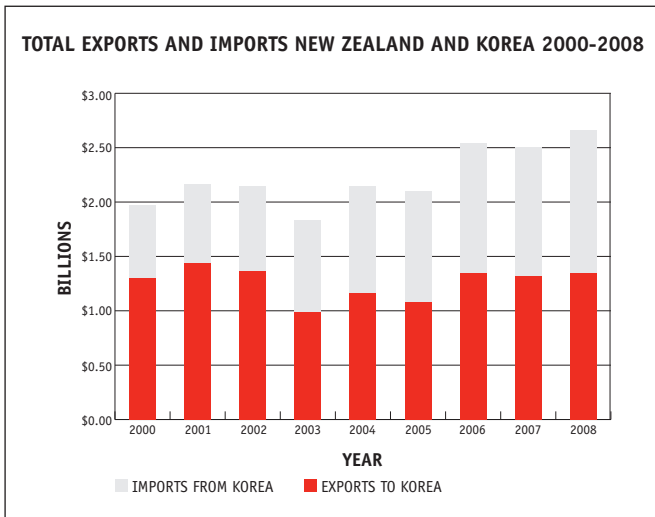
SUMMARY

Overall, the CEO has enjoyed her business venture in Korea and is expecting growth in the near future. She adds that once you realise what the market is like, and recognise that the unexpected will always occur, it is quite fun. However, this has not been a smooth process. The CEO believes it takes a certain "strength of character" to remain in Korea, but World English Service has proved that it has this resilience. The CEO looks forward to her future relations with the contacts she has made in Korea, and looks forward to developing World English Service through these networks. Now the company is established in Korea and has a good reputation, she is confident that it will continue to succeed.

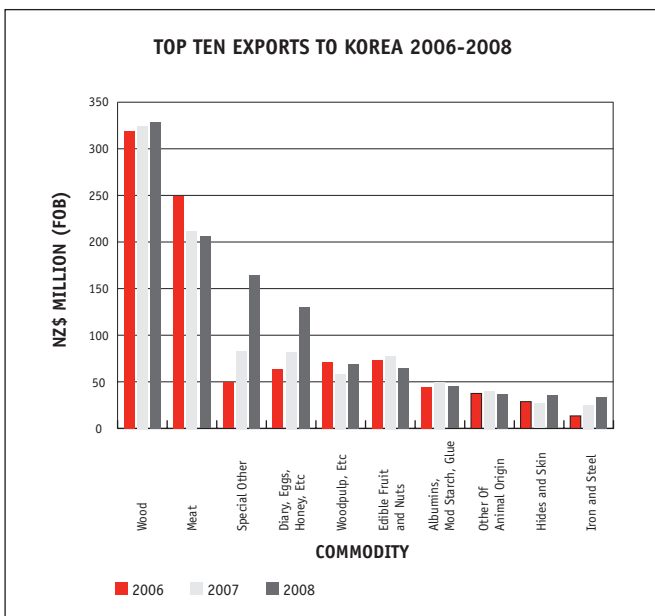
KEY LESSONS:

- With Korean businesses, to fail and start again is very common.
- The commercial reward from being ethical is developing a reputable history that can be capitalised on in the long run.
- Private business in Korea is centred on personal relationships.
- In Korea, cultural issues dominate business.
- Rules and regulations may change overnight without reason or rationality. It is therefore crucial to be entrepreneurial to survive.
- Products-based markets are more risky than knowledge-based markets.

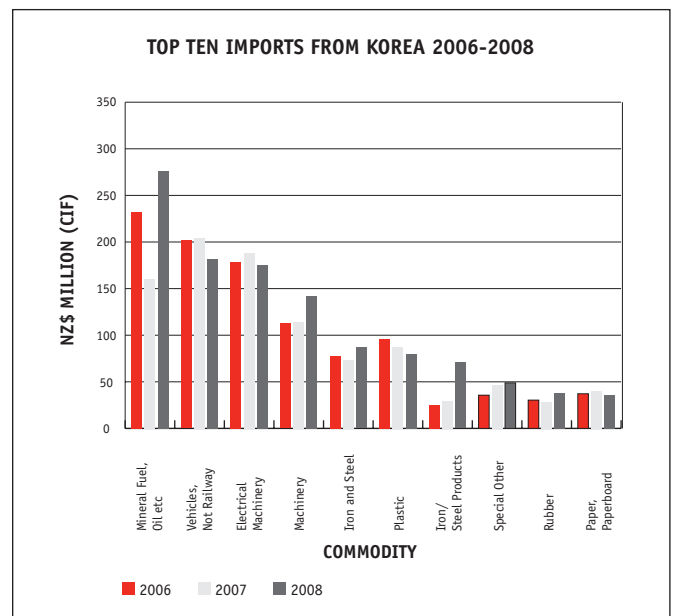
APPENDIX II – TRADE STATISTICS



Source: Statistics New Zealand



Source: Statistics New Zealand



Source: Statistics New Zealand

APPENDIX III – METHODOLOGY

Using a case study methodology, the different perspectives provide a ‘rounded picture’ of what has worked or not worked within a given business. This report draws on the analysis of interviews with 14 companies and professionals with varying levels of experience in Korea.

The export industries represented within the study were horticulture, information and communications technology, food and beverage, film, dairy, education, body care, marine, forestry and fisheries. This has provided insights into the success of various business models, based on the business size, product, management structure, region and approaches.

Despite this sectoral variation, clear common themes emerged regarding what to do and what not to do in Korea.

During the project Deloitte and Asia New Zealand Foundation interviewed companies and individuals with knowledge and experience in Korea. We would like to take this opportunity to thank the following for their assistance in this study.

- Butobase – Director
- Coca-Cola Korea – Ex CEO Korea
- Flowerzone – Managing Director
- Fonterra Korea – Country Manager
- HamiltonJet – Sales and Marketing Manager
- Jack Link’s – CEO
- Korea New Zealand Business Council – Executive Director
- Linden Leaves – CEO
- New Zealand Trade and Enterprise – Trade Development Executive
- NextWindow – CEO and CFO
- PF Olsen – CEO
- Sanford – Managing Director
- World English Service – CEO
- ZESPRI – Branding and Marketing Director

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