REDDAL

Lessons from entering South Korea – build for the long term, no quick wins

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South Korea has been one of the strongest nations in the world when it comes to long term GDP growth. Since the Korean war, this country's rise to a leading technology player has been simply amazing. This article describes our experiences building a business presence in Seoul.

At Reddal, given our focus on how to drive growth, we were naturally very interested in Korea from the start. In 2011, the entire staff of Reddal visited Korea for a week, meeting with executives from companies of various sizes, visiting factories and logistics centers, and talking with both young and more experienced entrepreneurs. Enamored with the Koreans' drive for growth we decided to expand our operations to Seoul in April 2012, making it our hub in northeast Asia. This article describes the experiences we have since had in building our business presence in Korea.

First encounter – "why are you here?"

Analysing the potential of Korea, we found multiple reasons to enter this market. Seoul being a city of 10 million people, and Korea having 50 million, this is a market of significant size in its own right. In addition, considering the opportunities offered by neighboring countries Japan, China and Russia, the potential is enormous. Further, Korea, and in particular Seoul, provides a great logistical hub into Asia. We have daily flights between Helsinki and Seoul, the infrastructure in Seoul is great, and from Seoul it is easy to get around whether one's destination is within Korea, Japan or China. Korea has actively pursued free-trade agreements with EU, China, Japan, US and Latin America, that are now ratified or about to be ratified, and it holds the title of the fastest growing economy in the world over the last decades. Thus, for a company like Reddal, whose mission is to drive growth in companies of all sizes, one can hardly imagine a more interesting place to be in. The whole country seems driven by growth

and ambition, illustrated by the Korean “han” spirit. Currently Korea is having an entrepreneurial boom especially in mobile apps, driven by its advanced wireless infrastructure and the advances of the iPhone and android phones, and of course due to Samsung being a dominant mobile handset and consumer electronics manufacturer.

A closer inspection reveals further opportunities. Korea has several top notch universities, including Yonsei, Korea University, Seoul National, KAIST and POSTECH, and many of the students have US education as well. The country also attracts a large amount of international students, both across Asia as well as from Europe and the US. Thus, finding talent with multicultural and multilingual skills is straightforward. The time difference to Europe allows us to run “work with the sun” operations, and the cost of top talent is also somewhat lower than what we see in Northern Europe.

It is perhaps descriptive of the Koreans’ desire and need to prove themselves to the world (despite all the advantages and opportunities the country has), the most common question we got from the Koreans themselves when we explained our interest in expanding there was “why?” Seemingly, it was odd that a western company would be so interested in starting operations there, rather than in the major neighboring countries. Contrary to this, European companies have in fact already for quite some time shown interest in Korea. In terms of foreign direct investment into Korea, EU has since mid-2000 taken a leading role ahead of both Japan and the US.

Certainly, there are features of the Korean market that make it difficult for a company like Reddal to expand there. The chaebols are vertically integrated multi-sector conglomerates. Our principle of not serving competitors restricts our ability to operate with the major corporations who all seem to compete with each other fiercely. Other challenges include the highly inwardly focused management culture of Korean companies. In addition, when we entered in early 2012, Korea was rapidly feeling the impact of the global financial crisis while simultaneously speeding toward an internal banking crisis driven by over-investment in real estate. However, we deemed these issues less important than the opportunity to work with a selection of companies focused on regional or global growth. In addition, our existing clients’ interests in Asia, including Korea itself, convinced us that seeking to enter this tough market would be a good strategic move. If we can survive and prosper here, we certainly would have proven the strength of our model and our company.

Getting started – leverage local knowledge in all its forms

Setting up a company in Korea is surprisingly easy. The process can be done in a matter of a few weeks, and government institutions like KOTRA are very helpful offering free of charge support. Through local people with experience in Korean business, we were able to find a good accounting firm to help with the formalities. If one works with a good local company, rather than the large international firms, the cost of setting up a company is only about two thousand euros or less. With international brand name firms, the cost can amount to ten times that, with no difference in the end result.

Reddal has always emphasized good relationships with universities and students, and in

preparation of our Korean entry we sought the help of KOSAFI, the Korean Students Association in Finland. Through this, and some of the people we had met during our initial trip to Korea, we quickly learned the details of the market and how to position our company. However, to truly enter the market, local resources are the key and thus four months before we set our office up we had already started to recruit Korean staff members through Yonsei, one of the top universities. The recruits where then trained in Finland, where they attended courses and started working alongside our Helsinki office staff. This was an important stage, since the Korean culture has notable differences to the West (such as how junior people work in the presence of seniors). Both sides needed to learn from each other. This phase was also crucial to build the necessary personal relationships for good collaboration between our European and Asian operations.

In terms of local costs, an office for 4-6 people can be rented for about 1000€/month in prime areas such as Gangnam. There is plenty of real estate available in Seoul currently, and in our case we found a nice office on the top floor of a smaller commercial building within one week. Contractual matters require care, as usual, and again a local accounting firm is useful. The one we used provided valuable advice and helped to ensure that all papers were in order. Salary costs, at least in our field of work, are about 35% lower than in Finland for graduates. The experience of employees may be somewhat more limited, but in general the skill levels are fairly comparable with Finland at least when it comes to graduates from the top schools. Internships are very common in Korea, and usually serve as a stepping stone to a permanent position. In some cases interns do not even get a salary (internships are highly coveted), and 1400USD/month is already considered a decent salary. Internships can last anywhere from a few months to half a year. Korean students have a summer break like Europeans, but in addition there is a winter break of two months in January – February when many of the students are looking for internships. The historical background for this is apparently that schools were closed in the winter to save heating costs!

Picking up speed – network, network and network

Before you can do any business in Korea, two things need to happen. You need to demonstrate your knowledge and capabilities in real life, and you need to be part of the business community networks. The extent of Korean networks is far more intricate than what we are used to in the West. Executives, professional service people, university professors and various organizations all form an intricate mesh where everyone has their place. Hierarchy matters, and there is a clear pecking order among "who is who". The network is vibrant and active – evenings in Seoul are notoriously unpredictable, as various events take place around the city and ad hoc meetings over food and drinks are often arranged on a very short notice.

For us, it was natural to start the networking from within the universities, due to our emphasis of thought leadership and since this is where we normally recruit. However, we quickly also built connections into various AMPs (Advanced Management Programs), which play a key role in educating top executives. Lifelong learning is a rule in Korea, and even senior executives continuously seek to learn new things. Presence in these fora, and presenting thought leadership at lectures and seminars, allowed us to gain ground in the various business communities. However, networking takes a lot of time, not only in the week

due to events and dinners but also in weekends when discussions take place over a friendly game of golf. Weekend games can be large gatherings, with tens of executives attending.

The time spent on building a network has been important to us, both in gaining familiarity with the local culture as well as in understanding the issues companies and their executives are facing. It is perhaps good to set the expectations right – although networking is time consuming, it is a mandatory first step. And more importantly, despite its challenges, it is by far easier than selling anything to a Korean company or executive! Success in Korea truly requires a long term view from the start; it is a marathon rather than a 100m sprint. Prepare to spend at least six to twelve or more months building trust before a business relationship starts. On the other hand, once a relationship is in place, it seems to last for a long time.

A key aspect of Korean culture is the hierarchy and importance of social status. For an outsider, the culture can sometimes look harsh and militaristic, where subordinates must submit to their superiors' orders and behavior, no matter what. When two Koreans meet, they spend the first few minutes building a view on where the other person stands in terms of pedigree, education, experience and age. A position in the social hierarchy is then defined, and is hard to change afterwards. One's behavior must then follow this slot one has been assigned. However, this apparent strict hierarchy can be misleading. While there are solid norms in social structure, the Koreans are also very interactive. Discussions may not always be held in public, but opinions are exchanged and managers spend time trying to understand what the people in their group think about various issues they are facing. When it comes to building relationships and networks with Koreans, it is good to understand that we westerners do not usually fully understand the dynamics going on among the Koreans. Taking time to understand the Korean culture is an important investment up front, in order to learn how to work locally.

The toughest customers on earth

Doing business in Korea requires hard work, no matter what industry you are in. As part of our work, we help our clients enter the market, and have through that gained experience in sales not only in the professional services sector, but also in high tech, industrial equipment, pharmaceuticals and various consumer goods. In all cases, potential partners and customers have an infinite list of questions which need to be answered, and discussions often drag for months. In the high tech area, it is common that a sales meeting turns into a Q&A where you need to be prepared for an onslaught of several PhDs, all persistently digging deeper and deeper into what you have to sell, and what the advantages – and secrets – of your solution are. This is often combined with stints of "palli palli", which means hurrying up. The deadlines for providing a proposal are often short, only to then lead to a stalled situation where the next step can take months.

In terms of pricing, Koreans drive a hard bargain. Only the most luxurious or well-known brands and leading edge technologies can command a premium. And even so, one always has to be prepared for long discussions over the price and scope. Price competition is hard, so be prepared for tight margins. However, there is one area where Koreans seem to spend quite freely, and that is their children. When it comes to their children's education or

anything that supports their success, no expense is too high. Parents look for high quality here as well, and many foreign educational institutions have found good opportunities in Korea.

Looking back, and ahead

Looking back at our first 9 months in Korea, things have not been easy, but at the same time we have been pleased with the support and enthusiastic comments that we have been receiving. The talent pool we are tapping into is an enormous resource, and the market insight we have gained through our local operations has been a tremendous asset for our existing European clients, as well as for ourselves. We have also been able to demonstrate our capabilities and insight, and we have built our first local client relationships.

The strategy that we have employed, taking small but steady steps while keeping costs low so that we can build our presence for the long term, has been good. There may be better approaches, but for our company this has worked well. In helping some of our European clients to analyze opportunities in Korea, at times we have had to recommend that they do not enter, and at times we have been able to move forward with the market entry. In all cases, the progress has been step-wise, demonstrating that in this market it is very hard to get quick wins. Entry into Korea, just like into any Asian market, must be considered carefully. Once a commitment is made, you must be ready to invest time and effort in building the presence and all the elements that long term success requires.

Perhaps the biggest benefit of our expansion has been the learnings from the process, and the eye opening effect that our presence here has had on all of us. While we still have a long road ahead of us to build a truly successful operation in Korea, the experience has given us a hunger for further global expansion and confidence that such expansion is possible. Perhaps the ambition, entrepreneurship and drive for success of the Korean han spirit has reinforced our own ambition and given us more determination. Watching Korean companies, both small and large, continuously strive for new business opportunities is certainly inspiring!