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Opportunities for Korean companies in the post-COVID international markets

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Amidst the ongoing recovery from COVID-19, the global economy and the intricate web of global supply chains are going through a transformative phase. However, within these shifts lie many opportunities. For Korean enterprises, this phase presents the potential for fresh prospects beyond the borders.

In this article, we share our learnings and perspectives regarding these market opportunities. Furthermore, we discuss strategies available to Korean companies, offering guidance to adeptly seize upon and capitalize on these opportunities.

The most recent GDP growth figures reveal a downward trajectory following the initial COVID recovery in 2021 [1][2]. In response to the prevailing macroeconomic conditions and reduced capital influx, numerous Korean enterprises have suspended their initiatives aimed at capitalizing growth in foreign markets. Nevertheless, specific sectors such as semiconductors, sustainable energy, electric vehicles, and the emerging web3.0 domain are gathering heightened attention due to new innovations and prevailing disruptions within the global supply chain.

Beyond the conventional and widely recognized markets of the US and Southeast Asia, lesser-explored regions such as the Nordics, DACH and the Middle East bring opportunities as a new playing field. China, due to its distinctive position as a diverse market encompassing a wide range of customer segments also presents a potential avenue for value capture by Korean companies. In the following, we will take a closer look at each of these regions.

In Nordics and Baltic states, solid trade partnership encourages new trade areas

The Nordic region, made up of Finland, Sweden, Denmark, Iceland and Norway, stands out as one of Europe's most lucrative markets albeit their relatively small size. The Baltic states of Estonia, Latvia, Lithuania and Poland are also nearby. Trade between the Nordics and South Korea was increasing in the years leading up to COVID-19. Today, South Korea has become one of the top trade partners from Asia for Nordic countries. Korea Trade-Investment Promotion Agency (KOTRA) has trade offices located in Denmark, Sweden and Finland. Currently, top imports are lithium-ion batteries, motor vehicles and mobile phones [15]. However, potential opportunities exist also in fast-moving consumer goods (FMCG) and digital technology.

In the case of cosmetics market, opportunities can be understood in the context of Nordic trends. Namely, that Nordic countries comprise one of the most developed markets for sustainable products. South Korea is one of the largest cosmetic exporters. However, its cosmetic exports to the Nordic region accounted for less than 1% in 2022 [15]. This market, although experiencing steady growth in the aftermath of the COVID-19 pandemic, remains predominantly under the influence of European and US brands. However, there is a clear interest in Korean culture overall which then touches topics like beauty as well. Korean brands are getting attention.

The post-pandemic recovery has led to increased outdoor activities, resulting in a focus on skin care and sun care products. Notably, there is a rising demand for makeup products with sun care properties, as well as general cosmetics products made from sustainable materials and featuring natural scents.

Transport and digital infrastructure are highly developed in the Nordic region. This means that consumers are tech savvy and accustomed to conducting diverse activities, from filing tax returns to online shopping. A digital-first approach is therefore vital in this market.

This trend presents promising opportunities for Korean companies. In November 2020, a "Sweden-Korea Digital Trade Forum" was held to revitalize business collaborations with specific reference to 5G, AI, big data, IoT and contact industries. More recently, the Finnish government set its sights on increasing investments and growing AI and metaverse initiatives. Business Finland, in alignment with this vision, is developing a strategy to position the nation at the forefront of global digital life ecosystem [14].

A benefit for a new entrant is that the Nordic countries possess a comprehensive understanding of international business practices and have a common and clear regulative framework.

In DACH-region, opportunities in technology and sustainability with potential cooperation with "Mittelstand" SMEs

In the DACH region (Germany, Austria, Switzerland), imports from Korea have remained relatively stable, experiencing a dip of 4.6% in 2020 due to COVID, but still between 14 and 15 BEUR [3]; key imports include electrical machines, accumulators, vehicles, office machines, pharma products and telecommunications equipment. KOTRA has local offices in all DACH

region countries, supporting Korean companies with market entry. Overall, the significance of Austria and Switzerland is slowly increasing, but still 85% of total Korean exports into the DACH region go to Germany, making it the most interesting market in the region due to its scale. Germany is also the most important trading partner of Korea in Europe [4].

Doing business in Germany is usually very personal, as 95% of German businesses are family-owned SMEs which contribute to 42% of total turnover of all businesses [5]. These businesses are scattered throughout Germany and offer potential for more intimate business connections for Korean companies. Many large Korean companies, such as Hyundai, LG and Samsung have selected Germany as the location for their European operation headquarters.

In the wake of the pandemic, Germany has undergone a significant technology expansion. While the overall shift to remote work was relatively smooth, in exposed technological gaps in commercial and industrial sectors. As a result, the government has committed to additional investments in technology infrastructure to improve the status of digitalization and promote innovation. Particularly, smart factories and industry 4.0 have become a central focus area [6].

Sustainability has been a key topic in Germany's economy, and its significance is increasing as witnessed by the historic high of the Green party in 2021 Federal elections; however, developments are still needed especially regarding mobility, buildings, and food [7].

Ample opportunities in both infrastructures and high-tech industries in the Middle East – opportunities in Iran to be monitored closely

According to the 2019 World Bank report on Ease of Doing Business rankings, the Middle East hosted four of the world's top 10 improvers, most of them being among GCC (Gulf Cooperation Council) countries: Saudi Arabia (62nd), Jordan (75th), Bahrain (43rd), and Kuwait (83rd). The United Arab Emirates remained the strongest performer overall in the region, placing 16th (out of 190) on the ease of doing business rankings. In contrast, Iran, a significant economy in the region, lagged behind at the 127th position, trailing behind the GCC countries. South Korea, on the other hand, performed impressively, securing the 5th spot [8].

The economic relations between South Korea and Middle Eastern countries have strong roots in the energy and construction sectors. South Korea's energy-dependent economy is one of the biggest consumers of the region's oil. Oil-producing states have heavily relied on South Korea for infrastructure development historically, including utility plants, housing, roads, and ports [9].

Development of infrastructure remains a high priority in the Middle East. The CEO of the National Iranian Oil Company recently announced that the country would need to invest more than 50BUSD to avoid becoming a net importer of gas [10]. As oil prices continue to decrease, GCC countries also look at South Korea, China and Japan for provision of nuclear and renewable energy sources and infrastructure development, in addition to development of smart cities, airports, intelligent transport systems, artificial intelligence, semi-conductors,

space development, and ICT [11].

Situation in Iran, however, is complicated. Although the country is in urgent need of fresh investments and development on many fronts, sanctions not only have limited the country's income, but they have also increased the risk of doing business with the country. As a result, foreign companies have been reluctant to enter the market. Recent political conflicts between Tehran and Seoul add to this complexity for South Korean companies. However, keeping an eye on opportunities emerging may be well worth the effort in the mid-term.

China as a lucrative market requires tailored offerings for diverse taste of local consumers

During the past decade, China has experienced a rapid urbanization process and a booming middle class. As a result, retail sales have grown with a staggering 11% CAGR to almost 6TUSD in 2019 [12]. Therefore, staying on top of China consumer priorities should be front and center. The market and purchasing power are significant enough to justify innovations tailored for the Chinese market.

Chinese market is not new to Korea, but companies should always remember that China is also a vast country with unbalanced development. The difference and gaps between provinces and cities drive more diversified consumption habits. This diversity is further complicated with slowing economy due to shifting away from country's long-term economy driver, real estate. Foreign companies often focus on consumers in top-tier cities including direct administrative cities and prefecture-level cities, which account for about 400 million of the population [13]. Consumption potential of lower-tier cities is to be fully unleashed. Korean companies that aim to capture the opportunity need to submerge their efforts and adjust their offering portfolio to embrace the long tail created by diverse consumption habits. Consumers in lower-tier cities do not always have physical outlets for their desired products and brands. Due to lock-down and movement restriction during COVID period and cost consideration, reaching consumers in lower tier cities via physical outlets becomes even more challenging. When consumers cannot go to brands, brands must show them the world. Social media platforms, live broadcast platforms and short-video apps, combined with e-commerce, is the new norm for companies to maximize its reach to consumers, especially the mobile-first, digital-loving hi-tech generation.

Using a strategic approach when entering new markets to ensure success

To enter these new markets, Korean companies need to grasp the importance of adopting a strategic and systematic approach. By structuring the problem and prioritizing their plans, a comprehensive blueprint for market entry takes shape. Given our experience in supporting foreign market entry while helping our clients in 45 countries around the world, and our presence in the aforementioned regions, we have developed a basic approach that can be useful. Based on our learnings, five fundamental steps are essential for a foreign market entry.

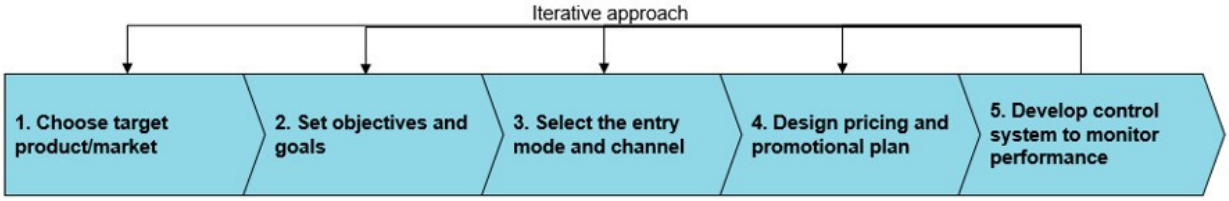


Figure 1. The five basic steps for foreign market entry.

First, companies need to build a thorough understanding of the targeted market. This is an important step which is more than acquiring information. The dynamics around the market, customers and competition should be fully understood. In addition, the value proposition should be clearly defined. Second, companies should set clear ambition for new markets by estimating sales potential in selected products. Third, companies should also understand both internal and external factors to screen feasible entry modes. The optimal entry mode should maximize value creation and minimize risks; a multipronged approach may be needed. Fourth, companies should select a pricing method that fits the targeted segments and identify the best channels, messages and buying propositions to engage the customers. Finally, it is important to define KPIs that measure the strategic goals in the market and have periodic checkpoints to monitor them. Based on the outcome of KPIs, companies should adapt and iterate their approach accordingly.

Many companies put excessive focus on short-term goals without sufficient planning and preparation. The opportunities for Korean companies in export markets are substantial but require that detailed plans are in place with a long-term perspective based on a thorough understanding of the target market. It is also important not to rush in. Rather, take time to understand the market and customer needs and challenge your own assumptions over and over until you have the necessary fact-base. With deep insights and solid data, your market entry has a much better likelihood of success!

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