E-COMMERCE IN Korea

A GUIDE FOR AUSTRALIAN BUSINESS
E-Commerce Opportunities
Republic of Korea
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**Economic Profile: Republic of Korea**

- **Population**: 50.8 million
- **GDP**: US$ 1.41 trillion
- **GDP per capita**: US$27,538
- **Sector strengths**: Electronics, telecommunications, automobile production, chemicals, shipbuilding, steel

**Import partners (2016)**
- China: 21.4%
- Japan: 11.4%
- United States: 10.7%
- Australia: 3.7%

**Export partners (2016)**
- China: 25.1%
- United States: 13.5%
- Hong Kong: 6.6%
- Australia: 1.5%

Source: World Bank 2016, South Korea Fact Sheet 2016, DFAT, Korea Customs Office 2016
DISTRIBUTION OF HOUSEHOLD NUMBERS IN KOREA

Number of people per household

<table>
<thead>
<tr>
<th>Number of people per household</th>
<th>1 person</th>
<th>2 people</th>
<th>3 people</th>
<th>4 people</th>
<th>5+ people</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percentage</td>
<td>27.2%</td>
<td>26.1%</td>
<td>21.5%</td>
<td>18.8%</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

Source: Statistics Korea, 2015

HOUSEHOLD FINAL CONSUMPTION EXPENDITURE PER CAPITA

USD 12,238 in 2016

Source: World Bank 2015
KOREA-AUSTRALIA
FREE TRADE AGREEMENT

Signed on 8 April 2014

Implemented on 12 December 2014

2018 is the fifth year of KAFTA implementation

From 2018 is duty taxes on many of the consumer categories including cosmetics, clothing and stationeries have been removed or significantly reduced. For current duty taxes rate on specific categories, please contact Austrade Seoul.
E-COMMERCE IN KOREA
A SNAPSHOT

- Online shopping was worth US$58.5 billion (2016)
- World’s highest average internet connection speed: 24.6Mbps
- 54.2% of online shoppers used mobile devices to buy goods worth US$31.7 billion (2015)
- E-commerce is growing at a rate of around 15% every year
- Korea has the second highest digital buyer percentage in the Asia-Pacific region, with 65% of internet users currently shopping online
- 17,395,000 cross-border online transactions in 2016
- Average growth rate for cross-border online e-commerce from 2012–16: 30.8%
- 45% of cross-border online shoppers are households with children
- 46% of cross-border online shoppers are aged 25–34
THE RISE OF CROSS-BORDER ONLINE SHOPPING

Koreans are shopping across borders to look for deals and hard-to-find items. The main reasons for shopping abroad: better product quality and price. The primary online shopping destinations: the US, Japan and China.

Many SMEs in the US and Europe have seized upon this opportunity in Korea. For many Australian SMEs, cross-border online trade in Korea is a potential revenue stream.

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number ('000)</td>
<td>5,603</td>
<td>7,944</td>
<td>11,159</td>
<td>15,530</td>
<td>15,865</td>
<td>17,395</td>
</tr>
<tr>
<td>Growth rate</td>
<td>56.5%</td>
<td>39.0%</td>
<td>40.5%</td>
<td>39.2%</td>
<td>3.0%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

Source: Korea Customs Service, 2017; Korea Consumer Agency, Study on cross-border online trade and consumer complaints, June 2016
UNDERSTANDING KOREA’S ONLINE CONSUMERS

WHO IS BUYING GOODS ONLINE AND WHY?
Online cross-border shoppers by gender and by age

Male
36%

Female
64%

Over 50s
8%

Under 10s
1%

20s
15%

30s
53%

40s
23%

※ 100% = Total number of cross-border shoppers in 2015

Source: Nielsen Korea 2016; Korea Customs Service, December 2016
WHO ARE THE BIGGEST TARGETS?

Online retailers are also making efforts to attract these targets.

- Young mothers (households with children)
- Adults in 20s and 30s and Females in 40s and 50s
## Understanding Korea’s Online Consumers

### WHERE DO ONLINE SHOPPERS BUY FROM? WHAT PRODUCT DO THEY BUY?

Primary online shopping destination countries and key product categories (2016)

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>PRODUCT CATEGORY</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>Health functional food and supplements (27%), fashion apparel, baby and kids’ products, cosmetics, food</td>
</tr>
<tr>
<td>Europe (Germany, UK, France)</td>
<td>Cosmetics (33%), baby formula and food, coffee and candies, fashion apparel, health supplements, shoes, electronic goods, kitchen appliances</td>
</tr>
<tr>
<td>China</td>
<td>Electronic goods (23%), toys, fashion apparel, shoes, handbags, cosmetics, watches, books</td>
</tr>
<tr>
<td>Japan</td>
<td>Packaged food (14%), toys and figures, health supplements, shoes, cosmetics, electronic goods</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>Cosmetics (52%), fashion apparel, electronic goods, shoes, handbags</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Health functional food and supplements, honey, cosmetics, toothpastes (food accounted for 85% of purchases)</td>
</tr>
<tr>
<td>Others</td>
<td>Health supplements, packaged food, cosmetics, fashion apparel, shoes, handbags, electronic goods, toys and figures, books</td>
</tr>
</tbody>
</table>

Source: Korea Customs Service, press release, 19 January 2017
Korean cross-border online shoppers are now buying from 38 countries.

Eight countries accounted for 99 per cent of cross-border online trade: the US, China, Germany, Hong Kong, Japan, the UK, France and New Zealand.

The US accounted for 65 per cent of online cross-border online purchases.

Australia accounted for approximately 0.4 per cent of cross-border online sales in 2016. Not a significant share but there is potential for growth.
UNDERSTANDING
KOREA’S ONLINE CONSUMERS

HOW MUCH DO ONLINE SHOPPERS SPEND?

Amount spent per transactions on cross-border online trade, US$

The average number of items purchased in each transaction was **two** and the amount spent was **US$113** in 2016.

High-priced purchases above **US$1,000** accounted for **1 per cent** of sales, with **57,078** transactions in 2015.

<table>
<thead>
<tr>
<th>Amount Spent</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between $100 and $200</td>
<td>36.6%</td>
</tr>
<tr>
<td>Between $200 and $300</td>
<td>18.8%</td>
</tr>
<tr>
<td>Less than $100</td>
<td>18.4%</td>
</tr>
<tr>
<td>More than $300</td>
<td>8.7%</td>
</tr>
</tbody>
</table>

Source: Korea Customs Service, June 2016
HOW DO KOREAN CONSUMERS BUY THEIR PRODUCTS?

Korean consumers undertake cross-border online shopping in three main ways;

1. Purchasing directly through company websites, local or global shopping websites such as Amazon (38.3 per cent).

2. Using local e-commerce websites that facilitate transactions with deputy purchasing agency or foreign vendors, usually via local agents such as eBay Korea’s Gmarket or SK’s 11 Street (32.6 per cent); and

3. Using deputy purchasing agents such as Narrshop, Wizwid or Poombuy that purchase products overseas on behalf of customers, then ship the goods to Korea (32.6 per cent).
UNDERSTANDING KOREA’S ONLINE CONSUMERS

Three methods of online cross-border shopping

1. **Direct Purchase**
   - Purchase online
   - Seller provides international shipping

2. **Delivery Agency**
   - Purchase directly from company’s website
   - Get it delivered to delivery agent’s office (overseas)
   - The delivery agent sends goods to Korea

3. **Deputy Purchasing Agency**
   - Deputy agent buys and delivers on behalf

Notes:
- Deputy purchasing agents office
- Overseas shopping mall
- Delivery agents office (address within overseas market)
**Direct purchase**

<table>
<thead>
<tr>
<th>Purchase directly from overseas shopping mall</th>
<th>Payment</th>
<th>International shipping</th>
<th>Customs</th>
<th>Domestic Delivery</th>
<th>Receives goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>Checks if product is importable</td>
<td>Checks if credit cards can be used overseas</td>
<td>If the overseas shipping fee is expensive, use a delivery agent</td>
<td>Needs personal information of the product receiver (personal number or UNI-PASS)</td>
<td>After passing customs, delivered to the consumer’s domestic address</td>
<td>In case of damage after receiving the product, take pictures of the packaged status and opening pictures</td>
</tr>
<tr>
<td>Checks the reliability of the overseas shopping mall</td>
<td></td>
<td></td>
<td>After appropriating customs, pays for customs</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Consumers purchase products directly from an online shopping website. The product is delivered to the customer in Korea without third-party involvement in shipping.

The top three major overseas shopping websites were Amazon, I Herb and eBay (2015).
After purchasing from an overseas online shopping website, the goods are delivered to a delivery agency’s office in the country in which the goods were bought. The delivery agency then ships the goods to the customer in Korea.

Eg. Malltail, iporter, Ehanex, New York Girls, Postbay and Ohmyzip.
Customers pay a deputy purchasing agency directly for the product to purchase. The agency then buys the product on the customer's behalf and delivers it to the customer's home in Korea.

Ideal for those who have difficulty purchasing directly from an overseas site due to language barriers.

Eg. Poombuy, Widwiz, Narrshop and Njoy New York.
# Understanding Korea’s Online Business

## Major Online Shopping Websites in Korea

<table>
<thead>
<tr>
<th>Open Market (e.g. eBay)</th>
<th>Social Commerce Shopping</th>
<th>Department Store Websites</th>
<th>Hypermarket Websites</th>
<th>TV Home Shopping</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gmarket</td>
<td>TMON</td>
<td>Lotte.com</td>
<td>emart</td>
<td>GS Homeshopping</td>
</tr>
<tr>
<td>Coupang</td>
<td>Coupang</td>
<td>Lotte Mall</td>
<td>Home Plus</td>
<td>VTV Hyundai</td>
</tr>
<tr>
<td>Auction</td>
<td>WeMakePrice</td>
<td>Hmall.com</td>
<td>Lotte Mart</td>
<td>Homeshopping</td>
</tr>
<tr>
<td>11st Interpark</td>
<td></td>
<td>Shinsegae Mall</td>
<td></td>
<td>Lotte Homeshopping</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SSG.com</td>
<td></td>
<td>Nongsusna</td>
</tr>
<tr>
<td></td>
<td></td>
<td>AKmall.com</td>
<td></td>
<td>Homeshopping</td>
</tr>
<tr>
<td></td>
<td></td>
<td>el Lotte</td>
<td></td>
<td>CJ O Shopping</td>
</tr>
<tr>
<td></td>
<td></td>
<td>SH@P</td>
<td></td>
<td>Home &amp; Shopping</td>
</tr>
<tr>
<td></td>
<td></td>
<td>thehyundai.com</td>
<td></td>
<td>IM Shopping</td>
</tr>
</tbody>
</table>

Source: Austrade in-house research, 2017
UNDERSTANDING
KOREA’S ONLINE BUSINESS

OPEN MARKET WEBSITES
An online store that serves as a platform for vendors to display their products and connect with consumers. Major players: Gmarket, Auction, SK Planet’s 11 Street and Interpark.

SOCIAL COMMERCE PLATFORMS
A subset of e-commerce that involves social media, online media that supports social interaction, and user contributions to assist online buying and selling of products and services. Major players: Coupang, Ticket Monster & Wemakeprice.

TV HOME SHOPPING CHANNELS
OPEN-MARKET PLATFORMS

EBAY KOREA’S G MARKET

SK GROUP’S 11ST
SOCIAL COMMERCE PLATFORMS

COUPANG

WE MAKE PRICE
Health and Beauty Specialist Store (Olive Young)
Food and drink is one of the fastest-growing categories in internet retailing in Korea. In response to this trend, Korea’s three biggest hypermarket chains – Emart, Homeplus and Lotte Mart – all operate online and mobile shopping applications. Mobile shopping is the most popular internet retailing platform for online grocery shopping. As operators focus on developing fast and easy-to-use mobile platforms, mobile grocery retailing is forecast to be a future growth area.
Cross-border online trade represents a valuable opportunity for Australian companies, especially retail businesses that offer relatively niche products at low volumes, as it allows for higher margins.

1. SELL FROM AUSTRALIAN WEBSITE WITH DIRECT SHIPPING TO KOREA
2. WORK WITH AN INTERNATIONAL SHIPPING SERVICE COMPANY
3. WORK WITH A DEPUTY PURCHASING AGENCY
4. WORK WITH OPEN-MARKET PLATFORMS
SELL FROM AUSTRALIAN WEBSITE WITH DIRECT SHIPPING TO KOREA

Australian companies that operate an online store can modify international shipping options at the checkout stage to include Korea.

With a few changes to the site, payment options and logistics, together with targeted marketing, Australian brands can reach Korean online shoppers.

1. Provide delivery options
   Likes speedy delivery and providing an indication of the delivery date is important.
   Could offer multiple shipping and cost options.

2. Accept international credit cards
   Korean credit cards often not accepted by Australian online stores.
   Commonly, Korean credit cards are jointly issued with VISA, MasterCard and Amex.

3. Tailor website to a Korean audience
   Localisation. eg. the language, layout and design
   Korean customers expect detailed product information incl. pictures, descriptions, reviews and a brand story.
WORK WITH AN INTERNATIONAL SHIPPING SERVICE COMPANY

For direct purchases, Korean customers need to arrange international shipping from Australia to Korea with service providers such as Post Bay, which has a physical office (warehouse) in Australia.

CASE STUDY

Post Bay (www.postbay.com) primarily operates in the freight forwarding industry within the transportation services sector. Post Bay has seven fulfilment houses in the US, Germany, Australia and Japan. The company had approximately 131,000 members as at February 2017.

Post Bay has a fulfilment centre in Cherrybrook, New South Wales. It offers international shipping and other business services, including marketing to local retailers on a contract basis. The shipping process depends on the size and weight of the boxes.
Deputy purchasing agencies purchase and pay for products on behalf of customers and deliver the products to the customer’s home in Korea.

Owns online stores featuring products that can be purchased upon customers’ request.

Responsible for relaying product orders, handling payments and providing local customer support.

Suitable for Australian brands that are relatively well known to Korean customers due to the high sales volume potential.
Open-market platforms such as Gmarket, Auction and 11 Street allow foreign retailers to open seller’s accounts without a Korean corporate registration number.

**To become a Global Seller on Gmarket and Auction,** Australian businesses should submit the following documents:

- business registration certificate
- seller registration form (available on the Gmarket and Auction websites)
- seller confirmation letter (URLs or images of the products to sell)
- bank statement for bank transfers
- photocopy of identification documents (e.g. passport).

**A key challenge** is operating in the Korean language. Australian businesses could recruit a local agent who manages import procedures, product certification and customer service.

For further details and to express interest in becoming a seller on these open-market platforms, email globalseller@corp.gmarket.co.kr and Auction@corp.auction.co.kr.
CASE STUDY: SUE ISMIEL AND DAUGHTERS (SI&D)

Sue Ismiel and Daughters (SI&D), manufacturer of Australia’s hair-removal brand, NAD’s, participated in Austrade’s health and beauty business mission to Asia in November 2016.

Following introductions from Austrade Seoul, SI&D successfully negotiated a deal with Korea’s largest health and beauty specialist store chain, Olive Young, which has a network of 800 stores throughout Korea including online. Following the launch, Nad’s hair removal range received extensive media coverage and an overwhelmingly positive consumer response.

Within the first two weeks, its sales ranking rose to ‘2nd best seller’ in its category. The Korea-Australia Free Trade Agreement eliminated the import duty on the product range from 6.5 per cent to zero. The positive sales figures mean SI&D is very optimistic about its growth prospects in Korea’s booming health and beauty market.
### Duty-free allowances for parcels for personal use

<table>
<thead>
<tr>
<th>The International currency code for South Korea</th>
<th>Country</th>
<th>Tax free threshold for South Korea</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>USA</td>
<td>US$200</td>
</tr>
<tr>
<td>USD</td>
<td>All countries except USA</td>
<td>US$150</td>
</tr>
</tbody>
</table>

*Tax free threshold is the minimum value under which no duties are collected by the customs.*

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UNDERSTANDING ONLINE SALES REGULATIONS

KOREA’S TAX AND DUTIES ENFORCEMENT

The cost is based on the complete shipping value, including:

› the price of the imported goods
› the cost of freight
› insurance.

Imports are also subject to sales taxes. The shipping cost is based on the actual weight or volumetric weight of the actual box in which the merchant packs the purchased goods – whichever is the greater. For goods coming from Australia, no tax and duties apply if the value of the imported product is under US$150.

DUTY AND TAXES

When purchasing a laptop made in Australia with a value of $1,000, with a $100 shipping fee, the customs fee is calculated as follows:

› Total value of laptop including shipping: $1,100
› 8% duty (laptop rate): $88
› 10% Value Added Tax (duty + total value of laptop including shipping): $118.80
› Total Customs fee – import duty and VAT: $206.80
KOREA CUSTOMS’ CLEARANCE LIST

1. Manifest clearance (rapid entry) for approved goods categories
   • A simple customs check if the package has an invoice containing a list of contents, the weights and value, and contact details of the sender and consignee.
   • No duties and taxes if the total amount of the price of the imported goods, the cost of freight and insurance are under US$150 in total (or US$200 for US orders).
   • The goods must not fall into the restricted goods list (if not applicable, then the Standard Customs process).

2. Standard clearance
   • If the package includes at least one item that falls into the restricted goods list.
   • Applies to all countries including the US.
   • Purchased goods must be for personal use and the total amount of the price + freight + insurance must be under US$150.
UNDERSTANDING ONLINE SALES REGULATIONS

Goods that are subjects to customs check

- Medicine
- Medicinal herbs
- Products related to wild animals
- Goods subject to quarantine
- Health functional food (if above 6 bottles)
- Cosmetics (only if functional)
- Negligently recorded goods in regards to product name, price, etc.
- Goods needed to be verified by other customs director

Source: Korea Customs Service (www.customs.go.kr), Korea Consumer Agency, June 2014
## ONLINE SALES REGULATIONS

**Quantity approved for personal use by items**

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>QUANTITY APPROVED FOR PERSONAL USE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health supplements</td>
<td>Up to 6 bottles</td>
</tr>
<tr>
<td>Agricultural products</td>
<td>Mostly up to 5kg (e.g. honey, sesame), 1kg for pine nuts</td>
</tr>
<tr>
<td>Knives (for cooking only)</td>
<td>Under US$150 (proof for use in kitchen must be provided)</td>
</tr>
<tr>
<td>Baby formula</td>
<td>Up to 5kg and under US$150</td>
</tr>
<tr>
<td>Perfumes</td>
<td>Less than US$150 and 1 bottle of less than 60ml (2 ounces) per person</td>
</tr>
</tbody>
</table>
GET YOUR ONLINE BUSINESS READY FOR THE KOREAN MARKET

Recommendations to get your business ready for the Korean market

Offer competitive shipping costs

Shipping costs are one of the top two concerns of Korean online shoppers. Australian online websites tend to put higher shipping costs on goods sent to Korea compared to US- or EU-based companies.

Ensure fast delivery times

According to a survey by the Korea Customs Office, lengthy delivery times is a top concern of Korean consumers considering cross-border online purchases.

Provide responsive customer service

Korean consumers have high expectations when it comes to customer service and after-sales service.

Accept Korean credit card payment

The fact that Korean customers prefer to pay by credit card is advantageous for Australian exporters as it enables a simpler and more transparent payment process. Australian businesses should seek to accept credit cards issued in Korea.

Develop a website tailored to Korean customers’ expectations

To succeed in the competitive Korean online retail market, Australian businesses must sell on a platform suitable for the local market.

Package your products properly

Products shipped from Australia should be meticulously packed to protect them from any damage, including cracking and leaking, the two most common complaints from Koreans who purchased Australian products online.

Study your international traffic and identify the right partners based on your strategy and needs

To overcome hurdles relating to cross-border online trade, exporters can utilise third-party logistics providers and partner with global/regional online marketplaces that can help with these challenges.
Anvy Online Digital Marketing provides outsourced marketing services and overseas purchases, and business assistance to support sales of overseas products including health supplements and baby and child-specific products. With over 200 employees and more than 50 bloggers, the company specialises in online digital marketing, particularly with social network channels such as Naver, Daum and Instagram. The company also can help Australian businesses with market testing and pre-sales promotions.

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NARRSHOP

Launched in 2015, Narrshop caters for customers seeking to improve or enhance their quality of life. The company also caters for recreational hobbies. Narrshop provides popular and trending items from countries such as Switzerland, Germany, the UK, the US and Australia at competitive prices. Its key categories include food, beauty and fashion items, products for babies, kids and pets, and sports and hobbies equipment. Narrshop offers business-to-business services and solutions.

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POST BAY

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THIRD-PARTY SERVICE PROVIDERS

ChannelAdvisor

ChannelAdvisor (NYSE: ECOM) is a leading provider of cloud-based e-commerce solutions that enable retailers and branded manufacturers to integrate, manage and optimise their merchandise sales across hundreds of online channels including Amazon, Google, eBay, Facebook and more. Through automation, analytics and optimisation, ChannelAdvisor customers can leverage a single inventory feed to more efficiently list and advertise products online, and connect with shoppers to increase sales. Billions of dollars in merchandise value are driven through ChannelAdvisor’s platform every year, and thousands of customers use ChannelAdvisor’s solutions to help grow their businesses.

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DHL

DHL eCommerce is part of Deutsche Post DHL Group, established in 2014 as part of the Group’s growing focus in e-commerce logistics solutions. Along with its sister divisions DHL Express, DHL Supply Chain and DHL Global Forwarding in Australia, the Group offers end-to-end solutions for e-commerce retailers. This includes cross-border shipping with a premium offering from DHL Express and affordable solutions from DHL eCommerce; fulfilment solutions through DHL eCommerce and DHL Supply Chain; and air/sea/road/rail freight solutions from DHL Global Forwarding.

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