



- E-COMMERCE MARKET IN SOUTH KOREA -

Overview on e-commerce in South Korea

Platforms / Marketplaces for e-commerce

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1 OVERVIEW ON THE E-COMMERCE IN SOUTH KOREA

E-commerce in South Korea: trends and tendencies

South Korean retail e-commerce Market is the 7th largest in the world and ranked the 3rd largest in the Asian-Pacific region. As in the table below, the retail e-commerce market size is half the German one growing steadily each year. It shows roughly 10 percent of growth in recent years, and it is expected to be the same in the following years.

Top 7 countries ranked by retail e-commerce sales worldwide, in billion USD (eMarketer 2014)

Rank	Country	2013	2014	2015	2016	2017	2018
1	China	\$315.75	\$426.26	\$562.66	\$714.58	\$871.79	\$1,011.28
2	US	\$264.20	\$305.65	\$349.06	\$394.43	\$442.55	\$493.89
3	UK	\$70.39	\$82.00	\$93.89	\$104.22	\$114.64	\$124.96
4	Japan	\$62.13	\$70.83	\$79.33	\$88.06	\$96.87	\$106.07
5	Germany	\$51.91	\$63.38	\$73.46	\$82.93	\$91.97	\$99.33
6	France	\$34.21	\$38.36	\$42.62	\$46.13	\$49.71	\$53.26
7	South Korea	\$29.30	\$33.11	\$36.76	\$40.43	\$44.07	\$47.82

Yet the retail sales on e-commerce market is only 10% of the whole retail sales as presented in the table below, it is steadily taken up the retail market. The ratio of online retail sales to the total retail sales is already the second highest level around the world after the British market. Since South Korea has the highest development index of Information and Communication Technology, the future of the e-commerce is bright (ranked 1st from 2010 to 2016, except 2013 and 2014 by International Telecommunication Union).

Total retail and retail e-commerce sales in South Korea, 2013-2018 (eMarketer 2014)

Year	2013	2014	2015	2016	2017	2018
Total retail sales	\$360.63	\$368.93	\$376.31	\$383.83	\$391.51	\$398.95
- % of change	2.5	2.3	2.0	2.0	2.0	1.9
Retail ecommerce sales	\$29.30	\$33.11	\$36.76	\$40.43	\$44.07	\$47.82
- % of change	12.6	13.0	11.0	10.0	9.0	8.5
- % of total retail sales	8.1	9.0	9.8	10.5	11.3	12.0

*Billions, % change and % of total retail sales. Note: converted at the exchange rate of us \$1=1094.70; excludes travel and event tickets; includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment

This e-commerce market was brought up only within 20 years (the first Korean online shop was available on June, 1996). Last 15 years, the volume of business in e-commerce market has been grown by an average of 22% each year. Especially, last 3 years, the market for

online shopping through mobile devices grew by 93.1% in each year. 45.4% of online shopping is made through mobile devices in 2016.

Size of mobile shopping market in years (Sohn and Lee 2016)

Year	2010	2013	2014	2016
Online shopping	252,030	384,979	384,979	538,883
Mobile shopping	-	65,596	148,698	244,645
% of mobile shopping	-	17%	32.80%	45.4%

*Unit in hundred million KRW

Behavior and expectations of Korean customers regarding e-commerce

The quicker, the better: the time line of delivery becomes the key to success on online sales

For the quicker shipping, some online malls started setting up their own logistics system, and this action led them to have more regular customers compared to others. The following table exhibits the examples of those cases. Coupang and Wemakeprice are the representative Korean social commerce websites. However, they expanded their territory to the open market. Coupang introduced a next day delivery service, by setting up an own logistic system and delivering the items on the following day. The strategy has been successful, so the other online malls like Wemakeprice followed their step. The delivery race gets more intense. For instance, like an online grocery mall, once a customer made a purchase before 23 o'clock, they deliver the goods overnight so the customers can have them at breakfast time by 7 (ex., marketcurly.com). This service is only available in the Seoul metropolitan area. This is the way how they provide the differentiated service to their customers and win over the market.

Examples of the online shopping malls with their own delivery system

-	Online mall	Shipping system	Order due	Delivery due	Main item
[a]	Coupang	Rocket Delivery	Midnight	Following day	General goods
[b]	wemakeprice	Wonder Delivery	Midnight	Following Day	General goods
[c]	emart homeplus lottemart	Regular delivery	All day	Within few hours	Groceries Household items

Note: Online shops in [c] are online-store-front cases; they have the offline shops, too. They are the major chain marts in South Korean market.

Quick and simple purchase is preferred: The easier the purchase, the easier to get the customers

In general, the payment of online shopping is made by credit card purchase or a bank transaction. The most popular payment method is credit card purchase, and the methods like *PayPal* are not common in the South Korean market. However, unlike the overseas online malls, the purchase process by Korean credit card is a bit complicated. Overseas, the credit card holders simply type in the details of the credit card online, in the online form when they make a purchase. This is not the usual practice in Korean online malls. The customers should install certain programs/apps on their PC or mobile devices in order to purchase with their credit cards. Since 2015, credit cards companies have brought out the simplified purchase process as a solution, where the card holders set an ID and a password for their cards, and later use this info when they purchase. However, this one also needs to install a software in advance (Choi 2015).

Recently, some online platforms have introduced their own payment system in order to simplify the payment process. *Ssg Pay, Payco, Naver Pay, Rocket Pay, KakaoPay* are examples. They are called in different names based on the platform, but the concepts are the same. Once customers register their credit card information and set the pin code for a purchase, they don't need to give out the details of the credit card but just need the pin when making a further purchase. Second method is, a customer buys credit/cyber cash which is used only in a certain platform, and they use it when they purchase the goods in the platform. The *Naver Pay* has already 16 million users, and *Kakao Pay* 10 million users in 20 months since it has been launched on the 3rd April 2017.

Ubiquitous shopping: Mobile shoppers are growing rapidly

As mentioned earlier mobile shoppers number is growing rapidly. As a further update, the latest report says that 56.3% of online shopping sales (3,431,500 million KRW out of 6,087,400 million KRW) were made through mobile devices on last December, 2016. 19 million households in Korea, out of which 99.2% have internet access. Korea has not only the highest internet penetration, but also the highest number of mobile internet users. This leads to a rapid growth in the mobile market. Most of the Korean population can be found in major cities like the capital Seoul (25.6 million in Seoul and its area, which is half of the national population). Because of the small size of the country and the dense city population, South Korea has developed a good public transport system, and the most city dwellers are

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travelling with public transportation daily. This environment fosters the use of mobile devices, and this also allows them to shop in ubiquitous. Considering the fact, we can expect that more and more online shopping will be made through mobile devices in the near future.

Price matters of course: the discounts or sales make people shop online

One of the main reasons why people shop online, even though a shop being close by could offer an item right away, are discounts and convenience. Many of local grocery stores even offer a home delivery after shopping. Convenience stores run for 24 hours a day every few hundred meters. But still there are many people who shop online because of the price bargains. In general, online shopping used to be considered for the one being more patient but going for the lower price. Even though the delivery time gets much shorter now, still you need to wait at least a day or more to get your online-purchased item. But there are more online shoppers since the prices of items are usually cheaper online than offline. Now shoppers can compare product prices just with clicks instead of searching around on foot. There are even many websites where they can compare the online prices easily. A study confirms this; according to the research that shows difference between offline and online consumers, besides the convenience, the online consumers tend to be more concerned about the price (Cho and Song 2012). If the price gets cheaper, the customers tend to endure the long delivery. Due to that they even decide to shop online in overseas market.

Customers' expectations

As mentioned in the above section, most of the Korean customers who are shopping online are mainly concerned about the economical price. The customers expect special sales on holidays: the sales go up significantly on special time when the customers can have a big discount (major national holidays or end of the year). The retail sales go up during the national holidays like Chuseok (Korean Thanksgiving in autumn) or Seollal (Lunar New Year's), and this is not an exception, online as well. Therefore, most of the shops make some big sales promotions on the holiday season. Apart from the national holidays, when it comes to intensive online-shopping, people seek the chance of getting things cheaper so they are patient enough to shop online in the overseas market. Black Friday or Boxing Day is not only for the Americans or the British. Korean customers even go shopping online in overseas market especially during such holidays even though the delivery time takes much longer than what they usually expect comparing to the Korean market. Up to now, the Korean Customs

Office is not focusing much on private imports with a low value and most goods pass without the need to pay duty, while commercial imports are strictly regulated. Besides these seasonal/time-limited sales, online malls in Korea especially the open market platforms regularly give out discounted coupons or points to their customers. Open market platforms in Korea have successfully branded themselves and give people the idea that if they do online shopping they do it in the “reasonable market”, that the price of items is usually cheaper than offline market and also, they may get the things at a huge discount with the coupons or points that they served. The customers newly signed up easily get those benefits, and also the benefit gets bigger depending on how faithful customers they are. In this way, customers are being loyal to a certain open market platform.

2 PLATFORMS/ MARKET PLACES FOR E-COMMERCE

Role and importance of platforms

There are numerous online shops, but major open market platforms attract the higher numbers of frequent visitors on their websites daily. Not only mentioning the online shoppers in general, but considering the trend and the future of online shopping, using platforms would be the better solution than launching an individual online mall. In 2016, the number of mobile shoppers overtook the number of online shopper on PC. According to an article, the online-shoppers item-search-behavior show differences based on which medium they use. For PC users, they usually search the item on the portal website before they visit an online mall, while the mobile shoppers directly access a platform they prefer through an app and search an item. Considering the following facts, growing number of mobile shoppers and that they prefer to use a mobile platform to shop, advertising and selling items on major shopping platforms would be less time-consuming with less effort for sellers in the long run. The table below shows the sales of major top 5 Korean open market platforms where we can see the sales growth in each year.

The sales of the major 5 open market platforms

Major open market platforms	2010	2011	2012	2013	2014
Auction, Gmarket, 11st, Interpark, N-Shopping	1,220	1,330	1,490	1,639	1,840

Unit: hundred million in KRW

Also, from the customers' point of view, these market platforms give them less headache when they shop online. Comparing to a private seller, many times the bigger platforms offer more benefits. Besides the price benefit, bigger market platforms offer more of convenience to the customers from payment options to possibilities of return or exchange. Some of them even have their own delivery system so they don't need to wait for a long time. If a seller and a buyer have some disagreement on a deal, the market platform would handle the situation in the middle so the direct conflict or dispute can be avoidable, and this can also be a huge benefit for both parties, in case of short tempered Korean customers.

- 11st (SK Planet) www.11st.co.kr
- Coupang (Forward Ventures Co., Ltd.) www.coupang.com
- Gmarket (eBay) www.gmarket.co.kr
- Auction(eBay) www.auction.co.kr
- Naver Sopping (Naver Corp.) www.shopping.naver.com

Recommended platform to start

It is difficult to say which open market platform is the best or most popular among the others, as there are distinct platforms available for various products in general. Based on the different standards they argue which one is the number one in the market; these standards are the number of unique visitors, brand reputation index, sales amount, or etc. Sales amount could be a good index. However, yet it is delicate part to discuss since it is difficult to see the exact amount. Social commerce platforms are categorized as mail order distributors while open market platforms are mail-order brokers that they have different business structure from one another. For the former one, the volume of the business equals to the sales amount while the latter case, the sales amount is the commission they get from sellers so the social commerce platforms show always higher sales amount compare to the open market platforms. However, we can note the fact that the number of unique visitors is usually connected to the amount of sales in e-commerce market.

The number of unique visitors and brand reputation index of major open market platforms and social commerce platforms. In both, No. 1 online shopping mall is 11st and the Gmarket comes after. With this reason, 11st should be recommendable platforms among others.

Number of unique visitors in 2016 counted by Nielsen Korean Click

No.	[1]	[2]	[3]	[4]	[5]	[6]
Provider	11st	Gmarket	Auction	Coupang	Wemakeprice	TiMon
mobile	12,736,660	12,486,227	9,637,695	8,671,626	7,878,558	7,491,675
mobile+PC	19,961,068	19,758,134	16,381,939	12,992,413	12,678,130	11,486,114

Brand reputation index by Korean Research Center on Corporation Reputation (Jan.- Feb., 2017)

No.	Website	Participation	Communication	Community	Social	Brand reputation
[1]	11st	1,673,520	1,706,166	1,303,029	2,446,472	7,129,187
[2]	Gmarket	872,129	812,691	653,436	3,515,788	5,854,044
[3]	TiMon	1,512,395	1,108,206	597,618	1,562,882	4,781,101
[4]	Coupang	2,197,374	1,211,067	952,371	323,530	4,684,342
[5]	Interpark	1,448,635	1,459,359	784,665	375,063	4,067,722
[6]	Auction	957,284	1,061,438	682,063	898,364	3,599,149
[7]	Wemakeprice	1,308,122	1,121,967	571,347	547,491	3,548,927

For more information, please don't hesitate to contact us directly.

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