



E-commerce Market in South Korea

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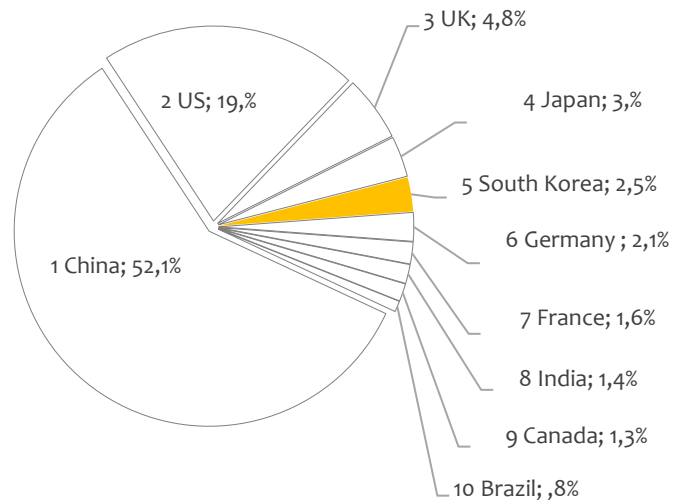
This is a general introduction to the South Korean e-commerce market. Overview of the South Korean e-commerce market is available such as Market status, consumer market characteristics, and introduction to the major online market places.

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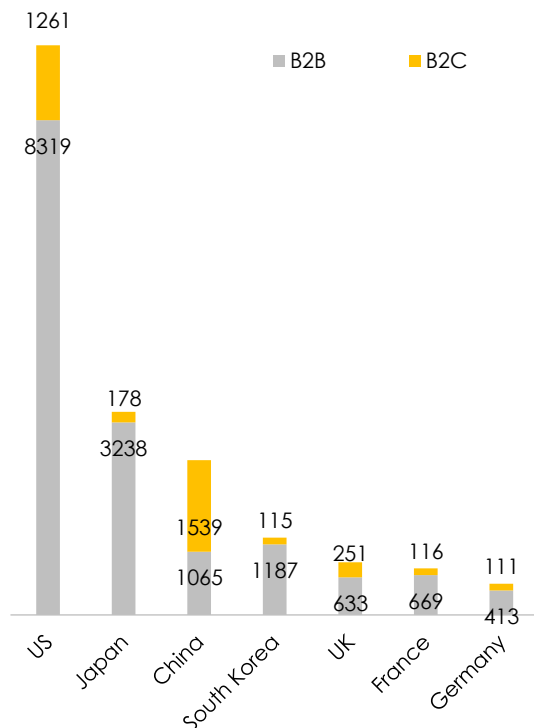
THE STATUS OF SOUTH KOREAN E-COMMERCE

The e-commerce market of South Korea is one of the biggest in the world. When both B2B and B2C e-commerce markets are counted, South Korea placed the 4th biggest global market in 2019. Like the other countries, the B2B market is dominant over the B2C market in South Korea. Interestingly, the share of total e-commerce sales in GDP is the highest among all by 79% while the other top countries with high e-commerce sales are not mostly far below 50% of their GDP share besides Japan (67%).

Global ecommerce retail market size ranking in 2021
(%of total worldwide retail ecommerce, eMarketer)



Top 10 countries in e-commerce sales in 2019
(in Billion USD, UNCTAD)



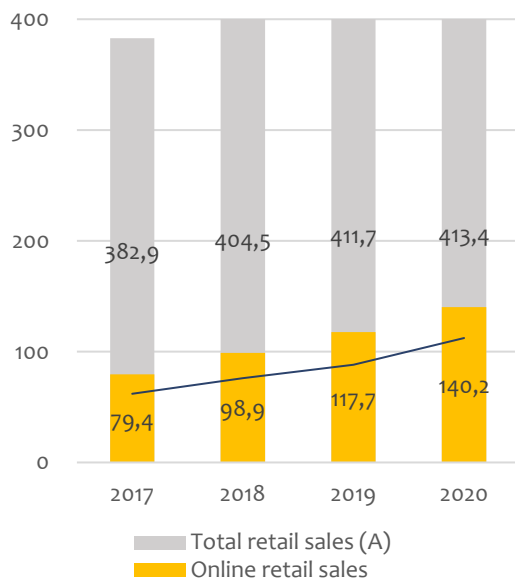
The retail e-commerce market of Republic of Korea is the 5th largest in the world and ranked the 3rd largest in the Asian-Pacific region in the year of 2020. The retail e-commerce market size was once the half of German one, which was the largest in the EU and the 5th biggest ecommerce market until before overtaken by Republic of Korea in 2020. The share of retail e-commerce sales in Republic of Korea jumps up each year steadily and readily. As in the table below, 16.2% of the retail sales was made online in 2017, but it gets nearly doubled in 5 years. As the pandemic goes on, it resulted in the growth of e-commerce retail, especially in South Korea that it reached the highest share of online retail sales in 2020.

THE SIZE OF KOREAN E-COMMERCE

This e-commerce market was brought up roughly 25 years, and since then, it has markedly growing; Only until lately in early 2010, less than 10% was the online market share in retail sales in Korea.

However, recently it jumped up on nearly 30% of the whole retail sales. In this, mobile e-commerce market has achieved remarkable growth. Since 2016, more than half of the e-commerce sales has been made through mobile devices, and it surpasses all previous records in scope.

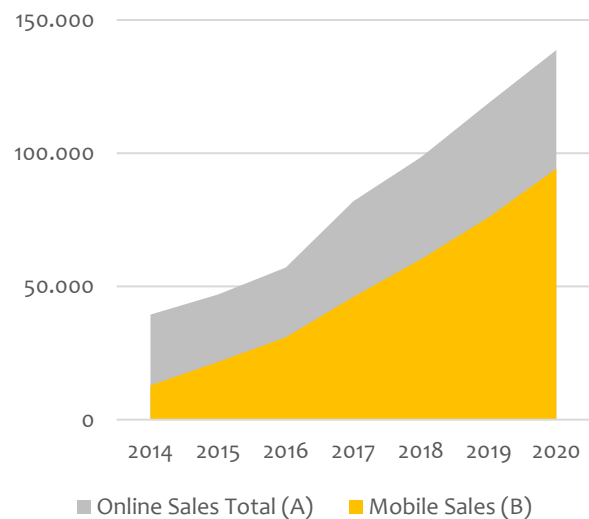
Total retail and online retail sales in South Korea
(in Billion USD)



Year	2017	2018	2019	2020	2021.5
Total retail sales (A)	382.9	404.5	411.7	413.4	38.2
Online retail sales	79.4	98.9	117.7	140.2	14.0
*Product only sales (B)	62.0	76.0	88.2	112.3	10.8
Share % (B/A)	16.2	18.8	21.4	27.2	28

*Billions, % change and % of total retail sales. Note: converted at the exchange rate of USD \$1=1146.50KRW (1 KRW=0.0087 USD); (B) excludes travel and event tickets; includes products or services ordered using the internet via any device, regardless of the method of payment or fulfillment

The share of mobile ecommerce sales in total ecommerce sales (Million USD)ⁱ

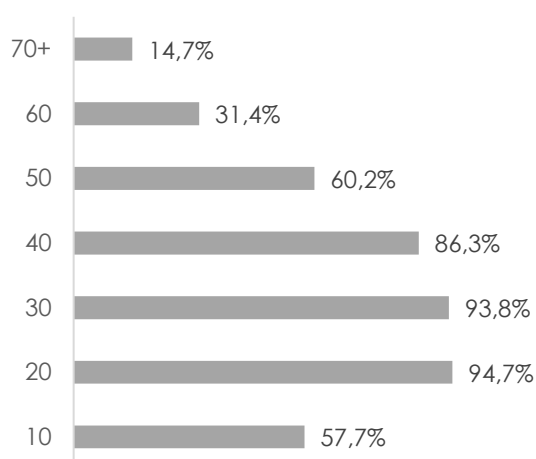


Year	Online Sales Total (A)	Mobile Sales (B)	Mobile Share (B/A)
2014	39,413	12,937	32.8%
2015	47,028	21,626	46.0%
2016	57,087	30,924	54.2%
2017	81,942	46,031	56.2%
2018	98,583	60,208	61.1%
2019	118,843	76,007	64.0%
2020	138,711	94,191	67.9%
2021.5	13,972	9,948	71.2%

WHO BUYS WHAT ON ONLINE IN KOREA

According to the Global E-commerce Market Ranking published in 2019, Korea has the second-highest number of online shoppers for its population; over 80 percent of its population is online shoppers. Generation MZ is mostly the online shoppers, and more than half in other age groups besides the ones above 60s shop online.

Online shopper ratio in population of each age group (2020, KWDI)



Food deliveries, groceries, electronics, daily necessities, travel service, clothing, and cosmetics are what Koreans purchase online the most. Before the pandemic, Koreans purchased the travel services online the most, but since the last year, they spend on online mostly on the food deliveries or the groceries instead. Except the travel services and cosmetics, the rest of the categories are still in the top 5 sales.

Top 5 online sales categories (KOSTAT 2018-2020)

	2020	Food deliveries (9.5%)
1	2019	Travel service (12%)
	2018	Travel service (15.1%)
2	2020	Groceries (12.6%)
	2019	Clothing (11.6%)
3	2018	Groceries (12.9%)
	2020	Electronics (12.2%)
4	2019	Electronics (9.7%)
	2018	Clothing (10.9%)
5	2020	Clothing (9.8%)
	2019	Groceries (9.5%)
	2018	Electronics (10.7%)
	2020	Daily necessities (8.7%)
	2019	Cosmetics (9.4%)
	2018	Daily necessities (8.7%)

This tendency of preferred items keeps going on since the pandemic with the increased sales. According to the latest report from KOSTAT in May 2021, the food delivery service is still the most sold among all; the sales amount of 18.6 billion USD increased 62.2% than the same period of last year. Groceries come as follows as the previous year with the 38.1% increased sales. Sales of electronics have increased roughly 20% than last May as well.

Besides the purchase from the local marketplaces, Koreans shop overseas that annually over 3 billion USD is spent mainly for clothing, food and beverages, and electronics. US, EU, and China have the biggest share so the businesses handling cross-border shopping such as forwarding service providers.

CONSUMER BEHAVIOR AND CUSTOMER EXPECTATIONS

Korean consumers' tendency can be defined as efficiency with morals. Time, convenience, and economic efficiency, but only when it comes with ethics.

Time is money. Consumers prefer the simple process of shopping and fast delivery. In line with this, the online payment system has developed rapidly, and the local logistics are known for its speedy delivery. Furthermore, some online malls set up their payment and logistic systems to be the key to their success.

An excellent example of the latter ones could be Coupang or Emart. Once Coupang was a social commerce website, and Emart was a supermarket chain. They started building up their logistics and launched the next-day delivery service, which evolved into a half-day delivery service and free-of-return for its members. Coupang has expanded its market share by its fast delivery system among many other open market platforms. Emart is one of the significant offline supermarket chains, where it is also focused on online grocery-oriented supermarkets. In general, online versions of other major supermarket chains such as Homeplus, Lotte Mart, or GS supermarket provide fast delivery within few hours after the online purchase during the daytime. On top of this, Emart provides own early-morning delivery service that

customer gets the items in the early morning for the orders made before the midnight of the previous day. These fast delivery systems are mostly only available in Seoul Metropolitan Area, but this covers roughly 50% of the population in the Republic of Korea.

Quick and simple purchase is preferred:

The easier the purchase, the easier to get

customers. The payment of online shopping is used to be made by credit card purchase or a bank transaction. The most popular payment method was credit card purchase. On overseas online malls, it requires usually the digits of credit cards and the name of holders to make a purchase, but Korean systems for credit card purchase used to require more steps. To use the credit card online, customers should install certain applications or go through a holder verification process. Without installing an app, online platforms have introduced their own simplified in-app purchase system like SSG Pay (Emart), Naver Pay (Naver), or Rocket Pay (Coupang), which works by wiring up a credit card or a bank account once. According to the Bank of Korea, in 2020, the average daily use of the simple payment service last year was 14.55 million, and the amount used was 449.2 billion won.

Ubiquitous shopping: Mobile shoppers are growing rapidly. The number of mobile

shoppers proliferates. Considering that Korea has the highest mobile internet speed and mobile user numbers, this might be a matter of course. Most of the Korean population is in major cities like the Seoul Metropolitan Area (26 million dwell in Seoul and its area, half of the national population). Because of the small size of the country and the dense city population, South Korea has developed an excellent public transport system. Most city residents commute with public transportation daily. This environment fosters the use of mobile devices, and this also allows them to shop in ubiquitous.

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 few clicks instead of searching around on foot. There are even

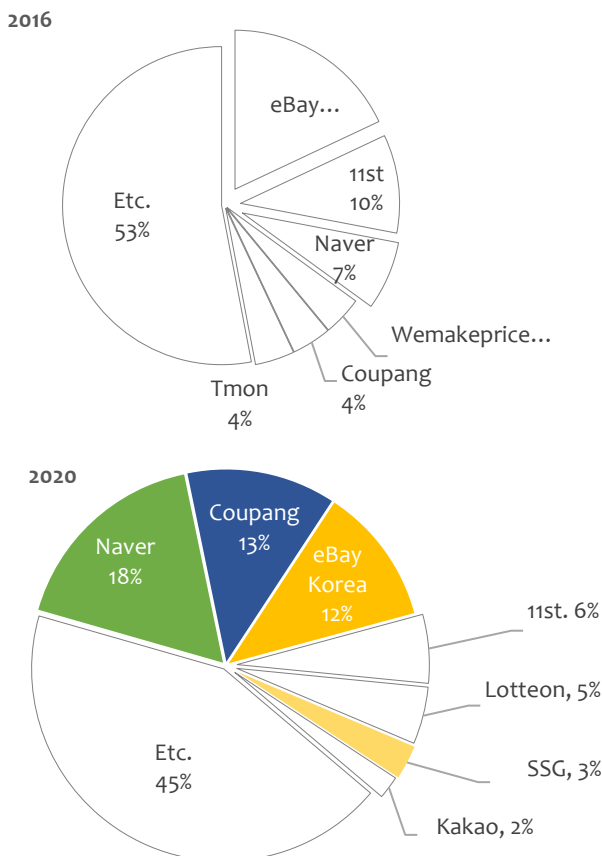
many websites where they can compare the online prices easily. A study confirms this; according to the research that shows difference between offline and online consumers, besides the convenience, the online consumers tend to be more concerned about the price. If the price gets cheaper, the customers tend to endure even a delivery time. In line with this, cross-border online shopping thrives.

The belief and value come first: people buy what they support. Consumers' value affects shopping. Not only price or quality, but consumers also tend to care about the ethics or culture of a company that gives out products or services. According to a survey conducted by Korea Research last year, 62% of 1,000 respondents said, "Even if one does not violate the law or cause social harm directly, consumers shall consider the social impact when it comes to consumption". Notably, the MZ generation is the center of this behavior, that more than half of the online shoppers in this generation put their values when it comes to shopping. One good example of this attitude is the latest boycott against Coupang after a firefighter killed in a fire of its warehouse resulted from safety negligence. Coupang lost 470 thousand members in 3 days after the fire, and nearly 25% of members in their 20s left. Interestingly, besides the traditional boycott, the so-called "buy-cott" is the form of value shopping that consumers support the companies with goodwill by buying more of their products.

KOREAN ONLINE MARKETPLACES

There are numerous online shops, but major open market platforms attract the higher numbers of frequent visitors on their websites daily.

Major open market platforms



Based on the volume of the business in 2020, the big 3 open market platforms are Naver-Shopping (Naver), Coupang (Coupang), and Gmarket/Auction/G9 (eBay Korea). The top3 together has about 42% of market share; The total e-commerce transaction of Naver-Shopping was 26.8 trillion KRW (18.6% of e-commerce market share), 21 trillion KRW (13.7%) for Coupang, and 20.2 trillion KRW (12.4%) for eBay Korea. Besides these top players, the open market platforms such as 11st, Lotteon, SSG.com, Kakao are considered as major in 2020.

However, e-commerce market changes constantly. Considering Gmarket was once the local before eBay took over and what is called currently as the major platforms differ from 5 years ago, the top players may change soon again. This can be seen already in mid-2021 that SSG.COM which has 3.9 trillion KRW of transaction in the last year acquired eBay Korea, it automatically jumped up as No.2 and compete with Naver and Coupang.

ShinSeGye Group is South Korea's retail giant, one of the top 3 department stores and most supermarkets (139 offline stores in 2021). As its original identity is primarily the offline mall base, its online mall is closely connected to its offline shops. Online Emart, the supermarket chain, is mainly focused on groceries shopping. As the department line, it lately launched the online malls for gourmet food. Also, online Emart offers direct deliveries from their offline shops to its customers. SSG has developed its own payment system, which has roughly 10 million members.

Naver is the most popular search engine in Korea with over 60% of the search engine market share. Naver Shopping is already one of the main pillars of Naver. Naver-Shopping is the No. 1 marketplace in Korea. In 2016, it had a market share of only 7%, but in 2020 it rose to 17%. This high growth rate surpasses the growth of the entire e-commerce market. Two advantages drove the development of Naver-Shopping: 'high search engine market share' and 'smart store ecosystem'. As non-face-to-face consumption expands, live commerce has become the mainstream,

and they are also focusing on 'shopping live'. The weak point was logistics competitiveness, which was also solved by the alliance through a partnership with CJ Logistics. Another thing that creates synergy with shopping is 'Pay'. Fintech, led by Naver Pay, was the sector with the highest growth rate in Naver last year. The number of subscribers has reached 30 million, and the number of users is increasing. By expanding the target of Naver Pay to offline, Samsung Pay and Kakao Pay also entered the battle. Most retailers have allowed Naver Pay to be used to attract already secured Naver Pay members to customers.

Coupang has been known for its aggressive expansion for a short time with its most prominent identity of its own logistics system. For local products, daily deliveries are available, and it takes only a few days for cross-border shopping on selected items. By signing up for a paid membership, customers can have free deliveries and return. Over 30% of its active members (4.7mio in 2020) are under the paid membership. Incorporate with the membership, Coupang has its own payment system too.

Gmarket/Auction is the open market platform of eBay Korea until lately. They are one of the oldest marketplaces in Korea, launched in the late '90s. As its long history, they have been in the top rank marketplaces for years. Like Coupang or Naver-shopping, they have a paid membership plan and their own payment system.

11st is the open market platform by SKT, the major telecom company with the highest market share of 45%. Thus, 11st drags the SKT

telecom users by giving more benefits like regular discounts. Although it is the 4th top e-commerce player in Korea, the gap between the 3rd is significant while the 5th is not far behind. There has been a piece of news that Amazon is interested in taking over, but so far, nothing has been confirmed, and SKT denies it. However, what is planned is that from the trimester of 2021, Amazon Global Store will be open on 11st that the global products on Amazon can be shopped through 11st.

LotteOn is the platform that consists of Lotte department store, Lotte mart, Lohb's (drug store), HiMart (electronics), Lotte supermarkets, and Lotte home shopping. Lotte is a multinational conglomerate company, but its root is mainly in Korea and Japan. Along with the history and ongoing political issues, there has been a 'boycotting Japan' movement in recent years, and Lotte has been its target. As mentioned in the previous section, Korean customers, especially the young generation who are most online shoppers, consider the value and belief in choosing the products and their suppliers.

Kakao Shopping has only about 2% of the market share at the moment. However, it has considerable potential since it is with KaKao, a local internet company with the highest mobile message app market share of 96%. As its nature as a mobile messenger, it's simple, easy, and quick. Customers not only shop for themselves, but they can send gifts to others simply with a few clicks on the messenger app. Kakao also has a banking system that allows their payment system to purchase on shopping and even wiring money to others.

FUTURE OF ECOMMERCE IN KOREA

Although the major marketplaces covering the Korean e-commerce heavily, they are rather local that none of them are yet listed in the global top 20. However, the pandemic escalated the growth of the Korean e-commerce market.

Corona and Post-Corona: More and more online shoppers for more and more items

Since the first Corona case was confirmed last January, online sales have increased compared to the same month of the previous year, rose to 34.3%, while offline sales fell by up to -17.6%. In particular, 4050 generation who used to prefer to purchase offline became new online consumers drove the rapid growth of online sales. In response to the demand, the online market is rapidly evolving.

Foods used to be preferred to purchase offline due to the concern on freshness. However, since the pandemic, the lifestyle of contactless-as possible is fashion, so grocery shopping cannot be a non-exception. Besides, the deliveries get faster and faster; therefore, there is no reason why the online food market is not growing. Likewise, the ones that were not used to be considered for online shopping rather than offline base items can also be hot in online shopping in the future.

Live commerce will be the mainstream.

In line with the growing mobile shoppers, the mobile base live-commerce market is growing. The live commerce market accounts for about 2% of the total online shopping market, which is still insignificant. However, it has the highest purchase conversion rate of 20% compared to the other e-commerce market forms: 0.37% for traditional e-commerce purchases, 6-10% for social e-commerce. According to the live commerce market forecast data, the live commerce market size was 3 trillion won in 2020 and 4 trillion won in 2021. However, it is expected to be about 10 trillion won- market in 2023, so live commerce is predicted to be the center of e-commerce shortly.

Social value management will be the must-

"Meaning out" is the compound of "coming out" and "meaning". In terms of shopping, the consumers would consider the social values of the products/services or their providers, such as the environment, ethics, social responsibility. Considering the core group of "this meaning out" is MZ generation who will become the backbone of the society and the economic core presently, it can be hard to survive without value management as a product/service provider. Having an own philosophy that can appeal to society can help the business for sure.

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