

## **Improving Finnish Agricultural exports to South Korea**



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## TIIVISTELMÄ

Tämän opinnäytetyö tarkoitus oli analysoida suomalaisten ruuantuottajien mahdollisuuksia päästä Etelä-Korean ruokamarkkinoille. Työ sisältää analyyseja paikallisesta kauppakulttuurista, kaupantekosta sekä mahdollisia suomalaisia elintarviketuotteita joita voidaan hyödyntää Etelä-Korean markkinoilla. Sen lisäksi opinnäytetyö pyrkii selvittämään suomalaisten ruuntoimittajien vahvuudet sekä heikkoudet koko Korean markkinoilla.

Viime vuosikymmenien aikana Etelä-Korea talous kehitys on ollut sunnatonta kaikin mittarein mitattuna. Tämän kehityksen ansiosta kansainväliset markkinat ovat aiempaa enemmän kiinnostuneita Korean markkinoista sekä sen tuomista tilaisuuksista. Tällä hetkellä Etelä-Korea on maailman 11:nneksi isoin markkina ja kolmanneksi suurin Aasiassa. Tämä suunnaton elintason nousu näkyy myös kansalaisten ruuan kulutuksessa johon Korean valtio ei pysty vastaamaan maantieteellisistä syistä. Siksi ruuantuottajat ympäri maailmaa ovat alkaneet kiinnostua Etelä-Korean markkinoista.

Selvitystyön tulokset näyttävät, että suomalaiset elintarvikeyritykset voivat tarjota laajan kirjon erilaisia elintarviketuotteita Korean markkinoille ja että niille olisi kysyntää. Tämä johtuu hyvästä maakuvasta sekä elintarvikkeiden laadusta ja tämänhetkisestä kuluttajakysynnästä. Kuitenkin opinnäyte työn perusteella voidaan huomata, että suomalaisten yritysten tulee parantaa markkinointityötään sekä panostaa paikallisen kulttuurin ymmärtämiseen. Tämä tarkoittaa resurssien lisäämistä omien paikallisten toimijoiden toimintaan sekä markkinoinnin lisäämistä halutuille kuluttajaryhmille.

**Avainsanat** Elintarvikevienti, Markkinaympäristö, Kuluttajakäyttäytyminen

**Sivut** 34 sivua, joista liitteitä 5 sivua

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ABSTRACT

In the recent decade South Korea has been developing rapidly both in population, infrastructure and in GDP. In this nations early age it wasn't the most known market for international enterprises due to its market potential and was easily overlooked by companies. In recent development however it has lured several of foreign companies into its growing markets. Today South Korea is the world's 11<sup>th</sup> biggest economy and the third largest in Asia. Due to its rapid rise in population and standard of living with limited food production capabilities, many international companies find South Korean agriculture markets appealing. The main objective of this thesis are to analyze the South Korean business environment for Finnish food enterprises and find suitable opportunities in the market

This study seeks to find favorable solutions for Finnish agricultural companies and new product opportunities for them from the South Korean markets. The study also aims to review what the key strengths of Finnish products as well as weaknesses are but also offers possible growth segments for companies.

Qualitative research method was conducted by an interviewing an expert in the field as well as using other data available that are suitable for this thesis. To evaluate the current state of Finnish companies a SWOT- analysis was used.

The results reveal that Finnish companies do offer competitive products for the market and a have favorable image enabling them to seek growth in the target markets. Finnish food suppliers do suffer from a lack of proper and effective marketing as well as have some issues in understanding the local culture. The results from the research advise that consumers have a positive image of Finland and the advantages that companies have do favor current market trends. Therefore increasing marketing efforts is advisable as well as increasing communication with the local partners.

**Keywords** Finnish brand, Food from Finland, Consumer behaviour, Market environment

**Pages** 34 pages including appendices 5 pages

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## 1 INTRODUCTION

In today's world, Asian markets are developing rapidly, such economies are one of the most populated countries in the world. These countries are providing companies with almost limitless possibilities for expansion and growth. These new tigers are China, South Korea and India with the old Asian economic giants such as Singapore, Japan. What is common in today's markets to the past is that it is no longer seen as a risk to enter these markets but exactly opposite. It is normal for today's international enterprises to seek potential markets in Asian markets and to penetrate in to them.

The eleventh largest economy and the fourth biggest in Asia is currently South Korea ( World Bank, date of retrieval 27.8.2016) South Korea is not only a perfect business opportunity for Finnish companies but also tempting gateway to other Asian markets. (Interview with Jani Toivanen, 26.8.2016)

According to Statistics of Finpro 40-50 Finnish companies subsidiaries in Korea and over 200 are represented by local agents in 2012, total turnover was 493,3 million euros. From these statistics 19 Finnish Food & livestock enterprises are operating in South Korea. Total value sales of off line grocery retailers was 70 billion won in 2015. Nearly 197,000 retail outlets in the country.

While the amount of Finnish companies in Korea has surely increased in the past few years, the amount can still be considered rather small in relation to the size of the market.

Finland has a very positive image in the Korean society as a Nordic welfare country, yet it is still considered quite an unknown country in comparison to many other European countries. Especially when it comes to Finnish companies and products, it can be said that the general populace do not know which companies are Finnish. Despite the unknown image of Finland, several Finnish companies are considered successful in the Korean market.

South Korea has considerably many large conglomerates operating worldwide, such as the likes of Samsung, LG or Hyundai which also applies to Food companies. Companies like Samsung and Hyundai are conducting construction projects in various countries around the globe, making Korea an even more important partner since it can act as the gateway for Finnish companies to enter those third markets beyond the Korean market itself. Entering those third markets straight is difficult, which is why the easier way is to have reference projects in Korea and then enter together with those Korean companies (Jani Toivanen, Finpro South Korea 15.9.2016 interview.)

## 1.1 Objectives and limitations

Purposes of this thesis is to analyze and explain different business related environments such as consumer behavior and overall business environment. The Finnish agricultural section has taken some backfires due to new political tensions with EU and Russia and at the same time new markets are being opened in Asia, particularly in South Korea. This thesis provides possible opportunities for companies interested in South Korean growing markets and aims to aid in penetrating into this market area by creating awareness of it.

Importance of South Korean markets have been recognized by Finnish government and therefore proper investments to Finpro Korea has already been made by increasing staff size and improving location of the office. In order for the reader to obtain a better knowledge of the topic Finpro aims to improve and develop Finnish imports and therefore not any particular company was chosen as a case study, rather thesis aims to explain business environment in South Korea and what competitive advantages Finland based companies do have in a global scale and specially when intending to enter Korean markets. Taking account that Finpro operates across the globe and aims to improve Finnish exports is unique opportunity to compare operations to other significant Asian markets such as Japan and China. The research issue while analyzing Finpro export partners in Korea are to find and learn different types of business strategies that Finnish companies could be able to use when entering Korean markets, their current position, strengths and weaknesses as well as possible product opportunities or prospects as well as the effectiveness of their marketing.

In order for the reader to obtain a better knowledge of the topic and details hiding in the background, thesis provide a better understanding of the overall picture of South Korea business environment, markets and current trends. This is done by explaining different factors that affect business operations in Korea. These are governmental, economic and cultural factors that form overall entry strategy to markets. Besides that South Korea as a nation is explained briefly.

Understanding of the consumer is a basic factor when operating in a markets, therefore analysis of Korean consumer behavior is necessary part of this thesis. Also thesis provides basic information regarding Korean business environment and habits due to colossal scale of it and would make of thesis of its own, therefore it is narrowed down to basics in marketing and sales point of view.

There are limitations in the research process. First is lack of solid data regarding individual companies that are operating in Korea and their marketing and sales strategies and country prospects. This is due to unwillingness to provide accurate information to Finpro. Another matter is lack of interviews done to experts of this field which meant to find external sources and interview that have been conducted by others.

## 1.2 Research process and methodology

This thesis used qualitative methods in order to gain precise and expert driven information from the current markets. This was conducted by scheduling interview. Interviewed was asked questions regarding South Korean markets, business environment, Free Trade Agreement, future prospective of South Korean markets for Finnish companies. This data was used as the main qualitative and aided to gain in-depth information of the market situation where expert knowledge was needed. Interviews were conducted by face-to-face meetings in person. Finpro also gave data for this thesis and data was more concerned towards Finnish imports to Korea as well as future prospects of the markets and current situation. Additionally thesis used various statistical databases and governmental reports. This include business consulting enterprises that have articles regarding South Korean markets as well as reliable news articles. Combining these elements gave information from various different perspectives and points from different demographic groups. This allowed huge diversity in data and by doing so thesis is not bias due to not being targeted to one group only.

## 2 BACKGROUND

This chapter provides basic information of South Korea and its economy and relations between Finland and South Korea. At the end of the chapter will be information regarding Finnish companies operating in the Korea market.

South Korea is officially called The Republic of Korea and is democratic east-Asian nation that has 50 million citizens. South Korea shares borders with three different countries, to the west across the Yellow Sea is China, towards the east at the other side of East Sea lies Japan and to the North it has land border with North Korea. Currency in South Korea is Korean won and official language Korean and country is well known for its impressive economic growth over the past four decades. During these decades South Korea has turned itself high-tech power of the World from a poor country.

Currently South Korea is 11th biggest market power in the world and for comparison it was in place 14th in 2014. Korea is most famous for steel, chemical, shipbuilding, electronics and telecommunication as well as automobile industries. Korea is limited by its country size but is doing mark able well growing steadily each year. This is due to their advanced and well-developed economy. The biggest challenges country is facing are long term challenges such as rapidly aging population, export reliance economy, inflexible labor markets. This has led to a situation where government is pushed to make rapid changes in structural reforms, promoting innovative industries and entrepreneurship as well as competitiveness of small and middle sized enterprises.

Sources: (World Bank 2016, date of retrieval 19.10.2016, Central Intelligence Agency 2016, date of retrieval 19.10.2016)

## 2.1 Diplomatic relations

Diplomatic relations were established between the Republic of Finland and the Republic of Korea in August 1973, four months after Finland recognized the Republic of Korea in April 1973. (Embassy of Finland Seoul 2015, date of retrieval 15.9.2016).

When it comes to terms of import and exports, South Korea is the 3rd most important trade partner for Finland in Asia, ahead are Japan and China. Korea is also considered as more essential trading partner than other large countries in Asia such as India due to export abilities. Unlike other markets or at least India, Finland is able to export high technology services along with products to Korea which is more cost affordable and this applies to other developing countries as well. Alongside with other Nordic nations, Finland enjoys positive country image among Korean society. Finland is seen as welfare country that has efficient government and beautiful nature.

In reference to 2014 customs duty statistics the exports from Finland to Korea were in total of 859 million euros and imports from South Korea to Finland numbered to 481 million euros. Globally South Korea is currently the 17th largest country in exports and 23rd in imports for Finland. Main imports from Korea to Finland were cars, machinery, pharmacy products, plastic products and electronics. Vice versa Finland exports to Korea were metal, chemical ingredients and products, machinery not to forget wood and paper products.

One of the notable aspects recently has been change in diplomatic operations which will take effect in 2016. In Asia, South Korea has added as target country by the Government of Finland (after China and Japan) meaning more funding and promotion towards public diplomacy operations such as creating an even better country image in Korea as well as support cultural events.

In 2011 A Free Trade Agreement was signed between the European Union and Republic of Korea, FTA agreement can be stated being one of the comprehensive of its kind, aiming to eliminate 98 % of all customs by 2016. With the signing of the Free Trade Agreement there has been approximately 30 percent increase in trade between Finland and Korea. (Source: Ministry of Foreign Affairs 2015, date of retrieval 15.09.2016; Jani Toivanen, interview)

## 2.2 Finnish Business operations in South Korea

Statistics Finland reveal that in 2012 there are currently 4883 subsidiaries in 119 countries that are part of a Finnish company. Asia and Oceania received approximately one fifth of all the investments made by subsidiaries and the largest fields of these investments were communication and information technology, second place came to electronics and electricity industry. When calculating turnover, it was estimated that roughly 16% of



was made from Asia and Oceania, electronics field being the largest turnover.

In South Korea there were operating 27 Finnish subsidiaries, making Korea 8th largest of Asia and Oceania, in comparison Japan had 29 subsidiaries making it barely larger. South Korea turnovers were around 493 million euros placing it as 9th place in Asia and Oceania which is relatively small amount compared to other markets such as Japan, China India or even Singapore. (Source: Statistics Finland, date of retrieval 18.9.2016)

Major Finnish companies that do operate in South Korea are Cargotec, Rovio, Finnair, Wärtsilä, Kemira, Reddal, GS-Hydro, Marimekko, Marja Kurki and Lumene. As we can see Finnish business variation is large in scale. (Finnish Chamber of Commerce and Industry in Korea 2016, date of retrieval 18.9.2016)

Besides Finnish private enterprises in South Korea, Finnish public organizations operate widely in Korea. The most notable and important one can be Team Finland that offers networking and promotes Finland's interests in Korea. Team Finland's goal is to aid Finnish companies in internationalisation, assist in investing in Finland and promote positive country image. Part of Team Finland is Finpro, Tekes and other major national institutions of culture and science as well as ministries and diplomatic missions.

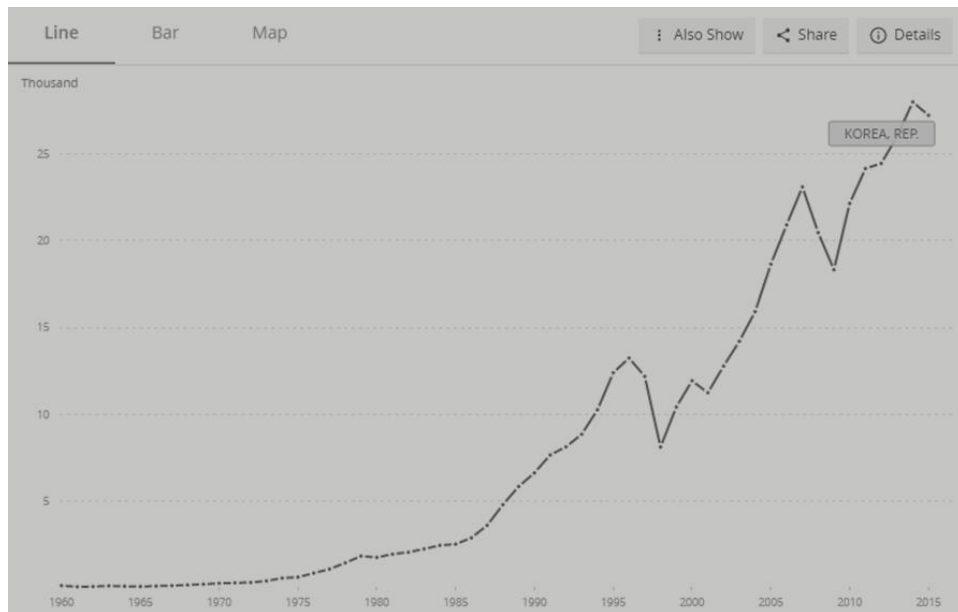
Embassy in Finland in Seoul together with local Finpro, Finnish Chamber of Commerce and Industrial in Korea along with VTT Technical Research Centre of Finland are part of Team Finland (Embassy of Finland in Seoul 2016 date of retrieval 15.09.2016; Jani Toivanen interview)

Current trading fields that are attracting interest in Korea are clean tech, education and health care along with design from Nordic. Finnish entrepreneurship and educations are held in high regard which has created increasing operations between Aalto University and local Korean partners leading to opening of Design Factory Korea in 2015. Besides that, Finland and Korea have a long relationship in trading of maritime industry. For example Cargotec can be considered as a successful company in Korean markets providing machinery products to Korean ports and ships they build. (Jani Toivanen interview)

In the recent year Nordic fashion has increased its popularity among consumers. The Nordic Wave as it is being called has aided several Finnish companies in the local markets making their presence more noticeable. For example some of the companies are Marimekko, Iitala and Moomin Ltd. Mobile-gaming industries along with ICT are massive in Korean markets and Finnish Companies find countless opportunities there. Finnish companies that operate currently in Korean markets are Rovio and Supercell with their mobile games. Besides that Korea is behold as trendsetter in Asia, if a game becomes popular here it has potential to do it in other Asian countries as well. (Jani Toivanen, interview)

### 3 BUSINESS ENVIRONMENT AND CULTURE

This chapter focuses to analyze business environment and which factors affect operation in the Korea. Chapter will also explain the economic background of the Korean markets. This chapter is also insight to business culture in the Korea from perspective of cultural viewpoint. For this reason chapter will compare Korea to its neighboring country which Japan by cultural dimension view. In the last part of this chapter will focus some business practices in Korea.



(Figure 3.1 South Korean GDP development per citizen, source World Bank, date of retrieval 10.9.2016)

Currently Korea is a growing economy which has over 50 million consumers and a GDP over 27,000 USD. Korea is one in top 12th largest economies in the world and holds 4th position in Asia, which makes it attractive market besides Japan, India and China.

(World Bank, date of retrieval 10.9.2016)

One major advantage for European enterprises aiming to pick into South Korean markets is the Free Trade Agreement (FTA). This contract came into effect between EU and South Korea in July 2011 and grants easier accessibility for companies who are attracted to go Korean markets and boost their competitiveness while operating there. (Ministry of Foreign Affairs 2016, date of retrieval 10.9.2016)

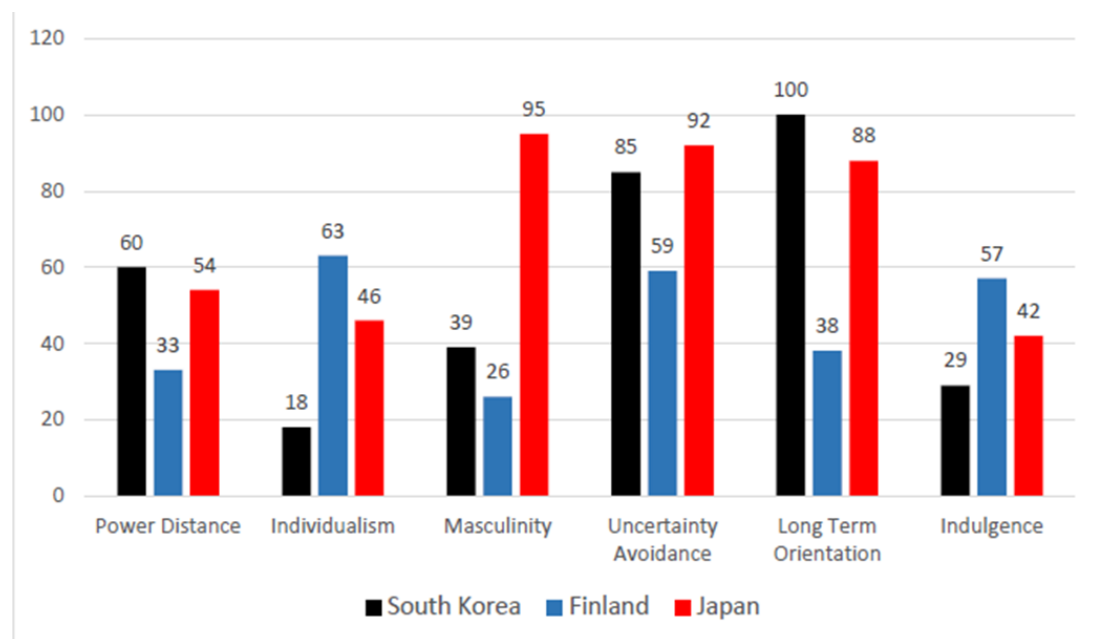
As mentioned before in this chapter about appealing sides of Korean markets it also imposes challenges for businesses, especially foreign businesses. Authorities in Korea possess different business practices from their European business counterparts. These differences are multiple and usually Europeans aren't use to them, such differences are business culture, etiquette, language barriers as well as Korean complex taxation system. All these factors promote the importance of local agents if business is interested to do business with local enterprises.

(Embassy of Finland in Seoul 2016, date of retrieval 20.9.2016 and interview with Jani Toivanen)

Each year World Bank Group publishes ranking related to Ease of Doing Business. In the year of 2016 Korea was places as 4th out of total 189 countries. Ease of Doing Business inspects 10 different topics which have several indicators. These results showed Korea as favorable for companies to operate there and scored high in categories such as Enforcing contracts ( number 2nd ), resolving insolvency ( number 4th ), trading across borders (number 31st ) and Starting a Business ( number 23th ). (World Bank Group 2016, date of retrieval 11.9.2016.)

### 3.1 Cultural dimensions and differences of Finland, Korea & Japan

The Hofstede cultural dimensions theory it a useful tool get generalized perspective from the following compared three countries and their cultural differences. It has to be noted that values given need to be looked with critical point of view due to giving subjective view of presented cultures.



(Figure3.2 The Hofstede Centre Cultural Dimensions - comparing Finland with Korea & Japan.

As seen in the figure 3.1 Japan and Korea score high in terms of power distance. This is due of hierarchical culture similar between these two countries and that individuals accept unequal distribution of power and wealth notable more than the Finnish citizens. This power distant and hierarchal society is due to remnant of the Confucian beliefs that had major impact on a society for a hundreds of years. This old remnant still highly effects Korean Business culture. (Hoare 2010)

This leads to a point where autocratic supervisors require their employees to believe and obey them without a second thought. This phenomenon is very common for Korean companies. This situation is however changing both in Japan and Korea due to the influence of western companies and globalization.

Oppositely, Finns are highly individualistic compared to Korean collective society in which family is prioritized as high value. Koreans are also highly interdependent on each other and long-term oriented, besides that they avoid taking risks, think outside of box methods. This can be seen in figure above uncertainty avoidance, where Finnish businesses are more risk taking and innovative Koreans avoid uncertainty all most by all means. Generally this may frustrate Finnish Businessmen who conduct with Korean business life.

In the indulgency dimension Koreans score low compared to Japan and Finland, which can contribute to cynicism and pessimism. In majority of dimensions Korean society share similar cultural dimensions with Japan compared to Finland. This can be taken either as an opportunity, like yin and yang complements each other or a challenge while dealing business. Since they have different mindsets of how to deal business this can cause misunderstanding due to differences in way of communicating, working and how issues are resolved as well as goals reached.

Similarities for Finnish and Koreans compared to Japan is that they're both are more Feminine societies which value, well-being, quality of life and equality where as more masculine society Japanese society striving for success. This is according to the Hofstede Center and many Koreans would likely to disagree with this but here the truth lies. It is undoubtedly that Koreans value equality and well-being but due to their society that is highly competitive and continuously promotes them to succeed by the cost of their own well-being and equality. These attributes are generally valued but do not reflect the reality of the society. (The Hofstede Centre 2016, date of retrieval 12.9.2016)

### **3.2 Business practices in South Korea**

Korean business practices differentiate from western practices but are similar to Chinese and Japanese. Important aspects for Koreans are group identity, social networks and relationships. This is due to meetings are held by a common acquaintance. (Hoare 2010, 39)

One notable characteristic is importance and identity of the group, personal relations within that group and social networks and connections are highly valued since meeting.

While doing business in Korea it is important to understand hierarchical order can be witnessed in their use of language, since Korean language has several differences among to whom you speak. These leads to Koreans being

naturally careful of how they address person whom to they speak, as it highly affects the opinion of the other party. (Hoare 2010 42)

Therefore it is highly advisable to speak in a formal manner when communicating in English and using titles when addressing the other party is important. In case the other party has an elder person or person with higher rank in the company, they should be respected by addressing them even with more formal and respective manner. (Hoare 2010 133)

Body manners are also highly valued and play a huge part when conducting business, they also make a remarkable impact on one's personal image. The most common manner in Korea is bowing which is used for welcoming a person, greeting him or thanking as well as saying goodbye to another. When receiving or giving a gift it is done by using both hands and the same applies to a handshake.

Business meetings are formal in Korea and favorable clothing for a meeting is a must, this applies to most of the companies. Personal business cards for a company representative are needed. Cards are exchanged in the beginning of the meeting so that the opposite party knows how to address each other correctly, based on their rank and position in their respective company. Having a business card in both English and Korean languages is a must and cards play an essential role when introducing to another person.

Korean company employees consume alcohol together and it is one notable aspect. Regularly co-workers do go outside to celebrate successful deals and building team spirit. It can be seen as a small rite. This also applies to business meetings and going out with business partners is a regular aspect of business life. By doing this both parties aim to make more personal contact with one another. However if another party rejects the offer for drinking it can be taken as an improper manner and gives a not favorable impression to the other party.

Common practice while conducting business is to present the other party with a business gift. These are regularly exchanged while meeting and gifts should be invested in, usually the company's own products should be involved in a souvenir and leave a good memory out of the meeting.

Conversation and small-talk play key roles in Korea and due to this it is highly emphasized to favor conversation topics that consider their fast economic growth, sports or richness of Korean cultural heritage. Avoidable topics are historical and political matters due to Korean past history. Also comparing Korea to Japan is not advisable or asking their religion or sensitive family matters. (Interview with Jani Toivanen)

#### **4 SOUTH KOREANS CONSUMER BEHAVIOR**

This chapter's aim is to analyze consumer behavior in Korean markets by giving examples of preferred products and services that consumers desire.

Examples are generalized but aim to see what qualities and type of attributes consumers value and dislike. Chapters also aims to explain consumers' way of thinking and reasoning when choosing product. Consumer behavior attributes that chapter takes account are brand image, product and service quality as well other related types.

Korean consumers are generally considered to be very conscious. They are very sensitive of their appearance in front of the others and for this reason luxury brands sell well in Korea. Wearing and using expensive products such as Dolce & Gabbana, Versace, Apple, Omega and so forth is a status symbol and is regarded as the social status. Therefore the origin of the brand is important for the consumer and western products are seen as high-end products compered to Asian brands with exception of domestic products and services which are valued high.

As mentioned Koreans are high brand conscious and price sensitive consumers, therefore consumer needs to be convinced of the value and distinctiveness of their product and often prior purchase do research trough more and more popular blogs. Excluding cheap everyday products the current trend among Korean consumers is them becoming more price sensitive when it comes luxury goods and look for a cheaper alternatives, luxury items still holds social value but consumer markets are slowly aiming towards less costly options while keeping same quality.

Korean consumer weight purchase decision a lot and it is not considered as simply just a simply transaction. Consumer consider purchase as a package that includes multiple services such as repairing, consumer support and memberships. Due to this evaluation process takes high importance when comparing all aspects and extras product or service offers to buyer. (McKinsey&Company 2011, date of retrieval 17.09.2016.)

In a previous chapter, it was mentioned how Koreans avoid uncertainty (Hofstede cultural values) and are long term oriented culture. This leads consumer to be in Korean markets less adventurous toward new products in the market. Generally younger generations are more open-minded toward new products in the market compared to older generations who are more brand loyal. This can change how ever when product becomes a mainstream making it popular in all generations. One good example is Apple entering South Korean, which used to be Samsung dominated market. (The Hofstede Centre 2015)

South Korea has one of the highly developed IT infrastructure in the world which attributes to them being in top countries in internet and smartphone usage wise. Consumer's value to use technology as a way of shopping and using mobile applications is relatively common due to social media aids their purchasing and finding good deals. Koreans highly use internet banking transactions and other mobile payment such as Kakaopay.

Due to their advanced IT infrastructure within consumers, South Korean citizens have one of the highest usage rates when it comes to internet and smartphone usage in the world. South Koreans are keen into using

technology in their daily basis to aid their purchasing decisions and to find favorable deals, due to this mobile and internet banking applications as well as transactions are very common. Such applications is Kakaopay. Before purchase majority tend to go through online research for reviews and opinions of the product or service they intent to purchase. Therefore brand reputation plays a key role. (L.E.K. Consulting 2013, date of retrieval 15.10.2016)

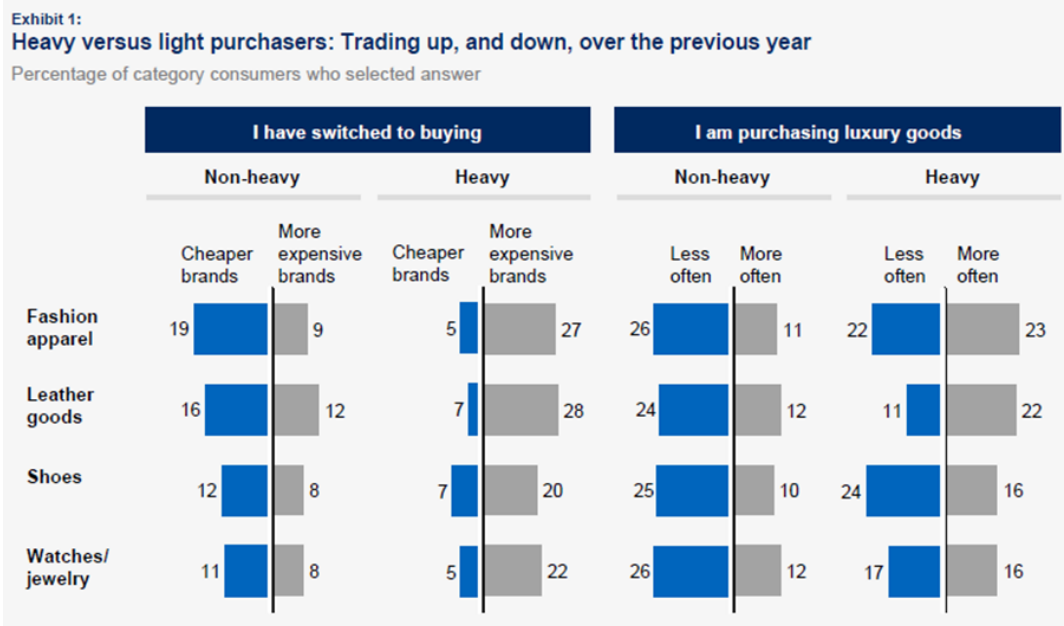
Taken from a Korean market specialist, there are three values Korean consumer considered with high importance: price, accuracy and promptness. Price must be clearly shown together with possible extra costs and possible refund ability which is an important aspect of product and commonly used function. As a consumers Koreans demand accurate information of the purchased product and service and it needs to be easily found form online. They also life in so called fast-fast culture and due to this have low tolerance for inaccurate or unclear information, therefore products and services are needed to be transmitted with a right manner.

When it comes to service industry, there is a high difference between Korean and western standards. Korean consumers are keen into consumer friendly approach and do demand service in their own language, this is similar to the Japanese. They highly appreciate fine manners and attitude from a service employees .This is part of the whole brand and important qualities as well, both in product and service industry to make a lasting impression to a customer. (Jani Toivanen interview.)

A good example for this difference can be seen in flight attendants. When we compare Europeans airline companies to South Koreans. European flight attendants are trained to take care of passenger's safety where Koreans main purpose is to serve the passengers and make their flight as pleasant as possible. (Jani Toivanen interview)

McKinsey & Company sources reveal that in order to start a company to operate in the Korean markets they need to have five priorities. Their first stated priority it to great innovation which generates excitement, being prestigious brand in the market is no longer enough for consumers. Therefore priority one demands you to continuously innovate company image and marketing as well as everything else in company. Therefore companies need to start see product and price as a portfolio where they have variety of products and pricing due to increasing customer segments.

Second priority is to create clarified brand image that is distriected from competitors. Consumers need to see visible and appealing brand message that states reason to buy this product. Therefore it is important that same message is orchestrated throughout multiple channels, both in internet and street. If companies should not invest in marketing it has a danger to drown in to mass. Lastly it is highly advisable to treat you VIP customer with care due to heavy purchasing being more important. This can be done by special promotions to these VIP consumers and analyze their customer data. (McKinsey&Company 2011, date of retrieval 17.09.2015.)

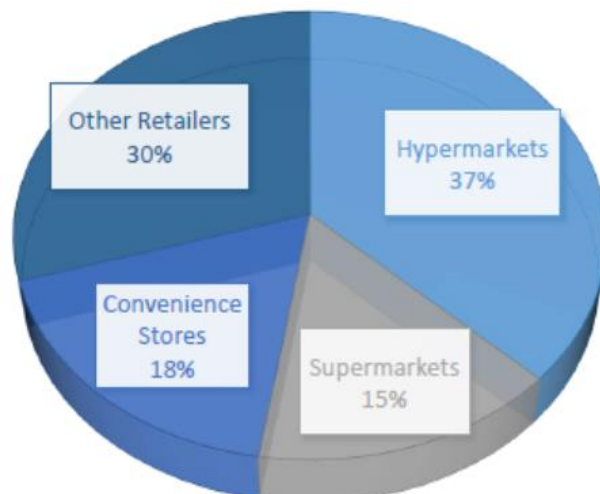


(Figure 4.1 Source: 2011 McKinsey Korea Luxury Consumer Survey)

## 5 KOREAN FOOD INDUSTRY

This chapter explains the current trade in South Korean food industry, market share and major corporations in the business operating in Korea. Additionally it explains current trends in the market area as well as Finnish food imports.

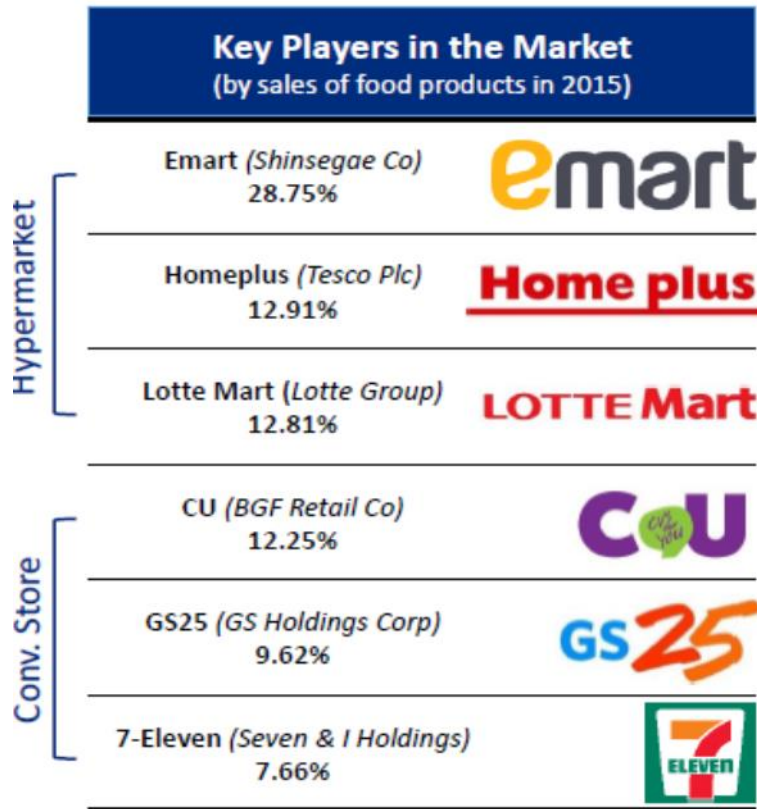
Total value sales of offline grocery retailers was 70 billion won in 2015. Nearly 197 000 outlets in the country. (Data received from Finpro) Total sales of the food markets are divided in four segments in which hypermarkets have the biggest share secondly other retailers, thirdly convenience stores and supermarkets. (Sources:Jani Toivanen Finpro Korea, interview)



( Figure 5.1 Korean market share by segments)



Key players in the markets by sales in 2015 were Emart taking the lead that is part of Shinsegae CO, second place went to Homeplus that is owned by Tesco Plc, third placement was taken by Lotte Mart that is part of Lotte Group, then last is contributed by convenient stores. CU that is part of BGF Retail CO took fourth place and GS25 owned by GS Holdings Corp took fifth place and last notable actor is 7-eleven that is owned by Seven & I Holdings. (Sources:Jani Toivanen Finpro Korea, interview)



(Figure 5.2 Market share by companies)



(Figure 5.3 Top Retail stores in Korean Markets)

## 5.1 Current trends

There are three major trends among Korean consumers. Weight loss and Healthy Foods is one of the three categories, South Korean society appreciates one's appearance is highly prevalent in the Korean society, especially among females. Food products effective for weight loss for example mixed grain powders are thus ever popular among consumers. Due to career oriented and fast-paced life style, many Korean consumers too busy to eat proper meals, try to bridge their nutritional gap with quick and healthy snacks.

Food and product safety has become a debated issue after several product safety scandals in the past few years. One of them was Post cereals and Oxy where their products were found health hazards for consumers. As a result, consumer awareness towards food safety has risen, also leading to more consumers preferring organic foods. (Source Koreatimes article date of retrieval 20.9.2016, Jani Toivanen Finpro interview)

With the Korean economy rising, so has tremendous popularity of TV shows teaching home cooking with celebrities, as well as related books and blogs, cooking at home has become a trend. Korean television broadcasts are filled with cooking shows that are popular among all ages, increasing demand for cooking ingredients.

There are also other external impacts that effect Korean consumer behavior. Rising number of single-households reached a 26 % share in 2014, and are expected to reach 30 % by 2020. While single households are on the rise so did convenience stores sales numbers by 16% in 2015. Korea is also one of the most rapidly aging societies along with Japan. This change is attributes to rise of single households who prefer small-sized food packaging only available in convenience stores. Changing convenience store concepts has been rapidly in the past years with stores adding more and more space for a cafeteria to eat their lunchboxes and drink coffee.

The consumer expenditure on food and beverages has been increasing every year for the past decade. Consumers are buying more and more groceries online and visiting stores as showrooms die to cheaper prices. Thus major retailer have launched new web stores and mobile apps. There is also high demand for convenient services such as free home delivery for groceries puts and emphasis on consumer convenience. (Source: EuromonitorInternational, Statistics Korea)

## 5.2 Food from Finland in Korea

Currently highest demand for Finnish food imports are berries and livestock. High demand for berry products is due to cultural believes and current trend to eat healthy. Around 60 % of inquiries in 2016 were related to berry products, especially interest was on bilberry, lingonberry, sea buckthorn and blackcurrant. These powders and extract are used in product development by both food and cosmetics industries.

Currently Korea imports over half of its livestock, including pork, beef and poultry is currently having high deficiency in import volumes. There are several reasons to this matter. One is the size of the South Korea itself, there is not enough space to meet demands of the consumers due to size of farmlands. Secondly there has been major outbreaks of diseases like AL have made Korean buyers cautious and to consider having multiple suppliers.

Lack of local super grains in a current market has opened up some opportunities for Finnish companies. Koreans have traditionally preferred domestic grains over foreign, but the growing selection of foreign brands is attracting consumers. Assisted by the health trends, super grains are becoming a popular choice for health conscious consumers.

As mentioned before currently 19 Food & Livestock companies are operating in South Korea. Berry products are the well-presented category among Finnish food products, with 7 of 8 companies having an exclusive distributor. Currently 14 out of 19 companies have a local distributor in Korea, while the others sell to various importers.

## **6 MARKET ENTRY AND DEVELOPMENT STRATEGIES**

This chapter aim is to explain some valuable key points such as the current state of trade, how Finnish businesses distinguish themselves from competitors and basic business entry strategy to Korean markets and organizations that are beneficial for them when entering markets

### **6.1 Current state of trade**

South Korea is the third largest economy in Asia. It is also a pioneer in industrialization in East Asian region. Trade between Finland and South Korea has developed very positively since the free trade agreement came into force 2011, the growth has been more than 31 % compared to the time before the agreement. Finland's export to South-Korea 2015 was 752 million €, and import from South-Korea was 493 million €. Korea's food industry amounted to about 359 billion USD as of 2014, including the manufacturing and distribution. Imported Finnish agricultural goods were worth in 2014 around 12-16 million euros and in 2015 16-20 million euros. (Sources: Tulli.fi)

A Free Trade Agreement was established with the European Union and it became functional in July 2011, which has improved Finnish companies imports. This agreement became in strength in July 2016 and by doing this will eliminated 98,7 percent of current import duties. Free Trade Agreement significantly improves utility services between Finland and

Korea as well as creates foreshadowing for Finnish businesses operating in markets, which creates operational reliability.

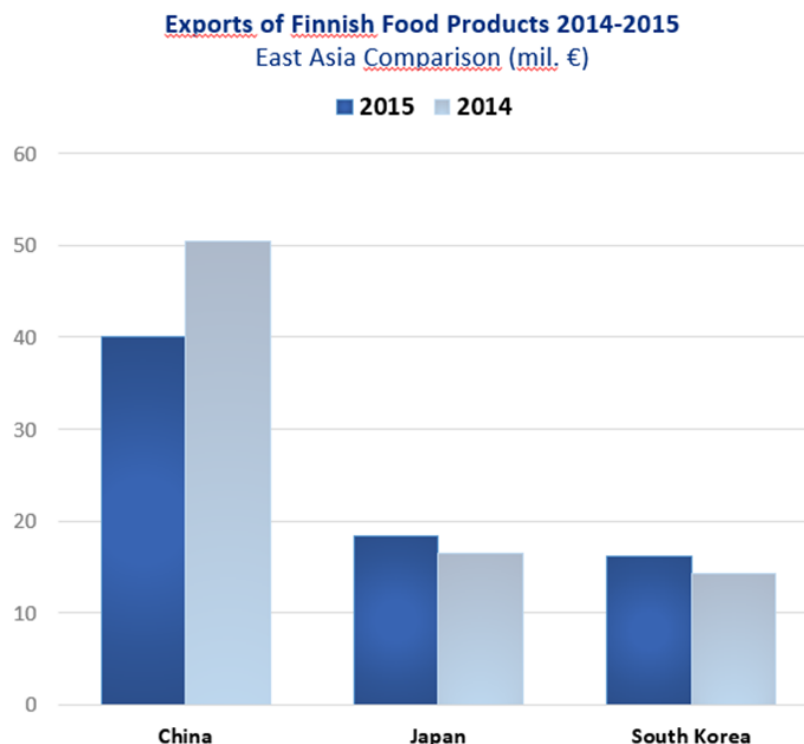
Generally Finnish imports go to South Korea consumers through their import partner or agent which also distribute them to other third party markets. With this in mind Free Trade Agreement can be beneficial for companies operating there due to having access to wider markets. (Sources: Maailman markkinat raportti 2015-2016 Finpro, page 95-97 date of retrieval 21.09.2016)



(Figure 6.1 Sources: Finnish Customs; Finnish Food and Drink Industries' Federation)

South Korean economy continued its rise moderately. At the 2015 it was 2, 6% and in 2014 3, 4 %. This decrease can be cause of a MERS epidemic which occur in the first quarter of 2015 and effected consumption. Year 2016 expectation for economy is a rise of 2, 8 %.

When it comes to direct investments Finland invests directly less than 100 million euros in 2014. This development is in the line compared to other European countries but less compared to Denmark and Sweden.



(Figure 6.2 Sources: Finnish Customs; Finnish Food and Drink Industries' Federation)

## 6.2 How Finnish companies distinguish from the competition

When it comes to developing functional and health-enchanting foods Finland is considered as one of the world leaders in the field. Due to Finnish strong tradition of pre-emptive health care, clinical nutrition has been focused subject in Finnish research. Significant investment in research have led to great discoveries with the emergence of new companies in the sector such as Valio and HK. Currently South Korean demands for functional foods and it is constantly growing globally. These investment have made Finland a significant innovator and producer of many gluten- and lactose free foods and at the same time several other products with proven health effects. Lately nutrition rich ingredients such as berries have been studied in order to develop new food products to introduce health beneficial meals in international scale. This research focus in probiotics, prebiotic, flavonoids lingams and fibers. (Sources: China-Finland Golden bridge Team Finland report, date of retrieval 20.10.2016)

Finnish international flagship products are Xylitol, Lactobacillus GG and Benecol. Various healthy beneficial products are introduced to South Korean markets such as Omega 3 pork meat, xylitol, different berry powders, barley malts, zero lactose milk, Pan salt. These products are popular in South Korean markets. Finnish food image is good due to quality which is natural and healthy. Also clinical nutrition innovation is a growing industry sector.

Currently Finnish wild berry products are picking up the interest and making them a wanted product among the consumers. With a various health benefits such as vitamins rich and other healthy, pure ingredients Korean consumers are finding them more and more attractive and with Finland having world's largest organic forest picking area, Finland is able to import a full range of various berries and products to South Korean market.

Grain products from Finland are well known for their quality and high nutrition levels as well as for a purity which makes them ideal use as raw ingredient for other products. Such various grain product innovations are as high protein oats, bread, cereal snack and snack bars which are becoming very popular.

Current new introductions to Korean markets are Finnish beverages. Finland has world most pure spring water and quite variety of alcohol beverages such as Finnish long drink and berry liquors as well as our premium gin and vodkas. These are potential market opportunities in South Korea.

Finnish companies are mainly targeting South Korea markets with product that has added value in them. They are high-quality natural and health benefit products. Finland's advantages is their pure soil and water which is due to our nature. Nature allows Finnish companies not to use pesticides as much as the soil is frozen half of the year. There are also opportunities in livestock field due to reason that there are no animal diseases in Finland such as salmonella and farms don't use antibiotics in meat production. Lastly Finnish food product are safe guaranteed. Consumers will know where their food ingredients are sourced and produced. With previously named benefits Finnish companies aim to promote high quality food and beverages from Finland to South Korean markets. (Sources: Maailman markinat raportti 2015-2016 Finpro)

### 6.3 Entering Korean markets

Notable organizations that aids Finnish companies to enter South Korean markets is Finpro. All sized companies do receive aid from Finpro and their aid is very beneficial when entering Korean markets. Finpro encourages businesses to invest and promotes business between Finland and Korea and besides that, they offer free consulting for companies interested in to enter local markets. They also operate in the rest of Asia which is beneficial when aiming to extend from market to another.(Jani Toivanen interview)

Credibility is also important factor when conducting business in South Korea and therefore the embassy of Finland is able to provide support in the mater when dealing with local companies or organizations. When company is co-operating business by embassy backing them, it clearly creates more trust and raises credibility of the company on behalf of other party. (Jani Toivanen, interview)

As we all know that entering to a new markets do require the company to perform extensive market analyze regarding targeted market section and business environment. One of the key aspects is to determinate key competitors and their standing in the market as well as creating efficient entry strategy. When companies do find their target segment it is vital to create clear marketing communication network which distributes wanted message plainly to customer but stand outs from competitors. Communication must be trough right channels for target segment and needs to be sustained and continuous.

When entering to South Korean markets it is advisable to find reliable importer or agents which can advise company through the complex regulation system and can distribute valuable market information. Also one thing that is common with the Finnish businesses that became successful in Korea entered there trough opening a new branch office and therefore are able to operate locally in Korea. This is where finding right partner in these markets plays a huge role since it is noted how complex Korean markets are and require therefore understanding and consultation which can be gained through partnership and later by years of experience of the company's own local branch. This might start as a slow process but eventually allows company to adapt for local environment. (Jani Toivanen, Interview)

Companies that have assets to conduct their own market research should be in favor to do so. When investing this they might find possible possibilities for their product or services and will be able to evaluate current market trends. Pointing out the potential market segment where company finds ingredients for success is easier task when utilizing already exiting free data that is available by Finnish support network. This is where Finpro joins in and offers networking changes with the locals and can aid in the task of finding suitable partner, contact or agents.

There are other strategies as well to enter the Korean markets. First of all the strategies should be conducted for companies own strengths and finding way to utilize them at the markets. In Korean case strategies can be direct investments, exporting, joint venturing or licensing. One of example from a Finnish company that solely exports to this country is Fazer which operates through large retail store chains and they don't have any sales office or operations going on in Korea. When conducting business with Korean importers it is not rare that they might ask for exclusive rights to company's product or brand. One notable thing is that South Korean retailers usually expects brands to hold in-store promotions and create tastings. In case that Finnish product is already a successful in other market such as China, Japan or US might be beneficial marketing tool to aid Korean consumers to find your product and differentiate it from competitors.

There are three common methods of corporate registration that can be exploited in South Korea. First is to create incorporated subsidiary company, second option is to have representative company or so called liaison office and last option is to create a branch office or better known as registered foreign company.

These three types vary from each other by following:

1. When establishing a subsidiary as local company which allows a tighter relationship with the local actor and business community. It also opens up an opportunity for tax incentives.
2. Creating a branch office enables company to operate in Korea, sale and manufacturing processes can be established there and can operate as revenue generator for company. Unlike subsidiary establishment branch office can't receive tax incentives.
3. Compared to branch office, liaison office is non-profit generating actor which is not allowed to activities such as sales or manufacturing. Though these two activities are denied it can be used as marketing or as a mean of support for own business.

Therefore a company that is desiring to register in the Korean markets has two possible choices since a liaison office doesn't offer profit generating solutions. (EY 2015, date of retrieval 10.10.2016)

Now that company has two possible solutions it has to decide which path suits its interest more, setting up a branch office or establishing a subsidiary. In case company doesn't seem to be interested in solely exporting their product to the markets, it should make arrangements to ensure investments and creating a branch office which will operate as a local sales office. This also maximizes their local communication. In the other point of view this is cost disadvantage strategy but can be more fruitful in the long run which solely depends the size of a business. It is notable that Korean consumer behavior emphasizes local operators and communications.

As mentioned at a previous chapter about South Korean business culture. It is vitally important for Finnish companies to maintain strong lasting relationships with their partners in South Korea. This means having long and short term business plans with them and actively communicate regarding their marketing plan, reviewing performance and visiting major distributors in regular bases.

What might come as surprise for a Finnish corporations and businesses is that Korean businesses see it as high importance to build personal relationship and share business contacts as well as personal visits to offices, not to forget drink meetings after business is done. Finnish companies should also be prepared for numerous questions from their South Korean partners and seek to have active communication with them.

Currently South Korean market trend among consumers is price conscious decision making, though markets clearly show scale slowly shifting toward quality products and sensitive purchases.

Lastly it is notable that companies which aim to operate in South Korean markets need to prepare for a lengthy negotiation process. Companies should also seek to have effective social media base strategies since it is



becoming more and more popular among consumers. Smart phone advertising increased 750 percent during 2010. (Jani Toivanen, interview)

## 7 SWOT-ANALYSES OF FINNISH FOOD EXPORTS

Chapter attempts to analyse Finnish food exports strengths, weaknesses, opportunities and possible threats through SWOT-analysis. Material to conduct this analysis is based on academic material, personal observations, critical thinking and by conducted interviews.

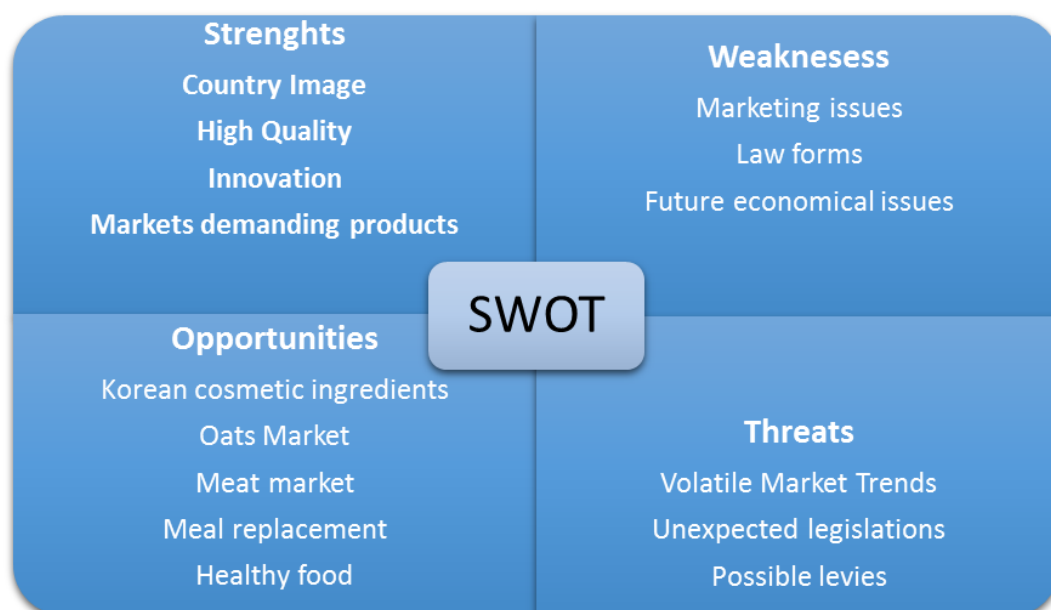


Figure 7.1

### 7.1 Strengths

Finnish Image in South Korean markets is very positive. This is based on Koreans awareness towards on a high level of Finnish educational system, gender equality and a clean natural environment, as well as faint corruption in government and businesses. This is part of a Nordic Wave phenomenon which has accrued in South Korea for at least couple of years. As a marketing tool a positive country image from Finland can be seen as a huge asset for a companies that aim to enter Korean markets.

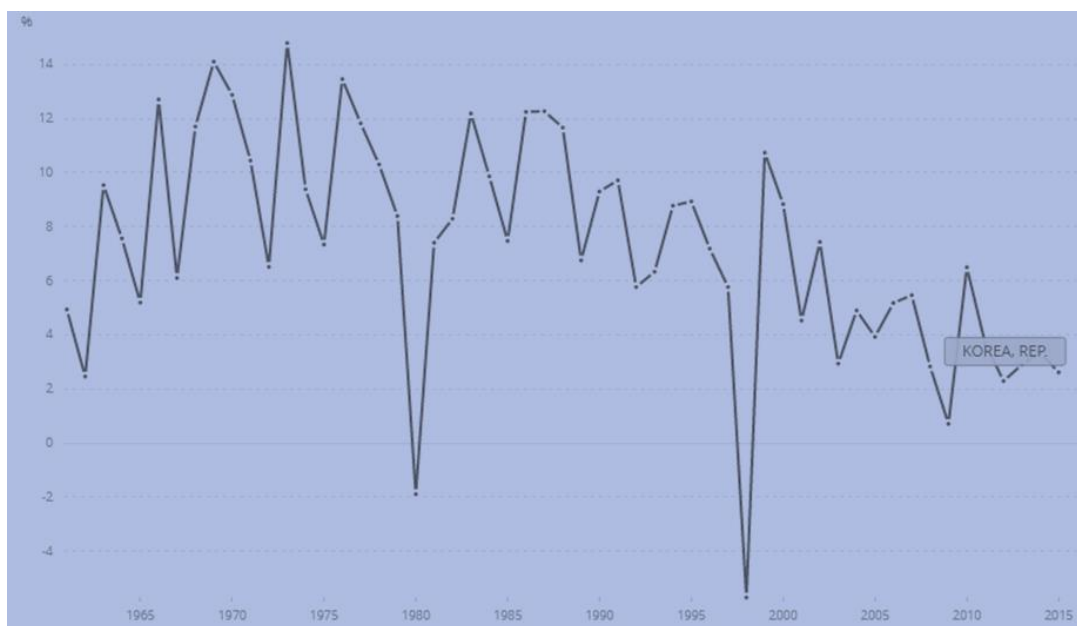


Figure 7.2 Sources: World Bank, GDP per capita growth (annual %)

South Korea's economy continues to open up and development is largely positive across the board. In 2014 a new law reform was implemented allowing improvements for foreign investors by giving promising and positive promise direction for future. This is due to Free Trade Agreement which came in force 2016. This change allows Finnish companies to easier their task to enter Korean markets due to ability to invest their resources more firmly there than in the past.

Another substantial asset for Finnish companies is Korean position as a gate opener for other Asian markets. These Asian markets can be reached with less effort when starting to enter markets of these gate openers such as Korea, China and Japan. Currently Finland is operating in Japan which has 127 inhabitants is G8 and G20 country and just recently gain access to Chinese meat import markets by importing HKScan pork meat. In vice versa these previously mentioned countries see Finland as a gateway to Nordic and Baltic markets, these co-operation in mind both parties could gain significant business opportunities. South Korean businesses can operate through Finland to these markets in which Finnish corporations already have know-how experience and prospect of future development. From Finnish point of view South Korea is centrally located and has ties to every major market there is from China, Japan to other markets. Following the collapse of Russian imports these new markets are vital for Finnish food companies. Therefore co-operation with organizations such as Team Finland-, Finnish Chamber of Commerce and EEN networks are valuable assets to have when penetrating into these markets. (Sources: Kauppakamari article, Talouselämät article, date of retrieval 20.10.2016)

When it comes to Finnish Food ingredient strengths they are:

1. High Food Quality
2. Innovation
3. Health beneficial products

As it was stated in a previous chapter, Finnish food products are well known for their high quality and purity. This can be seen due to our high standards regarding food regulations and our pure nature. First of all Finnish soil and water is considered as one of the purest in the world. Not only that our livestock producers use 1/6 less antibiotics than other market providers. This can be seen as marketing surplus and Finnish livestock providers have not suffered from foot and mouth disease which occurred in South Korea in 2010-2011, leading to killings of thousands of pigs, rapidly spreading to country wide. This FMD outbreak claimed more than 100 confirmed cases in Korea. Keeping this incident in mind, Korean consumers want more transparency for their product and where the ingredients come from, these is where Finland is a forerunner compared to other competitors. (Sources Yle article 20.10.2016: Herald Business article. date of revival 20.10.2016)

Finnish food innovation has led us to find several of health beneficial products. These product are Xylitol, Lactobacillus GG and Benecol, Omega 3 pork meat, xylitol, different berry powders, barley malts, zero lactose milk, Pan salt just to start with. South Korean consumer trends are currently focused on healthy food which has high quality ingredients. With the current trend in mind there are numerous opportunities for Finnish products in more and more promising South Korean markets.

## 7.2 Weaknesses

The cornerstone of South Korea's trade policy strategy is the pursuit of bilateral and regional free trade agreements to guarantee the country's export-driven economy competitive positions. These bilateral agreements can grant competitive advantage to Finnish competitors, one for example is USA which has significant influence to South Korea government. Korean government is also known for having licentious import charges.

South Korea, as many other countries is clearly facing a long period of slow growth. The Board has solved many tough challenges such as high household indebtedness, the situation in the real estate market, slow wage growth, lifting the retirement age and by international comparison very long working hours. In the distant future one of the key weaknesses is South Korean aging population and Korea is facing same dilemma as Japan did in the past.

When EU-Korean Free Trade Agreement came into action, force of the trade balance has turned in to the benefit of European Union which has led to a mood against Free Trade Agreement with some Korean mandarins. This change is mood among citizens and other influence actors has influenced Korean government to lay laws regarding protection for domestic

businesses. For example, a new law concerning the import of food and the bill concerning the rules for the operation of foreign companies in the sector of Legal Affairs, seems to be aimed to influence on the protection of domestic enterprises. (Sources: Maailman markkinat raportti 2015-2016 Finpro)

One of the other issue with Finnish brands is the lack of marketing. Even though Finland has a positive country image within Korean consumers, it is not enough when they lack their product introduction and explain to consumer why they need to buy it. This leads to a situation that Finnish brands are not well known among Korean consumers.

It is well known that Finnish based companies do manufacture quality products when it comes to IT, Shipbuilding and Agricultural products. Where they do lack and weakness relays is marketing. Take for example Nokia which started its business 1985, they hired first Chief Marketing Office in January 2011. That's why it is vital for Finnish companies to have reliable partner in Korea which can aid in marketing. Given example of Norway Salomon Company Marine Harvest. They opened processing facilities in South Korean to be able to cut the costs as well as easier access to other Asian markets but also did a massive marketing campaign in Korean markets which lead to a success. (Source: Business insider's article, date of revival 20.10.2016)

Lastly Finland is continuously improving its presence and co-operation with Korean actors but as Finnish businesses have arrived lately to South Korean markets their competitors have advantage due to longer partnerships with the local corporations.

### 7.3 Opportunities

With this section thesis will introduce possible opportunities along with five possible products that have possibilities to be successful in the markets.

1. Cosmetics Ingredient markets
2. Oats markets
3. Meat markets
4. Home Meal Replacements Market & Berry products

#### 7.3.1 Cosmetics Ingredient markets

There is a major difference between the Korean and western cosmetic consumers. Where western women follows three-step (cleanse-tone-moisturize) to improve their facial looks, Korean uses 10 different steps. With this in mind it doesn't come as surprise that Koreans use twice as much money from their income on cosmetics than American women. This includes product from makeup to beauty products. Also South Korean males use more money on their skincare than any other country. This is due

to huge peer pressure which comes from Korean culture that highly appreciate and value their looks.

This business sector can be a huge business opportunity for Finnish natural ingredient products such as berry and other innovative finish products. Cosmetic industry in South Korea is expected to rise in next five years and Koreans belief in natural ingredient and their healing power which can be good for high quality finish ingredient suppliers for South Korean cosmetics industry.

Ingredients that Finnish companies could provide for South Korean cosmetics companies is numerous since around 50 different berry types exist in Finland . Blueberry is well known cosmetic ingredient which can be implemented to various beauty products. Lacquer and buckthorn are well known for their benefits in cosmetic field as luxury ingredients. All these and other several ingredients can be harvested from Finland with ease since berry's thrive in Finland which landscape is dominated by forest, rivers and lakes.

Bilberries from Finland are highly valued and prized due to their vitamin dense nutrition and they have at least three times more anthocyanin polyphenols than blueberries that are cultivated. In plain language it means more vitamins, fiber and better tasting berries.

Berry ingredient is one of the key exports for Finnish companies and growing. Asian consumers are currently interested in the health benefits of berry superfoods.

This berry opportunity also leads to another business opportunity, growing organic snacks and smoothie markets. Korean markets have a growing need for berry suppliers. This is also the well-presented category among Finnish food products, already 7 of 8 companies have an exclusive distributor and demand for more Finnish suppliers is growing.

Reason behind this is growing trend for healthy food which is energy and vitamin rich as well as works well in Korean hectic lifestyle. Healthy smoothies and berry snack trend has increased Finnish berry demand and with Finland having 50 different varieties of it makes it ideal supplier country.

Korean are also ware of purity that Finnish nature has and due to this berries that are from Finland are valued and know to be natural, clean and fresh which all together aid marketing efforts.

For example blueberry is a native to northern Europe and northern climate is perfect to grow berries due to Finnish long warm days and white nights which are full of sunlight. Companies in Finland turn these ingredient to variety of products such as berry powder, dried nutrients, extract snacks and smoothies. This creates it a premium product that is natural and vitamin rich superfood that is perfect for current Korean markets. (Sources: FoodfromFinland, date of retrieval 18.10.2016)

### 7.3.2 Oats markets

Oats Markets has been on the rise in Korea. This market area could be possible new business sector for Finnish companies to dig into. Finland is known for quality oats due to our special agro-climatic conditions which are perfect for growing oats and these conditions cannot be replicated elsewhere in the world thanks to our northern location which has all needed seasons. Summer that is full of light due to midnight summer and shines up to 19 hours a day making it intense summer but short making it a longest growing season in the planet. Winter is icy and snowy which creates a tough environment for harmful pesticides to live. Also harsh winter leads to usage of less pesticides than in other countries. Finland has a long standing history when it comes usage of oats. This has made Finnish companies to research to ingredient and making it a leading expert in field of oat research and development. This research as lead Finnish companies to create highly specific oats that contain high levels of beta glucan fibers. Finland is also only country that is producing high volumes of excellent quality oats and is currently accounting for 13 % of the EU's oat production rate each year.

Using oats as ingredient in Korea has been growing since current consumer trend is favoring healthy products, since country is facing same issues as other rapidly developing countries. This means high rise of diabetes type 2, heart related problems that comes for food and other health issues. European Union approved oats as a food ingredient that reduces cholesterol, blood glucose spikes, this is due to oats contain a beta -glucan compound that lowers blood cholesterol. Koreans are mainly using ramen and noodles as their main food ingredient are starting now to favor oats which doesn't cause high cholesterol that can cause a development of coronary heart disease.

This is not the only benefit that oats produce. While eating oats they are low in calories which helps to managing consumer weight they also are rich in antioxidants, making them perfect for a country that is suffering from type 2 diabetes and heart diseases making oats attractive ingredient for wellness-conscious consumer.

### Trends in the Number of Diabetes Claim Patients by Year

Year	Men, <i>n</i> (%)	Women, <i>n</i> (%)	Total
2003	673,393 (48.89)	703,926 (51.11)	1,377,319
2004	744,819 (49.53)	758,870 (50.47)	1,503,689
2005	887,835 (49.59)	902,613 (50.41)	1,790,448
2006	949,990 (49.6)	965,468 (50.4)	1,915,458
2007	1,007,135 (49.94)	1,009,588 (50.06)	2,016,723
2008	1,057,393 (50.18)	1,049,732 (49.82)	2,107,125
2009	1,103,528 (50.38)	1,087,072 (49.62)	2,190,600
2010	1,168,993 (50.64)	1,139,352 (49.36)	2,308,345
2011	1,253,620 (50.96)	1,206,332 (49.04)	2,459,952
2012	1,320,715 (51.37)	1,250,352 (48.63)	2,571,067

(Figure 7.3 Sources: US National Library of Medicine, National Institution of Health, date of revival 18.10.2016)

With these health benefits in mind and variety of healthy oats food product that Finnish companies has to offer would be opportunity to use. As previously mentioned Finnish food companies are great at innovating new variety of products which can have now a change to enter Korean consumer markets. These oat-based products vary from creams, ice-creams to yoghurts, breads to snacks and they can even be gluten free. Not only that but this selection ranges from babies to adults.

Some of the great Finnish oat innovation for Korean markets could be YOSA and OATrim- products which are oat based drinks that is good for weight control. They are high on beneficial fibers. There are also many other products which are suitable for coeliac disease patients.

Finland's the most significant perk is oats market is our research that generate our competitiveness in international stage. Companies that do research are understanding various usage of oats, consumer needs and importance of quality. Therefore they are able to offer multiple possibilities for Korean consumer markets with products with health-enhancing benefits. (Sources: FoodFromFinland, date of retrieval 18.10.2016)

### 7.3.3 Meat Markets

The average Korean ate 51.3 kilograms of meat in 2014, more than the per capita meat consumption of 47.1 kg by the average Chinese and that of 35.5 kg by the Japanese, statistics show. ( Source: Koreatimes article, date of revival 18.10.2016)

Finnish meat industry is one of the finest in the world. There are multiple reasons for that such as chain integrity, excellent livestock wellbeing and healthy animals, Finnish meat producers do not use hormones like their competitors and are using significantly lower doses of antibiotics for livestock's. Finnish meat has already been recognized and valued in other countries such as Tokyo, New Zealand and Hong Kong.

Korean meat consumption has been rising all the long with standard of living. Meat is valued and used daily life and taking account local past meat epidemics such as Foot and mouth disease, local consumers are becoming more vary what they eat. Unlike American large scale commercialized farmers or New Zealand's, Finnish meat industry's key assets is its clean and fresh meat that doesn't use as much substances as these countries. Despite Finland's size as a country its reputation to produce quality pork has lead its way recently to Chinese markets as well as is already present in Korea. Newly launched Omega pork could be good solution for more concerned consumers these days. (Source: FoodFromFinland, date of retrieval 18.10.2016)

#### 7.3.4 Home Meal Replacements Market

South Korean lifestyle has changed a lot during past decades, therefore food culture has also changed. Usually Koreans don't eat a lot during a morning and rather use meal replacements in order to keep up with the work or they go by fast food. Usually after the work day employees go together to enjoy a proper meal with some refreshment. Therefore consumers are trying to find nutrition rich food that can be easily prepared and eat. This is where Finnish innovation and experience comes in.

As mentioned in a previous chapters, Finnish innovations are healthy, nutrition rich and at least compared to Korean instant ramen dishes that are mainly used as meal replacements or younger generation uses sandwiches. Therefore Finnish companies would have opportunity to innovate oat based noodles to the Korean consumers which would be higher quality, full of nutrition products perfect for the Korean markets

#### 7.4 Threats

There are three major threats for Finnish food companies

1. Volatile market trends
2. Unexpected changes in legislation by Korean Government
3. Possible Levies

South Korea has as any other modern market has volatile market trends. One day product x may have a huge demand and in next year it won't. This



also relates to healthy food and other subjects that comes with it. Currently South Korean markets are in growing numbers demanding quality food products that are health beneficial. Issue is that it is not clear how long this demand will be and when will another health trend take in and replace a current bloom of oats and other healthy snacks.

One of the key uncertainly causes is Korean Government itself, you can't predict future of politics or where the wind blows. Korea as a democratic country is new and faces still many issues. This can lead to unexpected changes in legislation concerning imported goods and especially food since Korean economy is concerned of its own production facilities. Currently there are some actor which see Free trade Agreement no as beneficial due to Europe gaining more in trade than Korea which has been in the past more in favour of bilateral agreements between nations. In the past it has protected its domestic economy by setting huge levies for imported goods. Now with the Free Trade Agreement these levies are lifted that can cause a situation where domestic produces are in weaker position. Although there are still some small issues regarding bringing agricultural goods and products to Korea there is a possibility that levies might come back due to changes in political field. One domestic issue that frighten foreign companies and investors is the issue of DMZ and North Korea

Lastly one other threat is that Korean economy start to crumble as it is export driven economy and has not been able to grow as planned. Alone in 2015 expected growth was to be 3,1 % but ended up to reach only 2,4 % which is not bad for taking account of the current state of world economies but rather the issue of not being able to give reliable statistics.

## 8 RECOMMENDATIONS

Thesis research shows that the current Achilles tendon for Finnish companies is firstly lack of marketing. Variety of products that Finnish suppliers offer together with currently favourable markets trends suggest that improving marketing operations is recommended. This means improving market strategies and communications which creates more awareness to both consumer and client buyer. Positive country image already exist and riding along with its wave makes future efforts easier in marketing wise, companies need to create more awareness of their product and advantages they offer.

Besides that it would be beneficial for Finnish companies to improve their communication with local partners or directly start representing themselves. Weakness that may regard is lack of knowledge when it comes to local business culture and over all culture. Luckily Finnish government has set Republic of Korea as a key target country which improves funding of local public organizations to aid Finnish companies in this task.

Both of these recommendations are heavy financial investments and require long term dedication but accordingly current world markets and future prospects of South Korean economy development it is advisable to penetrate in to these markets.

## 9 CONCLUSION

Economically South Korean first quarter of 2014 experiences 2,7 % growth and at the same time in 2015 it was 2,4%. Country aimed to achieve growth of 3,4 and 3,1 growth which means that in matter to do so it needs to sharpen up and improve its exports. Currently world's trade doesn't promise relief to export driven economies such as South Korea. When it comes to consumers their wages have not been increasing and has actually stopped leading to a situation that consumer's household are one of the biggest in debt in the world. Therefore they do not consume. Other issues that are notable is women's low involvement in the working life and aging population and higher unemployment (3,6) that country officials are revealing. Therefore it is expected that National Bank of Korea will lower interest rates as well as government will introduce new relief package to easier the situations. Corporations that are already huge in scale and present in Korea will continue to dominate the markets but there are new trends rising that these corporations need to acknowledge and respond to. South Korean strengths is its economically positive growth, highly educated workforce which is not in shortage. Along with improvements that Free Trade Agreement brought corporation have possibilities in agricultural section that can benefit both parties. With the innovation that Finnish companies can offer to Korean business partner which dominate the market, co-operation would seem to be fruitful since consumers in Korea are becoming more quality sensitive as well as wanting to be aware of their product chain, where is it made. This is where Finnish companies step into by providing solutions to current markets by already having desired products that are needed. It is notable that Finnish government has created an effort to boost Finnish food export to South Korea. Just recently our former Minister of economic Affairs Olli Rehn visited South Korea along with notable business actors from Finnish companies in matter to improve our bilateral co-operation together business wise. This meant meeting with local business representatives that are interested in Finnish agricultural products and Finnish suppliers. Not only just that but this autumn a major event was held in Seoul called Food from Finland which attracted positive amount of attention.

Taking in the account that Finland as a country has positive country image, products that go well with the market demand, the question is why we do not have as big of a market share. There comes marketing which generally is lacking when it comes to Finnish companies. Companies in Finland need to start improving their marketing sections of the companies as well as understanding Korean culture. For example Finnish pork meat providers need to understand that premium pork meat won't work in Korean markets

due to cultural issues. Pork meat is not highly valued ingredient and same applies to its price, Finnish suppliers do provide too expensive premium meat when they could go with regular meat. This is why it is advisable for Finnish grocery companies setting up subsidiary in Korea. This way they are able to have a closer relationship with their local partner and this is also required for companies in Korea to be successful. This will also lower their marketing efforts and unnecessary investments are avoided due not needing to create manufacturing plants or sales offices and Finland's food products are distinguishing themselves because they are made and produces in Finland therefore it is also not advisable to create these manufacturing plants.

Key idea is to set up a mission to have closer relations with Korean businesses and this is achieved by doing previously stated. Even though there are threats and weaknesses in Korean markets in the end it is one of the most prosperous markets for Finnish companies to enter and current market trends strongly favour Finnish products.

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## 11 APPENDIX 1

(Mäkelä A. How to enter the South Korean market from a viewpoint of a Finnish firm 2014.)

Email answers to interview questions by Director of Metso Paper Korea Inc, 22.05.2013, South Korea, Seoul

In this interview, the interviewee answered the questions through the email. This interview was conducted in Seoul, South Korea. The answers were received on 22.05.2013. The interviewee was Director of Metso Paper Korea Inc. The interview was conducted in English.

### Basic information about the firm

The company is Metso Paper Korea Inc. and their business sector is Pulp and Paper making machinery and boilers for pulp line recovery and power generation plants. The firm was established in South Korea in April 1995, and it currently employs around 16 persons, and has two other sister companies in South Korea. It is managed by board of directors, and it's currently operating in 24 other countries excluding Finland and Korea. The main products are Pulp, Paper and Power machinery and after sales services. And the transportation costs of importing the products are international average or little less.

### Internationalization to South Korea

The motive behind deciding to enter the South Korean market is the Korea being the biggest single country market in the middle of 1990s for Metso's paper machinery business. A couple of larger paper machine orders for a newsprint paper is what finally triggered the start of the South Korean market entry. One agent that works for paper industry introduced them to the South Korean market when their brand name was totally unknown. Few different sales have been utilized for 15 years and this have been very useful in developing the market information and making foundation for service business. Agent introduced and developed paper machinery business in the beginning. Later, Metso decided to operate by own subsidiary because of high demand of after sales services.

The whole entry process took approximately 5 years until takeover of main business. The main difficulties in entering the South Korean market were the fact that Japanese suppliers under the license with German and USA suppliers were dominant to Korean market in 70s to 80s. European supplier's direct approach was not well acceptable due to cultural and lingual barrier and geographical location for service. During the entry, there were no particular difficulties experienced with the local government in South Korea, but the firm has noticed some peculiarities in South Korean market. Barrier in business culture between Korea and Finland is why Metso operates their own unit in Korea. Not much of the products have been customized specifically for South Korean market as production process is pretty similar internationally. However, the paper and board making machines are all customized according to the machine. The sale policy and rules are the same when selling products in South Korea and Finland.

The customer care is rather different as cultural habits are different. The local workforce is used and preferred, but there is no own blue collar engineer, but they utilize couple of the subcontractors if needed. No expatriate has been used since 2001. Language barrier was the main difficulty when expatriate worked in South Korea. Living cost is also too big especially the housing for foreigner family. The most important success factor in entering the South Korea was high productivity and quality based on world best technology which enables to secure good return on investment. Good and continuous technical support and development upon market needs was important. The Finnish companies willing to enter the South Korean market should be aware that the Finnish industry scale in Korea is not big. So it might be difficult to enter and be sustainable

## 12 APPENDIX 2

(Mäkelä A. How to enter the South Korean market from a viewpoint of a Finnish firm 2014.)

Phone call interview with a Finnish manager, 24.05.2013, South Korea, Seoul

The interviewee or the firm has been disclosed due to the company policy. All mentions that might reveal the company has been omitted. This interview has been done in South Korea, Seoul, in 24.05.2013, using Skype Program as a phone call interview. Thus only the part of the questions concerning the internationalization to South Korea has been discussed.

### Internationalization to South Korea

The main motive behind the South Korean entry was the market potential and market understanding. The company had presence for roughly 15 years through some local agents before entering South Korea by using hierarchical means. The company gained insight through the agents about how the market is developing. The company also made fairly thorough studies of the market potential and of the current supply-demand situation. The final trigger to the start of the entry to the South Korean market was getting the operation permit and solving internal issues that prevented the entry.

The company regards the research to be important in their successful entry. They did primary data research for several years and they analysed the Korean market situation and the special characteristics of the market. They also networked quite a lot with different experts of South Korea, but did not use any internationalization agent. They first entered the South Korean market using general sales agent and then established a local service in Korea. Even now they still have local outsourcing relationship with the local agent. The whole process from the point entry announcement took a year before the operations were started.

The main challenging thing the firm noticed in entering the South Korean market was the hiring the finding and hiring of the talented people. Basically they noticed that it was somewhat difficult to a recruiter to find very talented workforce with good English skills. They experienced no major difficulties due to the extensive research conducted prior to the entry. Dealing with the business visa application process was somewhat troublesome due to the nature of the firm. No other difficulties were experienced with



the local government but rather than that some government officials or government related organizations were exceptionally helpful and professional. From the firm's perspective the most peculiar factor about South Korean market is that the Korea is really nationalistic. And most people have a strong tendency to prefer Korean products and services. The competitors' actions were peculiar during the firms' entry; they wished to make our entry to market very hard and the competitors renounced in order to discourage the local trade to support the firms entry. A lot of local customization was done in order to meet the South Korean customers' needs. The sale method is internally similar as the sale method in Finland, but there exists a lot of localization in the iterations, co-operation commercials with the local trade, and the way we co-operate in the trade.

They mainly use the local workforce, but they did use expatriates in the start as during the entry it was important to have a Finnish person in charge in South Korea. When the firm first entered, they outsourced the local workforce meaning that the local staff was employed by Korean company. They still have a mix of own personnel and outsourced personnel. The hiring process was not so difficult after the right potential workers had been identified. In the search, they used several recruiter companies which were somewhat difficult, and the methods used to assess their skills and capabilities were found to be still somewhat immature. The good English language skill requirement also limits the possibilities.

The interviewee regards learning and understanding the market, both of the practices and of cultural aspects of doing business in Korea, as the most important successful factor in their entry. Also finding a balance between honoring the local practices, but still using your company way of operating and local practices, is a successful factor. Also a very forward looking stance in market communications, and making sure that the customers know you latent to the market well. Localization is also important, and being as close to the market and customers as possible. Finding out to be anyhow outsider, or arrogant for the local practices, can be worst mistake in the Korean market. Now that the entry has been done, the firm would have started hiring their own personnel a little bit earlier as it was the first step towards changing the organizational structure in South Korea. The interviewee would have also improved their entry earlier by starting the social media activities at the earliest stage.

The interviewee gave recommendations for other Finnish firms. First recommendation is to find a network between different business professionals from different businesses in order to engage in a dialect and learning from the market from different aspects. Also it would be important not to rely on a single source of information but on a wider perspective of learning in Korea, and make a thorough study of the market before entering. The choice of choosing to use co-operation with local partners depends on the line of business whether but it is still important to have close relationships with a local partner in order to penetrate the market.

### 13 APPENDIX 3

(Mäkelä A. How to enter the South Korean market from a viewpoint of a Finnish firm 2014.)

Summary of the face-to-face interview with Managing Director of Fibox,  
26.04.2013, South Korea, Incheon

This interview was conducted in Incheon, South Korea, on Friday 26.04.2013. The interviewer was Anna Mäkelä and the interviewee was the managing director of South Korea's Fibox. The interview was conducted both in Finnish and English.

Basic information about the firm: Fibox Ltd. does electric components and electrotechnic covers. Their products is B-toB product so there is no direct sales to customers. Fibox does their own manufacturing, sales, and distributing. The firm was first part of Fiskars, which was established at the end of 1500, but in 1991, Tapani Niemi bought the part of the firm that was Fibox. He still owns the company so the company is privately-owned. The Fibox has 500-600 workers in Finland and little over 40 in South Korea. They currently operate in following countries; factories in Poland, Germany, South Korea and China. Sales offices in South Korea, Japan, China, India, Finland, Sweden, Denmark, Russia, Poland, Germany, Holland, France, Switzerland, England, USA. They also have regular business in 25 different countries such as Taiwan, Hongkong, Signapore, Australia, New Zealand, South-Afrika, and most of the European countries. Only 10-15% of their turnover comes from Finland.

They have internet website, but they mainly do their sales through phones, faxes, and emails. They also have stable customer relationships with their distributors, and regular customers as their end customers. The transportation costs of their products varies depending on the product. The transportation cost is about 1,5-3% to up to 7% . The cost is lower if the sales are inside the country that has a warehouse, and higher if it's between two countries or areas.

#### Internationalization to South Korea

Fibox entered the South Korean market in 1995. They first started the research about entering the market in 1993-1994. The person in charge that time had a international experience and was an expatriate from Finland. They have had their factory in three different locations in South Korea, and the current one is in Incheon. The company became profitable in South Korea in 1999 as the Asian financial crisis in 1997 affected the firms entry.

The motives behind the entry were the following; there were already sales to Asian countries, the Korean market opened to international companies at the end of 1980's, the fear of local competitors arising, and the desire of having the first mover advantage. They currently hold 40% of the market share of their products. The main reason was that the local competitors had faster shipping period than Fibox when the company was shipping their products from other countries to South Korea

They first had a rented facility, but later bought their own property when the property owning laws were changed. They did not use agents or joint ventures due to loss of control existing in those entry modes. For Fibox, all subsidies and units are self-owned.

There were some problems encountered when entering the South Korean market. There were culture problems, personnel selection was unsuccessful, problems with leading Korean workers, and the management had a lack of knowhow in distributing the products. There was also not enough support from the headquarters. Some barriers with laws, taxation, regulations, and local government were also encountered.

There was never a problem with import taxation, but mainly problem with the labor force laws as for example firing the South Korean workers can be hard due to law. There has also been some problems with visas for the expatriates. Mainly there have been problems with the properties as it's hard to find a rentable factory space due to lack of investor-owned properties. It's important to own the property as renting is expensive, but buying properties is expensive too. Finding office space is easier. One peculiarity they encountered was that the South Korean firms did not have longtime planning, and expected to have products shipped really fast to them. Now the situation has improved in companies that have younger workforce. There was also a strong protectionism in South Korea, and Fibox was one the first fully foreign owned companies in South Korea as most of the other companies entered via joint-ventures. The reason for this was that earlier in South Korea it was hard to operate as a foreign firm as there were some laws that forbid some operations such as owning an property. It's easier now to establish subsidiary compared to Japan, but it's easiest in China in a business section that does not have specific regulations. Also in South Korea, the workers might not have individual decision making skills. It's a more important for a leader to be present in all decisions, as the South Korean workers are less independent than Finnish workers. There is also no right or wrong in South Korea the same way there exists in Finland, but the most important thing is how everything is agreed about and what higher level decides. Also relationship network is truly important. The bigger, and more important the company is, the harder it's for it to work as it also has to respect every relationship it has with customers or other firms.

Fibox sales technique changes depending on the country as the way customers are divided is different in countries. In South Korea they also had to localize the products, and they also receive more detailed orders in South Korea than in Finland. So it's more important to customize the products according to each customer's preferences. Currently they have one expatriate in their office. The H&R management is easier this way, and the company regards using expatriates as expensive and somewhat risky. However, one problem with the local workforce is that there is a lack of special knowhow. Everyone is trained similar way, and if a person does have special knowledge, they will prefer to work for a well-known Korean company in Seoul rather than a small sized Finnish company in Incheon. The firm's background and reputation is truly important for South Korean workers. Main problem is the lack of English language skills. According to interviewee, the reasons why Fibox was successful in Korea, are the following: they had an actual demand for their products and services in South Korea, and they had conducted an extensive research about South Korea and thus had local knowledge. If possible, the interviewee would have liked to invest earlier to products that are only sold in Korea. The advice the interviewee gave to other Finnish companies was mainly to do proper research and have an actual demand for their products in South Korea.