



Spotlight on South Korea

Understanding the South Korean Consumer

In the 1950s, South Korea was as poor as India. But from the early 1960s to the late 1990s, it was one of the world's fastest-growing economies. Today, South Korea ranks as Asia's fourth-largest economy, and it boasts GDP per capita of about \$32,000. The country's wealthy, urbanized population has made it a highly attractive market for domestic and international retailers alike.

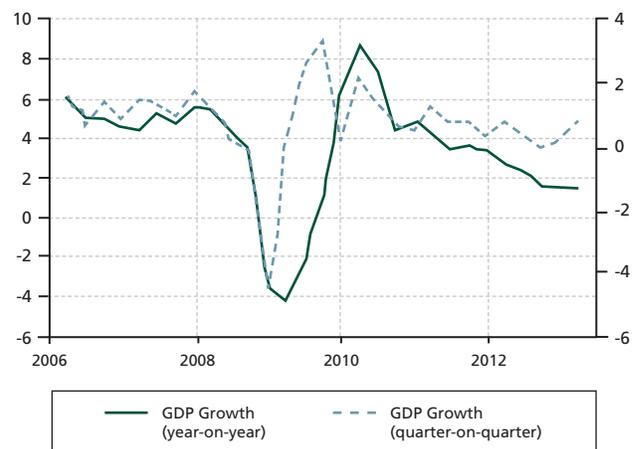
Lately, however, this Asian Tiger has seemed sluggish and short of breath. In the second quarter of 2013, GDP rose a modest 2.3% year-on-year. Consumer spending has also been lackluster, due to a combination of economic uncertainty and what the Bank of Korea has described as "a pileup in household debt." In 2012, the country's ratio of household debt to disposable income hit a record 136%, up from 103% in 2004. Kim Choong-soo, governor of the central bank, recently warned that the nation's household debt had "reached a limit."

This environment of slow growth and high personal debt has made South Korean consumers cautious. Many are seeking better value for money when purchasing undifferentiated goods, and private brands, which are relatively inexpensive, have outperformed as consumers have grown more price-conscious. Likewise, many shoppers have embraced medium-quality clothing brands such as SPA, which had a compounded annual growth rate of 58% from 2008 to 2012, versus 4% for the apparel market as a whole. Low-cost airlines have also received a boost from bargain hunters, growing 18.4% in 2012 alone.

This emphasis on spending money more efficiently has also been a boon for premium outlet stores. Their sales grew 41% from 2011 to 2012, while sales growth at department stores has remained relatively weak. Indeed, an anti-consumption movement has led many middle- and lower-class consumers to shun department stores, choosing to shop instead in outlets and discount stores. By one estimate, Koreans make 68% of their purchases during sales periods, compared with 57% in the U.S. — another reflection of this heightened focus on receiving value for money.

Still, not everyone is feeling the pinch. While many people are strapped, the richest consumers are spending more than ever. One leading department store reported that the top one percent of shoppers accounted for 20% of its revenues in 2012. The luxury market has grown rapidly in recent years, driven by these heavy-spending VIPs. South Korea's fashion-conscious elite has attracted an array of high-end companies, including LVMH, Ferragamo and Chanel. However, even in the luxury market, there are plenty of bargain seekers. This has led to a boom in online sales of used luxury goods.

Figure 1
South Korea GDP Growth



Source: Trading Economics

The halcyon days of the 1990s boom may be long gone. But GDP is still rising, buoyed by exports and construction investments.

South Korean consumers are typically well-educated and well-informed. The national literacy rate is 98%. The country also has the world's best IT infrastructure, with exceptionally wide use of high-speed Internet and smartphones. Consumers tend to be tech-savvy, and this has strongly influenced the way they shop. Many use social media to search for information about potential purchases and to share their own product reviews. A 2012 survey by Embrain Trend Monitor found that 79% of customers check user reviews before making purchases, and 74% said they have written evaluations and reviews. These technology-minded consumers are well-positioned to judge the value of products, and also to find the best prices for the best products.

Another important trend in South Korea is the steady rise of single-person households. The proportion of Koreans living alone rose from 16% in 2000 to 24% in 2010, and it's expected to reach 30% by 2020. These consumers place a premium on convenience and efficiency. As a result, sales of pre-cooked rice soared by an average of 21% annually from 2008 to 2011, while the food market as a whole grew only 3-4% annually. People living alone are also fueling a boom in rentals of everything from cars to property to home appliances.

In general, more and more South Koreans are now loath to shop in inefficient and time-consuming ways. Neighborhood convenience stores are increasingly popular because they offer quick and easy access to busy shoppers. Online commerce is also growing at breakneck speed since it allows consumers to save both time and money.

Retailers that understand these powerful trends will find considerable opportunity for growth in South Korea as the economy continues to recover. The key will be to meet the needs of the country's increasingly discerning, demanding and well-informed consumers.

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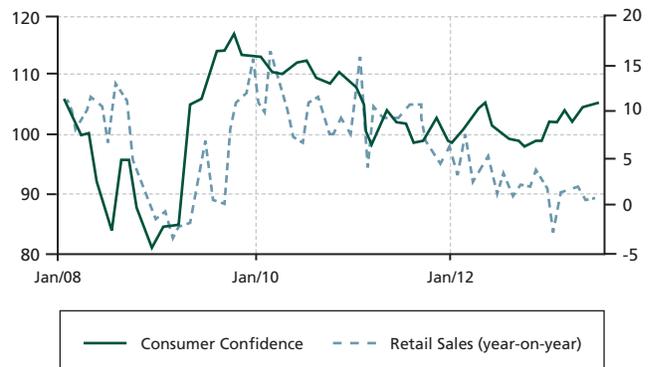
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Figure 2

South Korea Consumer Confidence and Retail Sales



Source: Trading Economics

Consumer confidence has gradually recovered from the lows of 2008, but retail sales have been growing at lackluster pace.