

Successful Importing in Korea

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Overview

The following is a discussion of the advantages and disadvantages when considering importing into Korea. There are a number of key success factors as well as several issues to consider when utilizing the services of import agents:

Advantages

Imports offer:

- Immediate access to markets
- Opportunity to utilize existing production capacity offshore

Disadvantages

- Strong resistance to imports, preference for domestic supply
- Subject to currency exchange risk
- Subject to duties and bureaucratic procedures
- Can be difficult to be price competitive

Key Success Factors

- Support: Must have local support for marketing and problem resolution and regular support from the home office:
 - Quick response to requests for technical support
 - Quick & rapid after sales service response
 - Regular personal visits (minimum four to six times per year by technical sales personnel).
- Technical Service: Problems must be resolved quickly. Distance between the customer and the supplier puts extra pressure on response by phone, fax and rapid dispatch of technical personnel. Consistency of personnel is important.
- Inventory: Someone, either the agent or the customer, must maintain inventory to avoid possibilities of stock outs, sudden fluctuations in demand and interruption of supply (problems at the factory, difficulties with products en-route). High inventory can result in high working capital requirements.

Considerations when Using an Agent:

- Exclusive Agencies: Be cautious about signing long-term exclusive agencies prior to careful study of the local situation. Changing agents is difficult and not well received by buyers.
- Conflict of Interest: Many agents represent competing companies and products.

- Synergistic Products: Ideally, an agent would already represent complimentary products. Unless the supplier's product line is sufficient to support an agency (in which case a sales subsidiary should be considered), the agent must have a healthy line of items to support his overhead. A small turnover will increase the agent's markup and reduce the competitiveness of the supplier's products. Similarly, if the products are too diverse, the agent will divide his efforts among too many different industries and fail to serve any of them effectively.
- Trading License: Always check the license of the potential agent with relevant government authorities. An agent should be a member of the Association of Foreign Trading Agents of Korea (AFTAK) and have a *Class A* trading license. This will allow him to import products for resale. Other firms are only permitted to act as commission agents arranging sales in Korea for direct import from the supplier by the end user. Companies which do not have a *Class A* license are unlikely to have the commercial strength required to be a good agent.
- Supervision: Companies opting for a local agent should devise a system of supervision and review of the activities of the agent. Either very frequent and extended trips to Korea by a technical salesman from the home office should be planned or a reliable individual in Korea who could observe the activities of the agent, perform follow up functions, respond to the supplier's ad hoc requests for information and provide regular status reports are would greatly increase the performance of a local agent.
- Inventories: Due to the high cost of financing, few agents or distributors are able to maintain substantial inventories of products. They are unable to take advantage of credit terms which their suppliers are willing offer. Many creative business structures have been developed to attempt to extend local credit terms. One effective solution has been for foreign firms to incorporate a local subsidiary in order to finance imports.
- Trading Subsidiary: When a subsidiary is established, the foreign company is permitted to import investment capital. The subsidiary uses this investment capital to open letters of credit to the parent company and import the required local inventory. As the inventory is sold, the proceeds are used to finance subsequent L/C imports of the products. In this way, foreign companies have been able to maintain a local inventory and extended credit terms to local customers.