

Investing in South Korea

Foreign investment: Every little helps in the local culture

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Tesco's most valuable market outside Britain is South Korea and its growing presence there illustrates two golden rules of investing in Asia's fourth-biggest economy: choose an influential local partner and never try to impose Western management systems.

Ten years ago, Tesco struck a partnership with Samsung, then reeling from the Asian financial crisis of 1997-1998. It now runs 111 hypermarkets under the Homeplus brand and believes it can soon overhaul E-mart to become the leading chain in Korea.

Although Samsung has only a 5 per cent shareholding, the company brand is a talismanic symbol of quality for Korean shoppers and its executives were well placed to do the networking required to navigate a course through Korea's clannish business world.

In Tesco's biggest deal, it acquired Korea's Homever stores for almost \$1bn last year.

Tesco said its Korean operations achieved a robust growth in profits in the first quarter of this year but declined to give figures.

Seol Do-won, executive director at Homeplus, says Tesco has fared far better than other foreign investors such as Wal-Mart and Carrefour, because it has fully "localised" to the Korean managerial system.

Of Tesco's 20,000 staff in Korea, only four are expatriates. Although the shareholding is 95 per cent British, the offices of Homeplus in Seoul look exactly the same as any other large Korean corporation.

This integration into a very different culture has won Tesco praise among Korean bankers and analysts, who often cite Carrefour as an example of the opposite approach failing in Korea. They accuse the French company of arrogance for bringing in too many expatriates and trying to impose European management systems.

However, other local investors are more sympathetic to Carrefour, pointing to the fact that they sold out of Korea at a profit in 2006. In fact, some foreign investors accuse the Koreans of suffocating a good business model with regulations, while Carrefour decided its know-how would be better placed in other key markets, such as China and Eastern Europe.

US retailer Toys R Us has also proved successful in the Korean market through its partnership with domestic big-hitter Lotte Shopping.

Although Tesco's structure has remained very Korean, Mr Seol says the Koreans profited hugely from the UK retailer's scientific approach to pricing, marketing and sales.

"Britain's Tesco was flexible in its mindset and respect for local habits and the local customer and retail situation. Wal-Mart tries to stick to its own system and does not allow a local management style," he says.

"Other companies brought their own concepts from their own countries, which was just not suitable in Korea."

Many aspects of shopping at Tesco in Korea would be familiar to Britons and not just the supermarket's blue and red colour scheme.

The Clubcard system of accumulating credits for purchases has proved highly popular in Korea as has a graded quality of products called "Economy", "Tesco" and "Finest".

The supermarkets also offer insurance, dentistry, beauticians and food courts.

"Korean shoppers and British shoppers want exactly the same things. They care about price, parking space and speed at check-outs," says Mike Iddon, a former executive vice-president with Tesco in Seoul.

That said, Korean shoppers do want rather more squid and fresh fish.

Mr Seoul says Homeplus's cultural centres, where people can take advantage of everything from English classes to violin lessons, are proving a key part of the retailer's growth strategy, particularly outside Seoul.

"When we ask people why they are loyal to Homeplus stores in small and medium-sized towns, they say it is because of the cultural centres," Mr Seol says.

Homeplus runs 91 centres ? offering courses to 250,000 people. But its target is 1m customers within the next 12 months.

Peter Underwood, senior partner at IRC consultants, who advises foreign companies on entry into the local market, says not enough companies did the due diligence on getting a local partner with the right influence.

"If your local partner is from a Hyundai background, will he be able to sell to Samsung?" he says, referring to the conglomerates that dominate the economy.

He warns that far too many foreign investors leap into the market through the promise of lucrative contracts from a Korean middleman but these offers could hail from his immediate circle and he would be unable to find more buyers later on.

He adds that foreigners have also assumed that joint ventures with local partners are necessities in Korea, whereas a project could work better with a contractor or consultant.

"It often proves very expensive to buy out your Korean partner," he says.

"There are still plenty of cases when we would advise that you are better off without a local partner."