Market Research on Korea's Organic and Natural Products

Contents

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1. DOMESTIC CONSUMPTION, TYPICAL TRENDS

10 Consumption Tendencies by the "Green Consumer"

- Prefer eco-friendly products
- Think of how to get rid of the products after use
- Prefer reusable products
- Additional spending on eco-friendly products
- Actively promote eco-friendly products to others
- Choose reusable ingredients
- Detest chemicals that are harmful to health
- Choose local products
- limits using single-use, disposable items
- Prefer brands that list environmental information

2013 Domestic Distribution Industry Observation

> Expansion of Value Consumption

A. Reinforcement of purchase standards in the Era of Low Growth

- Appearing of fussy standards in choosing products
- Multipolarization of Consumption
- Fragmentation of regular customers
- Show rooming

B. Expansion of Consumption in relation to self-worth (continuous purchase of foreign luxury brands - Expansion of the male market such as imported clothing and watch)

C. Cross selling : Luxury brands for outdoor clothes, UNIQLO for inner wear

D. Multi Channel Consumption: Tendency to combine online, mobile shopping and offline shopping

E. Expansion of compact products due to the increase of single person household

Smart Shopping

A. Generalization of mobile Commerce

- Increase in the expansion of mobile distribution due to advancement of IT devices. With 30 million smart phone users, consumers who initially moved from offline stores to online stores have now moved to mobile shopping.

B. Establishing the foundation for Smart Shopping

- Simple payment method and improvement in security → Enlargement of Consumer's credibility
- Expansion of supplying large screen smart pads → Increase the efficiency of delivering product information by improving Consumer's readability
- Secured simple way to shop through developing various smartphone applications

↓

Secure consumer convenience by developing apps and modifying mobile sites

Curtesy of Deloitte Anjin LLC

2. DISTRIBUTION OF BUYERS

Survey on consumers' preference and purchase intention towards processed organic food on target of married women in their twenties and older living in metropolitan area (Seoul, Kyunki-do, Incheon).

Method :

a) 400 experienced consumers of processed organic food were surveyed by the market research company between January 13th and 20th, 2011

b) 103 unexperienced consumers of processed organic food were surveyed by the consumer panel of Agricultural Outlook centre in the Korea Rural Economic Institute between January 18th and 19th, 2011

Characteristics of surveyed:

a) 400 Experienced Consumers:

- 40 people in their thirties (10.5%)
- 182 people in their forties (45.5%)
- 178 people are over fifties

The largest number is in their forties

- Income Level: 52.0% of people earn between 3 ~ 4million won.

b) 103 unexperienced Consumers:

- 70.9% are in their thirties and forties
- 58.3% of people earn 3 ~ 4million won

Results of the survey:

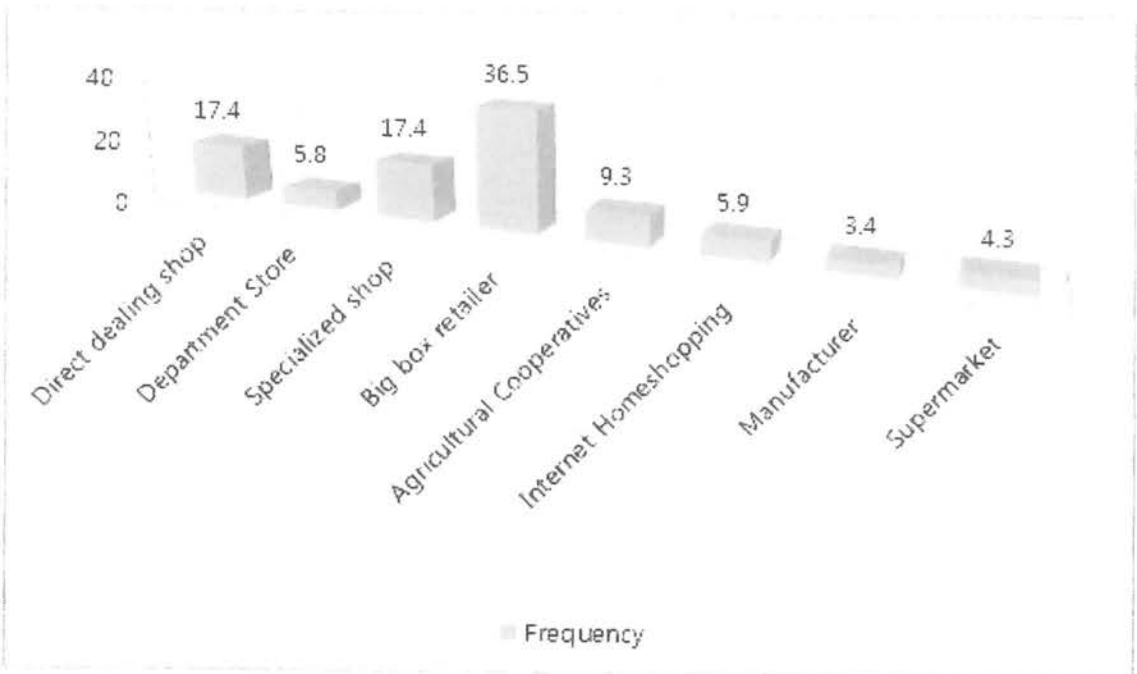
1) Average purchase frequency per month by category

Unit: Number

Category	Purchase Frequency
Rice foodstuff(rice cake, porridge etc.)	2.1
Wheat processed food(flour, noodle, bread etc.)	2.7

Baby food / Milk powder	1.6
Fresh side dishes (kimchi, tofu, vegetables etc.)	2.9
Seasoning, condiment(seasoning, sauce, oil etc.)	1.9
Refreshments (green tea, Korean tea etc.)	1.7
Drinks(apple juice, grape juice, onion juice etc.)	2.5
Snacks (cookie, snack, cereal etc.)	2.9
Others (jam, processed dairy product)	2.2

2) Preferred ways to purchase domestic processed organic food (Experienced Consumer)



3) Preferred purchase methods by age

Unit: %

	Direct dealing shop	Department Store	Specialized shop	Big box retailer	Agricultural Cooperatives	Internet Home shopping	Manufac turers	Super market
Twenties	6.7	8.3	18.3	48.3	0.8	13.3	0.0	4.2
Thirties	17.6	4.2	17.0	37.2	9.9	5.5	2.6	6.0
Forties	20.3	8.3	19.4	31.4	9.4	5.0	4.2	1.9
Over fifties	18.4	4.0	13.8	36.8	12.6	4.0	6.9	3.4

Courtesy of Actual consumption and homework in relation to eco-friendly agrifood, Korea Rural Economic Institute (2012)

3. ORGANIC MARKET GROWTH RATE AND STRATEGIES TO TARGET ORGANIC MARKET

Market growth rate in relation to organic products

A. Market breadth prospect for domestic eco-friendly agricultural produce by certification level

Unit: One hundred million won

	2008	2009	2010	2011	2014	2015	2016	2020
Organic	2,536	2,426	3,521	4,118	5,782	6,563	7,226	10,306
Pesticide free	9,193	13,178	15,026	18,449	28,026	32,426	39,249	55,976
Low pesticide	20,198	18,514	17,958	17,112	14,814	14,122	-	-
Total	31,927	34,117	36,506	39,678	48,622	53,111	46,475	66,283

In courtesy of the estimation by the Korea Rural Economic Institute (2010)

Market breadth of domestic eco-friendly agricultural products are estimated to be 3 trillion and 9,678 hundred million won in 2011 and 4 trillion and 8,622 hundred million won.

In 2016, low pesticide certification will be completely terminated and some of low-pesticide farms will turn into organic farming and pesticide-free farming. This will lead to 4trillion and 6,475 hundred million won by 2016, and 6trillion and 6,282 hundred million won by 2020. Importance of eco-friendly agricultural products in the entire agricultural market breadth is 11% in 2009 and expected to become 19% by 2020.

B. Market breadth prospect of processed organic food

Unit: one hundred million won

	2008	2011	2012	2015	2020	2025
Total	2,158	3,777	4,355	5,781	6,817	7,129
domestically produced	1,843	3,219	3,712	4,937	5,867	6,167
(Domestic ingredients Total)	296	480	549	790	1,203	1,439
(Imported ingredients Total)	1,547	2,739	3,162	4,147	4,663	4,727
Imported complete product	315	558	644	844	950	963

Note: Organic acreage's rate of change was applied to domestic ingredients of domestic produce. Organic acreage was estimated in attempt to distribute 20% of the entire cultivated acreage of 2020.

In courtesy of the estimation by the Korea Rural Economic Institute(2011)

Processed organic food was estimated to be 3,777 hundred million won in 2011, 5,781hundred million won by 2015, and 6,817hundred million won by 2020. Meanwhile, domestically produced processed organic food is estimated to be 3,219 hundred million won in 2011 and 5,867 hundred million won by 2015.

Strategies to target the market

Research on the awareness of organic food on 1.000 women aged 25-49 years nationwide.

Content:

1) The main factors that distracts consumers from purchasing organic agricultural product are:

- high cost (80.2%, overlapped answer)
- suspicious of the organic agricultural product's authenticity (61.1%)

Consumers tend to question less the authenticity as they buy more organic agricultural food, however, price is high-rocketing due to premiumization of products.

2) The most purchased organic food in the recent year:

- Vegetables (67.6%, overlapped answer)
- Fruits (62.5%)
- Snacks (58.3%)
- Tea, drinks, dairy products (50.4%)

- Mere purchase of fresh goods (83.1%) and processed food (81.1%)

- Types of organic food in which Consumers would surely purchase despite the high price are:

- vegetables (64.7%)
- fruits (46.3%)
- livestock and meat processed food (45.3%)

3) The major reason why they started using organic food:

- For the health of the family and oneself (71.9%, overlapped answer)
- Freshness (30.4%)
- Likes the eco-friendly concept that we co-exist with the environment (22.6%)

- Likes the taste and its functions (7.4%)

4) Monthly spending on organic food is:

- 10.000 ~ 30.000 won (26.5%)
- 30.000 ~ 50.000 won (23.1%)
- 50.000 ~ 100.000 won (21.3%)
- mostly less than 100.000 won

5) Organic food was mostly purchased at the specialized section in a supermarket (76.2%, overlapped answer). On the other hand, online shopping on specialized websites (20%) or organic products section on the internet shopping websites (19%) was low.

Conclusions:

- Increase of consumer trust: it is highly necessary to strictly manage, educate and promote organic certification marks and enlarge the product tracking management system
- Supply inexpensive and good-quality products
- Introduce food item that can be differentiated

Courtesy of Trend Monitor (2011.12)

4. PRICE

1) Retail Price Comparison between eco-friendly agricultural product and normal agricultural product

Unit: won/kg, Quantity-10

		rice	lettuce	green onion	onion	cucumber	tomato	tangerine	average
2011	organic(A)	4,178	12,306	7,534	3,753	11,587	6,587	-	-
	Pesticide free(B)	3,116	11,642	5,913	5,913	10,341	5,956	3,693	-
	normal(C)	2,189	8,440	2,591	2,591	6,800	4,804	2,674	-
	A/C	1.9	1.5	2.9	2.9	1.7	1.4	-	1.9
	B/C	1.4	1.4	2.3	2.3	1.5	1.2	1.4	1.6
2006	Pesticide free(D)	3,481	10,866	6,364	6,364	7,724	5,741	4,833	-
	normal(E)	2,128	8,560	2,522	2,522	5,717	4,175	2,669	-
	D/E	1.6	1.3	2.5	2.5	1.4	1.4	1.8	1.7

Note 1: Quantity of cucumbers and tangerines are 10and, the rest are per kg

Note 2: Lettuce is red lettuce, cucumber is pickling

Note 3: Used average price in Seoul and eliminated prices that are either too high or too low and shipping is too short.

Courtesy of Actual consumption and homework in relation to eco-friendly agrifood, Korea Rural Economic Institute (2012)

2) Domestically processed organic food (Domestic ingredients) Price premium

Type	Unit	Organic food			Normal food		Price Premium (a/b)
		Price (won) (a)	Manufacturing country (Ingredients)	Certification (Certificate Authority)	Price (won) (b)	Manufacturing country (Ingredients)	
Green tea	100g	14,333	Korea(Korea)	USDa (CUC[1])	4,000	Korea(Korea)	3.58
Scorched rice	100g	2,143	Korea(Korea)	Quality Certification (NAQS[2])	1,700	Korea(Korea)	1.26
Mixed Grains power	100g	2,200	Korea(Korea)	-	1,580	Korea(Korea)	1.39
Yogurt	100ml	1,311	Korea(Korea)	-	840	Korea(Korea)	1.56
Milk	100ml	750	Korea(Korea)	-	250	Korea(Korea)	3.00
Fermented soybeans powder	100g	7,667	Korea(Korea)	-	5,000	Korea(Korea)	1.53
Brown Rice snack	100g	3,857	Korea(Korea)	-	2,143	Korea(Korea)	1.80
Average							2.02

Note 1: CUC = Control Union Certification

Note 2: NAGS = National Agricultural Products Quality Management

Courtesy of Actual consumption and homework in relation to eco-friendly agrifood, Korea Rural Economic Institute (2012)

5. MARKET SHARE OF IMPORTED PRODUCTS IN PROCESSED ORGANIC FOOD MARKET

Domestically processed organic food market has expanded from 3,183 hundred million won in 2007 to 4,043 hundred million won in 2008. Major products are baby food, fruit juice, cereal, coffee, tofu and yogurt. Among them, processed product from imported ingredients are 1,379 hundred million won (78%) and imported complete products are 191 hundred million won (11%).

Imported processed organic food are 89% (1,570 hundred million won) of the domestically processed organic food market whereas 100% domestically processed organic food are 198 hundred million won (11%).

6. MAYOR IMPORTERS

1) Current state of import declaration of organic food by countries

Rank	Manufacturing Country (order of import)	Number	Rank	Manufacturing Country (order of weight)	Weight (kg)	Rank	Manufacturing Country (order of price)	Price($)
	Total	4,248		Total	28,715,652		Total	64,077,874
	Subtotal	3,205		Subtotal	24,153,429		Subtotal	49,115,514
1	USA	1,291	1	Brazil	4,293,951	1	USA	15,548,848
2	Germany	617	2	Australia	3,970,281	2	Australia	7,320,461
3	Italy	317	3	USA	3,797,519	3	Brazil	5,004,982
4	France	169	4	China	2,365,043	4	Turkey	3,887,028
5	New Zealand	166	5	Philippines	2,112,079	5	Columbia	3,367,391
6	China	166	6	Columbia	1,847,062	6	Italy	3,293,369
7	Philippines	124	7	Canada	1,582,908	7	China	2,759,543
8	Brazil	123	8	Italy	1,522,206	8	Canada	2,708,631
9	England	117	9	Peru	1,439,913	9	New Zealand	2,616,383
10	Canada	115	10	Turkey	1,222,467	10	Germany	2,608,878

In courtesy of Korea Food & Drug Administration (2012)

PART II NATURAL COSMETICS

1. DOMESTIC ORGANIC COSMETIC MARKET CAP

Classification	Market Cap	Percentage
Cosmetic Market	Approx. 8 trillion and 9 thousand won	100%
Organic Cosmetic Market	Approx. 89 thousand million won	Roughly 1%

Source Amore Pacific

- In 2012, domestic cosmetic market cap is expected to surpass approximately 10 trillion won
- Organic cosmetic market cap is expected to be around 100 billion won
- The tendency of the world affairs shows that organic cosmetic market will continue to increase in importance

Current status of manufacturers by cosmetic types [Output of domestic cosmetics by types]

[Unit:100million won,%]

Rank	Type	2011	Component Ratio
Total		**63,856**	
1	Base Make-up product	27,305	42.76
2	Cosmeceuticals	16,418	25.71
3	Hair Product	9,772	15.30
4	Color Cosmetics	3,124	4.89
5	Personal Cleaning Product	2,624	4.11

6	Eye Color Cosmetics	1,641	2.57
7	Shaving Product	1,133	1.77
8	Product for infants & toddlers	612	0.96
9	Perfuming product	427	0.67
10	Manicure & Pedicure product	366	0.57
11	Hair dye product	362	0.57
12	Bath product	55	0.09
13	Deodorant product	17	0.03

Product types of Korean organic cosmetics are concentrated in:

- Base-make up product (Innisfree, O'SUM)
- Products for infants & toddlers (Pureganic Ecoline by Boryung, Skinvery Nature)
- Bath products (Happybath)

2. MARKET CAP BY DISTRIBUTION CHANNELS

[Unit: Based on Consumer price 100 million won,%]

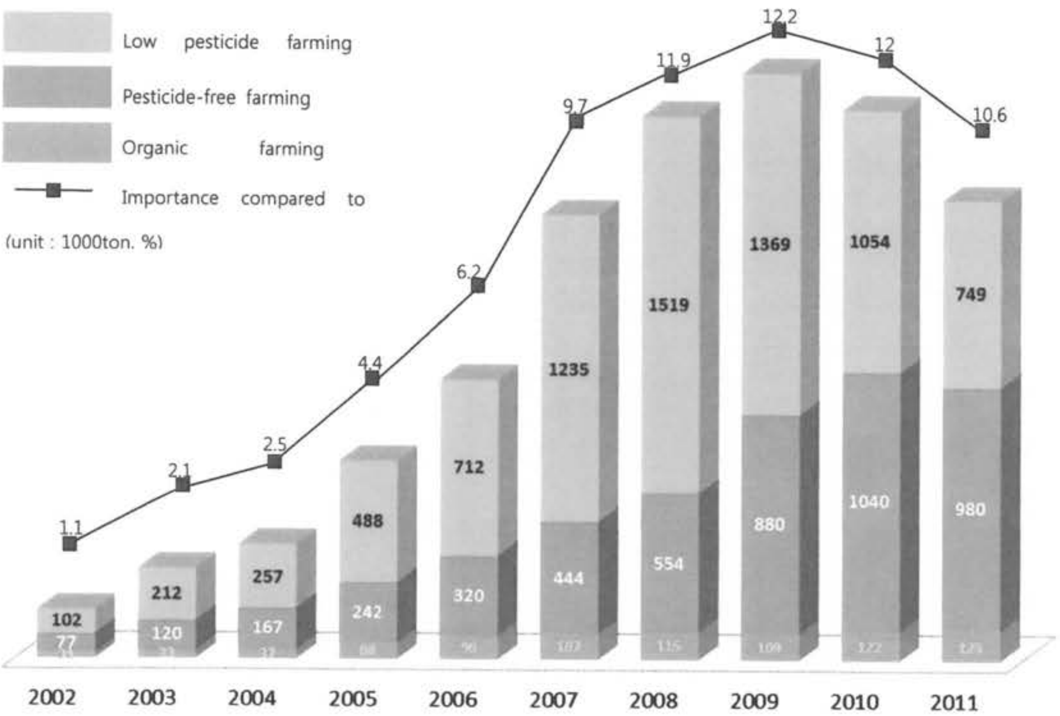
Categorization	Channel	2012 (E)		
		Market Cap	Growth rate	Relative importance
Road shop	Average shop	2,600	-3.6	2.7
	One brand shop	13,500	32.1	13.9
	Multi brand shop	10,300	12.6	10.6
	Subtotal	26,400	19.0	27.1
Shop in shop	Dept. Store	25,200	9.6	25.9
	Mart	9,770	6.7	10.0
	Subtotal	34,970	8.7	35.9
Personal selling	Door to door	23,300	7.9	23.9
	Direct sales	3,000	0.0	3.1
	Multi-level marketing	3,000	7.1	3.1
	Subtotal	29,300	6.9	30.1
Telemarketing	Internet	2,350	11.9	2.4
	Home shopping	4,450	8.5	4.6
	Subtotal	6,800	9.7	7.0
Total		97,470	9.1	100.0

Note: 2011(E), 2012(E) are estimations and the increase rate is compared to that of previous year.
Courtesy of Amore Pacific Team MI

Organic cosmetics are distributed through:

- Internet shopping malls
- Specialized organic shops
- Major big box retailers
- Recent expansion to H&B shops

3. PRODUCTION TREND OF ECO-FRIENDLY FARMING PRODUCTS



Courtesy of Ministry of Food, Agriculture, Forestry and Fisheries National Statistical Office

- Eco-friendly farming market 1.7trillion won in 2005 → Expected to increase to 5.3trillion won by 2010 [Korea Rural Economic Institute]
- Importance of eco-friendly farming production in relation to total in 2011: 10.6%
- Importance of organic farming products among eco-friendly farming products: 6.6%
- Importance of organic farming production in relation to total farming products: 0.7%

Organic ingredients' increasing reliance on foreign produce

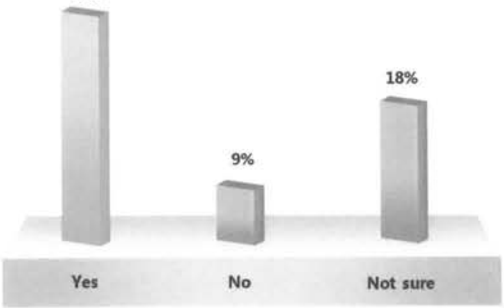
Cause:

Lack of raw materials	Price competitiveness	Lack of processing facilities
Lack of organic arable land → 0.7% of all arable lands	Decline of production per unit area and harvest rate, high labor costs → Increase in the price of ingredients	Lack of manufacturing facility in the arable land of raw materials →Transmutation during circulation →Small cosmetics ingredients company's → Lack of storage facility

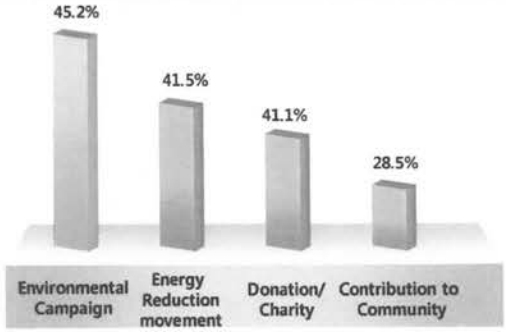
BIO EXPORT

4. ETHICAL CONSUMERISM SURVEY

Would you purchase ethical products if price and quality are similar?



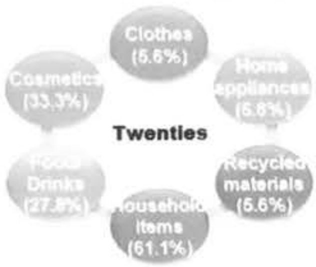
What constitutes an ethical product in terms of manufacturer?

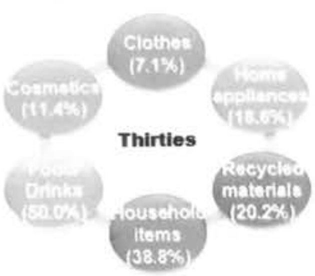


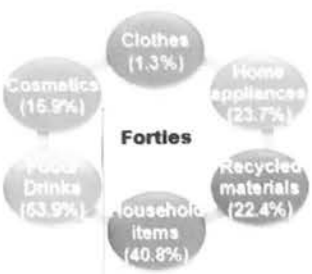
Courtesy of Korea Chamber of Commerce and Industry (2012.05)

Ethical consumer products by age

	Clothes	Cosmetics	Food/ Drinks	Household items	Home appliances	Recycled materials
All	4.6	15.9	45.4	43.0	20.2	22.8
The twenties	5.6	33.3	27.8	61.1	5.6	5.6
The thirties	7.1	11.4	50.0	38.6	18.6	20.0
The forties	1.3	17.1	53.9	40.8	23.7	22.4
Over 50	5.1	15.2	40.6	44.2	21.0	27.5







Courtesy of Korea Chamber of Commerce and Industry (2012.5)

5. SWOT TABLE

Strength	Weakness
Cosmetic market growth over 10% per year Popularity of eco-friendly and well being products	Foreign organic ingredients dominate the market in advance Vulnerable manufacturing facilities and distribution of domestic organic ingredients Limited distribution channel
Opportunity	**Threat**
Expansion of federal and local governments support for organic farming products Development of specialized certification institutes for organic cosmetics	Lack of understanding and trust regards to organic cosmetics [ingredients, certification institute, effectiveness] Increase in market share of imported cosmetics