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Coffee Market Brief Update

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Coffee

Approved By:

Kevin Sage-EL, ATO Director

Prepared By:

Youngsook.Oh, Ag. Marketing Specialist

Report Highlights:

Korean coffee imports data showed 27 percent increase in value of \$527 million and 17 percent increase in volume of 134,000 Metric Tons in 2014 compared to the year 2013. Despite the economic down turn and health concerns, coffee industry resources expect to continue to grow by 10 percent annually for the coming years as the last four consecutive years have done. South Korea's per capita coffee consumption is five-times greater than consumption in the rest of the Asia - Pacific region and, the coffee market overall is estimated at about \$3 billion in 2014. As the younger generation continue to experience a western coffee culture and consumers demand premium, high quality coffee beans, this trend is expected to continue.

General Information:

Section I. Market overview

Chained specialist coffee shops recorded highest growth in 2014 with value sales up by 11%. Starbucks Coffee Korea leads cafés/bars in 2014 with value share of 4%. Coffee consumption by the average Korean adult increased 23.1 percent between 2009 and 2014 to reach 341 cups in 2014, most of the growth was by regular coffee such as espresso and other products brewed directly from roasted beans. Coffee is a more preferred form of hot drink in South Korea compared to tea. Consumers very much love specialty coffee shops, which showed continuously high growth during the last several years. Instant coffee and hard pod coffee are also taking a considerable share of the market. Hard pod coffee has shown sharp growth since 2007 with leading brands such as Nespresso and Dolce Gusto expanding their popularity. Tea is starting to gain popularity as more brands are entering the market and with existing brands lowering unit prices to compete against new competitors.

In 2014, there were about 12,000 specialty coffee shops, such as Starbucks and Café Bene, a 12 percent increase compared to the year 2013 and 140 percent growth since 2009. Most roasted coffee beans imported from the U.S. are handled by U.S. based coffee franchises such as Starbucks, Coffee Bean and Tea Leaf. In addition to these chains, fast food restaurants, such as McDonald's and Lotteria also import roasted coffee beans. Moreover, with demand surging among young Koreans for good-quality coffee served in a modern, comfortable environment leads to the popularity of coffee and the expansion of coffee franchisees. Because of the continued penetration of roasted bean coffee into the market, the growth is expected to be sustainable for the coming years. This shows that the previous competition between the high end franchise specialty coffee shops has moved into the more accessible region of the coffee market. Most of the roasted coffee bean imported from the U.S. is handled by the U.S. based franchise coffee chains such as Starbucks, Coffee Bean and Tea Leaf, etc. In addition to these stores, even the fast food restaurants, such as Macdonald's and Lotteria also showcased premium coffee from fresh beans at a lower price compared with that of other franchise shops.

Table 1: Coffee Imports in Korea by Year and by Country (HS: 0901 & HS:2101.1)

Country	2011		2012		2013		2014	
	\$1,000	MT	\$1,000	MT	\$1,000	MT	\$1,000	MT
World	699,306	128,533	581,529	113,556	502,390	121,341	594,137	139,447
Brazil	146,893	26,204	132,974	23,584	91,637	23,117	88,346	24,498
Colombia	114,053	17,782	70,671	12,678	56,763	14,155	82,991	19,394
Vietnam	88,529	38,985	79,093	36,269	75,223	36,251	71,807	33,452
Honduras	65,828	11,074	42,492	9,111	22,632	7,121	35,453	9,464
Peru	54,167	9,599	39,090	8,950	37,065	12,445	43,765	11,387
United States	29,505	2,223	42,651	2,742	47,096	3,621	44,517	3,533
Others	200,331	22,666	174,558	20,222	171,974	24,631	227,158	37,719

Source: Global Trade Atlas, HS0901 (Coffee W/N Roast or Decaff.), 21011 (Coffee Extracts Essence & Concentrate)

Table 2: Bean Coffee (HS:0901: Coffee W/N Roast or Decaffein) Import By Year in Korea

	2009	2010	2011	2012	2013	2014
Value (\$1,000)	\$276,284	371,612	618,626	477,206	415,479	527,290 (Up 27%)
Volume (MT)	100,576MT	111,625	121,855	106,119	114,352	133,732 (Up 17%)

Source: Korea International Trade Association (KITA), HS0901, (Coffee W/N Roast or Decaff)

Table 3: Instant Coffee (2101.11: Instant Coffee) Import By Year in Korea

	2009	2010	2011	2012	2013	2014
Value (\$1,000)	14,705	22,852	80,712	104,323	86,911	66,847
Volume (MT)	2,346	2,875	6,678	7,437	6,989	5,714

Source: Korea International Trade Association (KITA), HS2101.11

Table 4: Order of 10 Korean major Franchisee & Percentage of Growth in 2014

Order of 10 major Franchisee by Units	Percentage of Units Growth in 2014 compare to a year of 2013
1. Convenient Stores	+5 percent
2. Chicken Specialty Restaurant	+8 percent
3. Korean Food Restaurant	+11.9 percent
4. Liquor Specialty Bar	+7.3 percent
5. Pizza & Hamburger Place	+7.0 percent
6. Coffee Specialty Shops	+42.2 percent
7. Window Bakery	+1.7 percent
8. Korean Snack Bar	+26.5 percent
9. Auto Repair Shop	-0.1 percent
10. Medicine and Medical Supplies Shop	+2.5 percent

Source: Hankook Daily Newspaper – December 25, 2015

In 2014, Korea imported roughly \$594 million worth of coffee and this is approximately an 18%- rise from previous year. Korea's coffee import had been increasing since 2003 due to booming of the coffee franchises such as Starbucks, Coffee Bean and Tea Leafs. The coffee sector in Korea is promising as more people, especially younger generations are adapting to western cultures.

Section II. Market Sector Opportunities and Threats

Table 5: Korean Coffee Market Opportunities and Challenges

Opportunities	Challenges
The U.S. enjoys a good reputation for high quality coffee	Importers and consumers are unaware of the coffee varieties available from the U.S.
Korean coffee market depends entirely on imports	In terms of health consciousness, coffee has a negative connotation
Low tariffs and exemption from the special excise tax	In general, consumers tend to drink the least expensive instant coffee
Coffee is a popular and established beverage	Coffee product market is so competitive

Table 6: Korea Coffee Retail Sales by Year and by Categories

	Instant Coffee		Instant Coffee Mix		RTD Coffee		Roasted Bean Coffee		Instant Roasted Bean Coffee	
	\$Million	Growth	\$Million	Growth	\$Million	Growth	\$Million	Growth	\$Million	Growth
2012	135.1	-10.1%	1,223.4	4.3%	896.4	14.6%	40.3	7.9%	53.9	709.9%
2013	118.8	-12.1%	1,148.5	-6.1%	952.8	7.1%	38.4	-4.8%	92.8	72.3%
2014	105.0	-11.6%	1,037.8	-9.6%	970.6	1.9%	37.9	-1.1%	114.4	23.3%

Source: Korea Food Distribution Year Book 2015, Nelson(Bean coffee data from Link Aztec Retail Shops)

Table 7: Market of Chained Specialty Coffee Shops

	2013	2014	Percentage of Growth
Units of Franchisee	8,456	12,022	+42.2%
Number of Employees (persons)	36,673	54,616	+48.9%
Value sales per Franchisee	\$157.8 Million	\$168.2 Million	+6.6%
Value sales per Employee	\$36.4 Million	\$37 Million	+1.7%

Source: Hankook Daily Newspaper – December 25, 2015

1. Instant Coffee and Coffee Mix:

Instant coffee and coffee mix: Total sales of the instant coffee mixes in Korea in 2014 amounted to \$1.06 billion, down 9.4 percent from the previous year. Sales of the industry this year through the third quarter marked 5.7 percent decline from 2014. The instant coffee has been such a dominant coffee market sector and it still holds a highest portion of the coffee market share. The growth in the sales of coffee mixes primarily depend on its convenience, but recently, the growth is being carried by the premiumization of the instant coffee mix. As the quality of the coffee mix improves and is marketed to the consumers as such, there is a good chance that it will maintain its current popularity.

Table 8: Instant Coffee Markets by Year and by Brands

	DongSuh			Lotte Nestle			Others		
	Value (\$Mil.)	Volume (MT)	Market Share (%)	Value	Volume	Market Share	Value	Volume	Market Share
2012	\$100.2Mil	2,450MT	78.6%	28.2	570	18.3%	6.7	98	3.1%
2013	89.4	2,146	78.2%	22.9	492	17.9%	6.5	107	3.9%
2014	79.4	1,935	78.4%	20.1	443	17.9%	5.5	91	3.7%

Source: Korea Food Distribution Year Book 2015, Nielsen (based on retail shops)

2. Ready-To-Drink coffee:

RTD coffee showed significant growth during last several years, as drinking coffee became popular in South Korea's culture. However, as the RTD coffee market matured, the market recorded 4%-growth to reach \$1.1 billion in 2014. RTD coffee matured with a variety of products compete amongst others, and is shifting to premiumisation. Sales were driven by bigger-sized premium brands, as RTD coffee shifted to premiumisation. RTD coffee sales were driven by small-sized metal beverage cans, mostly 175ml, such as Let's Be by Lotte Chilsung Beverage. Even though this type of traditional metal beverage can still account for significant share of RTD coffee, growth is led by other types of packaging. As consumers became more likely to enjoy RTD coffee on-the-go, new types of packaging such as NB can, pet bottles, and plastic cup led sales growth. RTD coffee moved to premiumisation, other premium brands emerged in RTD coffee while the Starbucks brand in RTD coffee gradually lost its sole position in the premium segment. Starbucks products from Dongsuh Foods, Starbucks Frappuccino and Starbucks Discoveries, enjoyed rapid growth up until the beginning with the strong brand image of Starbucks on-trade café among Korean consumers, and its premium position in RTD coffee. As promotion in prices will continue, the constant unit price of RTD coffee is expected to decline in coming years. RTD coffee is expected to stagnate with a 1% growth in volume and value terms measured at constant 2014 prices. RTD coffee has become matured, and there is little room to attract additional significant demand.

3. Roasted bean coffee:

Coffee consumption by a Korean adult increased 23.1 percent between 2009 and 2014 to reach 341 cups in 2014, most of the growth was by regular coffee such as espresso and other products brewed directly from roasted beans. Chained specialty coffee shops recorded highest growth in 2014 with sales value up by 11%. Coffee is a more preferred form of hot drink in South Korea compared to tea. Consumers very much love specialist coffee shops, which showed continuously high growth during last several years. Korean coffee imports data showed 27-percent increase in value of \$527 million and 17-percent up in volume at 134,000 Metric Tons in 2014 compared to the year 2013. Hard pod coffee has shown sharp growth since 2007 with leading brands such as Nespresso and Dolce Gusto expanding their popularity. Most roasted coffee beans imported from the U.S. are handled by U.S. based coffee franchises such as Starbucks, Coffee Bean and Tea Leaf. In addition to these chains, fast food restaurants, such as McDonald's and Lotteria also import roasted coffee beans. Moreover, with demand surging among young Koreans for good-quality

coffee served in a modern, comfortable environment leads to the popularity of coffee and spread of coffee franchisees. In 2014, there were about 12,000 specialty coffee shops, such as Starbucks and Café Bene, a 12 percent increase compare to a year of 2013 and 140-percent growth since 2009.

Table 9: Roasted Bean Coffee Value Sales in Market by Year

	2013		2014		2015(estimate)	
	Value (\$Million)	Volume (Metric Ton)	Value (\$Million)	Volume (Metric Ton)	Value (\$Million)	Volume (Metric Ton)
Roasted Bean Coffee	260	13,700	308	15,900	330	17,000

Source: Industry Resources (Value was based on wholesalers price not retail price) by Korea Food Distribution Year Book 2015

- One of the major daily newspapers reported that the ‘2nd round’ of the coffee market war began in 2014, because major convenient stores have been launching regular brewing coffee machines in the stores such as Mini Stop, Seven Eleven, GS 25 and CU already with competitive quality coffee and price.
- In 2014, the Korean coffee market recorded 55% market share out of whole beverage markets excluding water and grain tea market, which is increased by 0.6 percent sales value compared to a previous year. According to an industry survey, above 20 years old Korean adult drank 592 cups in a year of 2014 at an average of 1.6 cups in a day.
- Starbucks is also working as the innovative coffee shops in South Korea. As of December 2014, 19 drive-through outlets are operating in eleven cities nationwide, which is one of the highest drive-through outlet numbers in the market. The company opened its first drive-through outlet in Seoul in November 2014. Starbucks states that the revenue sales of these drive-through outlets exceed more than 40% that of ordinary outlets. Starbucks Coffee Korea led sales in 2014. Even with many other specialty coffee shops entering and growing, Starbucks still possesses strong brand power and consumer loyalty.
- According to the Korea Consumer Agency, consumers feel that Starbucks has the best taste in coffee, Ediya Espresso has the most reasonable price, and Angel-in-us Coffee has the most preferable outlet interior. These were their reasons for visiting each chained specialist coffee shop. Accordingly, all three ranked amongst the top five brands in 2014 in value sales terms and recorded positive growth.
- Chained specialists coffee shops serve not only drinks but also light meals such as sandwiches, cakes, and other desserts with launching new menus each season. Specialty coffee shops as chains, led cafés/bars in 2014. Amongst the top ten brands in 2014, nine are chained specialist coffee shops, adding up to a combined value share of 16%.

Section III. Consumption Opportunities and Threats

Table 10: Units of Cafes/Bars by Year and by Category

	2009	2010	2011	2012	2013	2014
Bars/Pubs	132,981	132,546	132,431	130,801	124,850	118,884
-Chained	-29,499	-30,099	-30,599	-29,987	-29,077	-28,282
-Independent	-103,482	-102,447	-101,832	-100,814	-95,773	-90,602
Cafes	17,225	17,793	17,259	16,828	16,323	15,801
-Chained Cafes	-	-	-	-	-	-
-Independent Cafes	-17,225	-17,793	-17,259	-16,828	-16,323	-15,801
Juice/Smoothie Bars	62	73	112	136	151	132
-Chained	-62	-73	-112	-136	-151	-132
-Independent	-	-	-	-	-	-
Specialist Coffee Shops	5,156	7,065	8,481	9,526	10,904	12,206
-Chained	-2,400	-4,369	-5,881	-7,004	-8,286	-9,502
-Independent	-2,756	-2,696	-2,600	-2,522	-2,618	-2,704
Total Cafes/Bars	155,424	157,477	158,283	157,291	152,228	147,023
-Total Chained	-31,961	-34,541	-36,592	-37,127	-37,514	-37,916

-Total Independent	-123,463	-122,936	-121,691	-120,164	-114,714	-109,107
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Source: Euromonitor International from official statistics, trade associations, trade press, company research trade interview, trade sources

Table 11: Sales Value in Cafes/Bars by Year and by Category (Unit: \$Million)

	2009	2010	2011	2012	2013	2014
Bars/Pubs	12,586	12,565	12,535	12,141	11,522	10,905
-Chained	-3,896	-3,935	-3,975	-3,836	-3,590	-3,333
-Independent	-8,690	-8,629	-8,560	-8,305	-7,932	-7,572
Cafes	841	738	672	635	624	617
-Chained Cafes	-	-	-	-	-	-
-Independent Cafes	-841	-738	-672	-635	-624	-617
Juice/Smoothie Bars	25	40	38	46	48	41
-Chained	-25	-40	-38	-46	-48	-41
-Independent	-	-	-	-	-	-
Specialist Coffee Shops	958	1,554	2,027	2,336	2,675	2,949
-Chained	-763	-1,369	-1,852	-2,170	2,515	2,794
-Independent	-195	-186	-175	-166	-160	-155
Total Cafes/Bars	14,410	14,897	15,271	15,158	14,868	14,511
-Total Chained	-4,684	-5,344	-5,865	-6,052	-6,153	-6,168
-Total Independent	-9,727	-9,553	-9,407	-9,106	-8,715	-8,343

Source: Euromonitor International from official statistics, trade associations, trade press, company research trade interview, trade sources

Table 12: Global Brand Cafes – Brand Shares in Chained Cafes/Bars in Korea (Unit: % of Foodservice Value Sales)

Brand	Global Brand Owner	2011	2012	2013	2014
Starbucks	Starbucks Corp	5.1	5.8	7.5	9.0
Ediya Espresso	Ediya Co Ltd	2.2	3.1	4.5	6.4
Caffe Bene	Caffe Bene Co	4.4	4.9	5.1	5.2
Angel-in-us Coffee	Lotte Group	3.2	3.8	4.3	4.5
Twosome Place	CJ Foodville Corp	1.8	2.5	3.2	3.7
Tom N Toms	Tom N Toms Co	1.8	2.1	2.2	2.4
Tudari	Ewon Co. Ltd	2.9	2.6	2.4	2.4
Coffee Bean&TeaLeaf	International Coffee&Tea LLC	2.3	2.3	2.6	2.1
Pascucci	Caffe Pascucci	1.2	1.5	1.8	2.1
Others		75.1	71.4	66.4	62.2
Total		100	100	100	100

Source: Euromonitor International from official statistics, trade associations, trade press, company research trade interview, trade sources

- Chained specialist coffee shops recorded high value and volume growth. Independent specialist coffee shops performed negative value growth, while chained specialist coffee shops showed a sharp increase in both value and volume sales during the same period. Specialty coffee shops recorded strong growth in 2014, however, due to the declining trend in other categories such as bars, pubs, cafés, and juice & smoothie bars, total cafés and bars showed negative growth in the same year.
- Even after continuous growth in the past years, chained specialty coffee shops managed to show value sales growth of 11% in 2014. Independent specialty coffee shops, however, are suffering due to lack of strong brand power and low customer loyalty. Also, consumers use specialty coffee shops as a place to gather and chat, study and spend time while they are enjoying cup of coffee. Independent specialty coffee shops are less popular because they lack such space due to their limited size.
- Cafes for juice and smoothie recorded for highest decline amongst cafés/bars in 2014, with value sales down by 15% and outlets decreasing by 13 percent. Competition comes from specialty coffee shops also offering quality juices and smoothies, thus also affecting the juice/smoothie bars category.
- Juice and smoothies are more preferred during summer time, and without strong merit during other seasons, thus juice/smoothie bars are recording disappointing sales over the year.

1. Premiumization

- There has been ongoing controversy that chained specialty coffee shops prices are way too high compared to its cost of production or quality. Such opinion has led to sales increases of brands that have reasonable prices: Ediya Espresso recorded value sales growth of 40% in 2014 compared to 19% growth for Starbucks. If chained specialty coffee shops continue to set high prices regardless of such opinions, the market may lose its share to other competitors such as independent specialty coffee shops, hard pod coffee and instant coffee. In order to see constant healthy growth, chained specialty coffee shops will need to be cautious in executing pricing strategy.
- Korea's coffee industry has grown up 50 percent over the past three years, seeing an explosion in both import and consumption to its place as 11th largest coffee market in the world. South Koreans are now amongst the top global consumers of coffee, and the country is home to over 12,200 coffee shops. Seoul itself boasts the highest concentration of coffee shops in any city in the entire world. Each of the various coffee formats has role to play for coffee lovers. Meanwhile, take-away coffee from cafés is selected primarily for their taste, while the outlets are easy to get to and offer a cozy atmosphere. Drip coffee is chosen primarily for its taste, while low price and variety of flavors also rank highly for consumers. Canned coffees are primarily selected for their low prices, and consumers tend to be loyal to their brands. Convenience was also an important factor.
- Chained specialty coffee shops will continue to show high growth amongst Cafés/bars. By year 2019, value sales of chained specialty coffee shops expect a 26% market share of total cafés/bars market. This is sharp growth considers the ratio was 19% in 2014 and only 5% in year 2009.
- A trend of capturing both sales demands will be noticeable across other markets such as a combination of specialty coffee shops and street stalls/kiosks, ice cream fast food and specialist coffee shops in the near future.
- A spacious outlet area is required to set up a drive-through system and many chained specialty coffee outlets located in city area cannot afford to build such a system while they even lack parking space due to expensive rent. Takeaway is growing in cafés/bars. Drive-through was not common in Korea in the past, however, chained specialty coffee has contributed highly to this trend.

2. Health and Wellness Trend

Korean consumers are also very health-conscious. For example, it is easy to find some organic coffee in the grocery stores these days. The recent favor for the black coffee also stems from the awareness for the benefit of the black coffee, introduced in media. Nevertheless, considering the recent focus on the health and wellness, if suitably targeted and advertised, may bring decaffeinated coffee into demand. Not to mention the fact that decaffeinated coffee is still not very well known in Korea. The use of instant coffee also decreased with the knowledge that prima (the white substance that is used to soften the taste of coffee) is bad for health while roasted bean coffee sales rises dramatically over the past few years. Thus it would be a good strategy to advertise a coffee product with relation to the health benefit it has. On the other hand, experts in coffee industries doubt the potential popularity of decaffeinated coffee because Korean locals are accustomed to caffeinated tastes and giving stimulus to their system is one of the main reasons for their caffeine consumption.

Section IV. Market Access

Duties on unroasted coffee were removed immediately upon implementation of the KORUS FTA agreement. Duties on roasted coffee and instant coffee will be phased-out in five equal annual stages and these coffees will enter duty free in year five of the Agreement.

Table 13: Tariff Phase-Out Schedule under KORUS

HSK 10	Description	Base Rate	2012	2013	2014	2015	2016
0901 11 0000	Caffeinated, unroasted	2%	0	0	0	0	0
0901 12 0000	Decaffeinated, unroasted	2%	0	0	0	0	0
0901 21 0000	Caffeinated, roasted	8%	6.4	4.8	3.2	1.6	0
0901 22 0000	Decaffeinated, roasted	8%	6.4	4.8	3.2	1.6	0
2101 11 1000	Instant Coffee	8%	6.4	4.8	3.2	1.6	0

Section V. Key Contacts and Further Information

1. For more information: Please contact the U.S. Agricultural Trade Office, U.S. Embassy Seoul, Korea, at atoseoul@fas.usda.gov, Tel: 82-2-6951-6845, Fax: 82-2-720-7921, Or visit www.atoseoul.com. Please note that our homepage also has a [special section](#) dedicated to the Korea-U.S. Free Trade Agreement.

2. Other Relevant Reports: You may find more information on Korean market reports at www.atoseoul.com: such as
1. FAIRS Country Report 2. Exporter Guide 3. Retail Foods Sector Biennial Report 4. Food Processing Ingredient Market Brief

3. Suggested Marketing Tools: Please let us know if you want to have your product offers featured in the 'New American Supplier/Product' section in our quarterly e-newsletter, which is sent out to our 3,000 industry contacts. It is free of charge, and all we need is a brief article about your company/product, contact info, and a couple of graphic images (logos or product photos). Next issue is published in March 2016.

4. Local Show Participation: Seoul Food & Hotel (www.seoulfoodnhotel.co.kr), the leading food trade show in Korea that provides a venue for new to market suppliers to develop contacts with a large number of local distributors and buyers. This is the only show in Korea that is officially endorsed and supported by USDA/FAS. The show schedule for next year is May 14-17, 2016. There will be a sizable U.S. pavilion in the show put together by various American Ag promotion agencies and state departments of agriculture. For registration information, please contact the U.S. pavilion manager, Oak Overseas (Russell Hood, Rhood@oakoverseas.com).