

ADVERTISING IN KOREA:
AT THE CROSSROADS OF MATURITY

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INTRODUCTION

The Korean advertising industry, like much of the rest of the Korean business environment, has a short history of only about two decades. Yet despite its relatively short existence, its growth has been so rapid that it is now second only to Japan in total billings in Asia, taking in over U.S. \$ 1 billion annually (Korea Times-a 1988).

This phenomenal growth rate has occurred in spite of the fact that Korea's market is one of the most closed in the world among all the "Free World" nations of Asia. There were only two other countries that didn't permit any foreign investment in domestic advertising businesses: Pakistan and Indonesia (Business Korea-h 1987).

Given this unique environment, the purpose of this paper is to provide a brief summary of the current situation and future trends of the Korean advertising industry. It is hoped that the paper offers valuable informational and educational materials for educators. It's also hoped that it provides a basic understanding of the Korean market for potential foreign marketers.

ECONOMIC GROWTH AND ADVERTISING

Some empirical data seem to show that per capita GNP and advertising as a percentage of GNP were directly correlated; that is, the higher per capita GNP, the higher the advertising as a percentage of GNP. As a country's income rises, an even greater potential market for goods and services is created and accordingly a greater incentive to engage in advertising is formed (Keegan 1988).

The Korean economy has sustained its growth at the average annual rate of about 10 percent during the past decade. As a consequence, Korea's per capita GNP has increased from \$91 in 1962 to about US \$3,000 in 1988, and there is every expectation that it will reach to \$5,000 in year 2000 (Korea Times-b 1988). Furthermore, recent switch from deficit to surplus in the balance of trade, open-market policy and rapid Won appreciation is creating a greater incentive to engage in advertising in Korea.

As a result of its tremendous economic success, the Korean advertising industry is now approaching a significant turning point as it attempts to shed its infancy and strive toward maturity. As it has begun making this transition, the industry has suffered, and will continue to suffer, many serious growing pains, and will continue to face many challenges. Among the most prominent of these will be responding to the increasing pressure (primarily by the United States) to open the industry to investment by the rest of the world; the domination of the industry by a handful of major in-house agencies; the increase in frequency of serious competitive battles for market share; overcoming the shackles of strong government regulation; the lack of media auditing and surveys; and making the transition from a distribution-oriented market to a consumer-oriented one.

As per capita GNP of the average Korean citizen approaches \$5000, domestic consumers are facing an increasing number of choices for products and services. With but a quick glance at any of the current television commercials, with their 21st Century graphics; or at any of the myriad of newspaper or billboard ads in Seoul soliciting everything from ginseng energy drinks to compact disk players and fashion jeans, it can be seen that the advertising industry has responded admirably to the needs of this new wave of increasingly affluent consumers.

In 1985, total advertising expenditures reached 739.3 billion Won (US\$ 1.02 billion), and 8.2% improvement over 1984. And while even this growth rate would seem healthy by most standards, since 1977, the Korean industry enjoyed an average growth rate of a remarkable 28.4%. In comparison with 1985, the industry's total billings in 1984 were 683.3 billion Won. (See Table 1.)

In 1987, the industry growth rate rebounded to an 18.8% rise, as the nation's advertising was primarily concentrated in the manufacturing sector, in contrast to Japan, which has made the transition to other industries, such as marketing, real estate, and leisure services. Pharmaceuticals took the largest share of the Korean market, at 13.9%, with cosmetics and detergent at 6.8%, home goods at 6.6%, and electric and electronic goods taking 6% of the market (Korean Times-c 1988).

TABLE 1

Top 10 Ad. Spenders:
1984-1985

1985		(Unit: 1,000 won) (US\$1=860 Won) 1984	
Company	Amount	Company	Amount
1. Samsung Elect	13,825,747 (\$19.2 mil)	Pacific Chea	13,975,122
2. Goldstar	13,293,104	Goldstar	12,240,185
3. Pacific Chea	11,435,995	Samsung Elect	12,067,237
4. Daewoo Elect	11,325,561	Daewoo Elect	12,039,437
5. Jeil Sugar	9,149,383	Lucky	11,465,159
6. Whongshin	7,796,122	Whongshin	8,259,324
7. Lucky	7,536,690	Jeil Sugar	7,546,548
8. Yuhan	6,308,057	Yuhan	6,349,409
9. Haitai Conf	6,078,243	SaaYang Foods	5,950,442
10. Dong-A Phara	6,042,545	Haitai Conf	5,398,067

Source: Business Korea (7) June, 1987, p. 56)

There are at present 12 agencies which are given broadcast permission by KOBACO. Of these 12, 9 are in-house agencies, and 5 of those 9 generate more than 40% of their business from in-house accounts. During 1987 the combined in-house billings equalled 22% of the total advertising expenditures in Korea.

TABLE 2

1986-87 Korean Agencies' Billings

Agency	Billings 1987 ('86)	Growth Rate (%)
Korea First Advertising	131.7 (101.6)	+29.6
Daehong	92.6 (70.9)	+30.6
LG Ad	86.4 (58.5)	+47.7
Oricom	85.6 (83.0)	+ 3.1
Korad	64.6 (39.0)	+65.6
Union	56.5 (49.9)	+13.2
Dongbang	43.4 (31.5)	+37.8
Diamond	32.1 (20.4)	+57.3
Samhee	25.9 (18.9)	+37.0
* Seoul	21.1 (19.4)	+ 8.7
* Nara	15.6 (9.4)	+65.9
* Geoson	15.2 (-)	--

Note: 12 KOBACO accredited agencies only
Figures in US\$ million. * = non-affiliated firms.
Source: Business Korea (1), April, 1988, p. 54.

In 1987, the business volume of the 12 largest advertising agents in Korea showed an average growth rate of 36 percent. Nara, a non-affiliated agency, recorded the highest increase of 65.0 percent, followed by Korad with 65.6 percent, Diamond with 57.3 percent, and LG Ad with 47.7 percent, and Korea First, the industry leader, posted 29.6 percent.

THE CURRENT PROBLEMS

The number one challenge facing the Korean advertising industry is the issue of liberalization. According to the Ministry of Culture and Information (MCUI) in spring, 1986, the industry was on the verge of liberalization, as it was predicted that market opening could be realized as early as the second half of 1987, with foreign ownership limited to at best 30% of any agency joint ventures.

However, as of April, 1988, the predicted stampede by foreign agencies who were eager to set up joint ventures with local companies has not occurred. There are several reasons behind this. Many domestic ad agencies, and especially those affiliated with the large conglomerates, are reluctant to transfer any of their paid-in capital for the formation of joint ventures. Also, since most of these agencies are affiliated with the "Chaebol" conglomerates, they feel that they already have a secure stable of advertisers through subsidiaries of their business group, and as such do not see much benefit resulting out of any joint ventures with foreign agencies (Korea Times -c 1988).

Another major problem is that government regulations have set the commission fees for domestic agencies at 7-8 percent, far below the rate of 15 percent that is common elsewhere in the world (Cateora 1987). Thus, foreign companies have been reluctant to enter into joint ventures under these terms; and even if the market is fully opened in the near future, it is predicted that foreign firms will be hesitant to move past joint ventures until these conditions are changed.

The domestic agencies that are eager to set up joint ventures with foreign firms have primarily been the smaller, independent agencies, who can benefit from the more sophisticated and modern advertising techniques and the potential foreign customers that foreign partners will bring into the venture. The domestic agencies now pursuing negotiations with foreign counterparts include: Oricom, Korad, Nara, and Geoson, who is currently talking with the U.S. agency Foot, Come and Beldings (Korean Times-c 1988).

Faced with the strong U.S. pressure which will inevitably result in the full opening of the Korean market, there are many divergent opinions about the effects of a fully open ad market. Of primary concern among many local firms is that their relative lack of experience and expertise will mean that they won't be able to compete with their foreign counterpart. One such agency has predicted that immediate opening would mean a reduction of 28.6% in the revenues of local agencies. Another strong critic of full liberalization is Oricom, the Doosan subsidiary built around OB Beer and Coca-Cola. Oricom has many multinational clients including American Express, Boeing, British Airways, and several independent domestic clients that may be among the first to switch their accounts to foreign firms upon full liberalization.

Most agencies, however, are dependent on their in-house accounts, as for example, Goldstar and Samsung Electronics (two of Korea's largest ad spenders) will hardly switch their accounts from their respective in-house agencies, KFA and LG Ad, to foreign firms. Thus, these agencies are not as opposed to full liberalization as a firm like Oricom or one of the smaller independents.

The damage will probably not be as severe as the pessimists think, however. In a recent KOBACO survey of over 66% of local advertising executives, it was believed that foreign agencies will only take between 10-30% of the market (KOBACO 1988). It is estimated that the initial profit drain from foreign firms will not amount to more than a few million dollars a year, which is a relatively small amount for a country with over U.S. \$ 56.6 billion in exports annually, and a spiralling current account surplus of \$6.3 billion (Korean Business Review 1988).

Foreign (esp. American) firms will have a difficult time dominating the market as a result of Korea's unique and independent culture and language. Several managers interviewed stated that American firms would find it very difficult to penetrate Korean consumers who are Confucianism- and Chinese character-oriented. Another difficulty will be that Korean advertising often mimics Japanese style, which tends to appeal to more emotional factors, in contrast to the more logic-based Western styles (The Japanese Economic Journal 1980, p. 24). It is highly likely that liberalization will benefit the Japanese firms to a far greater extent than their American counterparts because of the strong cultural similarities.

Liberalization is an important step, however, and a necessary one for the Korean advertising industry to reach maturity. The potential benefits foreign agencies will bring will probably include: the introduction of more advanced concepts; the establishment of independent auditing of media; a reduction in government regulation and in KOBACO's intermediary role; and improvements in salary, profits, and commission rate scales.

THE FUTURE TREND

The next major problem facing the industry is the domination of the market by a handful of major in-house agencies. To control costs and maximize profits, nearly all the major "Chaebol" conglomerates have their own in-house agencies. The largest of these, Korea First, is affiliated with the Samsung Group, and its huge research department has served as the primary industry source for advertising information. As already mentioned, Lucky-Goldstar and Doosan Group accounts are handled by LG Ad and Oricom respectively. Daehong serves the Lotte Group, and Haitai is handled by Korad. The only major group without in-house agency is Daewoo.

¹ An interview with Shin in Sup, Manager of KORAD, June 1988.

The major drawback of this strong oligopoly control of in-house accounts is that it absolutely limits any competition for major accounts. This has had the effect of hampering innovation and creativity, and encouraging inefficient operation, as in-house clients, used to standard ways of service, won't usually ask for a radical new approach to a campaign. Thus says one observer, much of the Korean advertising tends to look "stale and imitative, like it came off an assembly line." Also, in-house clients who are dissatisfied with the creativity and service of a campaign, are effectively locked in, and can be prevented from switching to another agency as a result of their group affiliation.

Another problem on the road to maturity is the opposition, especially by the smaller, independent newspapers, to the introduction of independent auditing, and especially auditing that reveals cost per thousand figures. Currently these papers are able to set their rate scale at market levels, but if their true readership figures were known they would probably have to make significant rate cuts. Independent auditing is crucial however, to obtain accurate assessments of consumer patterns and levels and to maximize advertising expenditures.

Another change presently facing the industry, and perhaps one of the most important ones in terms of maturity, is the transition of the Korean marketing environment from a distribution-oriented market to a more consumer-oriented one. Not long ago, there was a very limited number of products on the shelves, as a result of low consumer spending power and inefficient distribution systems. Yet now, with improvements in distribution and retailing, and the increase in consumer GNP, the resulting increase in number of products and brand names on the market is changing consumer behavior, and forcing ad agencies to compete for business like never before. This new competition may be the primary factor in forcing the removal of the barriers and inefficiencies that stand in the way of progress and sophistication.

CONCLUDING REMARK

There are many challenges and obstacles facing the Korean advertising market as, like the rest of Korean industry, it makes the transition from a relatively unsophisticated, infant industry to a more advanced and mature one capable of responding to the rapid changes now taking place in the Korean market. For the foreign marketer, advertising in Korea still poses many problems, but as long as reforms and advancements continue--and it appears that they will--the prospective market potential can be seen as increasingly positive.

² Interview with Dietmar Kluth, Heinz Korea, April 1988.

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