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RURAL ECONOMY

**Analysis of the Korean Beef Market: A Study of Hotel Buyers'
Perspectives of Beef Imports from Three Major Sources
Part I**

Renee Bo young Kim, James R. Unterschultz,
Michele Veeman and Paul Jelen

Staff Paper 96-07

Staff Paper



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EXECUTIVE SUMMARY

Purpose

This paper evaluates the five-star and four-star hotel sector component of the Korean beef market from the perspective of Canadian beef exporters. The study provides background information on this emerging market and identifies the attitudes of beef purchasers in the hotel sector to the beef products of major potential national suppliers. This information is necessary to identify buyers' perceptions and to develop plans to improve Canadian marketing strategies.

Summary of Methodology

Up-to-date background information on the Korean beef market was obtained from literature reviews and from documents of the Canadian and the Korean Governments. Korean hotel purchasing managers and executive chefs were interviewed in the fall of 1995. Each interview was conducted with a written survey that had two components. The semantic differential scaling was used to evaluate buyers' quantitative perceptions of beef quality, promotional activities and country image of Canada, the U.S. and Australia. The second component of the survey involved open discussion on the state of the Korean import beef market using a series of structured open-ended questions.

Summary of Results

Responses to the quantitative portion of the survey show that buyers rate Canadian beef quality as comparable to U.S. beef, and superior to Australian beef. More specifically U.S. beef has the highest rating in tenderness, marbling and muscle texture attributes. This gives an advantage to the U.S. exporters in the high quality beef sector where these three attributes are considered to be highly important. Canadian beef has the highest rating in muscle color and fat color attribute. Australian beef is perceived to be inexpensive. This gives strength to Australian suppliers in competing in the low quality beef sector where price is the most critical factor.

With respect to promotional activities, Canada was rated poorly when compared to the U.S. or Australia. The U.S. received the highest ratings in all four attributes that were asked: service/assistance, reputation, effectiveness and awareness of promotion (Figure 12). Canada received negative ratings in these attributes. The respondents perceived Canada's marketing activities to be significantly weak.

When buyers were queried about country image purchasers had positive attitudes towards all three countries. The U.S. was rated to be the most trustworthy, the most advanced technologically and the most well managed economically. Canada was rated to be the most preferable country for future business relationship.

In the qualitative component of the survey, specific deficiencies of Canadian beef marketing were identified by buyers. A major problem was a low level of awareness about Canadian beef products in the Korean hotel industry. Only half of the respondents were able to evaluate Canadian beef quality whereas all of the respondents were able to evaluate U.S. beef and

Australian beef. Canadian beef is known to have problems matching Korean hotels' product specification.

Summary of Recommendations

Korea represents a rapidly expanding market for beef exporters. Canada can realize a large growth in beef exports. But this requires improved marketing practices. Four general areas of recommendations can be made to improve current marketing practices of Canadian beef exporters to the Korean hotel sector.

1. It will be necessary to correct specific deficiencies in the marketing and exportation of Canadian beef to the hotel sector. These marketing deficiencies are the low level of awareness of Canadian beef among the hotel beef buyers, ineffective sampling practices and the lack of compatibility of Canadian beef to the product specifications within the Korean hotel sector. To raise awareness of Canadian beef among the hotel sector, certain marketing activities are required. Taste sampling is one recommended activity. Certain standards should be embedded in sampling practice. To achieve customer satisfaction, Canadian packers should attempt to closely match Canadian beef product specifications to the Meat Buyers' Guide of the U.S. which is considered as the fundamental guide for imported beef purchasing in the Korean hotel sector.
2. Canada needs to improve relationships with the hotel purchasing managers. Hotel beef buyers perceive business relationship as one of the most important factors guiding their beef purchasing decision. Canadian packers should develop and reinforce their presence through local agents in Korea. Many Korean respondents exhibited a negative "political" bias to the U.S. This could be exploited by Canadian suppliers in building their network in Korea.
3. Canada needs to tailor marketing strategies specific to the hotel sector. This would allow Canada to reduce the direct competition of the U.S. Canadian packers may differentiate their beef products by offering extensive product customization. Specifically they could supply smaller size of beef portion cuts that are compatible with Korean standards and supply beef product labeled in the Korean language and packaged in more durable boxes. Also, country image could be emphasized more to facilitate differentiation of Canadian beef.
4. Canada needs to acknowledge the emerging niche market developing within the Korean hotel sector. The survey results indicate that the popularity of value-added beef products is rapidly increasing in the hotel sector, and chilled beef demand is expected to rise over the next five years. The study also indicated that the demand for lean and nutritious beef is expected to grow as Koreans raise their standards for beef quality. Canada could position its beef as specialty products for the hotel beef buyers who intend to diversify the types of branded beef dishes that they serve.

The Korean beef marketing system is in a transitional period. The Korean market structure and demand for imported beef are evolving. Canada needs to quickly respond to this rapidly changing market to build and improve its market position.

1.0 INTRODUCTION

Since the late 1980's, South Korea has become one of the highly affluent and influential Asian countries. South Korea is currently a major trading power, ranked 13 th in the world with total imports and exports of US \$166 billion (USDA, 1995). Its GDP per capita reached US\$ 7,107 in 1994, up 78% over 1988. Thus, Korea's economy is in a transitional period from a newly industrializing economy to a fully industrialized one (U.S. Meat Export Federation, 1994). The Korea Development Institute (KDI) predicts that Korea's total GNP will reach US \$2.1 trillion in 2010 and become the 10th largest economic power in the world.

Korean consumers' food demands are changing with their increased income. Beef consumption has continuously grown due to increases in gross national disposable income and per-capita GNP (Table 1). Per capita beef consumption is projected to be 9.27 kg in 1998 (CBEF, 1994). The Korean data on total consumption and per capita consumption for all meats from the period 1986 to 1994 are shown in Tables 2 and 3. Consumption of all meats has continued to increase every year. Beef consumption jumped in 1990 due to a sharp drop in the price of beef relative to pork (Keith and Hong, 1991).

Rapid urbanization and small scale domestic beef production constrain beef production in Korea. Korean beef production capability has been continually declining, and beef imports constitute a major part of the beef supply. The self-sufficiency ratio for beef has declined from 98.2% in 1987 to 47.4% in 1992 (MAFF, 1990).

The Korean beef market is expected to further liberalize beef imports by 1997 according to the Uruguay round GATT agreement. To facilitate liberalization, the Korean government implemented the Simultaneous Buyers System (SBS) in 1993, a multi-purchaser system (Kim, 1995). This system allows direct contact between foreign suppliers and Korean consumers, thereby opening competition in the beef trade.

With decreasing control of the government on beef imports and the growing economy, the Korean market offers significant potential for foreign beef exporters. Canada could diversify its export market and increase its export volume of beef by entering this promising market. However, Canadian exporters have not been successful in penetrating the Korean market in past years. This has been attributed to a lack of commitment and adaptation to this market (CBEF, 1994). Canada had 2% of the market share in the Korean import beef market in 1995 (LPMO, 1995). In general, in selling product to a nontraditional market such as Korea, sellers must be prepared to modify their products and marketing practices to match Korean consumers' preferences, in order to gain entry or a competitive edge in such a market. To do this effectively, identification of target Korean markets, evaluation of the competitive position of Canadian beef and the evaluation of Canada's marketing practices and image in this market should be undertaken.

Canada's three beef grades, from triple A to single A, have recently been accepted by the Korean Livestock Products Marketing Organization (LPMO) as indicative of high quality beef (The Financial Post, 1995). This makes Canadian beef compatible with the hotel and restaurant sector in Korea. The hotel and restaurant sector uses high quality beef almost exclusively

(CBEF,1994). Therefore, the Korean Tourist Hotel Supply Center (KTHSC), a major importing agency which exclusively supplies the hotel and restaurant sector in Korea, was chosen as the primary target agency for the study and the survey study focuses on the KTHSC staff and selected member hotels. These target hotels are classified as five-star and four-star international hotels and are market leaders in the Korean hotel industries.

From the Canadian perspective, increasing beef exports to Korea has the potential to benefit Canada's economy since Canada depends on exports for about one-third of its GNP (Papadopoulos and Heslop,1989). Canada exports approximately 44% of its total Canadian beef production annually and the value of total beef exports in 1994 was \$621 million (Jewison, 1995). In 1994, over 90% of Canadian beef exports were to the U.S. Diversifying into other markets such as Korea could allow some expansion of export volume and reduce the risk associated with heavy dependence on the U.S. market.

The Canadian beef cattle industry is currently achieving record production levels. Canadian beef production in 1994 was over 3000 million pounds, thereby leading to increased supplies available for export (Jewison, 1995). Canadian per capita beef consumption levels have been declining gradually. In 1989, the average Canadian consumed some 25.7 kg of beef. This figure has dropped in almost every year since then, and was 23.3 kg in 1994 (Hutchinson, 1995). The U.S., which imports 90% of Canada's beef exports, also shows a pattern of some decline in consumption of beef per capita. With growing beef production and declining per capita beef consumption in North America, the potential for beef exports to Asian countries is of considerable interest. This requires information to establish an effective marketing strategy to penetrate the Korean market.

An effective marketing strategy requires good information on the target market and on market competitors. This paper reports on an in-depth market evaluation of the Korean beef industry, and the Korean Tourist Hotel Supply Center(KTHSC) sector. It identifies the perception of the KTHSC buyers regarding important attributes of Canadian beef, U.S. beef and Australian beef. This information will facilitate the positioning of Canadian beef in the hotel and restaurant sector of the Korean beef market.

2.0 THE SCOPE OF THE STUDY

The first stage of the study involves an examination of the Korean economy. This is followed by a discussion of the Korean beef industry, including beef imports, beef distribution channels and market segments. The survey instrument applied to the KTHSC members in the fall of 1995 is then described. The results from the survey on buyers' assessments of imported beef product quality, the promotional activities of beef exporters and on overall country image are presented and discussed. The report concludes with an outline of suggested marketing strategies for the Canadian beef industry.

The paper consists of two parts. Part I reports on the current Korean beef market using secondary data. This includes a discussion of the beef industry, its market structure and the major Korean beef suppliers.

In Part II, the survey applied in this study to members of the KTHSC to examine Canada's competitive position in the Korean beef import market is outlined. In the high quality grain-fed beef market segment, perceptions of the KTHSC members on Canadian beef quality relative to U.S. beef and Australian beef are measured. Aside from assisting in market development and penetration, this information provides a baseline measure from which to assess changes in Canada's competitive position in the Korean beef market in the future.

3.0 THE KOREAN BEEF MARKET

3.1 The Korean Economy

Korea has achieved remarkable economic development over the past thirty years. Its GNP was US \$13.5 billion in 1973. By 1981 this had reached US \$66.8 billion and by 1994 further increased this to approximately US\$ 364.3 billion (Rha, 1995). Korea is now the world's 13th largest trading nation with the 12th highest GNP in the world.

The annual growth rate of the Korean economy in 1994 was 8.5%, which was almost double the previous year in terms of GNP value (calculated from data in Table 1). Increased per capita income levels have led to an increase in aggregate demand for higher quality food products by Koreans. The Korean diet is changing somewhat from a vegetable-oriented to a meat-oriented diet. Beef is expected to be a major beneficiary of this trend.

The "five year plan for the new economy", established by the Korean government under president Kim Young Sam, proposes to facilitate globalization of Korea's economy through enactment of economic liberalization policies (Rha, 1995). Korea has progressively eliminated import barriers in the financial and agricultural sectors, although tariffs and other non quota barriers still exist. The beef market will be liberalized by 2001 under the Uruguay round GATT agreement. This liberalization and the associated moves to internationalization of the Korean beef market sector indicate significant opportunities for foreign business.

3.2 Korean Beef Consumption

Substantial economic growth has led Korean people to demand more variety and higher quality meats. Annual per capita meat consumption was 4.6 kg in 1965, 25.8 kg in 1994 and is predicted to be 30.0 kg by 2000, a striking contrast to the consumption patterns in same Asian countries (LPMO, 1995). The data in Table 3 shows that annual per capita beef consumption increased from 3.6 kg in 1986 to 6.1 kg in 1994. Annual pork and poultry consumption also increased from 7.7 kg and 3.1 kg per capita, respectively, in 1986 to 14.2 kg and 5.5 kg, respectively, in 1994.

Although the consumption of pork and poultry has increased at a faster rate than beef, due to their relatively lower price for most Korean consumers, beef is preferred to pork and poultry. Historically, Koreans often became ill from spoiled pork which tended to occur during summer festivities when there were no refrigerators (Kim,1994). Despite wide usage of refrigerators in Korea nowadays, pork is still perceived to be a less desirable meat during the

summer season. It has also been said that the lack of beef supply during economically difficult times may have led Koreans to perceive consumption of beef as a sign of prosperity (Korean Rural Economics Journal, 1993).

The current level of per capita beef consumption in Korea is relatively low, compared to that in other developed nations (table 4). For example, this is 7.5 kg for Korea, compared to 9.1 kg in Japan and 38.1 kg in Canada. There is room for beef consumption growth (Kim,1994).

Korea exhibits the fastest growth in per capita beef consumption in the world (U.S. Meat Export Federation,1995). According to the Ministry of Agriculture, Fishery and Forestry of Korea (MAFF), the annual growth rate in beef consumption between 1985 and 1993 was 8.6%. The beef consumption has risen by 25% in 1994 relative to 1993, an increase attributed to the economic recovery. The current estimated beef consumption level in 1995 is 290,000 tons, up 24 % over the last year. Per capita beef consumption is projected by CBEF to reach 15.10 kg by 2003. As the Korean beef market becomes more liberalized, with less government intervention in importation, the total beef consumption is expected to increase even more.

3.3 Domestic Beef Production

The Korean beef industry has a history of more than 4,000 years, but there is a much shorter history of raising cattle for the purpose of beef consumption. Originally, native Korean cattle were used as draft animals. Farmers raised one or two cattle in their backyards as a way of converting surplus labor, and the cattle were sold for special family events (Korean Rural Economics Journal, 1993). As beef consumption increased with economic growth, Korean farmers expanded their beef production activities.

Although the average number of the cattle per farmer increased from 2.4 head in 1985 to 5.0 head in 1995, 78% of Korean farmers raise less than 5 head of cattle (Korean Meat Export Federation, 1994). Productivity of the domestic beef industry remains very low.

Current Korean beef production faces several constraints despite the government's effort to stimulate expansion of a larger scale domestic cattle industry. Approximately three quarters of the livestock ingredients for animal feeding are imported due to a lack of availability. Also, value-added taxes are included in imported livestock feeds, increasing production costs. This makes the price of native Korean cattle, called Hanwoo, less competitive. The migration of the younger aged population to the urban cities from the rural areas reduces the human resources available for livestock management. Consequently, domestic beef production has decreased from 150,000 tons in 1986 to 147,300 tons in 1994 (MAFF,1995).

As demand outpaces supply, the self sufficiency ratio decreases. In 1986, the self sufficiency ratio of the Korean beef industry was 101.9%. This ratio was 56% in 1993 (table 5). Half of the beef consumed is now imported beef. Korea consumed 290,000 tonnes of beef in 1995, of which about 50% was supplied by imports (MAFF, 1995). The Institute of Korean Agricultural Research predicts that the domestic share of the beef market will decrease to 20% by the year 2000 when full liberalization occurs.

3.4 Korean Beef Import Structure prior to the latest GATT

Prior to the 1980's, Korea had strict restrictions on beef imports. It only allowed imports of high-quality grain-fed beef for tourist hotels and restaurants, and low quality grass-fed imported beef was used to manage the balance of the beef market.

In the early 1980's, the Korean government pursued a livestock expansion plan to increase the supply of domestic beef and to enhance the competitiveness of domestic beef products (The Korean Rural Economic Journal, 1993). It provided financial assistance to Korean farmers to expand cattle herds. The government also increased imports of grass-fed beef to supplement the domestic beef supply.

Consequently, the domestic cattle inventory rapidly increased. In 1985 255,300 head of cattle were raised, which was the highest level of cattle inventory in Korean history (The Korean Rural Economic Journal, 1993). Cattle prices collapsed in 1984, leading the government to close beef imports.

Table 5 shows that the Korean beef industry was 101.9 % self sufficient in 1986 and remained nearby 100% self sufficient until the market reopened in 1988. Resumption of Korean beef imports was due to three factors. First, the high level of cattle inventory and the low price of cattle in the mid 1980s contracted domestic cattle production, which led to a general shortfall in domestic beef supply. Second, there was a shortfall of high quality beef in tourist hotels during the 1988 Seoul Olympic Games (Australian Meat and Livestock Corporation Market Report,1995). Third, there was political pressure from the U.S., who wished to export more agricultural products to offset the U.S.-Korea trade imbalance. (Lee, Y.S. et al, 1992).

From 1985, Korea's imported beef market operated under a quota system, where imported beef was purchased by tender. The Ministry of Agriculture, Forestry and Fishery (MAFF) and Economic Planning Board (EPB) together set quotas every year, and the Livestock Product Marketing Organization (LPMO), established in 1988, administered the tender process. The LPMO was responsible for determining the need for various types of beef cuts and the timing of the release of imported beef to the market.

3.5 Beef Import Policy under GATT

The Korean government, under the Uruguay Round of GATT(1993), agreed to liberalize the beef import market by the year 2000. They will accomplish this through gradual replacement of the tender system by a free market import system called Simultaneous Buyers and Sellers (SBS), while increasing the total beef import quota. The quota itself would disappear in the year 2000 (Figure 3).

Simultaneous Buyers and Sellers (SBS), established in 1993, is a system whereby designated companies in Korea can directly deal with foreign beef suppliers regarding all terms of sales, including product specifications and price (AMLC,1995). It transforms the restricted beef import market, which was dominated by the LPMO tender system, to a liberalized market

where direct trading between buyers and sellers occurs. This direct trading will result in a freer, more flexible market, and a wider range of products traded (AMLC, 1995).

Table 6 shows the beef import liberalization plan set by the Korean Government. The LPMO share of total beef import volumes will decrease from 60 % to 30% by 2000 and the SBS share will increase by 10% per year from 40% to 70% by 2000. The quota will be abolished in 2001, leaving a completely quota-free beef import system.

At the same time, the surcharge (mark-up) on the imported beef imposed by the LPMO will decrease from the current level of 60% to 0% by 2000 and the tariff level on imports will decrease from 43.2% in 1996 to 41.6% in 2000. Tariffs on imported beef will remain at 40% thereafter, unless subsequently changed by negotiation in a further round of the World Trade Organization (WTO) which has succeeded GATT. Such tariffs will then be the main beef import policy in Korea.

When the import quota is abolished in 2001, the Korean beef trade will be essentially unregulated and beef imports will be affected by tariff levels and consumer preferences. However, the Korean government can still protect its beef market by high tariff rates on imported beef. Beef trade liberalization provides opportunities to export beef to Korea.

3.6 Distribution Channels for Imported Beef

The following information on the LPMO system and its product specification was gathered from the secondary data of the Ministry of Agriculture, Fishery and Forestry of the Korean Government (MAFF, 1994). Beef imports are currently purchased and distributed in Korea through the LPMO tender system, and the SBS system. These systems are described below.

3.6.1 Livestock Product Marketing Organization (LPMO) General Tender system

The LPMO purchases imported beef by tender and distributes product primarily through the National Livestock Cooperative Federation (NLCF) and the Korean Cold Storage Company (KCSC). These are the quasi-government agencies that sell all beef whether imported or local to local wholesalers and distributors.

The LPMO classifies imported beef into three grades; grass-fed bone in beef, grain-fed bone in beef and grain-fed boneless beef. After product classification, imported beef is distributed by two routes.

One hundred percent of grass-fed bone in beef and 20% of grain-fed bone in beef are transported to either NLCF or KCSC for retail packaging. The packaged beef products are sold directly to import beef specialty retail shops without any auctioning process at wholesale markets. This minimal involvement of wholesalers allows imported grass-fed products to be sold at low prices. However, the retail packaging has negative effects on beef quality. Frozen carcass have to be thawed for deboning and repackaging and muscle texture degenerates which decreases product quality.

The import beef specialty shops were established in 1988 in order to prevent retailers from selling imported beef as expensive Hanwoo beef. There were approximately 2200 imported beef specialty shops in 1993 in Korea and this will expand as consumption of imported beef increases (Korean Rural Economics Journal, 1993).

The second marketing route for imported beef involves grain-fed bone in beef and grain-fed boneless beef cuts that is distributed directly to wholesale markets. The unprocessed beef is auctioned to the import beef specialty shops and to the sales outlets of the NLCF.

3.6.2 Product Specifications for the LPMO system

There are six major frozen beef specification under the tender system. These are:

A. Grain-fed boneless beef This market segment is mostly supplied by the U.S. Table 8 shows that the U.S. exported 53,434 tons of grain-fed boneless beef cuts in 1994 while Australia sold 270 tons and Canada sold 1476 tons. The popular cuts are chuck rolls, short ribs, shoulder clod, knuckle and top round. The U.S. dominates this market segment because of its ability to supply large volumes of specific cuts.

B. Grain-fed bone in beef This market segment is solely supplied by Australia. Australia dominated this market segment in 1994 by supplying 9,317 tons of grain-fed bone in product.

C. Grain-fed full set Australia also solely dominates this market segment. In 1994, 492 tons of grain-fed full set was supplied by Australia. “Full set” is specified as either grass-fed or grain-fed vacuum packed frozen meat products with a full range of beef cuts (The Korean Meat Journal, 1994).

D. Grass-fed boneless This market segment is shared by Australia and New Zealand. Australia exported 23,085 tons and New Zealand exported 15,268 tons of this cut in 1994.

E. Grass-fed bone in Australia and New Zealand also share this market segment. Australia supplied 23,085 tons while New Zealand supplied 15,268 tons of this product in 1994. Australia does extremely well in this market segment. Bone in product requires less processing thereby enhancing production efficiency. High production efficiency means low production cost and a competitive product price. The competitive price of Australian grass-fed bone in product is preferred by the LPMO. The LPMO buys grass-fed bone in product for the purpose of stabilizing domestic beef prices.

F. Grass-fed full set Australia supplied 744 tons of grass-fed full set product while New Zealand supplied 264 tons in 1994. Australia was heavily oriented towards bone in beef production in the past. As the Korean market opens up, beef buyer groups are demanding more variety and higher quality beef products. Responding to this trend, the Australian packers are starting to supply “full set”. Availability of full set allows the Korean retailers and end-users to directly choose and purchase brands and specific beef cuts.

The LPMO tender system is dominated by the U.S., the major supplier of grain-fed boneless beef. The U.S. LPMO market share in 1994 was 51%. The second major supplier is Australia supplying 32% of the LPMO market with grass-fed carcass. The Korean government changed the LPMO policy in 1993. They started to import grain-fed boneless beef to stabilize the domestic beef price instead of grass-fed carcass beef. The U.S. benefited from this policy change.

3.6.3 Simultaneous Buyers and Sellers (SBS) system

Under the SBS system, exporters sell beef directly to “Super Groups”. Super Groups are the registered trading subsidiaries of existing industry associations such as supermarkets, meat processors, restaurants, hotels and producers. Annual import shares are allocated to Super Groups by the Ministry of Agriculture, Fishery and Forestry of the Korean Government (Table 10).

There are 6 Super Groups in the SBS system. These are National Livestock Cooperative Federation (NLCF), Korea Cold Storage Company (KCSC), Korea Tourist Hotel Supply Center (KTHSC), Korea Restaurant Supply Center (KRSC), Korea Meat Industry Association (KMIA) and Korea Supermarket Chain Association (KOSCA) (USMEF, 1994).

The Super Groups import beef for their member’s businesses without intervention by the LPMO or the Korean Government. The beef quota allowed for purchasers under the SBS system is limited. In 1996, 40% of the 147,000 tons of beef import, will be purchased through the SBS channel. This quota is scheduled to increase over time.

Each Super Group has the sole responsibility for the allocation of their sub-shares to end-users. Quantity is allocated to their member companies based on past usage, company size and business experience. Member companies of each Super Group have a right to negotiate directly all terms of sales and to apply to their Super Group organization for import authorization amount under the SBS channel. Once authorization to import is granted to an end-user, there is no further involvement by the Super Group with the exception of NLCF and KCSC (AMLC, 1995).

Two more Super Groups are expected to join the SBS system in the near future and the potential candidate organizations are actively lobbying the Korean Government to attain SBS quota. The potential candidate organizations are the Korea Livestock Industry Cooperation, Korea Imported Beef Retailers Marketing Federation, the Tourist Association and the TeaAm Livestock and Livestock Marketing (Personal communication, Korean livestock marketing expert).

As more Super Groups participate in the SBS system, foreign suppliers and the end-users will benefit, due to increased competition among the Super Groups for allocation of SBS quota. The market is moving towards liberalization as the SBS system allows more direct contact between foreign suppliers and the buyers.

3.6.4 Quota Allocation of the Super Group under the SBS system

The following information on Quota allocation of the Super Group within the SBS system was gathered from the secondary data of the United States Meat Export Federation (USMEF, 1994).

A. National Livestock Cooperative Federation (NLCF) is one of the main farm commodity cooperatives. It imported 15% of SBS volume in 1995 and mainly purchased grain-fed (60%) Australian carcasses, U.S. chuck rolls and U.S. short ribs (Table 10).

B. Korean Cold Storage Company (KCSC) also had a 15% allocation of SBS volume in 1995 and mainly imported boxed beef: brisket, shanks, chuck rolls and short ribs from Australia and U.S. It generally handles lower priced items and increasingly purchases Australian products. 70% of its imports were grass-fed beef in 1994 (Table 10).

C. Korean Tourist Hotel Supply Center (KTHSC) is a supply organization for 420 registered tourist hotels and restaurants. It purchased 14% of SBS volume in 1995 and 70% of its import were grass-fed products. Short rib is the single most popular item (73% of the grass-fed beef imports) (LPMO, 1995). The individual purchasing managers have direct contact with the foreign suppliers and negotiate on price and type of cuts. KTHSC only handles the administrative work.

Most Super Groups paid mark-up, 95.36% of the duty paid CIF (costs include freight) beef price in 1994. The mark-up for the KTHSC was 2% of the duty-paid CIF beef price for certain items (shoulder clod, chuck roll, short rib, knuckle and top round). These 2% mark-up items are popular among smaller hotels because it lowers their costs (USMEF, 1994).

D. Korean Restaurant Supply Center (KRSC) represents the Korean restaurant sector. It is an association organized by 640 non-hotels and large sized restaurants. It had 7% of the SBS allocation in 1995 and purchased primarily U.S. boxed beef for Korean barbecue restaurants. KRSC members can designate specific suppliers if they purchase enough beef to fill a container. Otherwise, the president of KRSC gets involved in the purchasing procedure.

E. Korean Meat Industry Association (KMIA) is made up of 47 meat processing organizations. Their members purchase directly from overseas suppliers and 93% of their beef imports are grass-fed beef. KMIA was allowed to import only carcass beef for processing purpose in the past, but under the pressure from the U.S., they now handle boxed beef and other high quality beef items. KMIA has 19% of the SBS allocation and removal of its import restrictions is predicted to increase sales of boxed short ribs.

F. Korean Super Chain Association (KOSCA) established in 1994, represents 12,466 supermarkets. It had 22% of SBS volumes in 1995.

3.6.5 The Competitive Position of the Major Beef Exporters under the SBS system

The competitive position of the major beef exporters under the SBS system can be inferred by market share of major exporters. Table 11 shows the major exporters' beef export volume in 1994 under the SBS system. Australia had the highest market share (47%). This was due to Australia's 62% market share in the NLCF, 61% in the KCSC and 86% in the KMIA.

The NLCF and the KCSC mainly sell beef to the general consumer market segment, where price is the primary focus. The KMIA purchases cheap carcass beef to process into sausages. This market segment purchases low priced lower quality beef. Australia, by offering low cost on the grass-fed products, sells large volumes to these Super Groups.

The U.S. supplies 45% of the beef quota under the SBS system. The U.S. has 70% of the sales to KTHSC, 79% to KOSCA and 86% to KRSC. These Super Groups purchased large quantities of grain-fed specific cuts.

3.7 Korean Beef Market Segments

The Korean beef market has been largely divided into six market segments (CBEF Korean market report, 1994). These are: the general consumer segment, the tourist hotel and restaurant segment, food service companies, fast food chains, the meat processing industry and the military sector.

3.7.1 The General Consumer Sector

The general consumer sector includes the public consumers who purchase beef for home use. This is the largest market segment, with 80% of total beef consumption. Households purchase beef at general butcher shops and NLCF direct sales outlets. The retailers are divided into Hanwoo stores and import beef specialty shops. There are 38,400 butcher shops, 270 NLCF direct sales outlets, and 2200 imported beef specialty shops (Korean Rural Economic Journal, 1993).

Beef products sold at the general consumer sector are usually packaged in 500 mg/unit and price is based on the following five grades, set by the MAFF.

1. Special Quality (Tenderloin)
2. High Quality (Ribeye Roll, Striploin)
3. Middle Quality (Knuckle, Top round, Chuck, Clod)
4. Ordinary Quality (Brisket, Shank, Neck)
5. Rib set

The preferred beef cuts by the general consumers were tenderloin, sirloin and shortloin, which are Special Quality products (Korean Rural Economic Journal, 1993). The domestic consumers increasingly prefer more expensive cuts from the Special Quality products.

3.7.2 The Hotel and Restaurant Sector

The hotel and restaurant sector purchases imported beef from the KTHSC. This market segment uses about 10% of total beef consumption, and the main item is grain-fed beef. This is the primary target market for Canadian packers trying to position themselves as value-added grain-fed beef suppliers.

Over the last 8 years of beef imports, some foreign packers have gained a reputation for their brand image and reliability in the Korean hotel industry. Korean beef buyers have learned to differentiate between different cuts, quality of beef and brand image. Hotel purchasing managers are highly brand conscious and willing to pay for reputable brand names (Qualitative Survey Result of this report, 1995).

3.7.3 Other Sectors

Other market segments are food service companies, fast food chains, the meat processing industry and the military sector. 10% of total beef sales are consumed in these four market segments. The fast food chain sector will expand rapidly in next few years, as Koreans eat out of home more frequently and Western style restaurants become increasingly popular.

3.8. Summary of the Korean Beef Import Market

In general, the Korean beef import market is divided into two distinctive segments-high quality grain-fed beef market, versus the low quality grass-fed beef market. The high quality beef sector is dominated by supplies from the U.S. which is capable of supplying large quantities of specific grain-fed beef cuts. The low quality beef sector is dominated by supplies from Australia which can offer low price for low cost grass-fed beef. Thus, these two major suppliers have strengths in different target beef markets.

As the market becomes liberalized, beef exporters will increasingly strive for bigger market share. To be competitive in this setting, Canada should conduct ongoing market analysis to update its marketing program and to develop more effective marketing strategies. Canada has developed a niche market in the grain-fed boneless beef segment, but data on market shares and the study results show that this market presence is weak. Canada's overall market share in Korea was 2% in 1995. To improve this situation, Canada needs to analyze its target market and potential customers.

The CBEF Korean market study (1994) identified the Korean hotel sector as the major potential target market. This sector is an upscale market segment preferring high quality products and services. By analyzing hotel customers' perception, better marketing strategies can be developed for Canadian packers. The following chapter describes the methodology used to elicit Korean hotel buyers' perception of imported beef.

4.0 METHODOLOGY OF THE SURVEY STUDY OF THE KOREAN HOTEL SECTOR

The survey study consists of a two-phased effort. Preliminary investigation based on literature research and personal interviews with industry experts in Canada aided in selecting the Korean target group and in designing the survey instrument. The interviews in this preliminary Phase I involved unstructured open-ended discussion with the industry experts and government officials. This stage of research was exploratory with the purpose to elicit the views of Canadian experts on the Korean import beef market as a basis to design a strategic and meaningful survey questionnaire.

Phase II of the study investigation consisted of a major survey effort in South Korea to gather qualitative and quantitative data from the hotel and restaurant sector. Specific interview questions were designed according to study objectives and pre-tested on industry experts in Canada in order to ensure the validity of survey questions. The KTHSC was identified as the primary target based on discussions with industry experts. Members of the KTHSC are considered as market leaders in evaluating high quality imported beef.

The field work was carried out in the city of Seoul, Korea in the fall of 1995. The selection of respondents was assisted by the staff of the Canadian Beef Export Federation (CBEF) and the Canadian Embassy in Seoul, Korea. This stage of the study involved 55 personal interviews in Korea. The respondents were:

- 22 purchasing managers of Korean international hotels
- 11 local executive chefs of Korean international hotels
- 12 foreign executive chefs of the international hotels
- 4 foreign beef marketing organizations
- 1 major department vice-president
- 2 presidents of the Super Groups
- 3 government officials in the agricultural sector

The hotels interviewed are the major tourist hotels in Korea; these mostly purchase their beef through the KTHSC. These hotels include 9 “super deluxe” hotels and 11 “deluxe” hotels. The super deluxe hotels are the Grand Hyatt, the Inter-Continental, the Lotte, the Renaissance, the Sheraton Walker Hill, the Shilla, the Swiss Grand, the Westin Chosun and the Ritz Carlton. The deluxe hotels are the Capital, the Koreana, the New World, the Palace, the President, the Ramada Olympia, the Riviera, the Royal, the Sofitel Ambassador, the Tower and the Novotel.

The questionnaire was standard for all respondents. This was structured and translated by the interviewer. The translation was cross checked by individuals with knowledge of the beef industry and fluent in the Korean language. The questionnaire asked the respondents to give quantitative ratings on a series of attributes relating to their attitudes towards imported beef product quality, on the effectiveness of countries’ promotional activity and about general perceptions on different supplying countries of origin. The suppliers that were assessed in these questions were Canada, the U.S. and Australia.

A seven level semantic differential scale with bipolar adjectives was utilized in the quantitative questions to evaluate Korean buyers' attitude. This scale was previously used by Nagashima (1970) and Papadopolulos (1994). The semantic differential scale enables the researcher to probe both the direction and the intensity of respondents' attitudes towards such concepts as corporate image, advertising image, brand or service image, and country image (Green, Tull and Albaum, 1988). It can be used by asking the respondent to describe the country by means of ratings on a set of bipolar adjectives. Churchill (1991) notes that the general thrust in using the semantic differential technique to form scales has been to select an appropriate sample of adjective pairs so that a score can be generated for the object for each of the evaluation. The evaluated object can then be compared to other objects using these scores. This scale is often used in developing profiles for brands or countries, as well as developing total scores by which the objects could be compared (Churchill, 1991). According to Nagashima (1970), the semantic differential scale is an effective tool in cross-cultural and cross-linguistic settings as a standard of measure against which the different individuals could be compared.

The quantitative questions on the semantic differential scale are subdivided into three groups: evaluation of product quality with 12 profiles; evaluation of promotional activity with 4 profiles; and evaluation of country image with 5 profiles. A copy of all survey questions are shown in Figure 12. The product quality and promotion scale of this study were established based on the CBEF Korean beef market study (1994) and the U.S. International beef quality audit (1994). The country image scale is derived from the study by Papodopolulos(1994) on the image of Canada and Canadian products.

To prevent sequence bias and response routinization, the semantic differential (SD) scale was randomly rotated (Papodopolulos, 1994). The individual rating of each attribute was summed to measure the overall rating of product produced in a particular country (Brown and Gazda, 1987). This gives an overall rating of countries by the Korean buyers. Descriptive profile analysis is used to analyze the data and analysis of variance by Anova test is used to determine if significant differences exist among ratings on attributes for beef from different countries (Churchill, 1991).

In addition, expectations of Korean beef buyers of KTHSC on Canadian beef product and marketing practice are examined using structured set of open-ended questions and a form of the Delphi technique. The Delphi method is used in opinion polling. Each respondent is questioned independently for their opinion on a specific subject and the opinion elicited from the respondents can be used in the development of long-term forecasts for the products and the country (Green et al. 1988).

This survey methodology can be employed in the future to examine changes in Canada's competitive position in the target segments of the Korean beef market.

5.0 QUANTITATIVE ANALYSIS OF THE SURVEY RESULT: THE KTHSC BUYERS' PERCEPTION OF IMPORTED BEEF

The quantitative analysis is based on data developed from the survey of the Korean hotel industry and the Korean beef marketing experts. This study identifies the position of Canadian beef in the Korean hotel industry in comparison with the U.S. and Australian beef. The quantitative results were gathered from:

- 22 hotel purchasing managers
- 11 hotel local executive chefs
- 12 hotel foreign executive chefs

The respondents in each case were identified as the actual decision makers in making beef purchasing.

The Semantic scale used in the quantitative questionnaire ranged from -3 to 3. In each case -3 denoted the least desirable and 3 the most desirable feature (Figure.12). Respondents' rating of important quality attributes are outlined in the discussion on the Semantic differential scale that follows.

5.1 Perceptions of Product Quality by the Korean hotel sector

Kotler (1984) stated that consumer attitudes toward both products and the related marketing practices have a major influence on purchase behavior. As affluent Korean consumers' demand for high quality beef increases, and the competition among the foreign suppliers increases, Korean consumers' perception are likely to become even more important factors in determining the penetration of beef imports into Korea. Identification of Canadian product quality as perceived by Korea suggests effective mechanisms to affect the future positioning of Canadian beef in Korea.

5.1.1 Tenderness and Flavor

According to the survey result, the respondents considered tenderness and flavor as the most important attributes of beef quality. The qualitative survey result indicates that 76% of the respondents rated tenderness as the most important factor in making a purchasing decision (Figure.12, qualitative question #5). Thus, tenderness and flavor were reported to be the critical factor in determining the quality of beef product.

Figure 4 shows that the respondents rated tenderness to be highest for U.S. beef at an average rating of 1.62 and lowest for the Australian product (at -0.55). Canadian beef was rated as between U.S. and Australian beef in this quality factor (at 0.35). The majority of respondents perceived U.S. beef to have desirable flavor and tenderness while Australian beef was viewed to have a strong beefy flavor and be too tough. In general, U.S. beef received the highest rating on product quality.

Respondents had significantly less knowledge about Canadian beef quality than for U.S. or Australian beef. Only 57.25% of the 42 respondents were able to evaluate Canadian beef quality on the questionnaire (Figure. 10). This presumably relates to Canada's small presence in the Korean market. However, the respondents who had experienced Canadian beef were generally positive about the quality of Canadian beef, although they rated the Canadian beef lower than the U.S. beef (Figure. 4).

According to a Korean government official from the Ministry of Agriculture, Forestry and Fishery (MAFF), Canadian beef is competitive with U.S. beef on quality and on price, but the powerful U.S. brand image affects the Korean perception of beef quality. This assessment is confirmed by the results of the survey (Figure. 9).

The mean scores respondents gave for the flavor attribute was 1.04 for Canadian beef, 2.05 for beef from the U.S. and -0.07 for Australian beef. These mean scores were found to be statistically significantly different from each other (Table 14), showing that the perceived quality differences of buyers imported beef from different sources are substantial.

Beef from the U.S. was considered in the survey to have the highest value and highest quality among the imported products. Approximately 82 % of the responding Korean buyers preferred U.S. beef (Table 9).

5.1.2 Price

The second most important attribute which determines the Korean beef buyers' purchasing decision was price. Thus, 84 % of the respondents rated price as an important factor in the purchasing decision making (Figure.12 and qualitative question #5).

Australian beef was perceived to be the most price competitive (i.e. least expensive) and U.S. beef was rated to be the most expensive. The mean rating was -1.98. for U.S. beef and 0.60 for Australian beef. Canadian beef was rated as expensive (at -0.64), and this was perceived to be far less expensive than U.S. beef (Figure. 5). The relatively lower price of Australian beef is an advantage in the Korean tender market, where price determines success of market access.

The respondents stated that the Korean hotel sector uses relatively inexpensive imported Australian beef for large scale functions or banquets for which beef quality may be viewed as being less important, relative to unit cost. Hotel purchasing managers are willing to pay more for high quality beef for VIP events and special functions. Currently, there is a trend for promotion of brand name on the beef dish menu in the Korean hotel restaurants. Each hotel gives information on the origin of the steak and the brand name in its menu, thereby enhancing the quality and image of the restaurant. Hence, the hotel purchasing managers are willing to pay for the brand image as well as the quality of beef.

The survey results showed that many U.S. packers, through their persistent marketing effort, have established their brand image in the Korean beef industry. Almost all of the respondents were able to provide the names of one or two U.S. packers, while less than 50 % of the

respondents could name any Canadian packer. It appears that Korean meat buyers from the hotel sector and their customers are ready to pay for the U.S. brand images.

5.1.3 Variety of Cuts

The available variety of cuts was rated as the third most significant attribute by the survey respondents in determining purchasing choice. Thirty one percent of them considered this attribute important (Figure. 12 and qualitative question #5).

The Korean buyers regarded U.S. beef suppliers as providing the highest variety of cuts (1.34). Canadian packers were judged as supplying a low variety of beef cuts (-0.04) and the Australian were judged to be intermediate between these (at 0.61) (Figure. 5).

The U.S. Meat Export Federation (USMEF) has published a Meat Buyers' Guide (MBG) in the Korean language, which provides an extensive range of beef cuts that can be supplied by U.S. packers. The Korean beef industry developed its purchasing system based on this booklet, following the opening of the market to the foreign beef product and suppliers in 1988. This strong presence of the U.S. Meat Buyers' Guide (USMBG) in the Korean market likely contributes to raising awareness about U.S. beef. Dominance of the U.S.MBG in the Korean hotel industry is reflected in the U.S. market share in this market sector. In 1994, 70% of the KTHSC's purchasing volume was U.S. beef products.

Although Australian and Canadian meat buyers' guides have been published in Korean more recently, the U.S. MBG has been almost exclusively used by the Korean beef industry.

5.1.4 Product packaging

Product packaging was another attribute frequently mentioned by the respondents to be of important in beef purchasing. Korean hotels purchase beef four times annually. Every three months, the executive chef and the purchasing manager for the hotel estimate sales volume for each beef dish, place orders and store the inventory. The durability and appropriate size of each packaging box becomes very critical to minimize product damage and to maximize work efficiency (Figure 12 and qualitative question #5).

The packaging condition of U.S. beef was perceived as the most satisfactory (1.70) whereas the Canadian packaging was viewed to be less satisfactory (1.17) and the Australian packaging was narrowly ranked as the lowest quality (1.12) (Figure. 5).

5.1.5 Other attributes

Some of the product quality attributes were viewed to be not statistically different between countries (Table 14). This was the case for muscle color, packaging, fat color, fat trim and food safety standards.

Muscle color of imported beef was perceived to be positive: the mean score for U.S. beef was 0.71, for Canadian beef this was 0.84 and for Australian beef the mean rating was 0.24 (Figure. 6).

The fat color of U.S. beef (0.69) and the Canadian beef (0.72) were viewed to be similar but Australian beef fat was perceived to be yellow (-0.02) (Figure. 6).

Korean meat buyers' perception of fat trim of the imported beef was neutral: all three national products were rated around 0 score (Figure. 6). The food safety standards for imported beef was generally perceived to be satisfactory.

5.1.6 Summary

Consumer testing showed that tenderness and flavor attributes to be the main components of overall eating satisfaction (USMEF, 1994). The U.S. product gained far higher ratings on these attributes than Canada or Australia. This appears to contribute to the high desirability of U.S. beef by buyers in the Korean hotel sector.

Fat color and muscle color were not rated as significantly better for U.S. beef versus Canadian beef. Canada is viewed as competitive in the muscle texture, muscle color and fat color of beef, but was given the lowest scores on food safety and the variety of cuts available. Australia far surpassed its competitors in terms of the price rating given by respondents. However, Australian beef had the lowest scores on tenderness, marbling, muscle texture, flavor and fat color.

5.2 Perception of Promotional Activity

The Korean beef buyers say the business relationship between the business partners is a critical factor influencing many aspects of business practice. When the business involves crossing international boundaries, reliability between business associates becomes even more important since international business involves more risks. Hence, increasing the perceived reliability of the Canadian packers in the Korean beef industry is an important step in penetrating this market.

5.2.1 Service and Assistance in purchasing

Extensive follow up service and assistance in purchasing the Canadian products is viewed to be an essential part of promotion in order to build the Korean customers' confidence in the Canadian packers (Figure 12, qualitative question #3). Nonetheless, according to the interview results, the service and assistance offered by Canadian packers was perceived to be significantly inferior to competitors. The rating of service and assistance attribute was -1.40 for Canada, 2.06 for the U.S. and 0.86 for Australia (Figure. 7).

Most respondents stated that the Canadian supplier presence is weak in Korea. They said that due to infrequent purchasing schedules (four times annually), buyers need assurances on the quantity and the consistency of beef quality with every delivery.

The respondents also mentioned that local agents representing U.S. packers have developed good communication links with the Korean hotel industry. These agents are involved in the Korean hotel purchasing managers' club, the Korean executive chefs' club and maintain a solid network.

Large hotel purchasing managers indicated to the surveyor that they are able to negotiate the price of beef with the U.S. packers. Under these circumstances, the local agent plays a vital role in influencing the purchasing decision of the hotel. The local agents who act for U.S. packers were perceived to be efficient and reliable for other related services such as claims or refund procedures.

Canadian packers, on the other hand, evidently do not have the confidence of the Korean buyers according to respondents. Buyers stated that Canadian beef quality may be competitive, but other procurement procedures of Canadian suppliers are inefficient. The buyers were not knowledgeable about Canadian beef purchasing procedures nor about the Canadian product specifications. The respondents also questioned the ability of Canadian packers to meet their required quantity and product specifications.

5.2.2 Reputation

The reputation of Canadian packers cited by respondents was statistically significantly poorer than the other competitors. The mean score for reputation was -0.45 for Canadian packers, 2.25 for U.S. packers and -0.11 for Australian packers (Figure. 7). This negative reputation of Canadian packers apparently stems primarily from conflicts between Canadian suppliers and Korean importers. These conflicts come from the lack of compatibility of the Canadian product specifications and the U.S. Meat Buyers' Guide which is used by most Korean hotel beef buyers.

For instance, the quality of the Canadian rib did not match with the product specification in the U.S. Meat Buyers' Guide and this caused one container (18 tons) of the Canadian product to be claimed by the LPMO in 1995 according to the result of the qualitative interview. A claim against a supplier occurs if the supplied product does not match with the buyers' product specification and the buyer requests the supplier either refund or re-supply promptly the matching product. It appears that some problems with the Canadian product have increased perceptions of Canadian packer unreliability.

The U.S. packers have a definite advantage in meeting the customers' product specification since the dominant presence of the MBG, based on U.S. grades and specification, in Korea minimizes the potential conflict between U.S. packers and Korean purchasers. The Korean buyers indicated that U.S. packers are very efficient in dealing with claim matters and follow up service. They stated that U.S. packers are capable of supplying large volumes of a specific product within 2 to 3 days if a claim occurs.

5.2.3 Effectiveness and Awareness of Promotion

The Korean respondents to the survey judged U.S. exporters to be superior to their competitors in terms of promotional activities. The rating shows that the U.S. promotion is viewed as very effective (1.84) compared to the competitors. In contrast, Korean buyers view Canadian promotion as inferior to the other competitors: the score was -1 for Canada and 0.31 for Australia (Figure. 7).

The hotel beef buyers were satisfied with the U.S. consumer oriented “pull” marketing strategy. The respondents stated that the U.S. pull strategy raises awareness of U.S. beef among the end users, such as the hotel executive chefs and purchasing managers, so that the major importing companies (e.g. the KTHSC) purchase more U.S. beef to cater to these end-users. This relatively aggressive marketing strategy is targeted at the hotel marketing channel. It contributes significantly to the awareness of U.S. beef. Promotion by the U.S. had the highest awareness (2.16). This evidently contributes to the establishment of a strong brand image by U.S. beef.

Canadian exporters, in the view of Koreans beef buyers, have a minimal presence in the Korean beef market. Buyers have very little information on the Canadian beef product. This is shown from the quantitative result (Figure. 7). The rated awareness of promotion was -1.64 for Canada, 2.16 for the U.S. and 0.82 for Australia, these scores were statistically significantly different.

Providing a positive image to the buyers and related end users is critical in marketing beef to Korea since the buyers, the hotel executive chefs and the purchasing managers, are the decision makers in the SBS channel. The executive chef designates the brand and the type of cuts required and the purchasing manager makes purchasing decisions based on price quotations from exporting packers and their local agents, and based on the preferences as to packers of the executive chefs.

Although imported beef is obliged to go through the channels of the KTHSC to qualify for the low import surcharge rate, the real power over purchase decisions lies with the buyers and the end users. Hence, awareness of the imported beef by the buyers and the end users plays an important role in increasing or maintaining market share.

5.2.4 Summary

Canadian beef was assessed to have significantly low ratings on all four promotional category attributes. Korean buyers criticized the level of efficiency and the lack of the Canadian service and assistance on beef import procedures. Many of the buyers were not aware of the current Canadian promotional activities. The Canadian packers also had negative reputations among Korean buyers as indicated in the Canadian score on the reputation attribute which was lowest (at -0.45) of the three countries considered (Figure. 7).

The Korean buyers emphasized the importance of packer reliability to purchase decisions. This emphasis is due to the way Koreans practice business and the nature of the Korean beef import market. Thus, the negative Canadian reputation among the Korean buyers can be expected to inhibit beef marketing in Korea.

5.3 Perception of Country Image

Hooley and Shipley (1989) emphasize that international marketers need to understand country image since potential buyers develop stereotype images of a countries' products. These images impact on buyers' purchasing behavior. Evaluation of Canada's image can be used as a basis for developing better marketing strategies in order to identify whether there are any major negative country images to be overcome.

5.3.1 Five Attributes of Country Image

Overall, the respondents positively viewed the management of the economy by all three countries of Australia, Canada and U.S. The U.S. received the highest score (1.86), Australia had an average rating of 1.0 and the Canada had a score of 0.63 in economy management (Figure. 8). The U.S. was perceived to be highly advanced technologically (2.36), followed by Australia (1.0) and Canada (0.83) (Figure. 8). The mean scores of the survey suggested that respondents tended to give higher scores to the country that they were most familiar with. However, when questioned about future desired relationships, Canada received the highest mean score, suggesting that the hotel beef buyers have a positive image about Canada. The overall rating for this attribute was 1.88 for Canada, 1.51 for United States and 1.534 for Australia (Figure. 8). This suggest a potential for good business relationships between Canada and Korea.

Korean buyers consider the quality of "made in U.S.A." products superior to the other foreign goods. U.S. product were perceived as the highest quality goods (1.09) followed by Australian and Canadian products (Figure. 9). Australia and Canada were perceived to produce good quality products however, the Korean beef buyers perceive such goods to be significantly lower than for U.S. product quality.

5.3.2 Summary

Analysis of variance tests (Anova) on the category of country image indicated that differences in this attribute among U.S., Canada and Australia are viewed to be insignificant. The respondents indicated a similar willingness to enter into future relationships with these three countries. However, they perceived significant differences in general product quality of goods made in U.S., Australia and Canada. The respondents acknowledged the technological excellence as well as the superior product quality of the U.S., as compared to either Australia or Canada.

6.0 Results of Qualitative Component of the Survey Study

The last section of the survey contained 7 questions which were given to the respondents in the form of open end discussion (Figure.12). The responses to these qualitative questions were collected under the following features:

- the relative competitiveness of foreign suppliers in the hotel sector
- important beef attributes influencing each hotel's purchasing decision
- forecasting the future of the Korean beef market
- questions regarding current marketing practices by foreign exporters

Responses to these issues were received from:

- 22 hotel purchasing managers
- 11 hotel local executive chefs
- 12 hotel foreign executive chefs
- 3 directors of foreign beef marketing organizations
- 2 presidents of the Super Groups
- 3 government officials in the Korean agricultural sector

6.1 Competitiveness of Foreign Suppliers to the hotel sector

Most respondents stressed the superiority of U.S. beef product quality and follow-up service. U.S. beef is viewed as tender and has desirable flavor characteristics whereas Australian beef is viewed as tough with strong beefy flavor. Canadian beef quality is known to be competitive by the Korean government officials who were respondents. Canadian beef fat is whiter than U.S. beef (CBEF, 1994) and this observation was verified by the responses to the quantitative questions of the survey (Table 14). A factor that may contribute to favorable views of Canadian beef is that the Canadian beef is perceived to be leaner than the U.S. product which could appeal to increasingly health-conscious Korean consumers (Table 14).

Although Canadian beef quality is perceived to be similar to U.S. beef, promotion of Canadian beef is almost non-existent in Korea. According to one hotel purchasing manager, 4-5 years ago the price quotation list of imported beef distributed by the KTHSC used to include the Canadian price. Currently this does not include the Canadian price. The majority of the Korean beef buyers emphasized "awareness" of imported beef to be important in order to succeed in the Korean market.

The hotel beef buyers stated that U.S. packers earn credibility among Korean beef buyers with their ability to supply a wide range of products with detailed product specifications and with consistent quality. They promote their products as having competitive quality with Hanwoo beef. For instance, one hotel purchasing manager stated that U.S. tenderloin is almost the same as the Korean Hanwoo for its good marbling characteristic.

The hotel purchasing managers perceive the switching costs to be high. Switching costs are fixed costs buyers face in changing beef suppliers (Porter, 1990). Since most hotel purchasing managers and executive chefs have invested heavily in learning how to use the U.S. Meat

Buyers' Guide and their product specification closely tie into the U.S. MBG, they are reluctant to change their purchasing decisions. Furthermore, heavy capital expenditure are required because of the infrequent purchasing schedule of imported beef, therefore the buyers are unwilling to purchase risky new products. For example, Canadian ribs are perceived not to match the U.S. MBG ribs and have a low acceptance rate among Korean beef buyers.

6.2 Important Beef Attributes Influencing Hotels' Purchasing decision

Seventy Six percent of the hotel purchasing managers and executive chefs stated that tenderness and flavor are the most important attributes in determining purchasing decisions. In contrast, the LPMO tender purchases the most inexpensive beef for each specific product specification. Although purchasing behavior and preference is different between the hotel industry purchasers versus the LPMO tender purchasers, both are concerned about the ability of packers to deliver consistent quality products on schedule.

The hotel purchasing managers and executive chefs also emphasized the importance of "branding" of products. According to a respondent, Montferd, a U.S. packer, is well known among the Korean hotel purchasers for its short ribs, and Senson, another packer is known for their sirloin steaks. None of the respondents were able to give brand names of any Canadian packer.

Follow-up service was another frequently cited desired attribute among the hotel respondents. This is the service provided by the packers after beef purchase. For example, if the supplied product does not match the product specification of the purchaser, the packer has to either refund or re-supply promptly. Due to the complex nature of the Korean distribution channel, follow-up service is perceived to be an essential component of imported beef product.

Despite the similar attributes of Canadian beef, it was often noted to not match the U.S. Meat Buyer's product specification. A beef marketing expert, who was a respondent, mentioned that both Canadian AAA and AA products match with "choice" grade of U.S. beef which causes confusion in product specification. This creates a negative image of Canadian packers and Canadian beef in Korea. An official stated that Canadian packers had problems meeting customers' product specification in 1994 and this resulted in buyers' forfeiting the performance bond. In 1995, the Korean quarantine service had a claim on some Canadian beef that was mishandled in the transportation process in Canada. The respondents suggested that this fundamental problem that has to be solved before any other promotional activities will be effective. They said that the Korean beef purchasing system is virtually built on the U.S. Meat Buyers' Guide. Due to the aggressive distribution and educational promotion conducted by USMEF, most Koreans beef buyers have adopted the U.S. Meat Buyers' Guide.

The hotel respondents reported problems with packaging of imported beef. Imported beef has to be distributed through several layers of channels; custom clearance service, quarantine service and major supply center. Broken packaging boxes and contaminated meat are often found at the final destination. Also, most imported beef packaging units are too heavy for Korean standards. Durability and compatibility of packaging are perceived to be important attributes by the hotel respondents.

6.3 Forecasting the Future of the Korean Beef Market

The Korean beef market will liberalize by 2000. Although the respondents had different opinions about the consequences of the liberalization process, the majority of them agreed that the competitive climate among the foreign suppliers and distributors will increase.

The KTHSC (Korean Tourist Hotel Supply Center), a monopoly distributor to the hotel sector, is generally predicted to become less powerful and less dominant by year 2000. For example, in 1994 the KTHSC dealt with product shopping, packer selection and purchase negotiation. The members only paid money to the KTHSC to get the desired products. In 1995, the hotel purchasing manager members had direct contact with the foreign suppliers. They designated the type of product, brand name, and negotiated the price with the suppliers. The KTHSC only dealt with the import documentation and product delivery.

The relationship between the KTHSC and member hotels has changed as the Korean beef market restructures. In the past, the KTHSC was an authoritative organization. It was the sole distributor of imported beef to the hotel industry.

For instance, member hotel companies picked up beef from the KTHSC in prior years. However, KTHSC is becoming more of a service oriented association. Currently the KTHSC delivers product directly to the member hotel companies. Nonetheless, the opinions of the hotel industry towards the KTHSC are divided. One group with positive opinions contains buyers that are willing to continue business with the KTHSC. Another group, with negative opinions, plan to switch their distributors as the marketing system becomes more flexible. Many hotel purchasers criticized the KTHSC's limited range of beef products, and the lack of customer service.

More than half of the respondents predict that demand for value added products (i.e. portion cut products) will increase due to increasing labor costs in Korea. The hotel executive chefs complained about the size of portion cut products currently available. Most imported portion cut steaks are 250-280 mg, which is too big relative to the Korean standard (220 mg).

Chilled beef is expected to be highly preferred to frozen beef in the future. Yet chilled beef imports are still considered to be very costly given the inefficient transport infrastructure conditions in Korea. Fifteen percent of the respondents predict that it will take 5 years for acceptable infrastructure to develop.

Western family restaurant and fast food restaurant sectors are rapidly increasing in Korea and these sectors are upgrading the quality of beef served. Thus, demand for higher quality beef is expected to increase not only in the hotel sector but also in the restaurant sector.

As the imported beef market becomes less regulated and more profitable, the major Korean multinational conglomerates are expected to join and attempt to dominate the market. The conglomerates have the advantage of large capital resources which is important in beef import trading.

6.4 Current Marketing Practice by the Foreign Exporters in the Hotel Sector

Most of the respondents cited that the U.S. promotional activities are effective and aggressive. They reported that U.S. packers, together with the United States Meat Export Federation (USMEF) frequently conduct several marketing activities targeting the hotel sector. These activities include monthly cocktail receptions, trade seminars, trade shows and dissemination of information to the hotel chefs and purchasing managers.

The USMEF hosts monthly cocktail receptions to share information on meat trading and the meat marketing situation with the members of the Korea Hotel and Restaurant Institute (HRI). The USMEF and four U.S. agribusiness companies, Bruss Company, AgriWest International, Murco and Gender Agri Inc. participated in the 1995 Seoul International Food Technology Exhibition. They networked with the Korean agribusiness industry and promoted U.S. beef to the general consumers (USMEF Report, 1995).

In the fall of 1995, the USMEF invited “HRI Team”, Korean hotel and restaurant industry workers, to visit the U.S. livestock industry. The HRI Team visited the Bruss Co., Excel, Fuji Food, Munford, Skylark Meats, and H. Senson International to learn about U.S. beef production process. Some of the respondents participated in this event and they indicated that the trip to U.S. packers’ plant increased their perception about the reliability of U.S. packers.

The interview results revealed that the USMEF and U.S. packers are currently working on strengthening the awareness of the U.S. beef among retailers and end-users. For instance, the USMEF has produced and designed a “sign board” for the imported beef specialty shops. This sign board was designed in June 1995 and placed at the front entrance of 40 imported beef specialty shops. This sign board production program enhances the U.S. brand image and differentiates U.S. beef from other imported beef products (USMEF Report, 1995).

According to the report from the Department of Agriculture of the United States, fast food chains and Western style family restaurant businesses are one of the fastest growing sectors in Korea. Most major restaurant chains from the U.S. have at least one outlet in Seoul (USDA report, 1995). Each restaurant was reported to have aggressive promotion and expansion plans and cooperate with the USMEF. The report also stated that the USMEF conducts U.S. beef promotions in newly opened Western restaurants and sponsor menu production for these restaurants.

The Korean Meat Journal illustrated Australia’s new marketing strategies which is to counter the U.S. competition. According to this journal, Australian packers are targeting the high quality hotel sector and the retail sector by supplying a so called “full set” product. “Full set” is either grass-fed or grain-fed vacuum packed frozen products with full range of beef cuts. They are trying to maintain or increase their market share by diversifying their target market sector. However, full set imports have problems disposing of all cuts included in the set (CBEF, 1994). The Korean market study of the Canada Beef Export Federation suggested that Korea prefers large volumes of special cuts rather than a wide range of beef cuts. Thus, full set product is found to be less compatible with the Korean market.

The respondents mentioned that Australian packers visit Korean beef buyers on a regular basis to maintain good relationship. The Australian Meat Livestock Corporation (AMLC), in conjunction with Australian packers, was reported to conduct various marketing programs in Korea that are similar to the USMEF activities. These activities include invitations to Korean beef buyers to tour Australian production systems, participation in trade shows, informational seminars, media promotions and direct contact with hotels and retailers. This effort to improve Australia's product quality image is necessary because the demand for high quality beef is the key growth market (Canadian embassy, Korea, 1994).

In April 1994, the AMLC held a barbecue in Korean department stores to provide samples of Australian beef. It was the first time that foreign beef suppliers directly targeted promotion at Korean retail consumers. The AMLC is attempting to build a positive image by the end-users to trigger more Australian beef purchases at the wholesale level (Korean Meat Journal, 1994).

To increase awareness of Canadian beef, the Canadian Beef Export Federation (CBEF) commenced full-time Korean operations in the fall of 1995 and has initiated several marketing activities. These activities include selecting a local representative to act as a liaison between Canadian packers and the Korean beef industry, to conduct a VIP Beef Awareness Mission, to conduct beef industry seminars and to introduce promotional materials to end-users (Seoul office of CBEF, 1995).

In the fall of 1995, provision for Canadian beef sampling was distributed by a few Canadian packers and conducted at the large international Korea hotels, and the results showed that Canadian beef quality was competitive to U.S. Information on this sampling test was obtained from the hotel chefs who conducted the test. However, one respondent who participated in the sampling noted that the sampling arrangements had coordination problems. His hotel received Canadian product samples without full product description. Also, each hotel received different beef cuts for sampling which did not allow buyers to compare results.

7.0 DISCUSSION OF THE EXPORTERS' CURRENT MARKETING STRATEGIES

Based on the results of the qualitative response section of the survey, one can compare the marketing strategies of the three exporters, U.S., Canada and Australia using Michael Porter's competitive strategy theory as the framework of analysis. Porter's theory describes three principal types of competitive strategy: cost leadership, differentiation and focus (Porter, 1991). The cost leadership strategy offers a competitive price by lowering production cost. The differentiation strategy customizes a product according to each customer's preference thereby creating an image as a high quality supplier. The focus strategy defines the specific scope of the target market in order to maximize the effectiveness of marketing activities.

7.1 U.S. Position

The U.S. cattle industry entered the Korean market in 1988 using a focused strategy that targeted the hotel sector for grain-fed beef. The MEF of U.S. led this focused strategy. It

established a national “made in U.S.A.” image for U.S. beef in the hotel sector. As a result, the U.S. made major inroads in that market segment.

While the MEF of U.S. established recognition for U.S. beef in the hotel sector, individual U.S. packers distinguished their brand names. This competition was among U.S. packers rather than with other national suppliers. U.S. packers developed niche markets for specific beef products. For example, among the hotel purchasing managers, Munford, a U.S. packer, has an excellent reputation for its short ribs. Senson, another U.S. packer, has an excellent reputation for its sirloin steaks. Thus, individual U.S. packers used a market differentiation strategy to build brand image and to extend their market share within the overall image of stressing that the U.S. is a supplier of highest quality grain-fed beef.

A strong brand image can provide an important competitive advantage for a product where there are few readily discernible differences in product quality (Douglas et.al,1995). Beef fits into this product category and the branding strategy of U.S. packers appears to have been an effective marketing practice.

Another U.S. differentiation strategy is to emphasize superior quality control. Complete packaging of U.S. beef at the production site prevents mishandling and product damage that can possibly occur during reprocessing in Korea. This attribute increased the reliability of U.S. beef product as perceived by the Korean buyers.

The U.S. made preemptive moves in 1988 when the Korean market reopened its beef imports. They dominated the distribution channel by increasing switching costs. U.S. increased the switching costs by educating the Korean beef buyers about U.S. meat specifications and U.S. Meat Buyers’ Guide. The majority of the buyers adopted this as the basic guide line for grain-fed beef imports. Other foreign suppliers with different product specifications have difficulty penetrating this market .

The U.S. is now moving into the next phase: market expansion. They are increasing their market share by targeting industry wide sectors such as the hotel and the general retail sector. The “Sign board” program of the United States Meat Export Federation is an example of such a movement in marketing direction. The “Sign board” program is a product differentiation strategy targeting the Korean retail sector. The Meat Export Federation(MEF) of the U.S. intends to raise U.S. beef awareness in the retail sector with this strategy. Expanding into the retail sector will increase sales volume and decrease production costs.

The U.S. penetrated the Korean beef market by focusing on the hotel sector, a major grain-fed beef customer. They solidified their presence in the hotel sector using two activities. First, the MEF of the U.S. created a national brand for U.S. beef in the hotel sector, then educated the Korean beef buyers about the Meat Buyers’ Guide (MBG) of the U.S. so that the switching cost of the Korean beef import system became high. The U.S. is now in the market expansion phase in which they attempt to move into the retail sector by building a national brand identity in this sector.

7.2 Australia's Position

Australia entered the Korean beef import market early in the 1970s and dominated the market from 1976 to 1984, supplying 95% of total beef import volumes. With highly efficient production systems and low production costs, Australia used a cost leadership strategy to respond to the Korean beef import demand. The Korean government had a beef import policy that used grass-fed imported beef to stabilize the domestic beef price. Under the tight control of the government, few chances existed for product differentiation. Beef imports were allowed through the tender system and low price was the primary concern. Hence, Australia's cost leadership strategy was effective under this situation.

However, demand is shifting from low quality beef to high quality beef, and Australia is losing market share. Thus, the negative quality image of cheap, low quality Australian beef is hindering their penetration of the high-end hotel sector. Further more, Australian exporters have faced vigorous U.S. competition since the market reopened in 1988. The proportion of grain-fed beef purchased under the tender system is increasing while grass-fed beef purchases are declining. Australia, a major grass-fed beef exporter, had 66% of the imported beef market share while U.S. had 25% in 1989. By 1994, the U.S. market share in imported beef market increased to 50%, whereas the Australian market share decreased to 35%.

To counter U.S. competition, Australia is launching an extensive product differentiation strategy to supply products specifically customized to different national customer's preference. For example, Australia produces tender and leaner beef for Koreans and highly marbled beef for Japan. Facing intense competition from foreign exporters, Australia is also focusing more on down-stream activities; physical distribution channels, marketing activities and customer service. Australia's competitive advantages include advanced chilling technology and their close proximity to Korea. A beef marketing expert stated that Australia plans to preempt the Korean chilled beef import market based on these two advantages.

Formerly Australia's primary target market was the price sensitive general retail sector. As general consumers began to demand higher quality beef, the high quality beef market promises better profit margin. In response, Australia introduced full-set products. This is a product diversification strategy aimed to target both the hotel and retail sectors. Yet, this strategy has a disadvantage of inflexibility in the range and quantity of cuts offered relative to the U.S. product differentiation strategy. The U.S. packers generally supply a large quantity of specific beef cuts which are popular in Korea thereby increasing their exporting efficiency and branding effect.

The survey results of this study show that Australia's major efforts towards improving customer perceptions are not yet effective presumably because of the negative quality image established during the 1970s and the 1980s. Nevertheless, Australia is attempting to reposition beef products in Korea by active marketing strategies as noted above.

7.3 Canada's Position

Canada entered Korea in 1988 with a focused beef marketing strategy to position itself as grain-fed carcass supplier. This strategy was effective for Canada with its limited quantity of beef and a limited variety of beef cuts. Canada was the third largest beef export nation to the Korean market in 1989.

Canada suffered a blow between 1991 to 1993 due to the problem of low quality Canadian products shipped in 1990. Canadian packers were unable to ship products that met the Korean product specification (Pacific Rim market report, 1994). Product specification problems in 1990 resulted in the collapse of Canada's market presence in Korea. The consequences of this problem are reflected in the data on Canada's market share (Table 13): Canada's market share was 0% from 1991 to 1993.

According to one respondent, a few Canadian packers disposed of over-stocked low quality beef in Korea. This hurt the reputation of Canadian packers and resulted in a significant decrease of Canadian market share in Korean imported beef market. As a result, Canada missed a critical time period for capturing Korean market share. The quantity of the Canadian beef export went down from 929 tons in 1990 to 57 tons in 1991 (Table 13). Canadian export volume started to recover the following year and reached 1,602 tons in 1994.

Currently, Canada is pursuing a focused strategy targeting the high quality beef segment (Pacific Rim market report, 1994). Canadian packers are networking with local agents and distributors to develop stable marketing channel and to provide customer service. Thus, Canada is trying to increase product sale by targeting the distributor channel.

Canadian beef quality is perceived to be comparable to that from the U.S. but it does not have the perceived customer value in the hotel sector. Canadian beef had a low awareness level in the hotel sector, which was verified in the quantitative survey result. Only 50% of the respondents could evaluate Canadian beef. If this situation is to be improved, better marketing strategies need to be developed and implemented.

8.0 RECOMMENDATIONS FOR CANADIAN BEEF EXPORTERS

Based on the qualitative and the quantitative data gathered from this study, one can develop better marketing strategies for Canadian beef exporters in the Korean hotel market. The prospects of increasing Korean beef consumption provide Canada with the opportunity to sell more beef to Korea. Intense competition among alternative foreign suppliers is expected as the market grows, and Canada needs to improve its position in the Korean market if its market share is to grow.

The recommendations derived from this study can be broadly organized into four areas:

- A. Correct current marketing deficiencies.
- B. Develop stronger relationships with the hotel beef purchasers.
- C. Improve differentiation strategies for the hotel sector.
- D. Acknowledge emerging market opportunities within the hotel sector.

8.1 Correction of Current Marketing and Export Deficiencies

As shown in this study, many problems have been identified. The most striking finding of the study was the lack of knowledge of Canadian beef by hotel beef buyers. Thus, 44% of the respondents were unable to evaluate Canadian beef quality. Ratings on the promotional activities on the quantitative section revealed that Canadian received negative scores. Canadian promotion was viewed to be ineffective and probably has resulted in a negative image for Canadian beef products.

Several marketing activities should be performed to increase awareness. Frequent sampling of Canadian beef orientated to the hotel chefs and purchasing managers is one basic step in increasing the awareness in this sector. The results of the qualitative survey indicated Canada's most recent beef taste sampling in Korea had problems. To conduct an effective sampling, the following is required:

- Samples should include full product description
- Every panel should receive identical sample cuts
- distributions should focus on the most popular beef cuts
- Follow up activities to facilitate supplies and check problems are required

Canada had problems in the past meeting Korean product specifications. Compliance with the U.S. Meat Buyers' Guide (MBG) is necessary since Korean customers predominantly use the MBG of the U.S. Further research is required to determine the distinctive product specifications of each hotel and then to supply that customer niche. The Korean hotel sector is willing to pay a premium price for high quality products and services that meet or exceed their specifications.

8.2 Development of Stronger Relationship with the Hotel Beef Purchasers

The Korean hotel purchasing managers and chefs stated that they did not have much contact with Canadian suppliers or the Korean agent representing Canadian beef. Canadian packers need strong local agents who can consolidate Canada's marketing channel in Korea. In addition, Koreans value supplier reliability, hence having a well connected local agent is essential.

According to the data gathered, Canadian customer service was viewed to fall below both the U.S. and Australia. Overall, the results show Canada was viewed to provide sub-standard service. This negative perception has likely resulted in a loss of customers. It is critical to maintain good customer service to survive in this sector. The Korea hotel sector is an upscale market where high quality service is the standard.

By offering more responsive and extensive service to Korean customers, Canada can improve perceived customer value. Having a smaller operation in Korea, Canada has a potential advantage of flexibility in responding to niche markets or servicing emerging trends. With the aid of local agents, Canadian packers need to stay in frequent contact with their Korean customers. Korean customers desire frequent follow up service. Service reflects the foreign suppliers' market commitment.

8.3 Improving Differentiation Strategy for the Hotel Sector

The U.S. has gradually dominated the hotel sector since 1988 and currently it holds 52 % of market share in the imported beef market sector. It has successfully established its brand image so that the majority of the Korean hotel beef buyers prefer expensive U.S. beef to other imported beef. Thus, the U.S. has heavily invested in this market sector to dominate the sector and to maintain the status quo. This evidently shows that the U.S. is committed to this profitable sector. Hence, direct competition against the U.S. could result in aggressive retaliation from the U.S.

Canada may avoid direct competition against U.S. by further differentiating Canadian beef and identifying niche markets. Product differentiation means enhancement of product customer value by offering superior customer service, developing unique product features and designing an effective distribution channels.

The survey of the Korean hotel customers revealed that they prefer smaller portion cut sizes. Canadian packers should attempt to meet this preference with further product customization and should promote their ability to meet Korean product preference which requires relatively smaller unit size.

The Korean hotel sector also prefers product labeling in Korean language and increased durability of the packaging box. Canadian packers could enhance the value by meeting their needs.

This study showed no statistically significant difference of the country image between U.S., Canada and Australia. Superficially, this may mean that using country image as a promotional tool will have minimal impact on product perceptions. But, at a deeper level, country identification is important in developing brand image in the hotel sector. Therefore, maintenance and intensification of country identification is concluded to be essential part of marketing Canadian beef.

The hotel buyers emphasized the importance of “branding “ of Canadian beef. Branding is an establishment of product distinction with quality product and service offered by a specific company. As the Korean hotel industry learns to differentiate product and to appreciate popular brand names, branding of product will become an indispensable Korean marketing practice. The Korean hotel beef buyers do not have strong opinions about Canadian beef, therefore Canada should attempt to build a positive brand image for its beef products to succeed in this market.

8.4 Emerging Market Opportunities in the Hotel Sector

The results of the qualitative survey showed the increasing popularity of value-added beef products in the hotel sector. Individually vacuum-packed portion cut products are now widely used in the sector and a variety of portion cut products are expected to rise with this trend.

Canadian packers should take notice of this trend. This may be a niche market Canada could exploit.

According to the qualitative survey, many hotel purchasers assess that chilled-beef demand will increase in the future. Again, this may present a niche market opportunity for Canadian suppliers. Major local distributors are building large storage facilities near receiving ports and improving the logistics of beef transport to meet the rising chilled-beef demand. Australia already has chilling technology that makes feasible sea freight to Korea for this product. The U.S. is heavily investing in shelf-life technology development to compete with Australia. Canada will need competitive shelf-life technology and an effective chilled-beef distribution strategy to capture this market segment. Chilled-beef imports requires efficient coordination with the local distributors because of limited shelf-life period. Canada needs to build sound business relationships with Korean distributors in order to supply chilled beef. On the other hand, improvements in the Korean delivery system promise the possibility of more frequent beef purchases. This may motivate Korean buyers to try new products such as Canadian beef.

The Korean hotel purchasers indicated, in their responses to question number four, their belief that more nutritious and leaner beef will become popular in the future. This present another potential niche market. Since Canadian beef is known to be leaner than U.S. (CBEF, 1994), this could be used as a marketing tool. Currently, the hotel purchasers assessed that Canadian beef is equivalent to U.S. beef with respect to fat color, muscle color and leanness (shown in the responses to the questions of section I). Canada could promote the leanness and freshness of its product to prosperous health conscious consumers. This is one potential basis to further develop niche markets in the high quality market segment for beef.

Because of the aggressive lobbying effort by the U.S. with the Korean government, there is a certain degree of antagonistic attitudes towards the U.S. among some hotel buyers. Canada can target hotels with such attitudes and exploit their willingness to try Canadian beef. In order to capture these customers, Canada must develop stable business relationships with them.

8.5 Summary of Recommendations

The methods proposed for increasing market share for Canadian exporters distill down to correcting current problems with Canadian beef marketing and exports, improving current differentiation marketing strategies and capturing niche markets. Instituting an export policy that combines all four components should result in improved perceptions of Canadian beef and translate into increased usage of Canadian beef in Korea.

In addition, effective positioning of Canadian beef in Korea will not be possible without the commitment and cooperation of Canadian suppliers and the Canadian Government. The Government should provide good market information that is available through its trade promotion officers. It is important that there be a commitment of funds to further research and analyze the Korean beef market.

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10.0 APPENDICES

Table 1			
Per Capita GNP, Gross National Disposable Income, and Unemployment Rate			
Year	Per Capita GNP (1000 Won)	Gross National Disposable Income (10 billion Won)	Unemployment Rate (%)
1986	2,207	77,985.5	3.8
1987	2,557	90,296.3	3.1
1988	3,015	114,368.7	2.5
1989	3,353	127,605.9	2.6
1990	4,007	154,879.3	2.4
1991	4,767	214,640.5	2.3
1992	5,471	239,293.7	2.4
1993	6,031	266,257.3	2.8
1994	6,817	303,627.3	2.4
1995	-	-	2.3

Source: 1) The Bank of Korea
 2) National Statistical Office. Economically Active Population Survey, 1992
 3) MAFF, Reassessment of Competitive Marketing Strategies of the Korean Livestock Industry, 1995

Table 2				
Total Consumption of All Meats				
Year	Meat (Boneless) (1,000 tonnes)			
	Beef	Pork	Chicken	Total
1986	148	320	129	597
1987	152	373	140	665
1988	142	425	149	716
1989	143	472	155	770
1990	177	505	172	854
1991	223	511	207	941
1992	227	585	231	1,043
1993	233	613	241	1,087
1994	270	633	246	1,149

Source: LPMO, Annual Livestock Report, 1995

Table 3				
Per Capita Consumption of All Meats				
Year	Meat (Boneless) (Kg)			
	Beef	Pork	Chicken	Total
1986	3.6	7.7	3.1	14.4
1987	3.6	8.9	3.3	15.8
1988	3.4	10.1	3.5	17.0
1989	4.1	11.1	3.7	18.2
1990	5.2	11.8	4.0	19.9
1991	5.2	11.8	4.8	21.8
1992	5.2	13.4	5.3	23.9
1993	5.3	14.3	5.2	24.8
1994	6.1	14.2	5.5	25.8

Source: LPMO, Annual Livestock Report, 1995

Table 4	
Per Capita Beef Consumption of Different Countries Per Year	
Country	Beef (Kg)
Korea	7.5
Japan	9.1
E.C.	22.4
U.S.	44.4
Canada	36.1

Source: CBEF Market Report, 1994

Table 5					
Supply & Demand of Beef and Self-Sufficiency Ratios (Tonnes)					
Year	Domestic Production	Import	Total	Demand	Self Sufficiency Ratio
1986	150,761	-----	156,322	147,934	101.9
1987	149,217	-----	157,605	151,926	98.2
1988	126,582	14,193	146,454	141,536	89.4
1989	90,051	45,592	140,528	143,312	62.8
1990	94,924	84,010	180,120	176,988	53.6
1991	98,529	125,178	226,839	223,260	44.1
1992	107,520	131,934	243,033	226,891	47.4
1993	129,625	99,000	236,824	232,998	56.0
1994	145,000	125,000	270,000	270,500	54.5

Source: MAFF, Reassessment of Competitive Marketing Strategies of the Korean Livestock Industry, 1995

Table 6				
Beef Liberalization Plan				
Year	Quota (ton)	SBS Share (%)	Mark-up (%)	Duty (%)
1993	99,000	10	100	20
1994	106,000	20	95	20
1995	123,000	30	70	43.6
1996	147,000	40	60	43.2
1997	167,000	50	40	42.8
1998	187,000	60	20	42.4
1999	206,000	70	10	42.0
2000	225,000	70	0	41.6
2001	Abolish			41.2
2002	Abolish			40.8
2003	Abolish			40.4

Source: 1) The Ministry of Foreign Affairs, Seoul, Korea, 1994
2) Kim, Brighter Prospect for the Korean Beef Market, 1995

Table 7						
The Competitiveness of Beef Productivity (unit: Won/10 Kg)						
	Cattle Purchase Cost	Feed Cost	Labor Cost	Financing Cost	Miscellaneous	Total
Korea	29,712	11,427	7,800	5,301	842	55,082
U.S.	9,523	2,970	252	484	1,212	14,441

Source: MAFF, Reassessment of Competitive Marketing Strategies of the Korean Livestock Industry, 1995

Table 8										
LPMO Boneless Beef Imports, By Country and By Type, 1988-1994										
(Unit: Tonnes)										
Year	U.S.		Canada		Australia		New Zealand		Total	
	Grain-fed	Grass-fed	Grain-fed	Grass-fed	Grain-fed	Grass-fed	Grain-fed	Grass-fed	Grain-fed	Grass-fed
1988	6,099	-	20	-	60	1,675	-	-	6,179	1,675
1989	10,374	-	-	-	30	-	-	-	10,405	-
1990	24,317	-	349	-	-	-	-	-	24,666	-
1991	43,012	-	36	-	96	373	-	-	43,144	373
1992	50,495	-	162	-	72	261	-	-	50,729	261
1993	38,710	-	234	-	504	-	-	-	39,448	-
1994	53,434	-	1,476	-	270	-	-	-	55,180	-

Source: LPMO, Annual Livestock Report, 1995

Table 9										
LPMO Bone-in Beef Imports, By Country and By Type, 1988-1994										
(Unit: Tonnes)										
Year	U.S.		Canada		Australia		New Zealand		Total	
	Grain-fed	Grass-fed	Grain-fed	Grass-fed	Grain-fed	Grass-fed	Grain-fed	Grass-fed	Grain-fed	Grass-fed
1988	5	-	-	210	-	5,460	-	-	5	5,670
1989	1,035	210	2,867	112	6,458	26,659	-	1,548	10,360	28,528
1990	-	-	560	-	-	41,653	-	3,483	11,532	45,136
1991	-	-	21	-	20,841	43,803	-	13,338	20,862	57,141
1992	-	-	-	-	20,204	47,323	-	10,483	20,204	57,806
1993	-	-	-	-	9,631	28,925	-	11,096	9,631	40,021
1994	-	-	-	-	9,317	23,085	-	15,268	9,317	38,353

Source: LPMO, Annual Livestock Report, 1995

Table 10			
SBS Quota Allocation (Unit: Tonnes)			
Super Group	1993	1994	1995
NLCF	2,970	3,330	5,254
KCSC	2,970	3,330	5,254
KTHSC	3,960	4,664	5,424
KRSC	-	2,000	2,712
KMIA	-	4,676	7,118
KOSCA	-	3,200	8,138
Total	9,900	21,200	33,900

Source: LPMO, Annual Livestock Report, 1995

Table 11					
SBS Beef Imports in 1994 (Unit: Tonnes)					
	U.S.	Australia	Canada	New Zealand	Total
NLCF	1,044	2,082	18	186	3,330
KCSC	450	2,046	0	834	3,330
KTHSC	3,215	1,009	19	377	4,620
KMIA	514	4,003	0	159	4,675
KRSC	1,711	199	90	0	2,000
KOSCA	2,537	659	0	0	3,196
Total	9,471	9,998	126	1,555	21,151

Source: LPMO, Annual Livestock Report, 1995

Table 12					
Overall Beef Imports, By Country and By Year (Unit: Tonnes)					
	U.S.	Australia	Canada	New Zealand	Total
1988	6,779	7,215	230	15	14,239
1989	12,286	33,161	2,987	1,548	49,982
1990	26,974	52,677	926	3,483	84,060
1991	45,922	65,592	57	13,429	125,000
1992	53,260	68,030	162	10,548	132,000
1993	43,531	42,700	254	12,515	99,000
1994	63,371	43,906	1,621	17,097	125,995

Source: LPMO, Annual Livestock Report, 1995

Table 13					
Canadian Beef Exports, By Type (Unit: Tonnes)					
	Grass-fed	Grain-fed	SBS	Total	Percentage
1988	210	20	-	230	1
1989	2,867	112	8	2,987	6
1990	0	909	17	926	1
1991	0	57	0	57	0
1992	0	162	0	162	0
1993	0	234	20	254	0
1994	0	1476	126	1602	1

Source: LPMO, Annual Livestock Report, 1995

Table 14
Quantitative Results from the survey
on Product Quality Evaluation*

Attributes	Canada (N=25)	U.S. (N=42)	Australia (N=42)	Significance Anova
Tenderness	0.35	1.62	-0.55	**
Marbling	0.81	1.14	-0.48	**
Muscle Texture	1.10	1.07	-0.05	**
Muscle Color	0.84	0.71	0.24	
Fat Color	0.72	0.69	-0.02	
Fat Trim	0	0.1	0.13	
Flavor	1.04	2.05	-0.07	
Food Safety Std	0.46	0.93	0.86	
Price	-0.64	-1.98	0.60	**
Variety of Cuts	-0.04	1.34	0.61	**
Product Pkg.	1.17	1.70	1.12	
Overall Beef	0.64	2.09	0.16	**
Quality				

* The values are mean scores.

** The values are significant at 5% level ($P \leq 0.05$).

N= the means of the response rate on each nation. There is very low variance about the response rate.

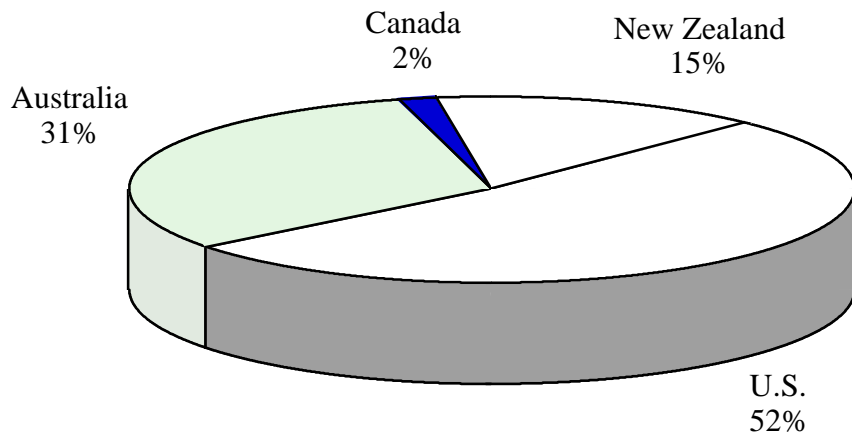
Table 15				
Quantitative Results from the survey on Promotional Activity Evaluation*				
Attributes	Canada (N=43)	U.S. (N=44)	Australia (N=44)	Significance Anova
Service & Assistance	-1.40	2.07	0.86	**
Reputation	-0.45	2.25	-0.11	**
Effectiveness of Promotion	-1.00	1.84	0.32	**
Awareness of Promotion	-1.64	2.16	0.82	**

* The values are mean scores.
 ** The values are significant at 5% level ($P \leq 0.05$).
 N= the means of the response rate of each nation.

Table 16				
Quantitative Results from the survey on Country Image Evaluation*				
Attributes	Canada (N=40)	U.S. (N=44)	Australia (N=43)	Significance Anova
Management of Economy	0.63	1.86	1.00	**
Technology	0.83	2.36	1.00	**
Future Relationship	1.88	1.51	1.53	
General Product Quality	0.36	1.09	0.58	
Trustworthiness	0.53	1.72	0.80	

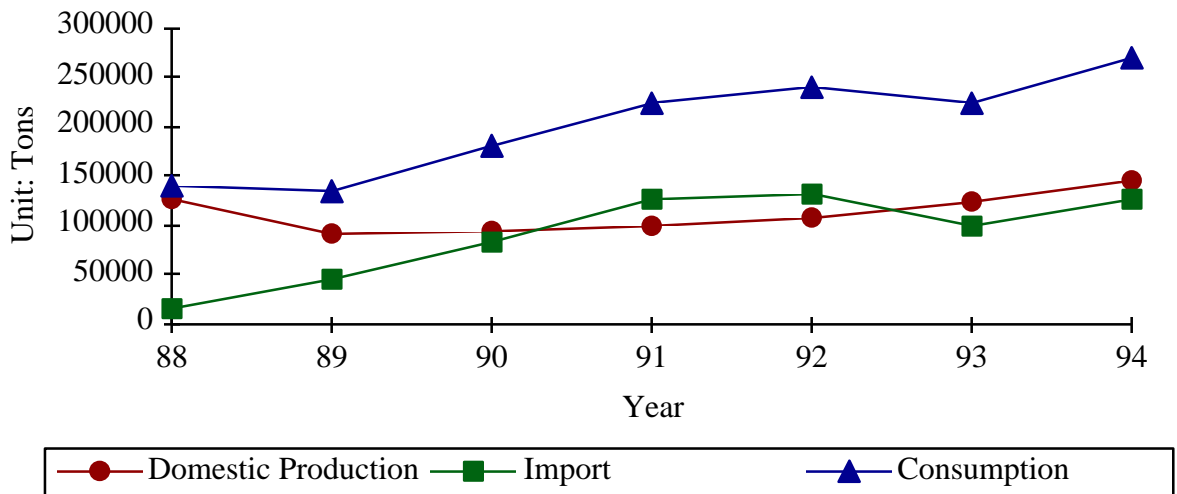
* The values are mean scores.
 ** The values are significant at 5% level ($P \leq 0.05$).
 N= the means of the response rate of each nation.

Figure 1.
Current Beef Imports
Third Quarter, 1995



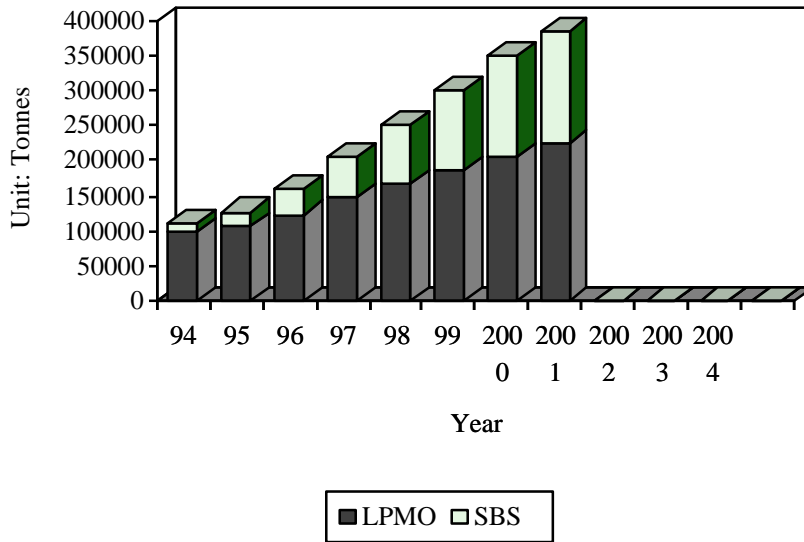
Sources: LPMO, Annual Livestock Report, 1995.

Figure. 2
Domestic Production and Beef Imports



Sources: Kim, Brighter Prospect for the Korean Beef Market, 1995.

Figure. 3
Beef Liberalization Plan of the Korean Imported
Beef Market under the GATT Agreement



Sources: Kim, Brighter Prospect for the Korean Beef Market, 1995.

Figure. 4
Results of the Survey of Rating on
Tenderness, Flavor and Marbling

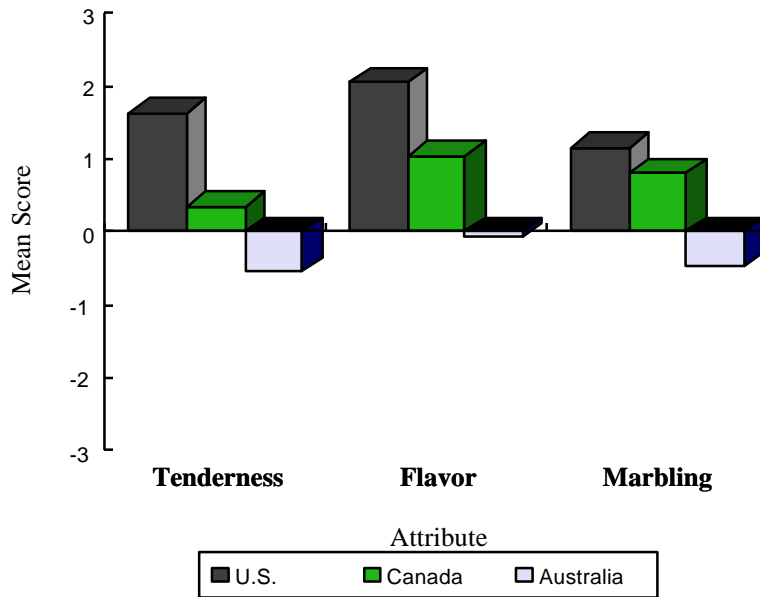


Figure. 5
Results of the Survey of Rating on
Price, Variety -of Cuts and Packaging

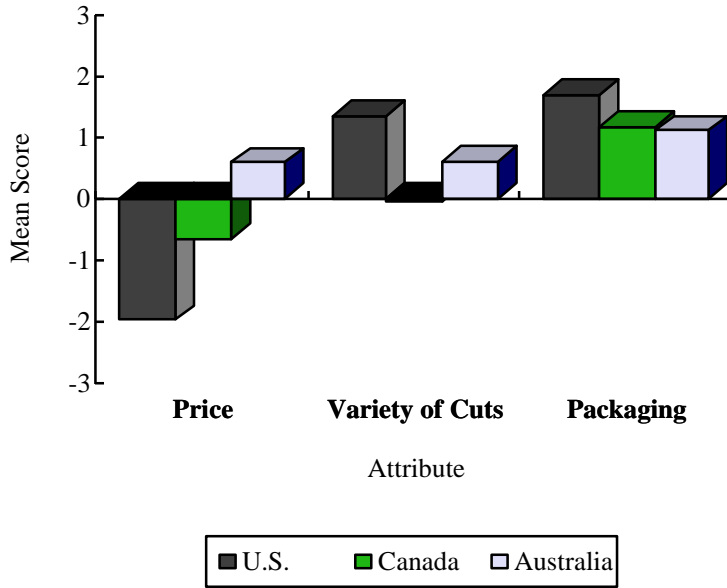


Figure. 6
Results of the Survey of Rating on
Muscle Color, Fat Color and Fat Trim

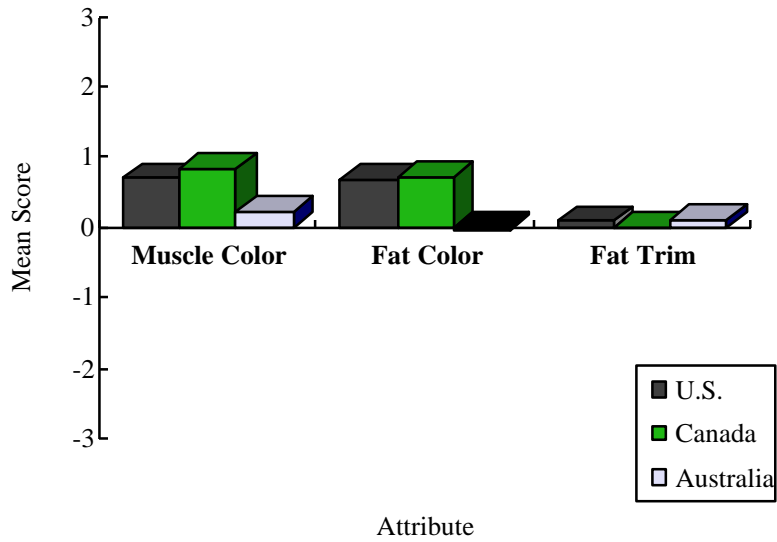


Figure. 7
Results of the Survey of Rating
on Promotional Activities

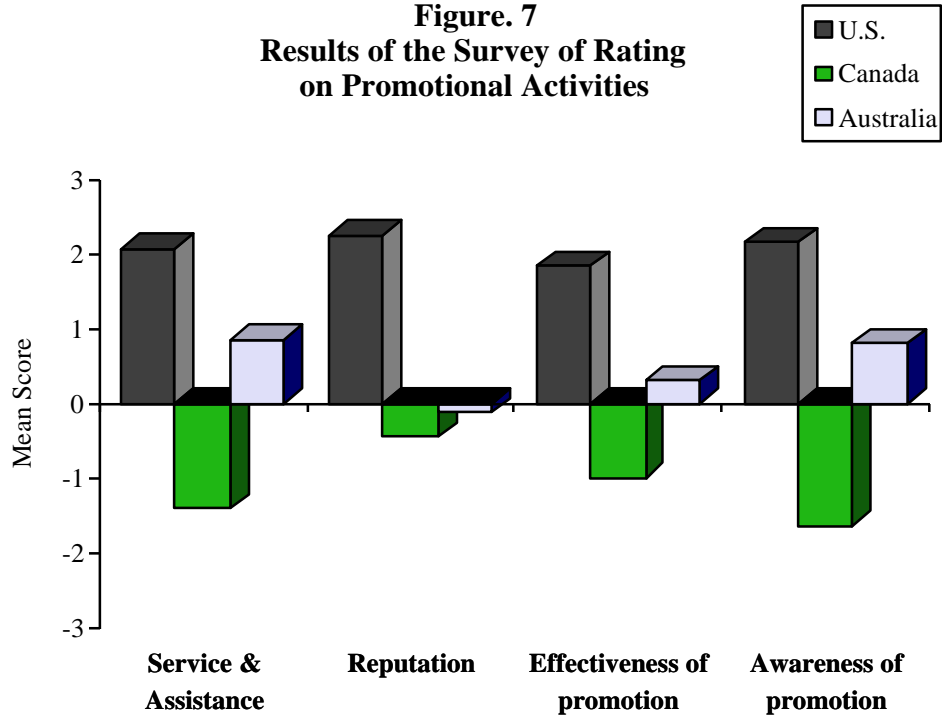


Figure. 8
Results of the Survey of Rating on Management of
Economy, Technology and Future Relationship

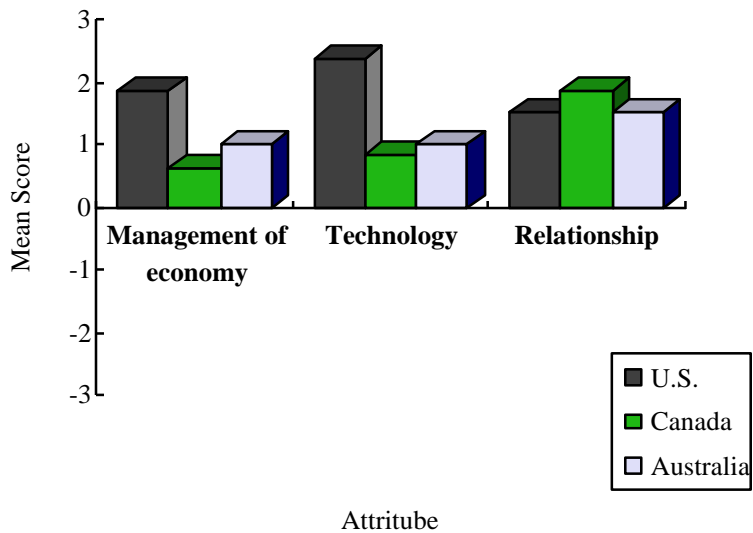


Figure. 9
Results of the Survey of Rating on
General Product Quality and
Trustworthiness

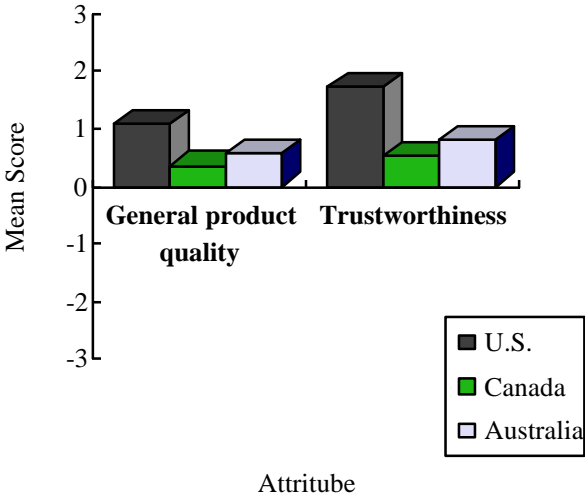
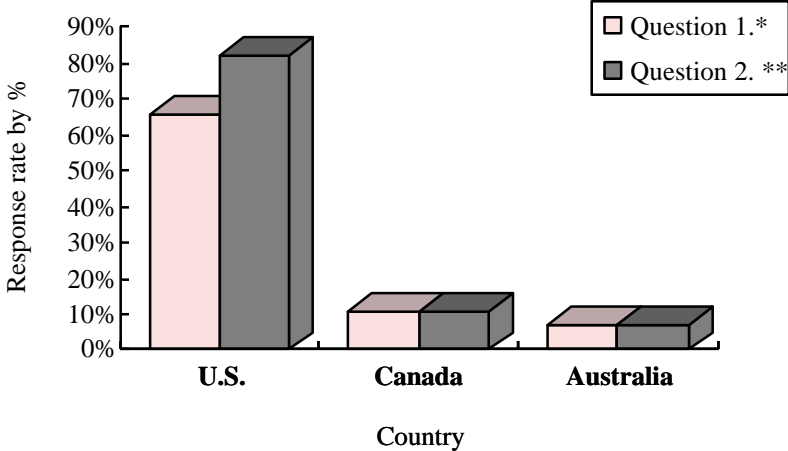


Figure. 10
Results of the Qualitative Survey
on Product Preference



* Question #1. If all the competitors offer item equal in price, quality and promotion, which country's beef product would you select?
 **Question #2. Which country do you think produces beef product of the greatest value when considering price, quality, promotion and service?

Figure. 11
Response rates of the Survey,
by Country and by Attribute

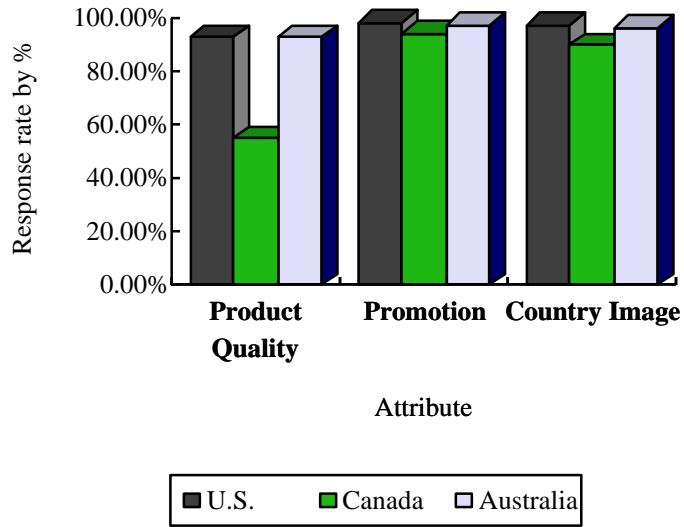


Figure. 12 Survey Questionnaire

INTERVIEW QUESTIONNAIRE FOR KOREAN HOTEL BEEF BUYERS

Name of Organisation: _____
 Name: _____
 Position: _____
 Phone: _____
 Fax: _____

Interview Preamble

The purpose of the study is to obtain better understanding of expectation of the Korea KTHSC staff and members on product quality and marketing practices of imported beef. This information will be used by the Canadian beef exporters in refining product and marketing practices as to meet the precise needs of the Korea target customers.

The following questions will be asked directly by Renee Kim.
 Example:

Automobile engine power	<u>Powerful</u>	<u>Weak</u>
	Japan : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	U.S.A. : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	Germany : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	

Section I: Product Quality

Tenderness	<u>Tough</u>	<u>Tender</u>
	Canada : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	U.S.A. : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	Australia : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	

Marbling	<u>Fatter</u>	<u>Leaner</u>
	U.S.A. : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	Canada : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	Australia : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	

Muscle texture	<u>Poor</u>	<u>Good</u>
	Australia : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	U.S.A. : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	
	Canada : _____ : _____ : _____ : _____ : _____ : _____ : _____ :	

Muscle color	<u>Pale Red</u>		<u>Bright Red</u>
	Canada	: : : : : : : : : : : :	
	Australia	: : : : : : : : : : : :	
	U.S.A.	: : : : : : : : : : : :	
Fat color	<u>Yellow</u>		<u>White</u>
	Canada	: : : : : : : : : : : :	
	U.S.A.	: : : : : : : : : : : :	
	Australia	: : : : : : : : : : : :	
Fat trim	<u>Thin</u>		<u>Thick</u>
	U.S.A.	: : : : : : : : : : : :	
	Canada	: : : : : : : : : : : :	
	Australia	: : : : ~ : : : : : : : : :	
Flavor	<u>Good</u>		<u>Poor</u>
	Australia	: : : : ~ : : : : : : : : :	
	U.S.A.	: : : : ~ : : : : : : : : :	
	Canada	: : : : ~ : : : : : : : : :	
Food safety standards	<u>Low</u>		<u>High</u>
	U.S.A.	: : : : ~ : : : : : : : : :	
	Australia	: : : : ~ : : : : : : : : :	
	Canada	: : : : ~ : : : : ~ : : : : : :	
Price	<u>Expensive</u>		<u>Inexpensive</u>
	Australia	: : : : ~ : : : : ~ : : : : ~ :	
	U.S.A.	: : : : ~ : : : : ~ : : : : ~ :	
	Canada	: : : : ~ : : : : ~ : : : : ~ :	
Variety of cuts	<u>Low</u>		<u>High</u>
	Canada	: : : : ~ : : : : ~ : : : : ~ :	
	U.S.A.	: : : : ~ : : : : ~ : : : : ~ :	
	Australia	: : : : ~ : : : : ~ : : : : ~ :	
Product packaging	<u>Adequate</u>		<u>Inadequate</u>
	U.S.A.	: : : : ~ : : : : ~ : : : : ~ :	
	Canada	: : : : ~ : : : : ~ : : : : ~ :	
	Australia	: : : : ~ : : : : ~ : : : : ~ :	
Overall beef quality	<u>Excellent</u>		<u>Poor</u>
	U.S.A.	: : : : ~ : : : : ~ : : : : ~ :	
	Canada	: : : : ~ : : : : ~ : : : : ~ :	
	Australia	: : : : ~ : : : : ~ : : : : ~ :	

Section II: Promotional Activity

(In sales/purchases making)
 Service & Assistance Good

Poor

		U.S.A. : : : : : : : :	
		Canada : : : : : : : :	
		Australia : : : : : : : :	
Reputation	<u>Good</u>		<u>Poor</u>
		Australia : : : : : : : :	
		U.S.A. : : : : ~ : : ~ : : ~ : :	
		Canada : : : : ~ : : ~ : : ~ : :	
Effectiveness of Promotion	<u>Effective</u>		<u>Ineffective</u>
		Australia : : : : ~ : : ~ : : ~ : :	
		Canada : : : : ~ : : ~ : : ~ : :	
		U.S.A. : : : : ~ : : ~ : : ~ : :	
Awareness of Promotion	<u>Much Promotion</u>		<u>Little Promotion</u>
		Canada : : : : ~ : : ~ : : ~ : :	
		U.S.A. : : : : ~ : : ~ : : ~ : :	
		Australia : : : : ~ : : ~ : : ~ : :	
Section III: Country Image			
Management of economy	<u>Well Managed</u>		<u>Poorly Managed</u>
		Australia : : : : ~ : : ~ : : ~ : :	
		Canada : : : : ~ : : ~ : : ~ : :	
		U.S.A. : : : : ~ : : ~ : : ~ : :	
Technology	<u>Advanced</u>		<u>Not advanced</u>
		Australia : : : : ~ : : ~ : : ~ : :	
		U.S.A. : : : : ~ : : ~ : : ~ : :	
		Canada : : : : ~ : : ~ : : ~ : :	
Relationship	<u>Want more ties</u>		<u>Do not want more ties</u>
		U.S.A. : : : : ~ : : ~ : : ~ : :	
		Australia : : : : ~ : : ~ : : ~ : :	
		Canada : : : : ~ : : ~ : : ~ : :	
General Product Quality	<u>Poor</u>		<u>Excellent</u>
		U.S.A. : : : : ~ : : ~ : : ~ : :	
		Canada : : : : ~ : : ~ : : ~ : :	
		Australia : : : : ~ : : ~ : : ~ : :	
Trustworthines s	<u>Trustworthy</u>		<u>Not trustworthy</u>
		Canada : : : : ~ : : ~ : : ~ : :	
		U.S.A. : : : : ~ : : ~ : : ~ : :	
		Australia : : : : ~ : : ~ : : ~ : :	

Section IV. Supplemental questions

1. If all the competitors offers item equal in price, quality and promotion, which country's beef product would you select?
2. Which country do you think produces beef product of the greatest value when considering price, quality, promotion and service?
3. What should Canadian exporters do in order to increase market share in Korean import beef market in terms of marketing practices and product quality?
4. What do you think will happen in Korean beef market in next 5 years? particularly in the hotel and restaurant sector?
5. List 5 most important factors you consider before making a beef purchasing decision?
6. What are the reasons for choosing your current suppliers of high quality beef?
7. Would you prefer frozen or fresh/chilled beef? Please give your reasons.