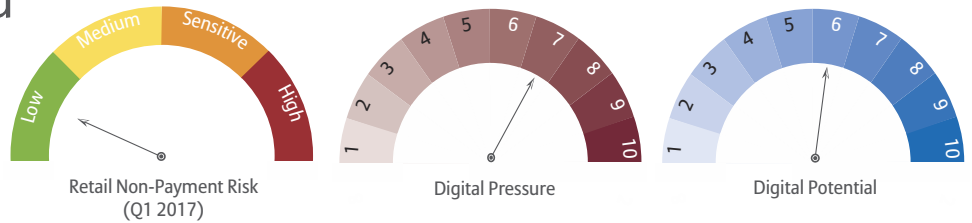




# Retail in South Korea

## Missing out on data strategy



- A modest growth in nominal retail sales is expected for 2017-2018, a trend linked to a stabilization of real consumer spending (+1.3% in 2017, +1.2% in 2018).
- Retailers had a sound financial standing in 2016, backed by lowering debt and strong solvency (57%). This was achieved despite a continuous deterioration in profits as EBIT was down to 7% from 9.3% in 2011.
- General retail must-have format and offer prevent the segment from major risks. Food & drugs are victims of overcapacity while experiencing rising indebtedness.

### Boosted consumption and digital appeal

After two years of barely any growth, nominal retail sales picked up in 2016 to reach +4.4% y/y (December 2016). This recovery was strongly supported by the government's fiscal stimulus and monetary policy aimed at boosting the domestic market. Sales' improvement should continue although it will rely on prices rather than volumes. Indeed, Euler Hermes forecasts real consumer spending to decelerate to +1.3% in 2017, +1.2% in 2018, weighing on real sales growth. But inflation (+2.2% expected in 2017

and in 2018) will offer a recovery of pricing power.

The large market concentration and penetration of discounters have resulted in severe price pressures. This left retailers with little choice but to move faster on digitalization. This will not be an easy task for some of the long-established players. 4 of the 10 top Korean retailers were established before 1990. At the same time, three unicorns/platform companies are already providing gaming, e-marketplace or mobile services. 72% of internet users in South Korea are e-shoppers, while the average in APAC stands

at a humble 13%. Half of online shoppers use mobile devices, a figure that is expected to climb to 65% by 2019.

### Time to disrupt the 'supply chain journey'

In 2016 retailers focused on deleveraging. Net gearing reached a low 39% down from 59% in 2013, while solvency levels improved to 56.7%. This sound financial situation explains the Euler Hermes assessment of a Low non-payment risk, despite a continuous deterioration in profitability since 2011. EBIT declined to the acceptable ratio of 7%, down from 9.3% in 2011.

Korean retailers' perceptions of the main priorities to tackle in the long-run include (#1) integrate new payment methods, (#2) mitigate rep-

utational risk, and (#3) mobile customer journey. While being digital-savvy, retailers might get sidetracked by the focus on customers and fail to address the need to leverage data and adapt the supply chain. A full-fledged data strategy is a prerequisite to security and confidentiality.

The country's LPI ranking -24th out of 160 in the World Bank logistics index - is under par compared to other countries this study analyzed. Some adjustments will be required, especially in customs and international shipments, to efficiently disrupt supply chain models.

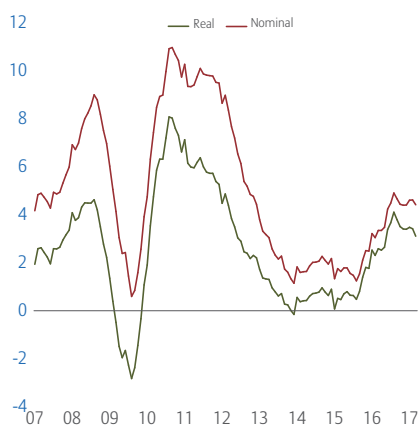
### Looking forward: What does it all mean for businesses?

South Korea is a digital savvy country with profitable key players and a mature mobile strategy. It should remain a country where pressure and potential to change are high provided it develops a fully-fledged data strategy. Upgrading logistics will be pivotal to achieve this goal.

✓ Promising sub-sectors: General retailers offer diversified lines of business and often belong to conglomerates.

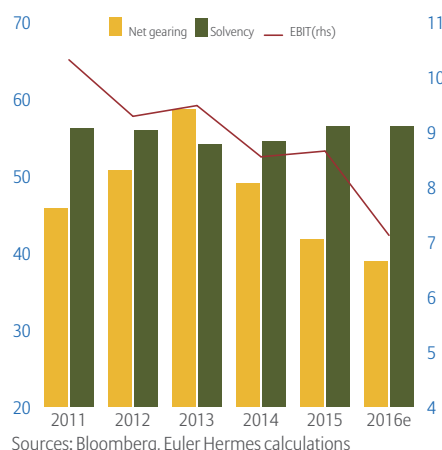
✓ Sensitive sub-sectors: Local experts warn against overcapacity in the food & drugs segment. A net gearing of 160% and only 3.5% EBIT in 2015 makes it the weakest segment. ■

**Chart 1** Retail sales in South Korea in %, 12m/12m, as of March 2017



Sources: IHS, Euler Hermes calculations

**Chart 2** Financial performances of South Korean listed retailers



Sources: Bloomberg, Euler Hermes calculations