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retail-savvy FMCG leaders in korea

By Mark Sungrae Kim

Many of Korea's big Fast Moving Consumer Goods (FMCG) companies were set up in the 1960's and 1970's, when there were fewer product choices on the shelves and consumers were happy to stick with familiar brands. Decision-making could be driven at the production level rather than by the marketing department. Their dominance in South Korea had been absolute – until now.

The retailing landscape in South Korea has grown in breath and depth over the last decade. A desire for greater convenience and product variety has driven the rise of different retail formats, from hypermarkets such as E-mart, Lotte Mart, Homeplus and Costco, to online stores such as CJ Home Shopping and Lotte imall. Foreign players are making in-roads like never before. South Korea is today, Tesco's second most profitable market after Britain. In 2008, the retailer announced aggressive expansion plans to buy 36 discount stores from E-Land for $1.9 billion, causing shares of rival South Korean retailers to drop sharply in anticipation of the deal, which is expected to intensify competition. Mr. Andrew Higginson, Tesco's finance and strategy director, told the International Herald Tribune that they had "been pursuing this for two years; it is a terrific strategic opportunity".

This proliferation of new channels is making the work of FMCG executives more complex. For example, skincare product managers who previously relied on cosmetics counters for the majority of their sales, now find e-commerce websites and hypermarkets contributing up to 30 percent of sales. There is also an increased demand for English language skills to manage global retail accounts, as foreign players such as Tesco continue to break into the Korean market.

All across these retail channels is an increasingly expansive range of both local and imported goods. Perhaps the biggest threat to FMCG companies has been the advent of private label products (PBs). South Korean consumers, who used to prefer well-known homegrown brands, are now buying private labels and consuming foreign food. "Before, customers used to complain that generics fall behind in quality, but nowadays, we get more feedback asking us to create more varieties of PBs," Kim Hyun-ah, a spokeswoman of Hanaromart, a popular discount store, told the Korean Times.

With rising costs and shifting consumer trends, retailers have found PBs to be the right solution to greater control over pricing, product quality, packaging and minimum order quantities for imports. Some suppliers of PB products will even take care of labeling and inventory management. So, it is not surprising that retailers are increasingly pushing their own private brands, to the extent of launching different PBs for different product or price categories in their stores. Homeplus is planning to increase the sales of its PB products to between 30 and 40 percent by 2012, while Lotte Mart is expected to boost its proportion of PB goods to 20 percent by 2010.

Against this backdrop, FMCG executives have had to confront a whole new set of challenges, from product competition to the increased bargaining power of retailers. They also have to contend with higher costs at the retail level. All these are putting a squeeze on margins.

As a result of more products vying for a share of the customer's purse, the use of on-site sales promotion staff and promotional events are becoming ever more popular, adding another layer of cost.

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consumer marketing skills has become paramount. We use the case of an instant noodle company to illustrate. Over the years, the company has seen a decline in its sales and profit as new alternatives such as instant rice, sandwiches and rolls flood the marketplace where it once ruled. It responded to the competition by raising the price of its instant noodles and lost out further in market share as a result.

Contrast this to LG Household and Health Care. The company appointed a new CEO in 2005 to head its personal care, household and cosmetics business. Having served as President of P&G Korea as well as Korea's Asia Web Network, he brought with him a proven record in strategic planning, finance, marketing and general management. After he took over the helm, he revamped LG's marketing strategy. The company has since recorded profit growth of about 30 percent year on year. Few companies have been able to perform as well.

Indeed, we are seeing more companies recruit leaders from outside the FMCG domain. Puma, for example, recently hired an executive with hands-on experience in fashion and local department store retailing as its new Sales Director.

As Korea's retail markets continue to evolve, we believe that FMCG business leaders need to be more market savvy than before. They need to possess at least some of these attributes:

Strong Retail Management Skills

It's imperative to possessing the speed and flexibility to adapt to the constant changes at the retail level. Increasingly, retailers are becoming indirect competitors and have no qualms in wielding their greater bargaining power to grave effect.

An Ability To Read Market Trends

Leaders must have strong consumer marketing skills to build brand equity and customer loyalty. This will help create a lineup of products that are able to move off the shelves and not get stuck as aging inventory.

Keen Product Development Skills

As the industry evolves, leaders need to have the ability to quickly seize non-traditional business opportunities across a variety of retail channels.

"The average age of senior executives is now between late 30's to early 40's, as opposed to being around the early 50's years ago. High caliber executives who demonstrate adaptability and clear strategic thinking have the opportunity to climb up the corporate ladder more quickly than before. However, the talent pool for such executives is rather limited in Korea, particularly those with overseas experience as well. Consumer companies must invest in building up their senior team. Johnson & Johnson Korea's Managing Director rose through the ranks and has worked at our offices in the U.S. and Japan, before returning to head up Johnson & Johnson in Korea. The willingness to invest in talent development is a key element of our success," said Ms. Young Moon, Human Resources Director at Johnson & Johnson Korea.

Not all FMCG companies have the luxury to wait for their next generation of business leaders to be trained up in time. With competition as heated as it is today, consumer businesses looking for a boost in the arm or balance sheet, may have to look beyond their own industries to import the talent needed to keep winning.

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