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Functional Food Market Brief Update

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Product Brief

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Report Highlights:

The Korean market for functional food continues to grow and under the recently implemented Free Trade Agreement with Korea, the United States is well positioned to capture and increased market share.

General Information:

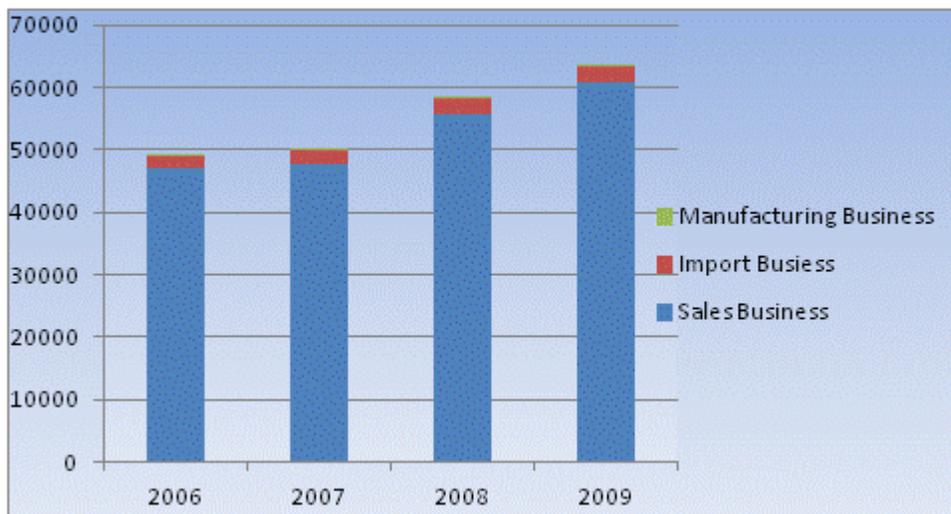
Korea's health and functional food market is estimated at \$ 1.15 billion, in 2010. The United States has long been the most important exporter of functional food to Korea and its share is expected to grow. This paper will first provide a brief market overview, and then analyze market access issues and finally, suggest possible market entry strategies.

Author Defined:

I. Market Overview

- The United States is the largest supplier of food and agricultural products to Korea capturing about a 25 percent market share.
- South Korea is a major market for functional food exports from the United States. In 2009, Korea's functional food imports were approximately \$210 million and the United States accounted for almost 50 percent of the market. Export opportunities are expected to grow with the March 15, 2012 implementation of the US-Korea Free Trade Agreement.
- In addition, a 'well-being boom', low unemployment, aging population and rising disposable incomes all provide increased opportunities for US products in Korea. Korea consumers are more affluent than before with average monthly disposable income increasing. Therefore, consumers are prepared to provide premium care for themselves as well as their children.

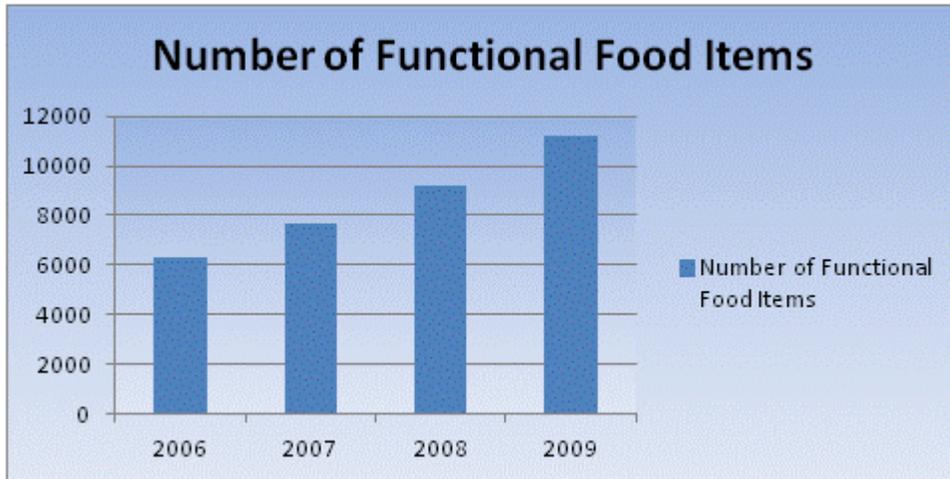
Graph 1: 2006-2009 Number of Functional Food Business Establishments (KFDA 2010 Report)



- Number of functional food businesses has increased from 49,203 in 2006, to 63,601 in 2009 (Graph 1). This represents an annual growth rate of almost 9 percent.
- The trend shows that the general interest in the functional food and its market has increased and

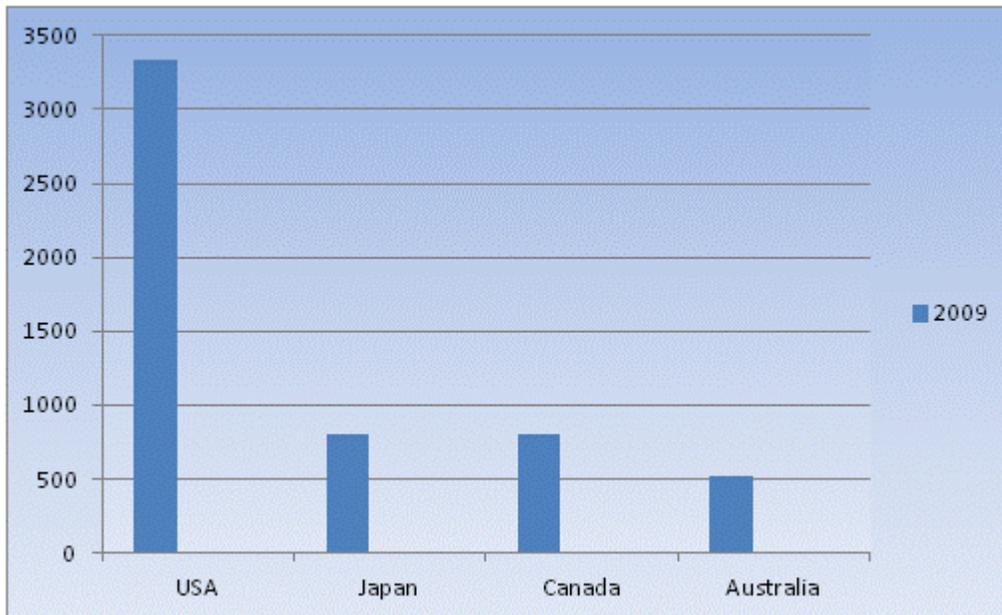
the overall size of the functional food market is expanding.

Graph 2: 2006-2009 Number of Functional Food Item (KFDA 2010 Report)



- Number of functional food items has shown increase 6,342 in 2006 to 11,185 in 2009(Graph 2). Graph 2 illustrates the growing diversity of functional foods in the market.

Graph 3: South Korea's Health Functional Food Imports – Top four countries 2009



- The United State overwhelmingly leads the export of functional foods to South Korea by exporting 3,330 functional food imports to Korea, almost four times more than the second and third, Japan and Canada.

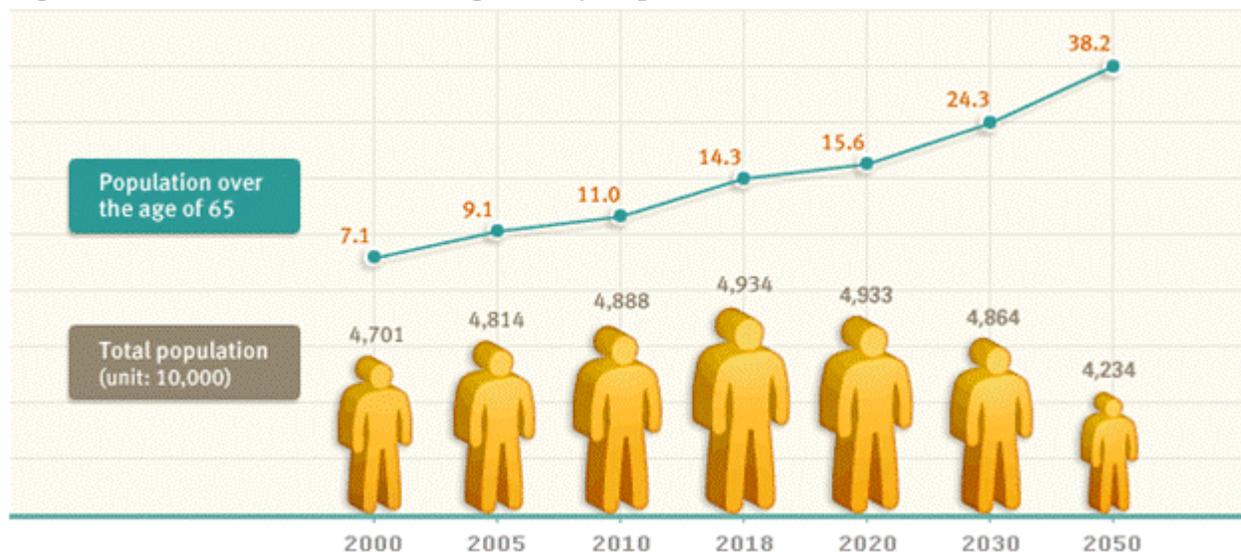
Graph 1 and 2 demonstrate the growing size of the functional food market in South Korea and Graph 3 shows the United States' leading role as a supplier of functional foods to South Korea in 2009. In sum, the United States is expected to maintain dominance in the market and will likely increase market share as a result of tariff reduction under the KORUS FTA.

I. **Market Sector Opportunities and Threats**

Advantages

- Using food as medicine or preventative medicine is part of Asian traditional culture, stemming from the widespread use of ancient Chinese Traditional Medicine.
- Population growth is slowing in Korea and the average age is expected to rise significantly. As the above figure shows by 2050, average life expectancy will increase to 86 and people aged 65 or over will account for 38.2 percent of the total population, resulting in the highest aging rate in the world. This will be the trend that works favorably toward the growth of functional food market in Korea.

Figure 1: South Korea's Increasing Elderly Population.



- The lifestyle in Korea is becoming busier and South Korean work the longest hours per year (on average of 2,357 hours per year) among OECD countries, resulting in an increase in lifestyle related diseases. Functional foods for the prevention of cancer and cardio-vascular diseases are growing in popularity.
- Korean consumers are affluent, with their average monthly disposal income increasing 5.4 percent from \$2,200 (in 2009) to \$2,559 in 2010 (KRW 2.81 million to KRW 2.96 million). Consumers are prepared to provide premium care for themselves as well as their children.

Disadvantages

- Although domestic production is unable to meet the demand for high-end advanced products and

most of these products are sourced from offshore, Korea’s domestic functional food production remains strong.

- Functional food products sourced from offshore are usually 2 to 3 times more expensive than domestic products.
- Functional food ingredients that are not recognized by Korean Food and Drug Administration (KFDA) must receive product-specific certification from KFDA and the process can be time-consuming.

Market Rules & Regulations

- The Korean Food and Drug Administration (KFDA) enacted the Health Functional Food Act in August 2002 to ensure the safety of health functional foods was in accordance with certain health claims. A product intended for the use of enhancing and preserving the human health with one or more functional ingredients or constituents was defined as the “Health Functional Foods”. Certain products in the form of tablets, capsules, powders, granules, pastes, gells, jellies, bars were covered by the Act, and the scope was extended to include conventional foods and other diet supplements by the revised act in 2008. KFDA’s definition of functional food is provided in the Health Functional Food act: “The term ‘health functional foods’ means foods manufactured (including processed foods; hereinafter the same shall apply) with functional raw materials or ingredients useful for the human body; the term ‘functionality’ means controlling nutrients for the structure or functions of the human body or providing useful effects for hygienic purposes, such as psychological effects”
- Products that are considered functional foods in other countries are not necessarily considered functional foods in Korea, unless they have received product specific recognition from KFDA. Currently, KFDA recognizes 37 ingredients for functional food

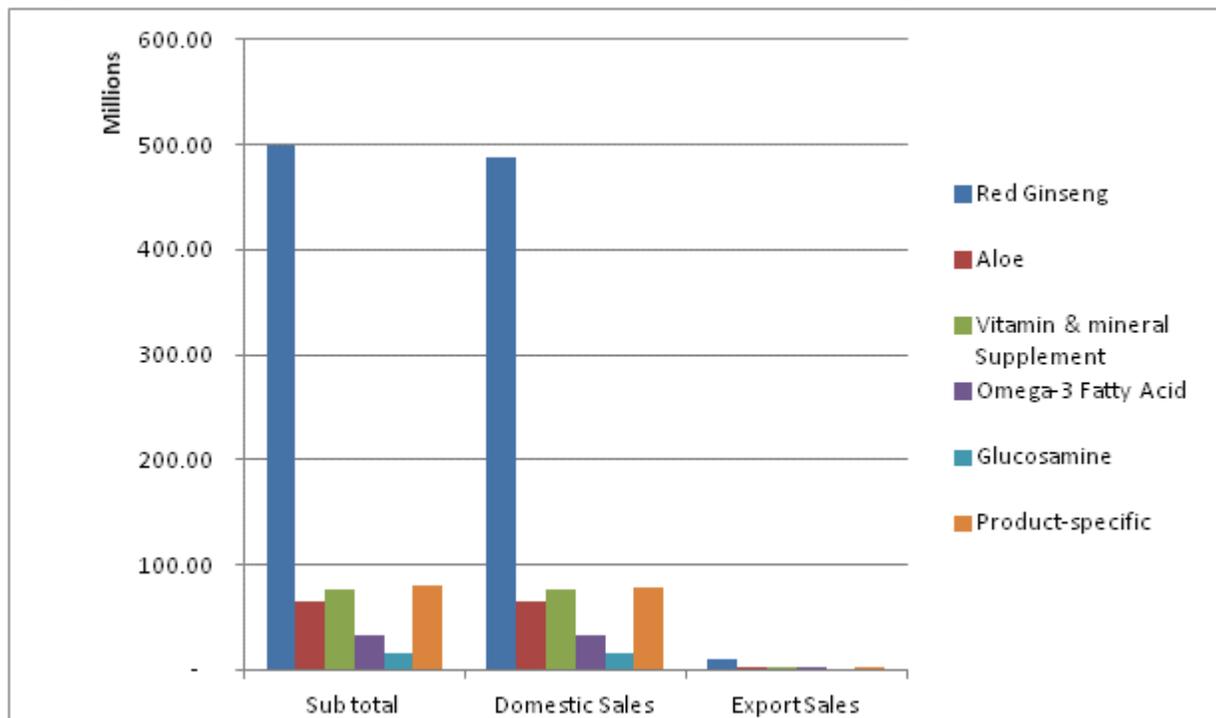
Table 1: List of 37 Generic Functional Ingredients (ATO office)

Alkoxy-Glycerol-containing Product	Red Yeast Rice Product
Octacosanol-containing Product	Fructooligosaccharide-containing Product
Lecithin Product	Phytosterol-containing Product
Embryo Bud Product	Soy-Protein-containing Product
Embroy Bud Oil Product	Green-Tea-Extract Product
Gamma-Linolecnic Acid-containing Product	Propolis-Extract Product
Spirulina Product	Glucosamine-containing Product
Chlorella Product	Chitooligosacharide-containing Product
Probiotics-containing Product	Chitosan-containing Product
Yeast-containing Product	Beta-carotene Product
Squalene-containing Product	Soft-shelled-turtle Product
Pollen Product	Japanese apricot-extract Product
Yeast Product	Aloe Product

Royal Jelly Product	Mushrooms Product
EPA/DHA containing Product	Chlorophyll-containing Product
Eel Oil Product	Mucopolysaccharide Product
Red Ginseng Product	Fermented Vegetable-Extract Product
Ginseng Product	Grape Seed Oil Product
Nutritional Supplement.	

- *Red ginseng* dominates the functional food market in Korea, as the top-selling functional food ingredient. With its numerous health benefits, especially its energizing qualities, red ginseng sales are continually increasing.
- *Aloe, vitamin and mineral supplements, glucosamine, and omega-3 fatty acid* are all ingredients which retain large market shares as well.
- Herbal ingredients are often considered more ‘trustworthy’ among Koreans, as Korean traditional medicine utilizes only natural ingredients.
- The growth of product-specific functional food ingredients suggests the increasing consumer preference for products issuing health claims.

Graph 4: 2009 Sales of Functional Food Products (KFDA 2010 Report)



Fun

ctions

- It is predicted that functional foods targeting obesity, skin care, immunity and ageing will grow in popularity.
- The increase in stressful, sedentary workplace environments has sparked an increase in the incidence of lifestyle related disease, especially cancer and cardio-vascular disease, among Koreans. Therefore, functional foods aimed at preventing or alleviating such diseases will grow in popularity.

- Functional foods for the aging population will see a boost, especially once the next generation becomes elderly.
- For men, hair care products are popular.

Functional Products

- Functional drinks, such as vitamin water, sports drinks, and smoothies are well received.
- Korean consumers are quite receptive to functional food substitutes and additives for unhealthy conventional food items and Korean manufacturers are working with more functional substitutes.
- The effectiveness of a product heavily impacts its sales; chlorella functional foods are sales dropped steadily after consumers found that products did not fulfill their advertised claims.

Competition

- The major international players involved in importing functional foods into Korea focus on products aimed at weight-loss or nutritional supplements. These companies include Amway, Herbalife, Usana, Melaleuca and Sunrider.
- Domestic manufacturers are very well known among consumers and these players include Cheil Jedang(CJ) Corp (works with Ginseng), Daesang (replacement of conventionally unhealthy goods) and Lotte (famous for Xylitol gums).
- Other domestic players that works with ginseng, aloe, glucosamine and omega 3 include Korea Ginseng Corp, Nam Yang Aloe, Kim Jung Moon Aloe, Pulmuone, Han Mi Pharmaceutical, SuHeung Capture, Rexgenebiotche Corp and Il Jin Pharmaceutical.

Distribution Channels

- Functional foods are available from local importers/distributors, manufacturers of pharmaceutical or food/beverage, drug stores, large retail stores, online stores, and home shopping cable TV channels.
- A local distributor may exclusively cover all of South Korea or the master distributor may contract with multiple regional sub-dealers.
- The primary international subsidiaries work directly on advertising and sell either through multi-level marketing or direct sales, with their own sales network

I. Market Access

Labeling

- Under the Health Functional Food Act, all food and agricultural imports must list the following information on their label in legible Korean.
 1. Product name
 2. Content
 3. Information on nutrition and functionality
 4. Ingredient

5. Sell by date
6. Storage condition
7. Name and address of manufacturing factory
8. Usage
9. Description on use and caution
 - Functional foods require the following additional information on their label:
 1. Indication of functional food
 2. Information on efficacy claim
 3. Intake directions and cautions
 4. Statement that product is not a pharmaceutical product that prevents or heals disease
 5. Other points outlined in the detailed labeling guidelines for functional foods
 - For detailed information, please visit:

<http://www.spring.gov.sg/QualityStandards/etac/food/Documents/Korea.pdf>

Korean Health Functional Food Act – applies to products recognized or desiring recognition as a health/functional foods by the KFDA

- When certifying a new ingredient as a functional ingredient for a functional food, two paths may be taken.
 - Certify ingredient as a new generic functional ingredient
 - Certify ingredient as a functional ingredient, which is product-specific (only considered a functional ingredient when used in a certain product)
 - Documents required at each step for product-specific certification or new ingredient certification is listed below. The documents are reviewed by government officials, nutritionists, members of consumer unions, and members of the industrial sector.
1. Standardization
 - a. Provide information on “special characteristics of functional ingredient (incl. yield and change in content of functional component)”
 2. Safety evaluation
 - a. Provide information on “history of use, manufacturing processes, amount to be consumed, results of toxicity tests, results of human study, and results of nutritional evaluation and bio-availability”
 - b. Provide data showing scientific validation of safety of active ingredient
 3. Efficacy evaluation
 - a. Provide data substantiating the functional food’s claim – “component and reliable scientific evidence”
 - b. When applying to certify functional food ingredient as a generic functional food, the KFDA will perform its own efficacy trials.
 4. Specification
 - a. Provide sample final product
 - b. Provide “documentation on the method used to analyze the functional component and, if the decision is made to grant approval for the product as a health/functional food,

confirms the period of conformity and hygiene specifications”

- Once certified, a functional food is allocated to one of four grades on the basis of scientific evidence, which in turn determines the level of the health claim a product may issue,
- This claim categorization system is compatible with the guidelines established by the 2004 Codex Alimentarius Commission
- KFDA oversees licensing, inspection and import control. All health functional food imports need to file for an import notification. KFDA only issues import notification certificates to Korea-based firms requiring international firms to work through their Korean importers.

Enforcement Regulation of the Food Sanitation Act – applies to products NOT recognized as health/functional foods by the KFDA

- Products not recognized by the KFDA as health/functional foods are limited in the health claims they may make. These claims must follow guidelines listed below.
- The claim must be verified by scientific research.
- The claim may
- Name the nutrient in the product (i.e. Calcium, vitamin, iron, amino acid)
- Name the contents of the nutrient (amount and function) in the product

“This product contains [number] mg, of [name of nutrient] which is necessary for [function]”

For example, this product contains 2mg. of calcium, which is necessary for bone and tooth formation.”

- This claim should not make reference to disease (Ministry of Health and Welfare)
- Products not recognized by the KFDA as health/functional foods, but designed with a specific health purpose in mind, may still be considered special nutritional foods by the KFDA.
- A special nutritional food refers to “food for people requiring special nutritional care such as infant, babies, patients, the elderly, obese people, pregnant women, nursing women and etc. as their meal and containing ingredients may be insufficient for them; such food is manufactured by combining the nutrients or adding/subtracting specific nutrients and includes infant formula, other infant and baby formula, nutrient supplement food, food for medical purpose, food for weight control and etc.” (KFDA 2006)
- Products considered special nutritional foods must be in one of the following categories.
- Toned milk
- Infant formula
- Follow-up Formula
- Cereal based infant formula
- Miscellaneous baby and infant formula
- Medicinal food
- Foods for body weight control
- For specific definitions, please see
- Products classified as special nutritional foods may specify the select group of people for whom the nutrients are especially beneficial.

“This product helps supplying nutrients for [select group of people].”

For example, pregnant/lactating women, elderly people, recovering patients, etc.

Import Regulations

- Exporter must include the following forms with the shipment:
 1. Attachment Form 19 (Import Notification Form)
 2. Shipment documents (Bill of Landing, Invoice, Packing List)
 3. Ingredient Specifications and manufacturing procedure, and Certificate of Analysis issued by manufacturer
 4. Korean language product label (must be placed on product prior to importation into Korea [see Labeling])
 5. Other, if applicable (“Quality Standards Korea”)

I. Market Entry Strategies

Entry Strategy

- In South Korea, large, metropolitan environments, like Seoul and Busan, are ideal for health and functional food products. Customers in these areas tend to over-work themselves and lead stressful lives. Customers are also well-educated, well-off, and concerned about their health. They often turn to functional foods to compensate for the toll their lifestyle takes on their physical being.
- A Korean business representative can help navigate the functional food certification process. Given the complex and relatively recent nature of the Health Functional Food Act, the certification process for registering new functional food as well as the process for importing a generic functional food can be difficult.
- Trade shows allow exporters to develop relationship with key contacts in the functional food industry. Principal food shows include: Seoul Food & Hotel, typically held in the spring; and Natural & Organic show, typically held in late summer.
- Direct contact with potential importers is also recommended. ATO Seoul can provide a list of potential importers of functional foods for interested exporters. ATO Seoul can also help facilitate meetings in Seoul and provide a meeting space for discussion with importers.

Marketing Strategy

- Korean consumers respond well to advertising and are often willing to try a product based on its claim. Ingredients and claims directed at the nation’s major health concerns are likely to have the most success.
- To successfully compete with local and global brands which are well known to the Korean consumers, it is important to differentiate your product. A recent trend in the market is the concept of “inner beauty”. This is a bit of paradigm shift for cosmetics, moving from the idea of something people put on their face, to something people can eat in order to get beautiful skin. Beauty concept has become a significant part of the functional food markets and it has been rapidly occupying more market share.
- Companies can differentiate themselves based on a core capability which could appeal to the

Korean consumers. Exporters need to decide which competencies they are going to highlight for Koreans to differentiate their products and marketing.

- In addition, packaging is very important to Korean consumers as it gives them the first impression of the product itself. People tend to assume that the quality will be good if the product is nicely packaged. Exporters need to consider this when developing the labeling design for the Korean market.
- Consumers of functional foods are often in one of the following groups:

- Middle-/upper-class
- Elderly
- Family with one Child
- Middle-aged women
- Well-educated
- Business-people

Pricing

- Korea is a very price-sensitive market, however people are willing to pay more for premium care products. As medical expenses are climbing, people are becoming conscious of “self care”, which has created a consumer-base for health functional foods in the market.
- It is the practice of many exporters to set a reasonable price for a couple of products as “teaser” items in the first phase. Based on the price of similar products in the market, exporters can discuss with local partners appropriate pricing ranges which can be marketable to the Korean consumers.

I. Key Contacts and Further Information

Key Contacts

- **Associations & Organizations - Web links**
 1. Korea Food & Drug Administration - eng.kfda.go.kr/index.php
 2. Korea Health Supplements Association - www.hfood.or.kr/include/aboutus.pdf
 3. Korean Customs - english.customs.go.kr
 4. Ministry of Health and Welfare - english.mohw.go.kr/front_eng/index.jsp
 5. Korean Statistical Information Service - kostat.go.kr/eng
 6. Korea Association of Packaging Professional Engineer (Korean only) - www.kappe.or.kr
- **Trade Events - Web links**
 1. Organic & Natural Korea - www.organicshow.co.kr/
 2. Natural Product Expo Asia - www.naturalproductsasia.com
- **Further Information**

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