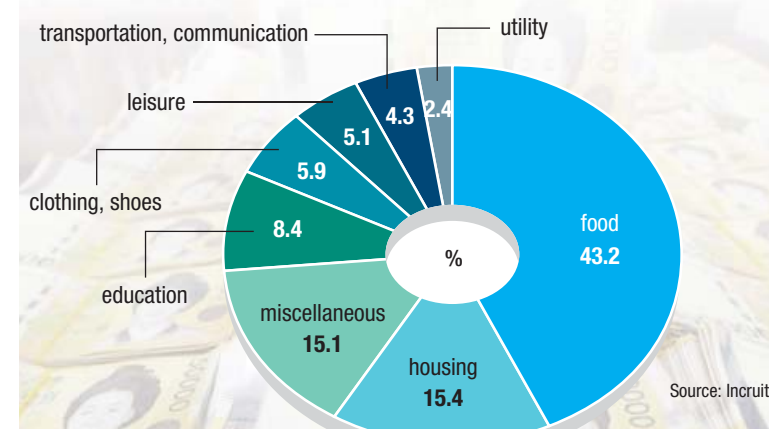


STAT WATCH

Expenditures of office workers in 2012



According to a survey of 370 office workers conducted by online job portal Incruit, 73.2 percent were found to have spent more in 2012 than the previous year. Food expenses accounted for the largest portion of the expenditure last year at 43.2 percent.

WINNERS & LOSERS

Daewoo Shipbuilding and Marine Engineering said Thursday that it has won a \$1.1 billion contract to build part of an offshore oil production platform. Under the deal with Statoil of Norway, Daewoo Shipbuilding will deliver the topside of the platform by the end of 2016. The platform has a capacity of producing 63,000 barrels of oil and 90,000 cubic meters of natural gas on a daily basis. So far this year, Daewoo Shipbuilding has received \$2.7 billion worth of deals to construct offshore facilities.

Korea Electric Power Corp. (KEPCO), state-run electricity supplier, is facing the worst debt problems among public organizations due to government regulations, a report said Friday. The report by the Korea Institute of Public Finance classified public organizations in four categories in terms of financial stability — very dangerous, dangerous, cautious and safe — and said that KEPCO's financial status is very dangerous given its current debt problems. KEPCO received the worst grading as its debt came to 50.3 trillion won (\$46.2 billion) as of 2011, which is the second largest among public agencies.

PHOTO OF THE WEEK



Falling pork prices - An employee places a pack of pork on a stand at a store in Seoul, Thursday. Pork prices have fallen over the past year due to sluggish demand and oversupply. Surging imports have put a further downward pressure on the value of the meat. According to the Quarantine and Inspection Agency, 27,000 tons of pork were imported in January, up 34.7 percent from the previous month.

Coffee chains expanding into dining business

Strategy to survive amid fierce competition

By Kim Bo-eun
bkim@kimes.co.kr

Park Hee-kyung, a 31-year-old government official who works in Gwanghwamun, central Seoul, recently went to a Coffee Bean store nearby her workplace during her lunch hour. Surprised to find out that it had a food menu, she and her colleague ordered a Caesar Salad, Spaghetti Funghi and a set meal consisting of a small Margherita pizza, a mini salad and garlic bread. "The food was not bad. And it saves time to have a meal as well as coffee at the same place," she said. "Although I wouldn't come here for a leisurely meal, I think I might come back if I had to have a quick lunch by myself."

The Coffee Bean and Tea Leaf store in downtown Gwanghwamun started offering freshly cooked meals ranging from salads, pasta to pizzas in early January.

The menus are available from 9 a.m. to 9 p.m. daily, but they mainly target busy office workers who need to grab a quick bite as well as get their afternoon's worth of caffeine during their short lunch

break. "We aim to provide meals as well as coffee and tea in the same place to offer greater convenience for office workers," said an employee at Coffee Bean Korea who asked not to be named.

The Gwanghwamun store hired four chefs who formerly worked at Italian restaurants to provide freshly served gourmet meals. It offers 14 reasonably priced menu choices, ranging from 5,900 won to 19,000 for a set meal for two.

"Although it is too early to assess the overall increase in sales, customers have definitely been responding positively," said the employee.

The Coffee Bean store is not the only coffee chain which has diversified its menu to include meals. Select Starbucks stores in the capital have also recently started providing a wider choice of menus.

The Dongbu Ichon-dong store and the City Hall Plus stores opened in May last year as places specializing in food menus. Starting in early February, they increased their number of food items to around 40, which now include an array of salads, soups and lasagna.

These are brought in from Shinsaege SVN, the former Chosun Hotel Bakery business. The prices



Starbucks Korea now sells an assortment of salads, panini sandwiches, soups and tarts, which are among new food items available at two of its stores in Seoul from early February.

Analysts say that coffee shops are diversifying their menus to differentiate themselves and attract more customers, amid fierce competition.

range from 5,500 for soups, 8,500 for salads and 11,500 for lasagna.

Starbucks Korea is the fourth among countries in Asia, following Japan, Hong Kong and Singapore which have opened stores that offer an assortment of food menus.

"The Dongbu Ichon-dong store is located in a residential area where there are many apartments and the City Hall Plus store in an area filled with office buildings. We wanted customers visiting these stores to be able to enjoy diverse food items along with coffee," said Park Han-jo, an official at Starbucks Korea's PR team.

"Many customers come to these stores for the food menus, which are not provided at other Starbucks stores. But we have yet to make plans to increase the number of stores providing food menus," he said.

Angel-in-us Coffee, a coffee chain belonging to the conglomerate, Lotte, offers a breakfast buffet from 7:30 a.m. to 10:30 a.m. It offers diners an assortment of baked goods, salads, fruit and coffee and is reasonably priced at 7,000 won.

The buffet games, which started at the store in Mugyo-dong, central Seoul, is now also offered at its store in Yeouido. It is targeted at office workers who only have a short time for breakfast before they

come to work.

"There are office workers working nearby who come for a quick bite in the morning and we also have meetings of up to 40 people that take place here during the buffet hours," said an employee at the store in Mugyo-dong.

"On the weekends we have couples who come for breakfast after an early outing. Ever since we started offering the breakfast buffet, customers have consistently been using it," she said.

The size of the domestic coffee shop market stood at around 1.8 trillion won last year, marking a 34.2 percent growth from the previous year, despite the sluggish economy. However, the growth rate is down from 41.1 percent in 2011.

This is seemingly due to an ever-increasing number of coffee shops, which include large coffee chains as well as small self-employed stores.

Franchise coffee stores alone have increased by 177 percent in number over the last two years, and there are currently over 2,000 of them across the nation.

Analysts say that coffee shops are diversifying their menus to differentiate themselves and attract more customers, amid fierce competition.

Such marketing strategies are now blurring the distinction between coffee shops and eateries.

MARKETING

CONSULTING

Mobile messenger: The rise of a new content platform

By Han Seok-jo
hseok@nri.co.jp

Only 19 months after its launch, NHN's mobile instant messenger (MIM) Line passed its 100 million user base in January. Its record-high speed of accumulating users has far outpaced that of Twitter or Facebook that took 49 and 54 months to reach 100 million users, respectively. Line has a solid user base in Japan, Taiwan and Southeast Asian countries, and it is now positioning itself as a global service.

In the meantime, Kakao Talk has exhibited strong growth momentum in Korea. Although its worldwide user base of 70 million is smaller than Line, Kakao Talk has gained a solid domestic user base. Moreover, it secured an unequivocal profit model with the sensational hit of the game "Anipang" last year.

The popularity of Line and Kakao Talk seems to represent the emerging of a mobile era in Korea. It is more so because these MIMs are becoming the core platform of mobile phones and devices rather than simple texting apps.

It is not a mere coincidence that international mobile platforms came forth in Korea. The country has the fastest growing number of smartphone users in the world. The number of smartphones in use passed 30 million in August 2012, pushing up Korea's penetration rate of "smart" devices including smartphones and tablets to 63.7 percent.

The basic platforms of mobile devices are operating systems such as Apple's iOS and Google's Android. These OS function as windows through which their users buy and install apps as they do at App Store and Google Play.

However, with an ever increasing number of apps

Korean MIMs that have evolved as communication platforms are now attempting a takeoff as content platforms.

coming to the marketplace, these platforms are hardly sufficient for individual users to find whatever they are looking for. Also as smartphones, which are a communication-oriented mobile device, took center stage of its users' everyday lives, it triggered new desires in their users to share content with acquaintances — the desire that cannot be easily fulfilled with the present App Store model.

MIMs such as Line and Kakao Talk quickly seized the opportunity. MIM service entails an offline not online Social Graph based on users' phone numbers, providing platforms through which information is shared and games are played.

Most MIMs were, at first, apps with simple functions to replace SMS of cellphones as was the case in "WhatsApp Messenger" of WhatsApp, in the U.S. Both Kakao Talk and Line also focused on free texting and free phone calls in the beginning. They benefited their users in such a way that they became the first apps that smartphone users install as soon as they grab a new phone.

In the following stage, Korea's MIMs focused on providing its users with a fun communication experience.

Line was notably successful. It spearheaded the

trend with its "sticker service" by which its users, during their conversations, can convey a much larger variety of emotions with enhanced vivid visuality. For its stickers, Line cast a cute teddy bear character, main characters from popular Web-comics in Korea, and locally popular cartoon characters in Japan and Taiwan. Stickers are sold at a low price of around \$2 each, and the profit from sticker sales is split between the MIM and cartoonists.

Another profit model adopted at the same time with the sticker service was founded on company ads. Companies can create their IDs at Kakao Talk's Plus Friend or Line's official account, friend app members, and send them company ads and discount information. MIMs profit from charging a deposit at the time of contract and a fee for each message sent.

Around the same period, MIMs expanded their territory into mobile SNS. Kakao Talk appealed to customers from the start of its new service; it lured 10 million users in 15 days to Kakao Story, a simple SNS that enables users to share photographs. Although Kakao Story is not a brand-new type of service, being similar to Instagram recently acquired by Google, it is effective enough for its users to share simple greetings with offline friends, using Kakao Talk's Social Graph as its basis.

Korean MIMs that have evolved as communication platforms are now attempting a takeoff as content platforms.

Game apps are leading the new tide. Games for smartphones are already countless; in both App Store and Google Play, the app category with the most apps is games. However, MIM-based games exhibit new possibilities and components for differentiation in its ways of letting users compete and play with their friends.

The Kakao Talk game of Anipang opened up new opportunities in the mobile game industry. Anipang, an uncomplicated puzzle game, yielded profits of up to 250 million won per day. Following the success of Anipang, casual games that enable their users to play briefly during 10 to 15 minutes of their spare time were distributed, coupled with MIMs. "Dragon Flight" and "Everybody Cha Cha Cha" have joined the continuing list of hits.

More recently some moves to become content platforms in areas other than games have been noticed. In November 2012, Kakao Talk announced its new platform including Kakao Page. Kakao Page enables individuals, media and publishers to upload simple article-type information suitable for mobile devices with a web editor, and sell it via Kakao Talk networks. Profit is split among OS providers such as Apple and Google, Kakao Talk, and the content provider by 30:20:50. This service may reverse the Korean public's long-standing resistance to paid-information services including online news articles and web-comics.

In addition to information content, MIMs' emerging role as mobile platforms for online commerce is highly anticipated. Kakao Talk has set out to evolve into an e-commerce platform by connecting Plus Friend, its existing company account service, with Kakao Story, its SNS.

In the coming years, the importance of MIMs as mobile platforms will increase. Hence, conflicts

between dominant OS platform providers such as Apple and Google, and MIMs are expected to rise over different levels of platforms. There has already been a series of fights between OS platform providers and content providers regarding profit allocation of In App Purchase. As was the case in Kakao Page's profit distribution, OS providers intend to claim their share of revenue stream generated by any application that runs on their OS.

Whether the mobile market will continue to embrace the current App system that revolves around individual applications and exclusivity, or turn to a more open, Internet-based Web system will be a crucial factor in the future of MIMs. The emergence of HTML5 has heightened public interest about the mobile Web, and major companies have already launched Internet homepages.

The prevailing market dominance of Google and Apple might face challenges in the near future. Mozilla, the provider of Web browser Firefox, has announced its market introduction of new Firefox OS with HTML5 standard to be used on Firefox phones that are now under development.

This may, one day, all add up to give a way to shift power from OS platform providers to content platform providers.



Han Seok-jo is a consultant at Nomura Research Institute Seoul.



A sign at a Coffee Bean in central Seoul promotes a range of dishes offered there. Since early January, the Coffee Bean store in Gwanghwamun has been offering freshly cooked dishes such as pizza and pasta.



Anipang, Kakao Talk's puzzle game, yielded profits of up to 250 million won per day.

SERI REPORT

Potential of ASEAN economy revisited

The economies of the Association of Southeast Asian Nations, or ASEAN, have remained resilient in the wake of the 2008 global financial crisis.

Having recovered from the 1997-98 Asian currency crisis, the 10-nation bloc had built up its foreign currency reserves and signed currency swap deals with other countries, strengthening the sturdiness of ASEAN's financial system.

Therefore, ASEAN was able to absorb the 2008 shockwaves and promptly resume stable growth as advanced countries continued to struggle to gain traction.

Seeking to advance beyond BRIC (Brazil, Russia, India and China) economies, leading global companies have been increasing their presence in ASEAN.

They are motivated by four factors: ASEAN's potential as a production base after China; rapid expansion of consumption and infrastructure buildup; ample natural resources; and reform and opening up by ASEAN's less developed members. In 2011, foreign direct investment (FDI) in ASEAN rose 25.7 percent year-on-year to reach a record-high of \$116.5 billion.

ASEAN's importance to the export-driven Korean economy after the 1997 Asian currency crisis as China's growth and demand soared.

But since the 2008 global financial turmoil, Korean exporters have turned more and more toward ASEAN to compensate for suppressed demand in the U.S. and eurozone countries.

The share of Korea's exports to ASEAN increased from 11 percent in 2010 to 13 percent in 2011 and to 14 percent in 2012, making Singapore Korea's second-largest export market. Korea's outbound FDI to ASEAN countries exceeded that to China in 2010 and beyond.

In 2012, the Korean government established a diplomatic mission in ASEAN to strengthen relations with its member countries.

ASEAN's economic and population growth rates will turn it into a more vital destination for Korean companies. The International Monetary Fund forecasts ASEAN GDP will increase to \$3.8 trillion by 2017 and population will rise to 660 million. That will mean per capita GDP of \$5,782, suggesting a significant rise.

Competition in ASEAN will intensify as the advanced members like Singapore and Thailand try to solidify their position and the poorer members attempt to catch up.

Global factory

In labor-intensive industries, ASEAN's competitiveness has already surpassed China's. ASEAN countries offer an ample supply of young, low-cost workers.

The working-age population is expected to show rapid growth until 2025 and the "demographic bonus" — the size of working age population growing substantially relative to dependent population — will continue in the next 30 years.

In contrast, China is shedding its role as the No. 1 workshop of global companies. Rising wages and appreciation of the Chinese yuan are pushing up production costs.

China-to-Indonesia value ratio increased to 3-to-1 in 2012 from 2-to-1 in 2005, with the Economist Intelligence Unit projecting a rise to 4.5-to-1 by 2015.

Several manufacturers already have shifted operations from China to ASEAN, perpetuating a decades-long pattern of going where labor is the cheapest.

For example, Japan's clothing and textile makers have transferred production bases to late-comer ASEAN countries, such as Vietnam. In the 1970s, Japanese companies had plants in Korea

and Taiwan and then went to ASEAN emerging economies such as Thailand in the mid-1980s, and to China in the 1990s.

Now they are relocating to the ASEAN countries to escape China's wage inflation.

In capital-intensive industries, including electronics and automobiles, leading global companies are building production base into ASEAN for risk diversification and market entry. Major Japanese car-makers, including Toyota, Nissan, Honda and Mitsubishi have begun a "China+1 strategy" by building factories in Thailand and Indonesia to secure production capacity.

To accommodate the manufacturers and other types of companies, the more open ASEAN economies continuously promote a business-friendly environment.

According to the World Bank's "Ease of Doing Business" index, Singapore (ranking No.1) and Thailand (18th) rank on par with advanced countries, while Vietnam (99th) and Indonesia (128th) are on a level with the BRIC countries.

ASEAN countries are also providing various incentives to foreign companies investing there to facilitate job creation and establish their industries.

However, ASEAN members need to improve their infrastructure and stabilize their labor market to replace China as a global factory. Roads and reliable energy supply are behind China's level and conditions for parts and raw materials procurement are weak.

Entering latecomer emerging markets

Reform and opening up has ignited investment and growth in Cambodia, Laos, Myanmar and Vietnam, the so-called CLMV countries.

They account for less than 10 percent of the aggregated ASEAN economy but they have expanded at an annual average rate of 6.1 percent since the 2008 global financial crisis.

Their total population — 28 percent of ASEAN's total — makes the four nations attractive markets for consumer goods suppliers; their strategic position between China and the Indian Ocean supports a pan-Asian infrastructure buildup; and the Mekong River running through the nations has the potential to generate 30,000 megawatts of power.

Still, foreign companies entering the CLMV countries cannot expect a smooth landing.

Political risks and underdeveloped institutional frameworks to handle foreign businesses interests can easily upend plans.

A comparison of worldwide governance indicators show that systemic risk in CLMV countries is higher than that in the Middle East and North Africa, and they have yet to establish a stable market economy system.

Vietnam, the first mover of the CLMV, has excessive investments, financially troubled state-owned companies and an unstable banking sector. There is also higher policy volatility, lack of skilled labor and a weak infrastructure in Cambodia, Laos and Myanmar.

ASEAN economies should become increasingly attractive despite the risks. A strategy that focuses on specific areas and sectors will raise efficiency as it will be difficult to catch up to Japan in official development assistance and investment.

In devising their approach, companies will need to consider the wide range in economic development, income levels and business environment among the member nations.

Latecomers Cambodia, Laos, Myanmar and Vietnam will have high growth but also high risks.