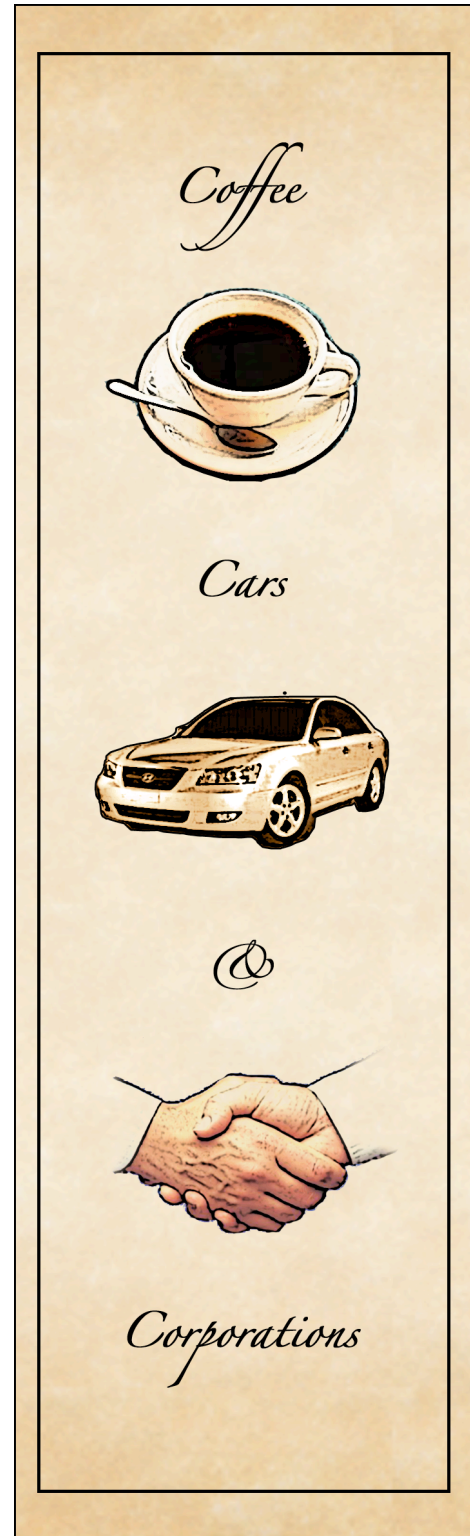


**Coffee, Cars, and Corporations:
Thoughts on Korean Business
and Popular Culture
An eBook**

By Donald G. Southerton



© 2007 Bridging Culture Publications

Bridging Culture Publications
8514 Villa La Jolla Drive, #104
La Jolla, California 92037
www.bridgingculture.com

Also by the Author

Non-fiction

The Filleys: 350 Years of American Entrepreneurial Spirit

Intrepid Americans: Bold Koreans--Early Korean Trade, Concessions, and Entrepreneurship

Fiction

*A Yankee in the Land of the Morning Calm: A Historical Novel
Book One, 1890-1895*

Foreword

For the past four years I have posted hundreds of articles that comment on contemporary Korea and its popular culture. I also look with great interest at global Korean business and trends. I find both Korean society and commerce fascinating. This e-Book, compiled from these writings, provides a snapshot in modern South Korea. *Coffee, Cars, and Corporations: Thoughts on Korean Business and Popular Culture* was crafted as a primer, reference almanac, and social commentary—equally for those new to Korean business...and to its seasoned veterans.

My suggestion is to skim the Table of Content for a topic that draws your attention. Return to the e-Book frequently, each time reading a topic or two. In fact, I recommend *Thoughts* not be read in linear fashion, page after page, beginning-to-end. By the way, I tend to string topics together; so don't be surprised to see a cross-over in subjects and topics. For example, I see Korean Status culture closely linked to Korea's up-market luxury car trends. Another instance I discuss is Starbucks' success in Korea. Interestingly the coffee giant's high prices in Korea make Starbucks Coffee a status indicator.

To conclude, my goal for crafting this e-Book is to promote cross cultural understanding of Korean business and society. I hope this furthers your knowledge and awareness of Korea and its people.

Don Southerton
President and CEO
Bridging Culture
La Jolla, California
January 1, 2007

Credits and Acknowledgements

Coffee, Cars, and Corporations: Thoughts on Korean Business and Popular Culture has drawn considerably from personal experience. This has been supplemented by hours perusing Korea media for articles I find relevant and interesting. Key sources include *Yonhap News*, *Chosun Ilbo*, *Han Kook Ilbo (Korea Times)*, and the *Korea Herald*. Moreover, I would like to thank the scores of Koreans who have shared insights into their rich heritage, culture, and society.

TABLE OF CONTENT

Status	7
<i>Doenjang</i> Girl.....	7
South Korea's Prime Shopping District.....	9
Vuitton or Gucci: Which Brand Is Korea's Favorite?	10
Kangnam and Kangbuk--Seoul's Socio-Economic Divide ..	11
Starbucks and Korea's Coffee Culture	13
Starbucks Korea and Trademark Issue	13
Starbucks Korea: The Numbers Up Close.....	14
Korean Coffee Culture	16
South Korea: Global Test Market	18
Korea and Coffee: A History.....	20
South Korea Goes Up-market: Luxury Cars.....	23
Korean Car Market 2007	23
Korea's VVIP Market	25
What Do Diplomats Drive in Korea	26
Korea's Foreign Carmakers Raise 2006 Sales Goals.....	28
Family Management and Korean Big Business.....	30
LG Succession Plans	30
Samsung Chairman Stresses Creative Management.....	32
Hyundai Kia Motor Group to Build 110-Skyscraper	34



Status

I thought I'd begin with Status as a topic...perhaps, because many see Korean culture as a status-conscious culture. Historically, Korean culture is rooted in Neo-Confucian ideology. A status conscious society developed over hundreds of years. Rigid norms maintained a social hierarchy--with no two people or groups equal. Today, South Korea is a vibrant, highly urban society, but some Neo-Confucian traits continue. Specifically, to some Koreans the quest for status and its indicators remain strong.

***Doenjang* Girl**

I found this article fascinating... and very revealing. One thought that surfaced as I read the article was the link of status—to consumption of Starbucks Coffee.

One of the more interesting sociological phenomena of recent weeks [in Korea] is the birth of the so-called "doenjangnyeo," a more-than-slightly derogatory term that literally translates as "*Doenjang* Girl" (*doenjang* refers to the ubiquitous Korean bean paste).

What is a "*Doenjang* Girl," you might ask? Definitions differ, but tell-tale signs include the following: using a lot of high-priced scents and makeup; wearing luxury one-piece dresses and handbags; eating at expensive "family restaurants" like TGI Friday's and posting photos of the food on your homepage; frequent window shopping at major department stores; imitating "New Yorkers," or at least as they appear in "Sex and the City," a favorite "*Doenjang* Girl" program.

Interestingly enough, this whole "*Doenjang* Girl" phenomenon began when it was learned, much to the dismay of Korea's vocal online community, that Starbucks Coffee cost more in Korea than it did in other countries.

Many netizens pinned the blame on a "new breed" of young, "ultra-feminist" Korean women who insist on drinking the high-priced beverage not because of its actual value, but because of the refined allure the Starbucks brand conveyed.

Yet the debate didn't stop there. Soon, the "*Doenjang Girl*" debate became something of a cottage industry, with websites, comic books and even online computer games dedicated to the topic. According to one recent article in a Korean daily, some women are even changing their consumer habits simply to avoid being labeled a vain "*Doenjang Girl*" by those around them. In the end, however, this may not be as new a phenomenon as people think.

A cultural critic recently noted that some 100 years ago, Korean newspapers expressed their fear of consumer culture by criticizing young women for wearing brightly colored clothing. So perhaps the more things change, the more things stay the same.

Written by Robert Koehler, chief editor of *SEOUL* magazine.

South Korea's Prime Shopping District

Seoul retail area Myongdong is among the most popular shopping areas in Korea. Its roots reach back to the opening of Korea to the West more than a century ago. This article cites its success and popularity.

Korea Times:

Myongdong in downtown Seoul ranked as the world's 9th most expensive place to open shops, with the yearly rent costing \$376 per square foot, or 17.7 million won per pyong per year, according to the global real estate services firm Cushman & Wakefield.

Demand for prime retail high street space is currently exceeding supply,' said Richard Hwang, executive director of Cushman & Wakefield Korea. Hwang said that local food and beverage businesses, as well as international fashion brands requiring large prime locations, grew the market.

He added that department stores are also actively seeking joint ventures with mega fashion brands to open flagship stores. We predict that these trends will continue to create new demands and are likely to further drive up rental prices in the prime locations.

[BTW, ever-increasing rents have also driven some Tier One tenants out, including Starbucks' four-floor flagship Myongdong location.]

Vuitton or Gucci: Which Brand Is Korea's Favorite?

I'm often quizzed by westerners on "what gift" might be appropriate for visiting Korean executives and teams. Gift giving is appreciated and a norm in Korean business. Nevertheless, many well-wishing westerners have a limited understanding of Modern Korea. In fact, when discussing gifts, I often suggest that giving visiting Koreans Burberry or Gucci ties is not really appropriate. Yes, Koreans would enjoy the gift, but Korean stores have for years carried a wide and diverse collection of global fashion. This article gives a snapshot of the wide variety of luxury brands available in Korea. The article also further highlights the "Status" dimension of Korean society.

According to the Lotte Department Store duty-free shop, Louis Vuitton was Koreans' favorite luxury brand in July 2006. It was followed by SK-2, Chanel, Estee Lauder, Lancome, Christian Dior, Gucci, Sisley, Burberry, Etro, Shiseido, Cartier, Ferragamo, Guerlain, Clinique, Biotherm, La Prairie, Bulgari, Fendi and Coach.

But a recent poll of 5,661 people on top-drawer brands conducted by online marketplace G Market showed Gucci in first with 22.1 percent. All age groups from teenagers to those in their 70s loved the Italian leather goods brand. Louis Vuitton, Chanel, Burberry and Christian Dior followed with 15.9 percent, 13.2 percent, 7.4 percent and 6.2 percent. Other names in the top 20 included Cartier, Ralph Lauren, Ferragamo, Prada, Versace, Armani, Bulgari, Fendi, Bally, Escada, Etro, Celine, Hermes, Coach and Ermenegildo Zegna.

Kangnam and Kangbuk--Seoul's Socio-Economic Divide

I thought this article in the *Korea Herald* did a excellent job of describing two of Seoul's major districts--Kangnam and Kangbuk--south of the Han River and north of the Han River respectively. Investment in Kangnam has been seem as unfair by some, as noted in the article.

This drive to earn money with property began in the early 1970s to 1980s when the government transformed the rice paddies and dry fields of Kangnam into residential areas, strategically building apartment complexes and giving priority to government officials to buy the units at a premium price. The Kangnam area was the first in Seoul to be developed as a modern residential district.

In 40 years, the land in Kangnam has soared 160,000 times from the original price.

In 1978, the government gave 220 high-ranking government officials and socially prominent people priority in buying units of the Hyundai Apartments in Apgujeong-dong, which enabled them to each collect a premium of around 40 to 50 million won [\$40,000-50,000]. People who bought land in Kangnam before development have now become millionaires.

Starting in 1981, the government concentrated on developing green areas into residential areas, focusing its attention on Kangnam in order to revive the stagnant economy.

Many feel that when the government concentrated development in Kangnam it basically neglected Kangbuk. Kangnam was developed strategically by the government and managed well, too. Education and infrastructure are the two biggest advantages of Kangnam.

Another big attraction of Kangnam is the level of education there.

Many believe that the prices of houses in Kangnam are unreasonably inflated because of access to high schools of good reputation in the district. Disputes have occurred in the past concerning the educational gap between Kangnam and Kangbuk, with an exceptionally higher number of students from Kangnam being admitted to prestigious universities.

Universities have justified their action, saying schools in Kangnam have overwhelmingly superior academic levels than those in the rest of the nation.

The disparity between Kangnam and Kangbuk has grown so large that where you live in relation to the Han River has become a superficial measure of one's wealth and social status.

An invisible barrier divides the two sides of the Han River, with each side holding discriminatory views of the other. Even students feel this quiet division.

Students in Kangnam and Kangbuk have different hairstyles and fashion. Even the way they wear their uniform is different. Kangnam kids are snobby and rich; Kangbuk students are usually perceived as unfashionable and poor, said a student from Kangbuk.



Starbucks and Korea's Coffee Culture

As I was compiling topics for this e-Book, in my review Starbucks Coffee was a subject of frequent past postings. Now, outside the fact that I spend hours each day working out of Starbucks, their stellar success in Korea warrants discussion and study.

For example, I see Starbucks as a popular meeting place for Koreans, especially groups of students and couples on a first date. By the way, unlike the states where lines form at Starbucks in the morning, in Seoul it's common to see long lines forming following lunch—staffers and executives returning to the office with a coffee drink.

Starbucks Korea and Trademark Issues

I watch Starbucks Korea carefully.... most often from a cultural perspective. Nevertheless, I found this October 2006 article relevant since it looks at a concern for westerners, the trademark infringement issue in Korea.

The nation's pendent court recently dismissed copyright and trademark infringement claims by Starbucks Corporation, the world's largest multinational chain of coffee shops against local [Korean] coffee chain Starpreya.

Starbucks accused Starpreya, a locally-owned coffee house and store, of pirating its trademark and coffee products and causing confusion to customers. And the U.S. company also demanded the court to nullify the registered trademark of the Korean outlet.

However the appellate-level court in Daejeon denied defendant's motions and ruled that the two brands cannot be interpreted as the same or similar.

The brands of the two companies are combined with the words, Star and Preya, and Star and Bucks. The word Star is commonly used in Korea, and Preya and Bucks do not hold special meanings, the ruling said.

Also, we've judged that the trademarks and logos look different, and that they don't hold any intention to be compared, it continued.

Therefore, the chief judge Lee Ki-taik said the court cannot admit the Starbucks Corporation's assertion that Starpreya's trademark has brought public misconception and confusion, and that the court cannot rule that the plaintiff had its trademark copied.

In March last year, Starbucks Corporation filed a lawsuit against Starpreya, saying Starpreya's logo is similar to Starbucks mermaid logo.

But the court rejected the litigation, judging they are different because Starpreya logo is shaped with a goddess figure.

Starbucks opened its first coffee shop in Seoul in 1999, and Starpreya registered its trademark in August 2003.

To follow-up...in a recent mid December response, Starbucks Chairman Howard Schultz noted that the world's biggest coffee-shop chain would refute the South Korean court decision dismissing the trademark violation complaint.

Starbucks Korea: The Numbers Up Close

Yes, it's another article on Starbucks and coffee consumption in Korea. What is surprising is the open disclosure of their numbers. Korean firms tend not to disclose fiscals.

Starbucks headquarters in the U.S. earns \$. 20 for every \$4 cup of coffee Starbucks Korea sells. The local Starbucks pays 5 percent of sales in royalties to headquarters, netting Seattle \$4.56 million in royalties from Korea alone last year, up from \$1.38 million in 2001. In total, it has taken as much as \$15.14 million over the last five years in Korea.

Starbucks Korea is also paying dividends of \$6 million, more than 60 percent of its net income of last year, it said in its latest audit report. As a result, Starbucks U.S., which owns half of Starbucks Korea, the other half being owned by Korean conglomerate Shinsegae, earns \$3 million in dividends on top of the royalties.

And still the coffee franchise keeps expanding. It opened 34 new branches in Korea last year [2005] and recently opened its 154th branch in Seoul. Yet Seattle only ever invested \$10 million. Starbucks Korea was established in 1997 with an equal investment of W10 billion from Starbucks U.S. and Shinsegae and has never increased its capital. Its assets, however, grew to \$53 million last year. Fixed assets increased W6.7 billion last year and dependence on leverage is zero percent. What's more, Starbucks Korea's sales and net profits rose 26.6 percent and 89.9 percent from the year before to \$91.25 million and \$9.49 million in 2005. Its return on equity stands at a whopping 26.8 percent.

That is why complaints about the steep \$4 price tag for what is after all merely a cup of coffee are getting louder. Starbucks Korea tries to head off such criticism by saying they hope "consumers take into consideration" that it is offering dividends to shareholders for the first time this year."

Korean Coffee Culture

This is great article on Korean coffee shops.

By Kim Hyun-cheol
Staff Reporter, *Korea Times*

As a coffee lover, one of my biggest complaints about living in Seoul is that it's quite hard to find a nice coffee place in this megalopolis. To go to a really nice cafe is just like a cult for its esoteric lovers.

Almost all the cafes, seen on practically every corner, are those serving bland and characterless one or branches of import franchise tycoons selling the image without a drop of the original's qualification.

I don't mean to say I'm one of those bashers of brands like Starbucks or Coffee Bean. Actually I'm not. But it's also undeniable the quality of the coffee served there is astonishingly uneven in different branches and inconsistent even at the same shop.

Additionally, I have serious doubts about the quality of their beans used here. Coffee beans are so sensitive they start to deteriorate about a week after being roasted, and it's hard to believe their products in Korea are made of beans as fresh as what they use back in the States.

But after all the grief, I feel like I've come across a serendipitous experience upon finding this small coffee house, Coffee Chingu (Coffee Friend), seated quietly in a corner of the chaotic Chongno area.
[Chongno is in downtown Seoul]

The cafe faces a big street but you won't be able to spot it unless you pay close attention, and as you can easily find several other coffee places around, including Starbucks just a few shops away. It doesn't take long, however, before you find something different about the place once you see a roasting machine decorating its front window.

You'll get the same impression once inside. Sitting at

the bar, you will see rows of jars on a shelf in the wall, with each of them full of coffee beans just like secret herbs stocked in an oriental clinic.

Instead of the usual coffee frills like white chocolate mocha or frappuccino, the first page of the menu is taken by some more authentic straight coffees, named after where the beans originate _ from Brazil and Guatemala to Ethiopia and Kenya, and even to Indonesia and Papua New Guinea.

South Korea: Global Test Market

Korea hopes to prove itself to be a test bed for the global take-out coffee industry. [It's also seen as a great test market for high tech].

Starbucks Coffee Korea announced that its proposal to add green tea-flavored latte to the coffee giant's menu was approved by Starbucks Corp. to debut in other markets.

Based on the consumer response of Green Tea Latte here in Korea, it has been agreed that the product would be launched in other Starbucks chains in Asia and parts of the United States by the second half of this year, said S.K. Chang, president of Starbucks Coffee Korea.

The local chain's idea to create a green tea version of the latte was incited by the popularity of green tea in Korea, he emphasized.

Korea Herald notes that Korea has become a test bed for global coffee chain Starbucks Corp. with the Green Tea Latte expected to debut in other markets.

Noting that Korea has been a hot test bed for global information-technology companies seeking to size up the success potential of new products, Chang said the country has proven itself to do the same for the global specialty coffee market.

One reason Korea is an ideal test bed for Starbucks is that Asia's fourth-largest economy globally ranks fifth in number of stores and revenue outside of the United States, after Japan, the United Kingdom, China and Taiwan, the company said. Korea has 145 stores nationwide. [I frequent many in downtown Seoul and in Kangnam on my trips to Seoul].

Another is that the country has a high proportion of young consumers who are sensitive to trends, and can therefore help industries gain insight into the potential risks and success of products and services.

Starbucks Coffee Korea said the recipe of the Green

Tea Latte would be the same for all markets. Taiwan had earlier proposed launching the Green Tea Frappuccino. But its market reached a peak and has lost its effectiveness in acting as a test bed for new products, according to Starbucks Coffee Korea.

Korea and Coffee: A History

Seoul-based historian Dr. Andrei Lankov wrote an interesting article for his *Korea Times* newspaper column on Early Modern Era Korea. The title is the *Bean and the Leaf*. His topic is the traditional *tabang* tea shop, which is the forerunner for today's modern coffee shops. One reason for the popularity and success of modern Korean coffee culture is the place the *tabang* once had in Korean society.

One point not covered in the article is that today many Koreans see the *tabang* as catering to older and lower status Koreans, or that the *tabang* in some cases had been a front for prostitution. On the other hand, a few modern *tabang* are quite popular, proper, and well respected. In fact, in L.A.'s Koreatown, I've found them a great places to meet with friends and colleagues.

The Bean and the Leaf

For decades, one of the most typical Korean institutions was the tea house (or, rather, the coffee shop), known as a *tabang* (lit. "tea room). I still remember the times when a *tabang* could be found within a five-minute walk from any given point in Seoul.

Alas, the most recent decade witnessed a demise of this quintessentially Korean institution. The old good *tabang* have been pushed aside by the proliferating specialty coffee shops. They serve a similar function; they provide patrons with a comfortable place to talk over a cup of coffee. However, the modern specialty coffee shops, largely emulating the US patterns, are very different from the *tabang* of yesteryear.

The old *tabang* had its golden era some 20 years ago, in the mid-1980s. In 1988 in Korea there were 39,128 teahouses. In Seoul in 1987 *tabang* numbered 9,177. In other words, there was one *tabang* per 1,000 Seoulites.

Tabang history began about a hundred years ago, in 1902 Miss Sontag, the relative of the then Russian envoy, was granted the right to open the first modern hotel in Korea. She was the same Miss Sontag who introduced coffee to Korea, and her hotel was equipped with the first coffee shop, known as

"*Tabang*". Thus, the new term was coined and the new institution was born. Contrary to their name, however, *tabang* have always served coffee, not tea!

Soon teahouses became fashionable. In the colonial era they were rather expensive, thus only people of independent means could frequent them. They often featured live music and posh interiors? but they were still much cheaper than a yorichip, the early forerunner of a restaurant. In 1945 in Seoul there were merely 60 tea houses.

Nonetheless, *tabang* were a favorite place for business meetings and love trysts, as well as favorite spots for merchants, officials, artists, and bohemians. For example, few books on the history of Korean theatre and cinema fail to mention the Cockatoo *tabang* in the Myongdong district. The Cockatoo (no relation to the Australian bird - despite its name) was the favorite meeting place of Korean artists and producers.

After the 1945 Liberation, tea houses began to proliferate at an ever increasing tempo. There were economic reasons behind this development. The impoverished country had very few public places where people could meet and discuss their business and life without paying too much. In 1950, on the eve of the Korean War, Seoul boasted 286 tea houses, five times more than in 1945. Ten years later their number had increased fourfold to 1,041.

A traditional Korean *tabang* of the 1970s and 1980s was a comparatively large room with one or two dozen tables. Like a Western restaurant, it was kept in deliberate semi-darkness. Normally, low walls divided the tables to form a kind of cubicle, thus people sitting near other tables could not overhear the talk of their neighbors. Indeed, people came to *tabang* largely to talk, and often these talks were quite confidential.

On the arrival of the patron, a waitress served him a glass of water or barley tea. served hot in winter and cold in summer. Some clients spent hours sipping this water and in many cases the lady and 'Madam' (not

what you probably just thought of, but rather the manager of the *tabang*) would not say a word. However, most patrons placed an order. The menu was not famous for its variety. Normally the patron could order a cup of instant coffee or tea.

The old *tabang* seldom served brewed coffee. Usually a waitress just poured boiling water into a cup with instant coffee, sugar, and whitener (real milk was never used for whitening coffee in Korea). Often she did it at her own discretion, without even bothering to ask patrons about their preferences. On each table there was an ashtray, since *tabang* were also a place to smoke.

In the late 1980s the *tabang* met a serious challenge. Western-style coffee shops began to spread in Korea. They did not have table service, they were brightly lit and boasted huge shiny windows, and they served freshly brewed coffee. Such words as espresso and cappuccino invaded the vocabulary of the youngsters. The old good *tabang* could not really compete: it was seen as old-fashioned and unsophisticated.

It would be an overstatement to say that the old-style *tabang* have disappeared completely. They still number in the thousands. Nonetheless, it appears that they are doomed. The advent of Starbucks and the like is changing the coffee culture of Korea forever. But that is another story....

South Korea Goes Up-market: Luxury Cars

My mentor at the University of Colorado, urban historian Mark S. Foster, helped me recognize the impact of the automobile on society. America is a car culture, the world's largest car market, and land of the drive-through fast food restaurant, 7-11, and superhighway. Korea, too, is a car culture. Interestingly, in Korea, car ownership is strongly linked to Status. Much of my work is related to the Korean car industry, so I've posted a number of articles on the topic.

Korean Car Market 2007

I found this article informative. It notes the Korean car industry's bold move up-market.

Chosun Ilbo

Korean automakers and importers will introduce some 50 new models next year. Korean domestic brands will launch large, high-end sedans, while cheaper models costing between \$20,000 and 30,000 will come from abroad.

Korean brands

The most noticeable new model is Hyundai Motor's high-end sedan codenamed BH, the successor of the Dynasty. The new model will be introduced in two versions, 4,500 cc and 3,800 cc. Hyundai says the BH will be the firm's first sedan to be equipped with a rear-wheel drive to improve comfort of the rear seats. In terms of performance and convenience, the model rivals the Mercedes-Benz S-Class and the BMW 7-series, the firm says. The BH is expected to replace the Equus, the preferred sedan for corporate CEOs, and appeal to corporate customers. The prices range between \$40,000-50,000.

Ssangyong Motor will release the successor of its luxury Chairman sedan, codenamed W200. The platform of the old model Chairman, which was first introduced in 1997, has been totally changed.

Kia Motors will launch a luxury SUV codenamed HM next year. Along with Hyundai's recently released SUV Veracruz, the HM will compete with imported models like the Lexus RX350 and the BMW M Class.

GM Daewoo will release the sports car G2X Roadster, targeting the niche market. The model will be produced by GM's German affiliate Opel and imported to Korea under the name of GM Daewoo.

Hyundai's medium hatchback sedan codenamed FD and Kia's slightly transformed Lotze [Optima] are also due out next year.

Imports [to Korea]

Honda will launch a new Civic for somewhere around \$25000. The model has an engine of 1,800cc-2,000cc, a similar size to the Hyundai Avante. Daimler Chrysler will introduce the Dodge Caliber, a crossover sedan-minivan-SUV. It will also cost some \$25,000. Volvo will release the small hatchback model C30 for some W30 million, targeting female drivers in their 30s. Ford Korea will import the \$30,000-diesel model S-Max.

But importers will also bring in some luxury models. Audi will release the S8 and S6, the upgraded versions of the A8 and A6. BMW's 335i and Mercedes Benz' CLS 63AMG are also to be launched here. Toyota will unveil its hybrid GS450h and LS600h. In the diesel sector, BMW's new X5, Peugeot's new 307 HDi and the Land Rover Discovery 3 will be introduced here.

A Korea Automobile Importers and Distributors Association official predicted sales of import cars will increase from 40,000 this year to 50,000 units next year, capturing 5 percent of the Korean market.

Korea's VVIP Market

Import car companies (BMW, Mercedes, Lexus, Audi) are targeting their marketing strategy to cater to Korea's "very, very important persons" (VVIP). VVIP is a term the Korean media has coined for the nation's affluent consumer.

According to the *Chosun Ilbo*, BMW Korea held a separate launching event for its VVIP in Busan for two days just before holding an official event to celebrate the launching of its premium model New 7 series on June 13 [2006].

The company invited 100 VVIP customers and their partners, who had bought more than three of the maker's cars to the event, where they took test drives in the New 7 series, took a yacht cruise, watched an opera performance and played golf.

Audi Korea also offered 150 customers who bought its luxury car A8 6.0 an opportunity to watch the opera Turandot in royal box seats at the Sejong Center for the Performing Arts.

Hansung Motor, the official sales office for Mercedes-Benz, plans to invite some 400 of its VVIP customers and Lotte Department Store's premium shop Avenue's VVIP customers to its 20th anniversary celebration to be held at the Lotte Hotel on Friday.

Korean car maker Hyundai plans to launch its own line of high end in the future [the Veracruz, HM, and BH]. Currently Hyundai offers the Equus, its luxury car, which has seen its market share eroded recently.

What Do Diplomats Drive in Korea...More on the Korean Big Car Market

I'm fascinated with the Korean big car market. One dynamic of this market is the topic of this *Korea Times* article...

What's driving diplomats in Korea?

Embassy cars with blue license plates, tinted windows and little flags can be seen all over town but to appreciate the parade of high-end expensive automobiles favored by ambassadors, hang around one of the top hotels in Seoul area during a diplomatic reception honoring a country's national day.

Traditionally, ambassadors prefer Mercedes because for most it offers the right balance of design, elegance, performance and a great boost to the ego that can only be matched by driving or being driven in a car worth more than the average annual household income.

As it stands now, Mercedes and Hyundai lead the pack in foreign and domestic cars of choice by diplomats in Seoul.

Trying to make a dent in this heated market is BMW, whose top models are considered by many aficionados as among the most enjoyable and distinctive cars to drive.

At the 2005 Asian-Pacific Economic Cooperation forum and summit in Busan, anyone in the southern port city or watching on television saw regular parades of top-line Hyundai and BMW cars carrying some of the most powerful leaders of the world and their spouses. [I was in Korea at this time and it was a big deal...on who was supplying cars to whom.]

Hyundai and BMW were the official APEC cars.

2005 statistics by the Ministry of Foreign Affairs and Trade show there are 596 diplomatic cars on the roads in Korea - 283 are domestic and 313 are foreign.

Among the domestics, Hyundai is the clear leader, with a total of 143 cars in diplomatic service. The second most popular domestic cars among diplomats are Kia, with 51, and Daewoo, 50. [What's interesting is that someone actually keeps count.]

Among foreign cars, Mercedes leads the way with 83 and Volvo, renowned for its safety and more recently stylish and sporty sedans, lies second with 51. A surprising third is Ford (48), followed by Toyota (33).

BMW, while the number two imported car on the market among Koreans, is only the fifth most popular among diplomats.

BMW's senior sales and marketing director, Dr. Josef Reiter, says BMW is picking up speed as the fastest selling car on the diplomatic circuit but MOFAT doesn't keep track of previous years.

What BMW offers to diplomats is the 7-series, built to be used as a limo but also as a driving machine, more agile than the Mercedes or the Chairman.

On the domestic side, Hyundai is by far the car of choice for missions that operate on tight budgets in which the envoys want practicality and dependability instead of an ego boost.

Hyundai offers everything from vans to limousines and a sporty Tuscan coupe.

During APEC 2005, Hyundai Motor Co. provided several hundred official cars, ranging from its flagship Equus limousines which were used by the heads of states and government to Starex vans and Aerotown buses for officials and journalists

Korea's Foreign Carmakers Raise 2006 Sales Goals

The growth of imports in Korea intrigues me. Specifically, why foreign brands do well, despite huge VAT (value added taxes). Status is but one aspect.

Korean media note:

In late 2006, foreign carmakers operating in Korea raised their sales target for the year.

Amid consumers' affection for imported cars, 21 foreign carmakers, including BMW and Ford, said they expect combined sales to surpass their initial target of 34,500 units to reach 40,000 units or more.

About 30 new imported models have been or will be unveiled in the second half of the year. The Korean Automobile Importers and Distributors Association (KAIDA) predict their market share to be 5 percent of the domestic market in 2007.

Foreign automakers hold a combined market share of 4.2 percent as of September, up from 3.2 percent at the end of 2005.

Honda Korea sold 400 CR-Vs, a new sport utility vehicle, in 15 days after releasing it on Oct. 12 and Nissan Korea sold some 200 New Infiniti 35s in 10 days.

Officials in the imported automobile industry say the combined number of imported car sales here will increase by 60-70 percent over the next five years to reach as many as 50,000 in 2010.

[One reason Why]

Import car officials say growing sales reflects a favorable local view on foreign cars. The formerly negative sentiment about imported vehicles lies mostly in expensive consumer prices, an executive of Ford Sales & Service Korea said. Now the unfavorable sentiment is fading as prices have diversified.

He said now is the time for foreign carmakers to unveil more low and mid-priced models to acquire a bigger market share.

Many foreign carmakers advanced into the Korean market between 2000 and 2005, by setting up local branches, such as Audi Korea, Volkswagen Korea, Honda Korea and Nissan Korea.

Family Management and Korean Big Business



LG Succession Plans

One trait of Korean-run global Big Business is that most are family managed.

LG is no exception, but has tended to avoid the press when compared to Hyundai and Samsung. This December 2006 article does a great job highlighting LG and its family succession plans.

Korean media notes...

While Lee Kun-hee of Samsung and Chung Mong-koo of Hyundai suffer setbacks in their attempts to evade inheritance taxes, LG Group's Koo family is taking silent and steady steps in their own succession plan, so far with little opposition.

LG said yesterday that Koo Kwang-mo, a 28-year-old stepson of Chairman Koo Bon-moo, has joined LG Electronics as a junior manager of finance in September, after finishing studying in New York at the Rochester Institute of Technology. He is the son of Koo Bon-neung, chairman of Heesung Group and younger brother of the chairman, and was adopted in 2004 by his uncle who had no son but two daughters.

Though the group made no official comment on the chairman's family succession plan, it did admit that the junior Koo will deserve more public attention in the future. "We told the secretary's office to prepare a good-looking photo (of Koo Kwang-mo), as everybody is talking about the succession plan," a public relations official said.

In a rare case for chaebol, LG has successfully switched its governance structure into a holding company system in recent years. Chairman Koo Bon-moo holds 10.51 percent of LG Corp., the holding company of the group, while the stepson has 2.83 percent, which is the largest chunk for his generation of the family.

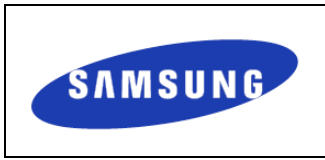
Considering the chairman is only 61 years old, it is not likely that the junior will take over the throne soon. But insiders say that there is no doubt that he is the chosen one.

It's a tradition of the family that the eldest son becomes the next chairman. There is no reason to change it, an LG Electronics official said.

The young Koo is a great grandson of group founder Koo In-hwoi. The chairman's seat has been succeeded through Koo Cha-kyung and Koo Bon-moo without big fuss, while shares of the group's affiliates are well distributed amongst dozens of their family members.

The junior Koo also is receiving financial support from the family. He has bought LG Corp. shares over 12 times since 2004, with the money he made by selling unlisted stocks, which he inherited from his real father, to family members at an undisclosed price. His father Bon-neung is also able to help him with a 4.76-percent share of LG Corp. when the time comes for the succession.

Koo Bon-moo, the current chairman, joined LG at the age of 30 in 1975. It took 20 years for him to become the chief of the group. In a family member's wedding ceremony on Tuesday, he simply answered ``yes'' without elaborating when reporters asked whether his stepson is taking management lessons to become the successor of the group.



Samsung Chairman Stresses Creative Management

The Samsung chairman was recently in the Fall 2006 media...and two points surfaced.

1. A new management keyword--Creative management.
2. Concerns over the investigation into Samsung's transfer of wealth. (This is an ongoing issue with most of Korean family-run conglomerates).

Chosun Ilbo and other Korean media notes:

The Samsung Group chairman has returned to Korea after an extended trip abroad.

Visiting New York, London and Dubai, Chairman Lee emphasized his new management keyword. [Creative Management].

Chairman Lee has done this often in the past, causing radical shifts in the conglomerate's management priorities. By given a broad directive, Lee reduces the burden of giving specific directions to the group.

Upon his return from the trip on his corporate jet ..., South Korea's richest man gave an obligatory but noncommittal reply when asked for his reaction to summons from law officials regarding allegedly illegal wealth transfers to his children.

Lee Hak-soo, the chairman's right-hand man, has already been summoned for his alleged involvement in His boss' tax-evasion case.

Apparently not affected by the prosecutors' investigation, Lee has focused on the importance of Creative Management during his world tour.

In Dubai, he praised the ruler of Dubai, saying he has turned the desert city into a model of creative development.

In London, he visited Chelsea Football Club and

determined that the Premier League became successful because of its creative players. In Yokohama, Lee urged his men to adopt Creative Management in developing future marketing items. It is not the first time Lee has come up with a business slogan. Besides his management skills, he is known as a master of words, coming up with effective business slogans time after time. The most famous remark was what is known as the Frankfurt manifesto, delivered in 1993: Change everything but your wife and kids. [He also asked that staffers and executives come to work hours early to boldly drive change at Samsung. Most of this change was directed to a shift to from producing low cost goods to seeking Quality in all Samsung products. Samsung's recent global success can be attributed to the 1993 Change mandate]

Despite his relentless effort in managing Samsung, Lee is expected to face law officials next month [November 2006]. They have been investigating whether Lee and other men at Samsung deliberately transferred the controlling stakes of Samsung Group to Lee's son, Jae-yong, and three daughters through Samsung Everland convertible bonds at below-market prices.



Hyundai Kia Motor Group To Build 110-Skyscraper



I found this amazing...but no surprise since the Hyundai-Kia Motor Group has grown into Korea's second largest conglomerate. Such a structure would serve to highlight the Hyundai-Kia Motor Group's status and global accomplishments.

The Hyundai-Kia Automotive Group has unveiled a blueprint for a 110-story skyscraper near the Seoul Forest, an environment-friendly park in Ttuksom. If the tower, which will house the Hyundai Automotive Group headquarters, is built, it will change the Seoul skyline.

A Hyundai spokesman noted the company decided to erect the building, which is tentatively named the Seoul Forest Waterfront Tower, on the site of a plant by affiliate Sampyo Remicon covering some 30,000 square meter in Seongsu-dong. The company is in discussions with the Seoul Metropolitan government and Seongdong-gu District Office about the plan. [Seongdong-gu is on the north side of the Han River and southwest of downtown Seoul.]

Besides a convention center, electronic and IT research and development centers, a hotel and office space, the building will also house a car museum and an "experience space for future cars." About W1 trillion (US\$1=W958) will be spent on construction. The company expects construction to create economic effects worth W2 trillion and 30,000 jobs.

The automobile theme park will be modeled on overseas car theme park like German carmaker Volkswagen's Autostadt or "Motor City" next to its Wolfsburg plant and a showroom like Toyota's MEGA WEB near Tokyo.

Look for Volume 2 of *Thoughts* in Spring 2007