

KNFC's Marketing and Supply Business

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Table of contents

• Joint Market Business	01
• Price Support Business	02
• Utilization and Processing Business	03
• Group Meal Service Business	04
• Military Meal Service Business	05
• Direct Sales Business	06
• Trade Business	07
• Purchase Business	08
• Establishment of Distribution Infrastructure for Fishery Products	09

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Preface

The Korean National Federation of Fisheries Cooperatives (KNFC) chose its mid-term slogan 'SALES UP 2018!' for its economic business in order to make the KNFC an organization for the distribution, sales and export of fishery products. To this end, the KNFC launched the economic business task-force team to lay a foundation to reinforce its marketing capabilities and has been pushing forward the development of fishery products distribution infrastructure by building distributed logistics centers at consumption sites to improve the structure of fishery products distribution.

As far as the military meal service was concerned, new items were developed on the basis of preferences of young soldiers, military food handlers education was provided to increase the popularity of fishery products, and cases of military claims were minimized by operating quality assurance and inspection teams and suppliers workshops, all of which resulted in revenues of 129.6 billion won. By increasing the number of customers for school meal service, the group meal service brought in 31 billion won in revenue.

In the utilization and processing business, coupled with the ice-manufacturing, refrigeration and freezing businesses to distribute fresh fishery products, high quality and hygienic processed fishery products were produced in HACCP facilities and the processing process was improved to achieve a project outcome of 99.5 billion won.

The KNFC Shopping (www.shshopping.co.kr) witnessed a 2.2 billion won increase in revenue compared to a year ago, with 17,472 new memberships, as a result of enhanced customer experiences and increased sales promotions. For its home shopping unit, increased sales promotions and marketing efforts and added sales channels other than public home shopping outlets resulted in an increase of 12 billion won of revenues compared to the previous year. Together, the online business units achieved 50.6 billion won of revenues.

For the duty-free oil supply business, 643.3 billion won was earned by providing 5,040,000 D/M of duty free oil for fishing purposes, with 3.5 billion won of the oil fund provided to expand refueling facilities for tankers of member cooperatives and improve their deteriorated refueling facilities. In addition, 86.7 billion won and 25.4 billion won were earned respectively for the equipment business and fishing gear business.

For the economic business, 1.4566 trillion won was earned in 2018, realizing a net income of 1.3 billion won.

Joint Market Business



1) Operation of Joint Markets

The joint market business is broadly classified into sales on consignments and the buying and selling business. The former is to provide fresh and quality fishery products to consumers in a stable manner by gathering fishery products from fishermen in the joint markets to be distributed in large volume through a transaction method that guarantees transparency and fairness.

Doing so ensures collecting and distributing fishery products smoothly, improving the prices received by producers and stabilizing fishery products prices, thereby promoting distribution. The buying and selling business is to purchase and distribute items hard-to-source through sales on consignments or where an intermediate wholesaler is required to promote the stability of supply and demand of fishery products.

Currently, six joint markets are operating: five are located inland (Garak, Guri, Gangseo, Jeonju, and Gwangju) and one is located near the coast (Incheon). In 2018, efforts were made to boost the joint markets and to put in place the correct distribution system for fishery products. These efforts included improving credit limit standards for intermediate wholesalers, inspecting asset soundness of the buyer bonds on a regular basis, and waging promotion activities for origin mark and against the distribution and sale of illegal fishing products.

Outcome of Joint Market Business

Outcome of Joint Market Business

(Unit : ton, 1 million won)

Classification		2017		2018		Change	
		Quantity	Amount	Quantity	Amount	Quantity	Amount
Total		58,837	233,323	54,946	223,388	△3,891	△9,935
Inland	Sub-total	55,249	219,293	51,005	208,368	△4,244	△10,925
	Garak	22,934	80,068	22,049	78,741	△885	△1,327
	Guri	13,967	54,652	13,250	52,892	△717	△1,760
	Gangseo	13,215	48,590	11,478	44,329	△1,737	△4,261
	Jeonju	523	2,846	442	2,482	△81	△364
	Daegu	213	991	-	-	△213	△991
	Gwangju	4,397	32,146	3,786	29,923	△611	2,223
Costal	Incheon	3,588	14,030	3,941	15,020	353	990

Daegu Joint Market closed on Mar. 31, 2017

2) Nurturing Intermediate Wholesalers for Joint Market



Intermediate wholesalers are responsible for dispersing fishery products subject to sales on consignment in joint markets. The KNFC provided 610 million won for over 300 intermediate wholesalers in six joint markets in 2018 to encourage and support smooth dispersion activities. The foundation for nurturing sound intermediate wholesalers was established by securing the effectiveness of the account receivables management system in the joint market including a reduction in account receivables (non-performing loans) by 800 million won (6.8%) as part of continuous management and supervision of asset soundness.

Price Support Business

The price support business is conducted on behalf of the government (the Ministry of Oceans and Fisheries) using the fisheries development fund as a major financial resource. The business is for adjusting supply and demand and stabilizing prices by purchasing and storing those fishery products that can be stored for a long time during the production season and releasing them when the prices of fishery products increase rapidly over certain periods such as during the lunar new year or Korean Thanksgiving day.

Outcome of Price Support Business

(Unit : ton, 1 million won)

Classification	Business outcome		items subject to price support
	Quantity	Amount	
2017	29,951	63,783	Squid, Mackerel, Pollack, Hairtail, Corbina, Spanish mackerel, Bay salt, Dried anchovy(8 items)
2018	23,158	62,662	quid, Mackerel, Pollack, Hairtail, Corbina, Bay salt, Dried anchovy(7 items)
Change	△6,793	△1,121	

Utilization and Processing Business



Classified into the ice-manufacturing, refrigeration and freezing businesses that are essential for the distribution of fresh products and the processing business to increase the added value of products, the utilization and processing business plays an important role in the distribution of fishery products by increasing the income of fishermen and making prices of fishery products stable.

Cold storage and ice-manufacturing facilities, as well as logistics centers and processing plants are in operation in major cities across the country including Cheonan, Busan (Gamcheon Port) and Incheon. In particular, the Incheon Fishery Products Processing and Logistics Center, Korea's largest fishery products processing plant (completed in April 2010), is equipped with a HACCP certified modernized hygienic processing facility with an annual capacity to process 10,000 tons of fishery products and IT systems, leading the way for the safe distribution of fishery products.

In addition, the Northern Gyeonggi Logistics Center (completed in March 2015) and the Gangwon Logistics Center (completed in December 2016) were established for the stable supply of fishery products for military meal service. As such, efforts are being made to expand the distribution of fishery products and develop utilization and storage businesses.

Outcome of Utilization and Processing Business

(Unit : 1 million won)

Classification	2017		2018		Change	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Total	534,956	77,500	462,652	99,475	△72,304	21,975
Freezer(C/S)	274	154	282	166	8	12
Refrigeration (C/S)	526,799	6,010	454,358	6,101	△72,441	91
Processing(M/T)	7,883	71,336	8,012	93,208	129	21,872

※ Incheon, Gamcheon, Cheonan, Gyeonggi, Gangwon

Group Meal Service Business



The group meal service started with the school meal service in 1996 for the purpose of promoting the consumption of fishery products and improving public health by providing quality fishery products to places where group meal services are needed such as schools. Currently, fishery products are being provided to elementary schools, middle schools, high schools, public organizations, hospitals and companies mostly located in and around Seoul.

1) School Meal Service

The purpose of the school meal service is to contribute to the improvement of public health by providing fresh fishery products to students in the development stage and laying the production foundation for fishermen by generating ongoing demand for fishery products. In 2018, fishery products were provided to about 900 schools located mainly in metropolitan areas for school meal service.

In 2010, quality and safety were improved by producing products for school meal services at the Incheon Processing and Logistics Center, which is equipped with modern equipment. In addition, with the expansion of school meal support project led by local governments, the KNFC started to provide quality school meal service more actively based on its credibility as a provider of quality fishery products. As at the end of December 2018, the number of school meal service support centers it serves was 12.

Despite the abolishment of negotiated contracts for corporations organized under a special law, the reduction of negotiated contracts under the guideline of the education administration, and the expansion of electronic competitive bidding, the KNFC worked to increase the number of schools for which it provides meal services by hosting cooking classes for school meal officials and holding regular meetings for quality improvement in 2018.

2) Company Meal Service

The company meal service is to provide food for group meals to public organizations, hospitals and companies. By the end of 2018, food supplies were provided to 19 firms and organizations, with efforts to promote the consumption of quality fishery products. The KNFC also endeavors to widen the scope of the company meal service by providing fishery products to meal service providers for large corporations.

Outcome of Group Meal Service

(Unit : 1 million won)

Classification	2017	2018	Change	Remarks
Total	26,986	30,977	3,991	
School Meal	23,028	28,034	5,006	
Company Meal	3,958	2,943	△1,015	Public organization, hospital, company, etc.

Military Meal Service Business

The purpose of the military meal service is to improve the diet of military personnel while promoting the economic business of member cooperatives via the smooth supply of quality fishery products. To this end, as at the end of 2018, KNFC's three logistics centers and three joint markets and eight member cooperatives provide military meal services.

Efforts are being made to ensure the supply of fishery products to the military by purchasing offshore fishery products during the main catching season and purchasing deep sea fishery products frequently through competitive bidding with consideration to the inflow of those products and distribution prices in the market.

Support for military camps continued by installing freezers and ovens while new items were developed such as thinly sliced squid for frying and octopus to diversify fishery products provided for soldiers in 2018. In addition, cooking education and food tasting were held at the Consolidated Army Logistics School and field camps to help enjoy fishery products to promote the military meal service.

Outcome of Military Meal Service

(Unit : ton, 1 million won)

Classification	2017		2018		Quantity	Amount
	Quantity	Amount	Quantity	Amount		
Total	9,257	140,605	7,204	129,571	△2,053	11,034
Frozen	7,755	117,150	5,890	106,693	△1,865	10,457
Dried	795	16,741	598	14,700	△197	△2,041
Fermented	590	5,117	608	6,591	18	1,474
Seaweeds	117	1,597	108	1,587	△9	△10

Direct Sales Business

The direct sales business is composed of bulk sales through large distributors, direct sales to consumers through the internet, purchase support to increase fishermen's income and boost consumption, special sales to companies, KNFC Shopping, the home shopping business, B2B (online wholesale market) to contribute to improving the structure of fishery products distribution and the in-Store business.

1) Purchase Support

The purchase support business operates to improve the prices received by fishermen and improve consumer prices by adjusting the supply and demand of fishery products. This business garnered 114 billion won in 2018 by purchasing mackerel, pollack and squid, all of which lead prices and greatly contribute to the diet of Koreans, during the catching season to support prices and buying them in non-production seasons to help stabilize their prices at consumption sites.

2) Special Sales

Special sales are to provide original fishery products (hairtail, squid and anchovy) and processed products (corbina) to large distributors (Shinsegae Department Store, Lotte Mart, Lotte Super and GS Retail). The KNFC is making effort to expand the sales channels of various fishery products by developing and selling various kinds of fishery products to general customers and wholesalers. Revenues of the business was 26.7 billion won in 2018.



3) KNFC Shopping

KNFC Shopping (<http://www.shshopping.co.kr>) is a fishery products mall run directly by the KNFC to make sure that consumers can purchase various kinds of fishery products online in a quick and safe manner. The shopping mall focuses mainly on selling domestic fishery products and contributes to the increased consumption of fishery products by promoting the quality of Korean fishery products through various kinds of events including Sh Marketplace. The revenue in 2018 was 8.2 billion won.

4) Homeshopping

In order to expand the online distribution and sales channels linked with securing the self-sustaining capability of the domestic fisheries industry, establish sound distribution infrastructure for fishery products, and improve the efficiency of fishery products distribution in response to accelerating market openings (Korea-China FTA, TPP, etc.), the KNFC invested (KNFC 5%, 4 billion won) in public home shopping (IM Shopping) together with the Small & Medium Business Distribution Center and Nonghyup Economic Holdings in February 2015. The Public home shopping (IM Shopping) was launched in July 2015 and began to sell fishery products. In terms of handling accounts, revenues for 2018 was 41.9 billion won.

5) B2B (Online Wholesale Market)

The KNFC has operated its B2B (<http://www.shb2b.co.kr>) business since January 2007 to respond actively to the online business age and improve the structure of fishery products distribution.

The B2B system provides various forms of transaction processes (B2B e-payments, a free trading market, bidding and trading based on quotations) to entities as well as capital liquidity for payments by linking guarantee organizations and commercial banks. The business has helped improve the distribution structure for fishery products and enhance the competitiveness of the fishery industry. The transaction volume reached 291.4 billion won in 2018.



6) In-store

The in-store business (<http://instore.shb2b.co.kr>) has been operating since November 2012 to provide the opportunity for the joint growth of economic businesses through active information exchanges among member cooperatives and to make it easier to supply and find various KNFC brand products through distribution networks of member cooperatives across the nation.

Member cooperatives as transaction entities can make deals more conveniently by checking prices and composition of products, the status of orders and delivery in the Sh in-store system. Also, it is easier to sell local specialty products at direct sales markets of member cooperatives nationwide and KNFC Mart, which helps to increase sales and promote products of member cooperatives. The transaction volume of the in-store business was 500 million won in 2018.

Trade Business



1) Export

The KNFC has worked on the export business to find overseas markets and encourage consumption of Korean fishery products. As of 2018, 2,424 tons (or 9,690,000 dollars) of top-quality processed and original Korean fishery products including Sh branded ones were exported worldwide like Americas, Australia, Japan and China.

The Shanghai Export Support Center, the Qingdao Export Support Center, the Weihei KNFC International Trade Corporation, and the Beijing Export Support Center were newly established in June 2014, July 2015, April 2016 and June 2016 respectively to facilitate the entry of Korean fishery products into the Chinese market under the Korea-China FTA.

KNFC's efforts to expand the global export base for Korean fishery products continued; export support centers further opened in Ho Chi Minh, Vietnam and Kaohsiung, Taiwan, in July 2017, followed by those in Tokyo, Japan, and Los Angeles, USA in September of the same year. Later in June 2018, more export support centers opened in New Jersey, USA, Bangkok, Thailand, and Kuala Lumpur, Malaysia.

The export support centers provide support for promotional events for Korean fishery products at local distributor locations (department stores, discount stores, etc.) across China, as part of efforts to diversity overseas markets for Korean fishery products.

2) Import

As of 2018, 2,510,000 dollars of raw materials, namely complete feeds (fish meal), were imported by KNFC Feed, a subsidiary of KNFC established to provide high quality feed for those engaged in the aquaculture business..

Outcome of Trade Business

(Unit : ton, 1,000 dollars)

Classification	Item	2017		2018		Change	
		Quantity	Amount	Quantity	Amount	Quantity	Amount
Total		4,068	9,646	3,634	12,197	434	2,551
Export	Sub-total	2,985	7,702	2,424	9,686	△561	1,984
	Processed	834	2,329	337	3,056	497	727
	Original	2,151	5,373	2,087	6,630	△64	1,257
Import	Sub-total	1,083	1,944	1,210	2,511	127	567
	Fish meal	1,083	1,944	1,210	2,511	127	567

Purchase Business

1) Supply of duty-free oil for fishing



The amount of duty-free oil for fishing supplied in 2018 was 5,040,000 drums, down 377,000 drums from the previous year, but the handling amount rose by 87 billion won to 643.3 billion won due to the global oil price hikes. In addition, the fishing expense reduction by duty-free oil supply was 656.8 billion won, which greatly helped increase real income of fishermen.

For the smooth supply of duty-free oil, financial support amounting to 3.5 billion won was provided for the installation of tankers, refueling tanks and other facilities and for operating expenses covering

labor, repair and rental costs to the member cooperatives. Refurbishment, new establishments and relocations of old refueling facilities are underway as part of the oil supply facility refurbishment project (government budget 50%, self-collateralization 50%). In 2008, five member cooperatives established seven tanks, and in 2009, four member cooperatives established 1 tanks. In 2010, seven member cooperatives established 18, and in 2011, two member cooperatives established one barge and three tanks, In 2012, 11 member cooperatives established 22 tanks, in 2013, eight established 15 tanks, and in 2014, four member cooperatives established two barges, one tanker, and four tanks. In 2015, five member cooperatives established 12 tanks and one tanker, and in 2016, seven member cooperatives established 17 tanks. In 2017, four member cooperatives established 11 tanks, and in 2018, three member cooperatives established ten tanks.

Outcome of Duty-free Oil Supply for Fishing

(Unit : 1,000 D/M, 1 million won)

Classification	2017		2018		Change	
	Quantity	Amount	Quantity	Amount	Quantity	Amount
Duty-free oil	5,417	5,563	5,040	6,433	377	870

To make oil for fishing prices stable by responding oil price hikes flexibly and provide oil for fishermen in a timely and stable manner, the Yeosu Oil Reserve with a capacity of 220,000 drums of oil has been in operation since January 12, 2006 to help stabilize oil prices for fishing and ensure stable storage and supply of oil to fishermen in a timely manner by responding flexibly to oil price fluctuations.

KNFC continued to find and expand categories of fishermen and facilities eligible for the duty-free oil for fishing to expand tax incentives for fishermen. The eligible facilities added in the chronological order are: a heating facility in the locker of employees in fishery without oxygen feeder in 1990, a fishery product production basic facility in 1991, on-shore fishery facilities and on-shore feed production facilities in 1997, an inland fishery onshore aquaculture facility in 1998, a ship for inland fishery and an inland fishery aquaculture ship in 2000, a shrimp boiling and drying facility, a clam boiling facility, a water pump and washer for aquaculture facilities in 2002, a tangle weed, gulfweed boiling and drying facility in 2004, a facility for bank-type aquaculture, a fisheries transport vessel and a fishing boat in 2005, a ship for transporting employees to fishery without an oxygen feeder and a green laver drying facility in 2009, a cultivator, tractor and (lightweight and small) freight car in 2013, a sea cucumber boiling and drying facility in 2014, a crane for fishing and clam screening equipment in 2015, and a fishing net washer in 2016.

Facility Status (as of 2018)

① Refueling facility

(Unit : number of places, boats)

Oil storage	Refueling station	Barge	Tanker	Oil truck
1	139	6	3	95

※ Refueling station includes oil supply stations and temporary oil supply stations(excluding directly run gas stations)

② Oil transport vessel

(Unit : D/M)

Classification	Total	KNFC	Member cooperatives
Number of vessels	13	10	3
Capacity	37,350	29,500	7,850

2) Purchasing and supplying fishing gears



The fishing gear purchasing business is to purchase fishing gear (ropes, corrugated boxes, paints, etc.) and eco-friendly fishing gear (biological decomposition gear, eco-friendly buoys, etc.) through member cooperatives. The revenue for this business increased by 1.6 billion won in 2018 from a year ago to 25.4 billion won.

As the eco-friendly fishing gear purchase plays a significant role in preventing damage of marine resources due to nylon waste fishing net and preserving the marine ecosystem by using high-density buoys, it is necessary for fishermen to join forces in spreading eco-friendly fishing gear.

Outcome of Supplying Fishing Gears

(Unit : 1 million won)

Classification	2017	2018	Change
Total	23,819	25,442	1,623
Fishing Gears	5,940	6,057	117
Eco-friendly fishing gears	16,771	19,302	2,531
Necessities	1,108	83	△1,025

3) Supply of equipment for fishing

The supply of equipment for fishing is to provide equipment, facilities and outboard engines for coastal fisheries. The revenue of the business hit 86.7 billion won in 2018, down 1.6 billion from a year ago; the share for boilers and equipment was 26.3 billion won and for outboard motors 60.4 billion won, respectively. The business contributed to the enhanced fishing productivity, reduced fishing costs, and safe operations by identifying and distributing good equipment for fishing.

Outcome of supplying Equipment for Fishing

(Unit : 1 million won)

Classification	2017	2018	Change
Total	88,290	86,676	1,614
Equipments	23,889	26,291	2,403
Outboard motor	64,401	60,384	4,017

Establishment of Distribution Infrastructure for Fishery Products

1) Establishment of Distributed Logistics Center at Consumption Site

The establishment of a distributed logistics center at a consumption site was promoted under the government’s Master Plan on the Improvement of the Fishery Products Distribution Structure (July 2013) in order to reduce the distribution steps (from 6 to 4) by strengthening the logistics distribution function at consumption sites and logistics hub function at production sites and thereby to create a new distribution channel led by groups of producers. Currently these centers are under construction in Incheon and Honam areas, followed by several more centers of this kind expected to be built in south Gyeonggi, Yeongnam and Chungcheong areas.

The construction of the center in Incheon will be completed in 2020 with an estimated total project cost of 37.8 billion won (government budget 50%, self-collateralization 50%).

The Honam area center is being built in Naju City, Jeollanam-do with an estimated total project cost of 18.6 billion won (government budget 50%, self-collateralization 50%). The center is expected to be completed by 2020.

