

KOREA PAPERS

PAPER NO. **02**

DOING BUSINESS
IN SOUTH KOREA

GREENLIGHT
INNOVATION

Case Study



KOREA PAPERS

When the Canada-Korea Free Trade Agreement (CKFTA) came into force in January 2015, it opened new opportunities for businesses in western Canada. Before getting started in South Korea, however, western entrepreneurs must learn how to do business there. The Korea Papers are a series of case studies that present practical lessons and insights from companies that have found opportunities, challenges and successes in South Korea. They are intended as an aid to companies considering the market.

These Korea Papers grew from an informal meeting of Canadian trade promotion agencies where a need for new, innovative outreach materials to encourage firms to consider new markets was raised.



GREENLIGHT INNOVATION

Burnaby, B.C.

This case demonstrates how Greenlight Innovation, a western Canadian company, successfully entered the South Korean market – and some of the lessons it learned along the way.

Worldwide revenue from energy storage in 2014 was

\$675M

INTRODUCTION

Greenlight Innovation is a Burnaby, B.C. technology company specializing in cutting-edge testing equipment for batteries and other energy storage solutions. Its experience in South Korea shows how a small business with the right value proposition can compete in the market, and elsewhere in Asia. Not only did Greenlight succeed in Korea, it became one of the company's best regional sales offices.

Because it is so specialized, the testing equipment that Greenlight produces has a small market. Large companies, such as original equipment manufacturers (OEM) or research facilities, are its main clientele. Worldwide revenue from energy storage in 2014 was \$675 million dollars, with forecasts of \$15.6 billion by 2024.¹ Each sale is substantial although even major customers buy less than one piece of equipment per year, and sales can be few and far between. Selling to global markets is essential to success because of the low volume. Like in other knowledge-based industries, the need to stay relevant means that Greenlight needs to be involved wherever the technology is being applied. Asia, especially Korea, is an active region for the application of this technology.

CONTEXT

Greenlight Innovation was founded in 1992 in Burnaby, B.C. It got its start testing equipment for batteries and other energy storage systems. Early on, it was approached by B.C.-based Ballard Power Systems to enter an exclusive five-year agreement to supply hydrogen fuel cell testing equipment.

Today, Greenlight Innovation is truly global. When it was released from its five-year contract with Ballard, it began selling around the world and has been doing so ever since.

It recently purchased a local automation company in B.C. which enables Greenlight to integrate its offering from testing to production. After a customer has created a prototype energy storage solution, the usual next step is mass production. This is typically accomplished through automation. The purchase of the automation company has allowed Greenlight to increase its value proposition.

¹ Hockenos, P. (2015). *Energy Storage Market Outlook 2015*. <http://www.renewableenergyworld.com/articles/2015/02/energy-storage-market-outlook-2015.html>

PROCESS

Find a new market

Because Korean OEMs were beginning to make major investments into fuel cell development, it was great timing for Greenlight to enter the Korean market.

Greenlight exports mostly out of Canada and its sales are equally distributed across Asia, North America, and Europe. In Europe, it has a German-based subsidiary, Greenlight GmbH, where a small portion of its exports are manufactured. Otherwise, Greenlight operates through a network of regional sales and service representatives; this is how the company first entered Korea.

Greenlight considered opening a local office in Korea, as it had in Germany for its European market, but decided against it. For one thing, the local market was relatively small; it would have made more sense to have an office that could service the entire Asian region. Further, cultural factors are stacked against that kind of move. The way that business is done in Korea is different than in Japan or China. Asia cannot be treated like Europe or North America, which are less rigid about their business and cultural practices.

Greenlight's other choice was a sales partner. In its industry, like any other, finding the right partner is key. But what constitutes the "right partner" depends on the type of sales involved. While Greenlight has sales representatives throughout many regions of Asia, Korea stands out as its best partner.

Find a Korean partner

Greenlight's sales partner in Korea was first introduced to the company by the Canada Trade Commissioner Service and proved to be a good fit. The Korean partner specialized in manufacturing conventional automotive testing equipment and had strong ties to automotive OEMs in Korea. Automotive OEMs were also the primary customer for hydrogen fuel cell testing equipment. It already had experience selling testing equipment and relationships with potential customers.

The testing rigs that Greenlight creates are used to test hydrogen fuel cells, electrolysers and other alternative chemical energy storage devices. "There are maybe 500 people in the world who know how this stuff works. So you must have a partner who is knowledgeable or at least willing to become more knowledgeable about this kind of product," said Greig Walsh, Greenlight Director of Sales and Marketing.

"You really want someone on the ground who can understand your product well enough to sell it, someone who can support the product and can communicate very well."

Walsh said that Greenlight looks for three things in a sales partner: communication with the head office, knowledge and capability to sell, and knowledge and capability to support in the local language. "These guys (in Korea) have them all, which is why they are one of our best."

Instead of putting in the time and investment needed to learn the company's specialized products, some of Greenlight's other partners in Asia go after quick sales. But that approach does not work because the testing rigs that Greenlight produces are highly customized and require specialized setup and maintenance.

PLATFORM

Having a global platform increases a business' value proposition.



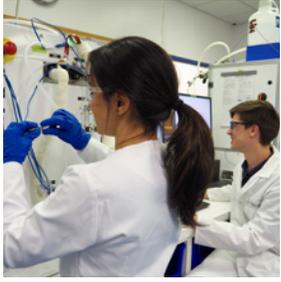
Staff working on equipment bound for Korea.
Photo: Greenlight Innovation

PARTNERS

Look for a partner who is eager to learn about your business.

NETWORKS

The Canadian Trade Commissioner Service has a large network of companies and they want to broker those connections for you.



Staff working on equipment bound for Korea.
Photo: Greenlight Innovation

When Greenlight sells its testing rigs, it flies at least one of its engineers over to do the initial setup for the client. The company also teaches the local sales representative how the testing rig works and how to troubleshoot problems. It is at this step that quality varies. When sales representative are willing to make the initial investment learning about the testing rig, that leads to a better customer experience and value-added opportunities down the road. When sales representatives are not willing to make this initial investment, Greenlight is forced to troubleshoot problems itself, often by flying an engineer out. This takes longer to reach a solution.

Another feature of these testing rigs is that they need modifications and updates as the energy storage device being tested is developed. Local partners who are willing to learn and take on the servicing of these testing rigs are able to provide the customer with a premium service because they can make changes quickly. Local partners, like in Korea, are able to establish a regular customer base through their equipment service contracts.

Build a relationship

The Canada Trade Commissioner's Service introduction of a new partner was the first step, but Greenlight had more work to do to build the new relationship. In Korea, as in many Asian countries, the line between business and personal is often blurred, so developing the relationship between partners involves getting to know one another outside of business hours. Koreans notice when westerners make an effort to learn about their culture. This effort builds respect and trust. Greenlight built trust with its Korean sales representative. The sales representatives were confident investing the time required to learn about Greenlight's products and how to support them. This was crucial as it allowed Greenlight to develop local sales representatives who can maintain the products – and troubleshoot with customers in their own language.

Greenlight's partner in Korea is well-connected, aggressive at sales, and keen to learn about the company's products and provide value-added services to the Korean market. However, one of the challenges that Greenlight faced was whether expansion in Korea through the partner would lead to *localization*. There is a fine balance between relying on a partner to achieve enough growth to keep them motivated – and so much growth and over-reliance that it leads the partner to essentially take over the business.

When localization occurs, components of a foreign business are slowly taken over by the local partner; the local partner eventually cuts out the foreign partner. Localization is insidious because it typically happens slowly, small pieces of the business at a time. Those pieces that are lost are almost impossible to reclaim. Businesses that are looking for a long-term commitment do not want to create an incentive for a local partner to localize their businesses. Localization isn't universally bad thing. A company looking to get in and get out may even benefit from localization because it helps ease the transition in leaving a country. Either way, a business needs to be mindful of this common practice. Therefore a business needs to be constantly creating value for its partner, while at the same time, it needs to hold onto the key components of its value proposition. The win-win situation is both companies growing in size, not in a shift in the value proposition.

Localization also factors into that initial search for a partner. A partner that is too large will have more resources to commit to taking over the business. In many Asian markets this is a problem, because there are so many large businesses. In some instances, as in China, they are able to get state backing which gives them an even greater advantage over their North American partners. In Korea, there are many businesses that are similar in size to Canadian firms, so localization is less of a problem.

Identify the value proposition

Greenlight's value proposition is derived from both its products and service.

The service value depends on a partner that can deliver fast, high-quality customer service in the customer's own language. The value added increases when the partner can provide a broader range of service including maintenance, problem-solving and modification of the equipment.

The product value depends on the technology. Greenlight's foreign investment gives it an advantage over competitors that only do business at home. It puts the company in contact with businesses that are investing in research and development (R&D) and gives it access to proprietary knowledge that would be otherwise denied to them. As an added benefit, this knowledge is denied to their competitors. Greenlight's value proposition depends on access to knowledge that is being discovered all around the world.



Photo: Greenlight Innovation lab, Greenlight Innovation

OUTCOME

A mature relationship in Korea

Greenlight is now building on its initial success in Korea to expand in Asia. Other companies interested in Korea can follow this path. It shows what is possible and the potential return on investment from entering the market.

A big factor in finding success in Korea, and indeed many other parts of the Asian market, is maintaining a presence in the region. Companies who get this find that they can leverage this success for future expansion in the region, such as into China. There is a perception in Asia that finding success in Korea equals the ability to do well in other countries in the region. This is because many Asian countries have, for cultural reasons, a hard time expanding into Korea. They are impressed when North Americans, who seem even more out of place than themselves doing business in Korea, can find success. Greenlight's success in Korea generally, rather than particular lessons from that market, has positioned it well to expand into other, perhaps more difficult, markets in Asia.

Meanwhile, Korea's Hyundai is committing to a major investment in hydrogen fuel cells and Greenlight wants to be part of that research and development. With the knowledge that Greenlight gains from this local demand in research and development, it will be able to expand the knowledge gap between itself and its competitors. This illustrates why a technology company in a niche field must expand to the regions of the world where the applications of its specialization are being tested (and funded) to compete.

VALUE PROPOSITION

You have an obligation to constantly ensure that you are providing a value proposition to your partners.



Test stations at customer site in Korea.
Photo: Greenlight Innovation

COMPETITIVENESS

Technology companies must expand to the regions of the world where their field is being invested in to remain competitive.

SUCCESS

Success in a region does not necessarily warrant expansion in that region.

ASSESSMENT

Lessons Learned

Greenlight found success in Korea by offering a strong value proposition, building relationships and investing time and resources into its team on the ground. The lessons it learned along the way have been assessed through the lens of: preparation, presence, partnerships, pricing and patience.

PREPARATION

- **SMEs have to be well prepared to enter Asian markets. A company must understand:**
 - Its value proposition.
 - How its product or service will need to be adapted to the market.
 - What it wants to achieve in Asia.
 - The fundamentals of the market it is trying to enter.

GREENLIGHT INNOVATION

Greenlight had a strong value proposition due to its years of experience in a niche technological field with a major presence in its own backyard. Its experience with Ballard Power Systems gave it a high level of authority in its field of research. A key aspect of Greenlight's preparation in Korea was investing in the time to find a partner (through the Canadian Trade Commissioner Service) and developing a relationship with its partner.

PRESENCE

- **Asia is too far away to do business remotely. Firms must create a physical presence.**
- **In Asia, it is important to demonstrate a commitment to the market and the project through the development of relationships.**
- **Weaker institutions in Asia often make dispute settlement difficult through formal channels. Personal negotiations are often required.**

Greenlight was successful in establishing a presence in the Korean market. When it first entered, it found early success with a partner who could appeal to the automotive OEMs in Korea. The nature of its businesses means that each testing rig that it sells puts them into a one-to two-year relationship with that customer.

PARTNERSHIPS

- **It is difficult for Canadian SMEs to go at it alone in Asia.**

Potential partners for Canadian SMEs seeking to enter Asian markets include:

- Canadian SMEs with proven track records in Asia.
- Large multi-national enterprises (MNEs) that have a sustained need for niche product or service.
- Established Asian SMEs that can add your product or services to their platforms.
- Large Asian firms that can provide access to the market (but watch out for localization).

Greenlight found a partner that already had a strong connection to one of the largest developers of hydrogen fuel cell technology: Korea's automotive OEMs. It was fortunate to find a good match through the Canadian Trade Commissioner Service. This partner had already carved out a niche in developing conventional testing equipment for vehicles. Partnering with Greenlight was an expansion of its business – an immediate win-win.

Greenlight invested in the relationship with its local sales representative who then in turn were willing to invest in learning about Greenlight's products. Customers were happy to have shorter turnaround times and the local partners were able to develop their own client base. Greenlight avoided localization by giving its partner a way to grow that did not cut them out.



Frames ready to be manufactured into fuel cell test rigs destined for Korea customer.
Photo: Greenlight Innovation

PRICING

- Foreign firms cannot compete in Asia on price alone (and that is a good thing because it could become a race to the bottom).
- A company aiming to enter Asian markets must have a strong value proposition.
- A company must be able to rethink its value chain to take advantage of low-cost Asian production (or domestic competitors will).

The nature of Greenlight's business and its international research exposure means it has a near monopoly on the product it sells. Greenlight offers a unique, high-value offering in Korea, so it can command a high price. A rule in Korea is that if your product is something that Koreans value, pricing will not be an issue. Koreans will pay a premium.

PATIENCE

- Success in Asia takes time.
- Have access to enough capital to sustain long-term presence.
- Nothing in Asia will happen overnight, but it can happen quickly.

Greenlight made a real effort to develop its relationship with its partner in Korea and was patient in reaping the rewards. Patience gets noticed, and for Greenlight this has granted it opportunities to expand into other parts of Asia.

A key aspect of Greenlight's preparation in Korea was investing in the time to find a partner (through the Canadian Trade Commissioner Service) and developing a relationship with its partner.

In Asia, patience gets noticed, and for Greenlight this has granted it opportunities to expand into other parts of Asia.

TIPS FOR DOING BUSINESS IN SOUTH KOREA

THIRD PARTY INTRODUCTIONS

In Korea, unless you know someone, it is very difficult to meet them for the first time. This means that third party introductions are very important in Korea. Find a respected third party, perhaps a trade commissioner if you are new to the country, to help make initial contacts.

RELATIONSHIPS

Relationships take time and effort in Korea. Like other Asian countries, transactions come after a relationship has been established.

Once a good relationship has been established, Koreans will tend to value that relationship over short-term profits.

PREPARATION

When introducing a new product or business plan, it is best to send written materials in advance of the meetings. If the meeting will take place in English, it will help people prepare. Also, Korean managers tend not to make decisions on the spot, and thus it is important to avoid surprises.

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