

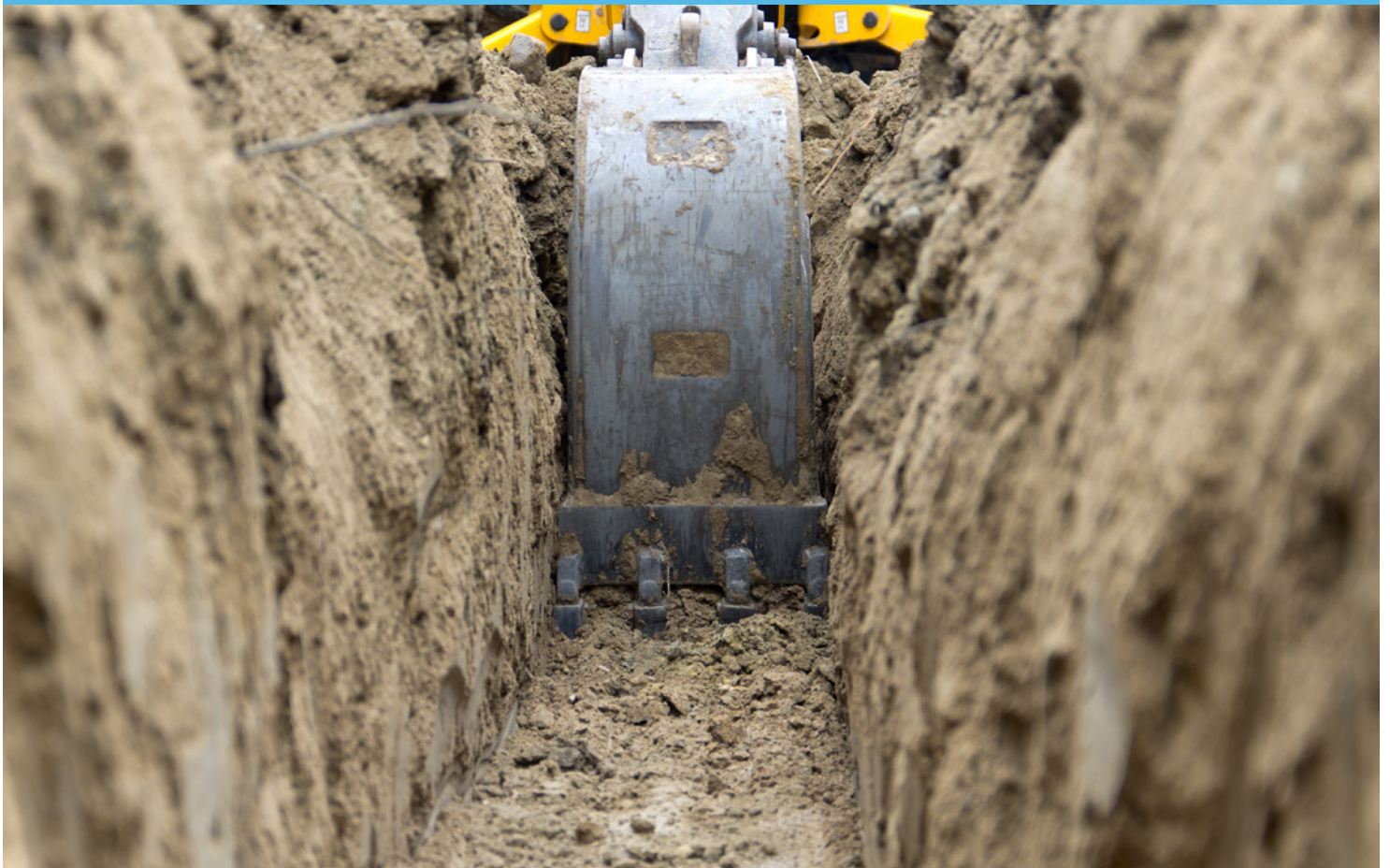
KOREA PAPERS

PAPER NO. **01**

DOING BUSINESS
IN SOUTH KOREA

TRIUM
ENVIRONMENTAL

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.



TRIUM Environmental Inc.

Cochrane, Alberta

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

In Alberta, the Environmental Products and Services (EPS) industry is made up of 1,330 companies and generates roughly

\$2.8 B
IN ANNUAL REVENUES

INTRODUCTION

Trium Environmental is a small and successful soil remediation business headquartered in Alberta. It has found long-term success in Asia, but only after some hard lessons learned. During the past decade, CEO B.J. Min and President Jevins Waddell have developed a business model that can weather the ups and downs of the Alberta energy industry. Building a strong presence in Asia – first in Korea, now in China – has helped.

Trium is a tiny player in the massive environmental services industry. In Alberta, the Environmental Products and Services (EPS) industry is made up of 1,330 companies and generates roughly \$2.8 billion in annual revenues.¹ The large energy and mining sectors in Alberta, combined with high demand for environmental safety and sustainability, have fuelled opportunity for Alberta firms.

CONTEXT

Trium began operations in 2005 when Min, Waddell and a third partner left their large engineering firm to pursue environmental consulting, specializing in soil and groundwater assessment and remediation. Min and Waddell's experience in Alberta's oilpatch helped them go beyond the industry standard of landfilling, digging out containments and dumping them into a landfill, to develop a substantially new process of in-situ soil remediation. This new process allowed for soil remediation onsite – a process that eliminated the costs of extraction and movement of soil and space to deposit it. Focusing on this niche market, the firm grew and profited. However, the 2007 recession and fall in oil prices hit the Alberta economy and Trium's business declined. If Trium was going to continue to survive, let alone grow and profit, it needed to find a new market.

¹ Government of Alberta; Alberta Industries – <http://www.albertacanada.com/business/industries/environmental-products-and-services.aspx>

PROCESS

Find a new market

For Trium, the path into Asia started with Google. Without the resources and connections of a larger firm, the company took a shot in the dark to find new business and created, quite simply, a Google ad.

Its first major hit came from a Korean firm looking for suppliers of remediation services on behalf of the Korean military. It was an opportunity for Trium to use Min's Korean ethnicity and fluency – assets, but not requirements for doing business in Korea. In fact, many Canadian businesses have chosen to invest in Korea without a person who can speak the language. The Canadian and provincial government are able to help bridge the language gap.

Find a Korean partner

In business partnerships in the West, transactions typically lead to relationships. In Korea, it is the opposite. In Trium's case, the Korean firm that contacted it through the Google ad first came to Canada to meet with Min and Waddell; then, Min went to Korea to familiarize himself with the firm and identify market opportunities for Trium. In Seoul, Min met with potential business partners, Canadian trade commissioners at the embassy and Alberta trade representatives.

Being on the ground in Korea proved useful. The trade representatives shared that there was a growing demand for in-situ soil remediation in Korea. Further, Min saw that the Korean firm seemed politically well-connected, an important quality in the hierarchical and interconnected Korean society. After considering both the market opportunity and the firm's strength in Korea, Min concluded that this could be the right partner for Trium. But, even though he had met the right stakeholders necessary for getting started on doing business in Korea, he did not come home having closed the deal. There was more relationship-building to do.

Build a relationship

Four months later, Min and Waddell returned to Korea to continue building their business relationship. During this trip, they made a presentation at an academic conference hosted by the Soil and Groundwater Association. In Korea, there is little separation between business, government, and academics – the opposite of in Canada – so it was an opportunity to connect with other stakeholders. Min understood that in Korea, it was important to build strong relationships with all stakeholders, and not just immediate partners, because of the interconnections between them. For example, he met with government officials and academics who were not necessarily partners right away, but who were key to approving the remediation process. The relationship he built allowed Trium to fast track the approval processes.

Identify the value proposition

All of the relationship-building that Min and Waddell did in Korea came down to one thing: their company's value proposition. Their success depended on demonstrating what was missing in the Korean market that could *only* be filled using Canadian technology and expertise. For a small and medium-sized enterprise (SME) trying to break into the Korean market, this is crucial: either bring something unique or be left doing something already being done by one of Korea's many large companies. Koreans are willing to pay a premium for value-added services, but nothing for anything less.

For Trium, Min knew that the company could not compete on price in Korea. But it could offer something unique to the market. It became clear from their meetings that the in-situ remediation was a new technology that no Korean firms had used. Further, geographic constraints in the country made in-situ remediation an attractive option over expensive landfills. Trium did not have the patents for this technology but it was able to acquire a licencing arrangement with other Canadian firms to bring the technology to Korea, and would act as technical consultants and project managers during the process.

RELATIONSHIPS

It takes time to develop relationships that will lead to business.



Trium Alberta Korea office
Photo: Trium Environmental Inc.

VALUE-ADDED SERVICES

Koreans are willing to pay a premium for value-added services, but nothing for anything less.

ENVIRONMENT

Understand the difference in business environment. Small differences in business models can lead to huge costs.



At work in Korea
Photo: Trium Environmental Inc.

GOVERNMENT

Don't be afraid to approach home government for support. Small companies can't do everything on their own. Government agencies want more companies to approach them.

OUTCOME

Min and Waddell believed they had a good local partner and a reasonable value proposition. The first project they were able to secure was with the Korean military but, because it was a government contract, it would take some time to be approved. Meanwhile, they were able to leverage their new Korean partners to work on an interim project remediating 12 gas stations. With the gas station work and pending military project, Min and Waddell felt they had secured enough work to justify bringing the required equipment from Canada and create licensing agreements with the Canadian in-situ remediation service providers.

A painful lesson in contracting

In Korea, engineering contracts are not generally negotiated on a time and materials basis as they are in Canada. Rather, they are rewarded as a fixed amount of money to complete a job. Payments are then made on a regular basis until the project is completed. But, the final holdback payment – a significant amount of approximately 40 per cent of the full contract – is made only when the project is successfully finished. Miss the deadline, and this payment is forfeited. Trium did not have any experience with this system when it embarked on the gas station project.

At first, the work seemed ideal. Trium would be able to generate consistent revenue while it waited for the military project to be approved. It also gave the company time to hire staff and set up operations.

However, Trium ran into trouble. The in-situ soil remediation techniques it was using were specific to Canadian soil, and were not compatible with the different soil composition in Korea. To make matters worse, the partner firms in Canada had no incentive to stop the project – because Trium was paying them based on time and materials, they were satisfied to keep trying and getting paid. Trium was stuck: It was being paid lump-

sum, performance-based in Korea, and it was paying its Canadian partners based on time and materials. This proved costly. By the contract expiry date, most of the gas stations were still not completed. As a result, Trium was not fully paid, but it still had to pay its Canadian partners. In the end, Trium's net loss was more than \$300,000 on the project.

There were two main lessons from this experience. First, Trium not only needed a good local partner and an appropriate value proposition, it also had to have a product that was tested and worked for the new market. Second, it took on too much liability with its mismatched payment and purchasing arrangement. For a small company, this was almost life-threatening. Making matters even worse, it was 2008 and the Alberta economy was in the throes of a recession, so Trium couldn't fall back on a market it could depend on.

"We were hemorrhaging money from Korea, and suffering a death of a thousand cuts in Canada," explained Waddell. "We were going bankrupt fast. One day we said 'Enough,' and let 60 per cent of our Canadian staff go just to stop the bleeding."

A new strategy: Building the right technology

Min and Waddell temporarily moved back to Canada after the gas station project and applied for a grant from the Canadian National Research Council to study what went wrong with their soil remediation processes in Korea. Simply bringing Canadian technology to Korea was the wrong approach, they found. As Min put it, "A Yukon is a nice vehicle, but it is not for the streets of Seoul."

Trium decided to take another chance on Korea. The team knew that they had to adapt their soil remediation technology to Korean soil. This time around, Trium's research led to the development of better technology and understanding of the chemical oxidation process for soil remediation. This development not only allowed it to have a technology that worked in Korea, but could also work across

different soils in both Korea and Canada, so Trium was able to leverage its technology investment to expand to other potential markets.

The company began a transformation of its own. Beginning in 2010, Trium started to shift from its consulting and project management services to become a firm that actually performed the in-situ chemical oxidation soil remediation service. During this time, Trium maintained its presence in Korea and continued building relationships.

This determination to succeed in Korea did not go unnoticed. Soon, Trium started receiving new offers from larger firms. As Waddell explained, “The gas stations went a bit sideways for us, but they were a rite of passage. We morphed back into the military projects with our new technology. Not only did we have better technology, we also had a better sense of where our in-situ technology would be successful. We could more intelligently pick and choose where to bid.”

The move back home

By 2012, Waddell and Min felt that they had outgrown their original Korean partner. While the partner was eager to develop the market for Trium’s technology, it was not as prepared as Waddell and Min to turn down less suitable projects. Having learned the lesson the hard way with the Korean style lump sum payment system, Trium wanted only projects that it was confident it would close. Meanwhile, the time Waddell and Min had spent in Korea was taking a toll on them and their families. They decided that it was time to pull back on the Korean operations and focus on the booming Alberta market. So, in late 2012, Trium created an exit strategy that allowed the Korean partner to employ Trium’s Korea-based staff and license the technology needed to run the business themselves. For Trium, keeping some activity in Korea was more about maintaining relationships and less about money.

The 2012-2013 cooling off period worked out for Trium. The company didn’t make much money from licensing because the partner was not as successful at winning new contracts. However, the new in-situ soil remediation technology that it had developed through the federal grant was in high demand in Alberta – and the Alberta market was recovering well. During this period, the licensing agreement with Trium’s Korean partner expired, which meant that Trium had no contractual obligations in Korea. If it chose, it could re-enter the Korean market on its own terms

Another energy bust and another renewal

By 2015, Alberta’s boom and bust cycle struck again. Min and Waddell were faced with a declining market at home in Alberta. Their time spent back in Canada had showed that their new soil remediation techniques, though in demand, required a larger market to be profitable. Today, while Alberta remains an important market for Trium’s future business, it believes success will also depend on gaining market share in Asia. Trium is now focusing on securing licensing partners in Korea and quality partners from China.

As of early 2017, Trium was in the middle of talks with an equity partner in China. The Chinese partner, a large State Owned Enterprise (SOE) construction firm, saw Trium’s success in the Korean market as proof of its ability to operate in Asia. It has sent senior executives to meet with Trium in Calgary. An investment from the SOE would allow Trium to free management to develop next generation technology and immediately launch it into the Chinese market. It would also allow the SOE to expand into Canada through Trium as an independent firm. Min and Waddell are excited about the potential of the next generation technology. Their likelihood of success will improve with their knowledge of their own industry in Canada; their deep understanding of how to operate in the high potential Asian markets that has come from a long-term commitment in Korea; and, their ability to work well with federal and provincial partners who can support their technology development and foreign expansion activities.

SEASONS

**Think in seasons.
See the market as part
of your portfolio.**



In the field in Korea
Photo: Trium Environmental Inc.

SLOWDOWNS

**Even when your home
market is booming,
maintain your foreign
market relationships for
the next slowdown.**

OPEN DOORS

**Success in Korea can
open the door to other
Asian markets.**

ASSESSMENT

Lessons Learned

Trium's experience in South Korea consisted of a mixture of some luck (the Google ad attracting the Korean firm on behalf of the military), some risk (the initial gas station project) and plenty of lessons learned the hard way. These lessons 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.

TRIUM ENVIRONMENTAL INC.

Trium ran into trouble with its value proposition when its Canadian technology could not be adapted to the Korean market. If it had invested in researching the issue before starting out, it would not have had nearly the financial loss that it suffered.

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.

Trium was successful in establishing a presence in the Korean market. When it first entered, it found early success by appealing to a broad range of stakeholders. Even though its first project was a financial loss, it gained respect from Korean stakeholders by staying the course and catering Canadian technology to the Korean market. In addition, by establishing a presence in Korea, it was able to leverage this success to quickly establish a presence in China.

PARTNERSHIPS I

- It is difficult for Canadian SMEs to go 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 products 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
- Government support

Choice of partner was critical for establishing presence in Korea for Trium. Trium's strategy in Korea was to establish a connection with a large Asian firm to gain access to the market. Specifically, it connected with a subcontractor for the Korean military. When partnering in Korea, Trium found success in starting its relationship-building with a respected subcontracting company. This contractor acted as the bridge for Trium to gain access to other relationship-building opportunities with larger and more diverse stakeholders. Because Trium had developed a good reputation in Korea and created lasting relationships, it was able to reengage with existing partners and create new partnerships that allowed it to bounce back and forth between Alberta and Korea. This provided Trium with options.



PARTNERSHIPS II

Government

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

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

- Government support

Another partnership that Trium relied on was provincial and federal government support in Canada. Its Canadian National Research Council grants proved crucial during its last development stage. Trium returned to the Industry Research Assistance Program (IRAP) at the NRC and applied for new grants to help develop its next generation technology. IRAP provided the company with both financial support as well as valuable insights from Industry Technology Advisors (ITA). Min and Waddell also took advantage of the new CanExport program that provides travel support for firms looking for international market opportunities,² covering up to 50 per cent of the cost of international business travel.

PRICING

- Foreign firms cannot compete in Asia on price alone (and that is a good thing because it should not be 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).

Trium understood that it could not compete on price and that it had to offer a premium service – its new technology – to make a strong value proposition. Koreans have a great respect and willingness to pay when a value proposition is unique. One of the advantages of the Korean market is that it has much greater protections for intellectual property than some other Asian markets. This makes Korea a good entry point for SMEs looking to expand further into Asia – which is exactly what Trium did.

PATIENCE

- Success in Asia takes time.
- Have access to enough capital to sustain long-term presence.
- Don't abandon international relationships when things pick up at home.
- Nothing in Asia will happen overnight, but it can happen quickly.

Throughout the South Korean experience, Trium showed patience. It was willing to put in the time to build the necessary relationships that lead to partnerships. Though its gas station remediation project cost it financially, it would have been the ideal smaller project to sustain capital while waiting for the larger military contract project to be approved.

² See Application guide for the CanExport program at <http://www.international.gc.ca/canexport/applicant-guide-requerant.aspx?lang=eng>

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.

CANADA WEST FOUNDATION

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