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## Trade Exhibition for Small & Medium Enterprises by Using of Special Conditions in Foreign Marketing Insurance

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### I. Introduction

In 1948, South Korea's trading volume was ranked at around 100th in the world. However, after 60 years of rapid growth, the country boasts of both USD-70-million and the world's 11th largest trading volume. This

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clearly demonstrates how closely the country's trade and economy are inter-related. Since 1962, South Korea launched strong export expansion policies and worked hard to join the ranks of advanced nations through export.

Korea's trading volume is expected to surpass USD 1 trillion in 2011. Korean economy achieves this largely due to its dependence on export and enhanced technological capacity and product quality. Improved recognition of Korean enterprises in the global arena also helped.

However, the largest reason behind these could be found in exporters' ceaseless marketing endeavors and continued government supports. Today, more and more people become to rely on trade exhibitions to boost export effectively. Trade exhibitions are employed as a useful tool to attract buyers and enter a market. This is because such exhibitions' marketing effect and professional aspects.

South Korean export relies on large conglomerates for most part. However, 95% of the country's entire industry are small and medium-sized companies. This means that SMEs' export has a huge impact on the national economy. Therefore, as a way to improve SME export and minimize their losses, we need to use trade exhibitions more actively.

In this paper how to reduce risk of expenditure in foreign trade show by using of special conditions of foreign marketing insurance by K-sure will be discussed.

## **II. Effect of Export Insurance and Trade Conventions**

### **1. Academical background of Export Insurance**

#### **1) Operating systems of Export Insurance**

Since its beginning in 1969, South Korea's export insurance has been mainly operated by the government while the Korean Fire Re-Insurance Corporation and the Export Import Bank of Korea have taken care of actual businesses as entrusted by the government. As such, export insurance has been managed in a passive manner. Responding to this situation, the government established the Korea Export Insurance Corporation in 1992 as an independent organization. Its name was changed to the Korea Trade Insurance Corporation (K-sure) in July 2010.

The K-sure has independent organization and responsibility to guarantee uncollected amount in export payment. The body also supports exporters going into new markets and provide data on overseas importers and credit gathered by the Export Credit Information Center.<sup>1)</sup>

There are two export insurance management methods – Individual insurance underwriting and Comprehensive insurance underwriting. The former is to decide acceptance after reviewing policyholder applications every time they are submitted. This method applies to all of the current export insurance types.

The latter, comprehensive underwriting is a method that a policyholder has a special rider with an insurer to hold the policy automatically while the insurer accepts the deal obligatorily. The Export Credit Insurance Fund was set up to provide finance to export insurance on an yearly basis.

## 2. Precedent Researches.

### 1) International Research.

Sandra M. Huszagh and Mark R. Greene(1982) selected export products, export experience, yearly total sales amount as factors influencing exporters' awareness on export insurance and found that their

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1) Korea Export Insurance, 10-Year-Story of Korea Export Insurance, Korea Export Insurance, 2002. pp.71-87.

awareness on export insurance impacts on their use of export insurance. They also found that exporting companies with at least 10-year-old records thought positively on export insurance. They made their case that the export insurance be made applicable even to companies having no co-relation with holding a positive awareness on export insurance given the large portion of export in the total sales.<sup>2)</sup>

Dewit(1996)said that the reason that most nations running export insurance were experience losses was because they used it as a government subsidy in a way.<sup>3)</sup> Accordingly, Dewit identified export insurance as an export insurance subsidy in his study and analyzed its potential effect on global trade. The study concluded that export insurance stimulates international trade thanks to its nature of dispersing both emergency and credit risks in the global market.

Abraham and Dewit(2000) conducted an empirical analysis if the Belgian government incorporated export insurance into a policy to boost export by using data from 1987 to 1993. The analysis found that Belgian exporting firms significantly relied on export insurance to remove trade risks. And the Belgian export insurance corporation was found to take export market risks into consideration when it decided to insure an exporter.<sup>4)</sup>

Mah(2003) studied UK's export insurance and found that it did not improve the nation's export.<sup>5)</sup>

## 2) Domestic Research

Park Jin-geun explained that the current account had a negative

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2) Huszagh, Sandra M. and Greene, Mark R., "FCIA : Help or hindrance to Expo", The Journal of Risk and Insurance, Vol. 49, No. 2, 1982.

3) Dewit, Gerda, "Export Insurance Subsidization and Undistorted Trade Creation," Discussion Papers in Economics, 9610, University of Glasgow, 1996.

4) Abraham, F. and G. Dewit, "Export Promotion Via Official Export Insurance", Open Economies Review, 11., 2000.

5) Mah, J S., "The Export Insurance System and Export Supply of Britain." Department of Economics Working Paper, No.2003-44, University of Connecticut, 2003.

correlation with export insurance underwriting amount while export insurance use and underwriting amount had a positive correlation. And he found that insurance use showed greater influence than current account.<sup>6)</sup>

Kim Hee-guk analyzed data from the 1st quarter of 1987 to 4th quarter of 1997 and found that export insurance boosted export by over than 5 %.<sup>7)</sup>

Lee Shi-young, Yang Jee-hwan and Jeon Seong-hee (2001) found that export grew by 5.6% if each country's export insurance underwriting performance was up by 10% when their own export amount and export insurance underwriting performance were applied.<sup>8)</sup>

Kim Se-young and Lee Se-young (2003) analyzed data from 1990 to 2001 during which export insurance use started to rise continuously. They conducted an empirical analysis on export insurance's impact on export and concluded that rise in export insurance.<sup>9)</sup>

Until now no study could be found yet on export insurance's effect regarding trade exhibition. This may be because of the fact that though export insurance has typically developed by directly supporting export itself, there are few schemes in the world which takes care of trade exhibition risks related to export.

In addition, South Korea's trade insurance corporation does not sell products that treat trade exhibitions individually. They insure them only as part of trade fair insurance or export marketing insurance, missing more

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6) Chin Keun Park, "A Study on the Development of the Mid-Long term of Korea Export Insurance", Export Insurance, Vol. 41, Korea Export Insurance Association, 1995.

7) Hee-Kook Kim, "An Analysis on Export Insurance to Export", Export Insurance, Vol. 92, Korean Export Insurance Association, 1998.

8) Shi-Young Lee·Ji-whan Yang·Sung-Hee Jun, "Korean Export Insurance System and Country Risk", Korea Trade Review, Vol. 26, No. 5, Korea Trade Research Association, 2001.

9) Se Young Kim·Seo Young lee, "Analysis on the Effect of Korea's Export Insurance on the Export", KRSC Review, Vol. 4, No. 2, Korea Research Society for Customs, 2003.

dynamic ways of application.

## 2. Effect of Trade Convention

### 1) Tools for Marketing Promotion

Freyer & Kim said that a trade exhibition is a temporary marketplace organized to boost trade where buyers and sellers are gathered to exchange their businesses.<sup>10)</sup> They said that such an event is typically held in the same place and period of season on a regular basis for several days to weeks. The concept focuses on trade exhibitions' transaction function among others, implying that's participating firms are engaged in diverse sales activities in the event. Of course, participating companies have many other different purposes to take part in exhibitions but, the purpose of sales is one of the most essential ones.

Bonoma analyzed the purpose to participate in trade exhibitions into a sales and non-sales purpose.<sup>11)</sup> If it is a sales purpose, companies should target a new market and try to contact decision makers. They should let more people know about their products and buy them while

Sales performance at such an exhibition is directly linked to export performance. And this means that finding a buyer and negotiation with the buyer should all be completed in the venue. If a company has a sales purpose, it should set up conditions of a deal in advance and each condition should be at a negotiable level.

In addition, the government has put diverse policy efforts to help exporters keep up their competitiveness by lowering trade cost and improving efficiency in a rapidly changing global environment. Especially,

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10) Freyer, W. & Kim, B. S., *Competitive Strength of German Trade Fair Industry and Its Implication on Tourism*, Sejong Research Institute. 2001. pp.21-57.

11) Bonoma Thomas, V., *Get more out of your trade show*, Harvard Business Review, Vol.61. 1983.

the government has expanded trade exhibition halls since 2000 as a way to promote trade exhibition industry; provided various supports to companies participating in overseas fairs and sent overseas market task force to support discussions with export buyers and other events.

By participating in overseas exhibitions, enterprises could get information on their rivals and customers directly while enhancing their images. In addition, more buyers could be found who will be helpful for domestic firms to make inroads into foreign new markets thus leading to domestic industrial development ultimately. In fact, 60~70% of German trade are realized through such exhibitions.<sup>12)</sup>

## 2) Efficient tools for Integrated Marketing

Trade exhibitions' marketing aspect are emphasized, attracting more attention from enterprises. In line with the customer-oriented marketing trend, these exhibitions are growing more steeply. Unlike other marketing tools, exhibitions are unique in that clients interested in that item in question visit the venue at their own expense.<sup>13)</sup> Promoting a company's product at conferences or via professional channel will also be helpful.

For these reasons, exhibitions are utilized more as an integrated marketing tool. Integrated marketing is to implement every marketing activities in a mutually complementary manner under a unified marketing goal in a specific market or for a segmented target. To this end, a marketing activity guideline and implement method should be presented while align all of plans and implementations on market survey, product/price/distribution channel development, etc.<sup>14)</sup> Therefore, trade exhibitions include diverse activities before/during/and after exhibition period.<sup>15)</sup>

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12) Seon Eui Hong, Trade Show Management, Baeksan Press, 2007. pp213.

13) Seon Eui Hong, Trade Show Strategy of Export Firms, journal of Commodity Science, Vol. 33, 2004, p.392.

14) Sandra L. Morrow, The Art Of The Show, IAEM Foundation, 1997, p.77.

The 1999 AUMA survey found that participating firms wanted to earn marketing information and opportunities.<sup>16)</sup> In this survey, 85% of the firms were observed to improve the awareness of their name.

Good performance at exhibitions could give the company a good position in its industry and enable to achieve its marketing and sales goals in a short period of time.

Normally, visitors to trade exhibitions have higher level of participation and concentration. Such shows could be a progressive opportunity for visitors who watch and experience companies' marketing and sales activities directly at their own choice and expenses.<sup>17)</sup>

### III. Special Conditions and Problems for Foreign Marketing Insurance of SME's

#### 1. Principles of Special Conditions for Foreign Marketing (SME's+ Insurance)

Special Conditions for Foreign Marketing Insurance are to support expenses for foreign marketing activities of Exporter to develop new market. Especially it is available to support many types of marketing channel like Trade convention or shopping mall. Of course Int'l Convention held in Korea will be also available.

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15) Edward A. Chapman, Jr., *Exhibit Marketing*, McGraw-Hill, Inc., 2nd ed. 1995.

16) AUMA, *Trade fair Performance and Potential Analysis*, 1999.

17) Sandra L. Morrow, *op. cit.*, p.83.



## 2. Main issues on Special conditions of Foreign Marketing Insurance

### 1) Warranty and Liability

Overseas marketing insurance policy stipulates that a policyholder will receive the actual cost of his/her overseas marketing within the range of an insured amount if the policyholder concluded a new export contract within 6 months after individual overseas marketing expenditure date and loaded goods within 6 months after contract conclusion. A new export contract, here means an export insurance contract of USD 10,000 or higher the policyholder signed with a new importer other than those registered on the small and medium-sized company plus+ insurance.

As to the actual overseas marketing costs, 90% of the individual overseas marketing expenditures less subsidies and other expenses to be excluded.

### 2) Loss of Warranty and Uncovered-warranty

#### (1) Loss of Warranty

The overseas marketing insurance policy gives a policyholder the actual cost of his/her overseas marketing activities occurred during insured period within the range of an insured amount if the policyholder concluded a new export contract within 6 months after individual overseas marketing expenditure date and loaded goods within 6 months after contract conclusion. The insurance amount for individual overseas marketing activities is within KRW 10 million and its maximum yearly amount is KRW 50 million. For instance, the maximum support is KRW 10 million for one-time overseas exhibition participation and 5 times are allowed per year. But no more than one round of payment if the same importer is involved.

#### (2) Loss of Uncovered-warranty

Loses not insured by overseas marketing policy of the Korea Trade

Insurance Corporation are;

first, if a policyholder falsifies marketing and export documents

second, if a policyholder submits loss statement and payment claim after 12 months from the policy termination date.

### 3) Construction and Cancellation of Insurance Contract

Foreign Marketing Insurance is valid when a policy holder submits insurance offer and pays insurance premium. Unless otherwise agreed duration of insurance is within one year. Cancellation of insurance is always possible by policy holder's own option but K-sure does not return the premium paid by a policy holder.

### 4) Contents of Support Programs

Contents of Support Programs are as follow:

① Entry fee for Trade Convention or Exhibition (rent for booth or facilities etc.)

② Cost for marketing promotion of foreign retailers, shopping mall, or home shopping etc.

③ Cost for foreign advertising of catalogue or home pages etc.

④ Cost for sample test

⑤ Development cost for design, character or box. etc.

⑥ Maintain cost for own brand

### 5) Certificates of Expenditure

A policy holder who want to be covered by Foreign Marketing Insurance shall submit certificates as follow within a month after making sales contract and shipment of marketing goods:

① Claims Note for Loss of Foreign Marketing

② Report on Foreign Marketing Activities

③ Certificates of Foreign Marketing Expenditure

- ④ Sales Contract and Shipping Documents
- ⑤ Annual Report of Export on Customs Clearance within two years.
- ⑥ Foreign Marketing Subsidy by Government Programs or Public Organization
- ⑦ A written note by K-sure

### **3. Efficiency of Special Conditions in Foreign Marketing**

Existing overseas marketing insurance scheme took a long time to settle accounts, troubling small companies. Considering this, Korea introduced new insurance scheme structured to apply for an insurance on a yearly basis. Firms using SME plus+ could also use the overseas marketing policy upon their applicability while the documentary process is much streamlined. The marketing policy supports part of the actual overseas marketing costs if a company applies for the insurance to the corporation before it participates in shows abroad; carries out marketing campaign abroad and concluded a deal within 6 months after expenditure date.

### **4. Problems of Special Conditions in Foreign Marketing**

As external trade and financial climate changes, so does the methods of SMEs' advancement into foreign markets. Overseas marketing policy should respond flexibly to such a changeable environment. It should include especially more effective SME supporting methods. The trade insurance corporation's overseas marketing policy could be a good example. However, the current policy of the agency is viewed to have the following problems which require appropriate remedy.

- 1) Limits on amount and number of times

The corporation's overseas marketing policy limits the amount to KRW 10 million for one payment and KRW 50 million for a year per

policyholder. The amount needs to be increased considering the fact that participating in an event taking place abroad requires a lot of money. The current amount is simply insufficient for SMEs.

## 2) Deficiency for promotion

SMEs are normally familiar with insurance on cargo or export credit insurance upon export but not aware of marketing policy that export overseas marketing effort. The company may respond market by promoting and training both online and offline.

## 3) Enlargement for scope of support

The overseas policy insures only promotional activities regarding foreign exhibition and fair (including international events held in Korea), foreign distributor, shopping mall, home shopping, etc. and does not include air fare, traffic cost in the local place, accommodation cost and dining expenditures as costs to be excluded mentioned above. But these excluded costs account for one of the largest parts of SMEs' cost regarding foreign event participation. It is not easy for them to take part in events abroad if they have to pay for such expenses. If full financial support is difficult, the Korea trade insurance corporation still may give a certain level of aid for successful exporters to engage in marketing activities abroad more actively and further stimulate SMEs' export.

## IV. Conclusion

It will be very helpful for SME to support foreign trade convention or exhibition. Under foreign marketing insurance SME can be covered from the risk of participating Exhibitions.

In fact, 60~70% of German trade are realized through such exhibitions.

Trade exhibitions' marketing aspect are emphasized, attracting more attention from enterprises. Unlike other marketing tools, exhibitions are unique in that clients interested in that item in question visit the venue at their own expense. Promoting a company' s product at conferences or via professional channel will also be helpful.

In these days exhibitions are utilized more as an integrated marketing tool. Integrated marketing is to implement every marketing activities in a mutually complementary manner under a unified marketing goal in a specific market or for a segmented target. To this end, a marketing activity guideline and implement method should be presented while align all of plans and implementations on market survey or distribution channel development.

As external trade and financial climate changes, so does the methods of SMEs' advancement into foreign markets. Overseas marketing policy should respond flexibly to such a changeable environment. It should include especially more effective SME supporting methods. The trade insurance corporation's overseas marketing policy could be a good example. However, the current policy of the agency is viewed to have the following problems which require appropriate remedy.

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[www.customs.go.kr](http://www.customs.go.kr)

[www.K-sure.or.kr](http://www.K-sure.or.kr)

## ABSTRACT

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Korea's trading volume is expected to surpass USD 1 trillion in 2011. Korean economy achieves this largely due to its dependence on export and enhanced technological capacity and product quality. Improved recognition of Korean enterprises in the global arena also helped.

However, the largest reason behind these could be found in exporters' ceaseless marketing endeavors and continued government supports. Today, more and more people become to rely on trade exhibitions to boost export effectively. Trade exhibitions are employed as a useful tool to attract buyers and enter a market. This is because such exhibitions' marketing effect and professional aspects.

South Korean export relies on large conglomerates for most part. However, 95% of the country's entire industry are small and medium-sized companies. This means that SMEs' export has a huge impact on the national economy. Therefore, as a way to improve SME export and minimize their losses, we need to use trade exhibitions more actively.

The overseas policy insures only promotional activities regarding foreign exhibition and fair (including international events held in Korea), foreign distributor, shopping mall, home shopping, etc. and does not include air fare, traffic cost in the local place, accommodation cost and dining expenditures as costs to be excluded mentioned above. It is not easy for them to take part in events abroad if they have to pay for such expenses.

If full financial support is difficult, the Korea trade insurance



corporation still may give a certain level of aid for successful exporters to engage in marketing activities abroad more actively and further stimulate SMEs' export.

Key Words : Foreign Marketing Insurance, Trade Exhibitions,  
Trade Supporting Programs, K-Sure.