

POSSIBLE VENTURE INDUSTRY RECOVERY IN 2002

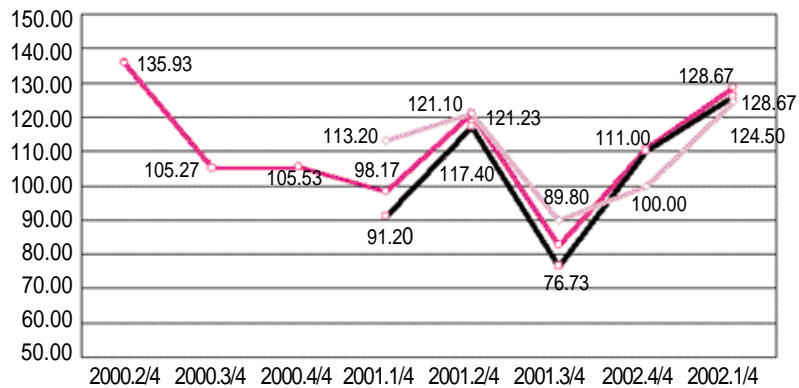
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The venture sector may have bottomed out in the third quarter and seems to be moving into a recovery.

In 2001, venture companies experienced lower profits because of the continued economic slump, unfavorable financial conditions, the IT industry downturn, and increased competition. As a result, the third quarter's indexes for venture industry conditions and performance were 82.57 and 76.73 respectively. However, the index for industry conditions was 111.00 in the fourth quarter, far higher than the expected 99.10, which suggests that the venture sector may have bottomed out in the third quarter and seems to be moving into a recovery.

Furthermore, in the first quarter of 2002, the index for industry conditions was 128.67, which reflects optimism for the venture industry's future prospects. The indexes for performance and contribution to the economy are expected to reach 126.00 and 124.50, an improvement from the fourth quarter's figures of 110.00 and 100.00. Reflecting these expectations, 40% of survey respondents cited positive factors for the economy in the first quarter, including domestic and external economic recovery, the windfall from the World Cup, and increased investment by large conglomerates.

Figure 1. Main Venture Indexes



- Note: 1) Industry conditions index: economic conditions/sales/employment, performance index:sales/operating profits/financing, economic contribution index: employment/facilityinvestment
2) Figures until fourth quarter of 2001 are actual results, first quarter 2002 figures are estimates

—Table 2. Positive and Negative Factors for the First Quarter of 2002—

Positive Factors (40% of respondents)	Negative Factors (5% of respondents)
Overall economic recovery	Domesitic and international economic uncertainty
Hosting of the 2002 World Cup	Soft landing of the world economy
Expected recovery of US economy	Weakness of the Japanese Yen
Presidential elections	Strength of Korean Won
Facility investment by large companies	US trade protectionism
Improved financing conditions	

Survey results by company size, industry, and age

Companies with less than 2 billion won in capital had an industry conditions index of 94.43 in the fourth quarter of 2001, while companies with more than 2 billion won had an index between 110 and 120. During the same period, companies with more than 2 billion won had a performance index of around 110, while companies with less than 2 billion won had an index of only 98.6. This was because companies had moderate sales profits, but the sales increases were relatively weak, and in particular, smaller companies had difficulty raising capital.

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—Table 2. Indexes by Capital Scale—

	Industry Conditions					Performance					Contribution to Economy				
	01.1/4	01.2/4	01.3/4	01.4/4	02.1/4	01.1/4	01.2/4	01.3/4	01.4/4	02.1/4	01.1/4	01.2/4	01.3/4	01.4/4	02.1/4
Total	98.17	121.23	82.57	111.00	128.67	91.20	117.40	76.73	110.00	126.00	113.20	121.10	89.80	100.00	124.50
Less than 2 billion won	90.73	121.40	71.67	94.43	143.07	94.47	114.23	73.33	98.60	131.97	100.00	119.65	85.00	91.65	135.45
2 to 5 billion won	102.93	122.57	85.97	110.80	119.80	91.10	125.27	83.33	108.10	119.80	117.75	120.20	86.85	97.30	114.85
More than 5 billion won	96.43	119.33	84.47	121.40	128.20	90.07	109.33	72.60	118.83	128.20	113.80	123.00	94.45	107.70	126.90

Most respondents predicted an economic recovery for the first quarter of 2002, and smaller companies with less than 2 billion won predicted improved indexes for industry conditions, performance, and contribution to the economy. This is because smaller companies expect or plan for sales, investment, and employment to increase compared to the fourth quarter of 2001.

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Although the industry conditions index for the Internet services industry in the third quarter of 2001 was lower than average, it increased to 111.10 in the fourth

quarter, and due to improved sales and operating profits the performance index increased from 76.20 in the third quarter to 133.30 in the fourth quarter. The recovery is expected to continue in the first quarter of 2002 due to sustained sales and operating profits.

In the software/solutions industry, which showed healthy performance compared to other industries, sales and operating profits continued to improve in the fourth quarter of 2001, resulting in a rising performance index. Although expectations for the industry's sales and profit growth in the first quarter of 2002 were lower than the average for all industries, a moderate improvement is expected to continue.

The semiconductor and PC industry had the worst industry conditions and performance indexes in the third quarter of 2001.

The semiconductor and PC industry had the worst industry conditions and performance indexes in the third quarter of 2001. In the fourth quarter, the industry's contribution index remained low due to reduced employment and investment, while an improvement in sales, profits, and capital conditions resulted in higher indexes for industry conditions and performance. The indexes are expected to continue improving in the first quarter of 2002, although they are likely to be lower than the average for all industries.

The bio, environmental, and precision optical industries, which enjoyed relatively strong sales, employment, and financing in the third quarter of 2001, continued its exceptional performance in the fourth quarter. In the first quarter of 2002 however, performance is expected to be modest compared to other industries.

Table 3. Indexes by Industry

	Industry Conditions				Performance				Contribution to Economy			
	01.2/4	01.3/4	01.4/4	02.1/4	01.2/4	01.3/4	01.4/4	02.1/4	01.2/4	01.3/4	01.4/4	02.1/4
Total	121.23	82.57	110.00	128.67	128.13	97.53	121.33	122.67	121.10	89.80	100.00	124.50
Internet	127.77	80.93	111.10	140.77	111.07	76.20	133.30	137.07	120.85	78.65	88.90	116.65
Software, Solutions	124.83	85.00	111.13	127.77	126.70	108.33	123.63	120.83	127.15	85.00	100.00	116.65
Telecom Equipment and Components	121.83	86.93	127.80	140.73	132.03	86.97	137.07	135.17	107.75	93.50	108.35	144.45
Semiconductors, PC Components	79.67	44.43	104.77	104.77	90.83	60.00	116.67	102.37	99.95	66.65	92.85	103.55
Bo, Environmental, Precision Optical	148.53	103.03	121.23	115.17	163.60	115.17	127.30	109.10	141.00	104.55	104.55	118.20
Other Manufacturing	127.20	90.13	97.23	97.23	136.10	106.17	102.80	127.77	128.85	100.00	100.00	135.45

Companies that were established more than five years ago had a relatively strong performance in the fourth quarter of 2001.

In the fourth quarter of 2001, companies that were established less than five years ago had indexes ranging in the 80s to 90s, due to poor sales, profits, and reduced investment, employment, and financing. In 2002 however, the indexes for these companies are expected to near the average for their industries due to improving business conditions. Companies that were established more than five years ago had a relatively strong performance in the fourth quarter of 2001 and are expected to see even higher indexes in the first quarter of 2002.

Table 4. Indexes by Company Age

	Industry Conditions					Performance					Contribution to Economy				
	01.1/4	01.2/4	01.3/4	01.4/4	01.4/4	01.1/4	01.2/4	01.3/4	01.4/4	02.1/4	01.1/4	01.2/4	01.3/4	01.4/4	02.1/4
Total	98.17	121.23	82.57	111.00	128.67	91.20	117.40	76.73	110.00	126.00	113.20	121.10	89.80	100.00	124.50
Less than 2 billion won	111.10	127.60	78.17	91.37	125.90	112.67	118.43	67.80	93.83	125.90	116.70	120.70	81.05	83.35	122.20
2 to 5 billion won	96.77	118.87	83.33	122.63	134.50	78.87	115.27	84.40	117.83	127.37	111.00	122.75	89.10	110.70	130.35
More than 5 billion won	93.77	120.03	85.73	115.57	126.67	92.40	118.43	77.00	114.83	125.20	113.55	119.95	96.40	103.35	122.25

Bottlenecks and possible solutions

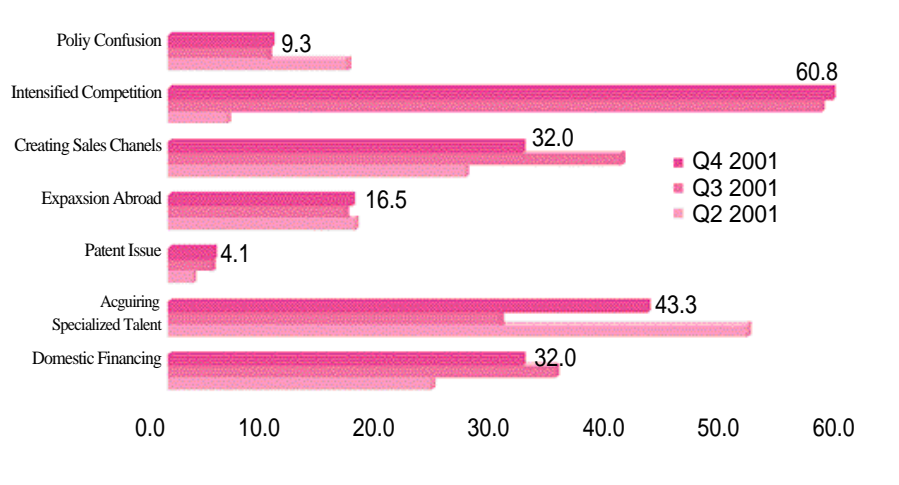
Domestic venture companies cited intensifying competition, difficulty in acquiring specialized talent, and worsened financing conditions as bottlenecks. Reflecting the fall in demand due to the economic slump, 60.8% of respondents stated that “intensified competition” was a bottleneck, and marketing difficulties (“creating sales channels”) also accounted for a large share of responses. Due to worsened financing conditions with the lack of investment by venture capital firms, many companies stated that domestic financing was also a bottleneck.

Domestic financing was a bottleneck particularly for Internet services firms (55.6%) and telecom equipment and components firms (38.9%). The acquisition of specialized talent was mentioned as a bottleneck by most industries, and the problem was especially severe in semiconductor/PC equipment and component firms (50.0%) and bio, environment, and energy firms (63.6%).

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Figure 2. Bottlenecks for Venture Businesses (two responses, %)



Telecom equipment and components firms (33.3%) and machinery/electronic device manufacturers (22.7%) mentioned difficulty in foreign expansion as a bottleneck, while software and solutions firms (39.1%), semiconductor and PC firms (35.7%) and bio, environment, and energy firms (45.5%) mentioned the creation of sales channels as a bottleneck. Meanwhile, intensified competition was a bottleneck for almost all industries.

In response to these problems, venture companies are expanding into foreign markets, attracting foreign venture capital, improving their marketing functions, and developing new products. In response to the worsened domestic financing conditions, 19.4% of respondents stated they were attracting foreign venture capital while 6% were taking measures such as cooperation with large companies, entering the direct finance market, issuing new shares, and issuing CBs.

Regarding the difficulty of acquiring specialized talent, 14.3% of respondents stated that improvement of working conditions was the most important strategy, while about 9% cited measures such as provision of incentives, better in-house training, and exemption from military service. To create sales channels, companies are reinforcing their marketing staff (25.8%) and expanding their branch office network (9.7%). In response to intensifying competition, companies are mainly developing new products (23.7%), differentiating their products (22.0%), cutting costs (11.9%).

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Discussion

The domestic venture industry seems to have passed its low point in the third quarter of 2001 and is expected to make a gradual recovery.

The domestic venture industry seems to have passed its low point in the third quarter of 2001 and is expected to make a gradual recovery. Although surveys of companies in the third quarter showed expectations of worsened performance in the fourth quarter, the latter results indicated a moderate recovery from the third quarter's stagnation. This improvement in performance indexes, even despite financing difficulties, seems to be the result of companies' efforts to expand sales and create new profit sources. In 2002, with the expected domestic economic recovery and improved market conditions in the US and other countries, the venture economy is expected to see a continued upturn.

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In terms of policy, measures such as tax deductions and credit guarantees should be expanded, and financing conditions should be improved by promoting investment associations. Also, the policy to buy products using new technology should be strengthened. Policies that are used often by venture companies, such as the Korea Technology Credit Guarantee Fund and tax deductions for R&D, human resource development, and facility investment should be expanded, while useful but less popular policies such as export credit guarantees or the purchase of products with new technology should be promoted. In addition, policy efforts are needed to exit ailing companies, create an evaluation system for venture firms, ease loan regulations for investment associations, and strengthen support for foreign expansion. **VIP**