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Globalization Strategy of Korean Cosmetics Industry Targeting Western Market: Analyzing the Competitiveness of Amore Pacific

서구 시장을 겨냥한 한국 화장품 산업의 세계화 전략: 아모레 퍼시픽의 경쟁력 분석

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오 유 진

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You Jin Oh

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오 유 진

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부 위 원 장 _____ 이 영 섭 _____ (인)

위 원 _____ 문 휘 창 _____ (인)

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The undersigned, appointed by

The Graduate School of International Studies
Seoul National University

Have examined a thesis entitled

Globalization Strategy of Korean Cosmetics Industry Targeting Western Market: Analyzing the Competitiveness of Amore Pacific

Presented by **You Jin Oh**,

Candidate for the degree of Master of International Studies, and hereby certify that it is worthy of acceptance

Committee Chair	Dukgeun Ahn	(Seal)
Committee Vice Chair	Yeongseop Rhee	(Seal)
Thesis Advisor	Hwy–Chang Moon	(Seal)

Abstract

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You Jin Oh
International Commerce
Graduate School of International Studies
Seoul National University

Global demands for Korean cosmetics are increasing with the recent "K-beauty" trend, and many Korean cosmetics firms are trying to strategically expand their business to the Western market. This paper examines the key success factors of the leading Korean cosmetics company Amore Pacific through the lens of foreign direct investment (FDI) and strategic positioning analysis. An in-depth analysis on Amore Pacific's unconventional FDI case to France in 1990 is provided by applying Moon and Roehl's Imbalance Theory and comparing the changes in the OLI (Ownership-Location-Internalization) advantages before and after the FDI. Moon and Hur's Eight Generic Strategies extended from Porter's Generic Strategies is also applied to examine the strategic positioning set forth by Amore Pacific to stay competitive in the North American market. The paper demonstrates how Amore Pacific could balance out its critical disadvantages in the past and increase competitiveness in the global market today by developing core technologies and differentiated products that fit the needs of the sophisticated consumers of the Western market.

Keywords: OLI Paradigm, Imbalance Theory, Foreign Direct Investment (FDI), Unconventional FDI, Generic Strategies, Korean Cosmetics Industry, K-beauty
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1. Introduction

Korean beauty brands have high brand recognition and popularity in Asian markets such as China, Hong Kong, Japan, and Thailand particularly due to their attractive packaging and sophisticated ingredients, but lacked recognition in Western markets. However, there was a recent boom in major Western markets especially in the North American region with the keyword "K-beauty," and Korean brands are starting to gain competitiveness in the highly saturated cosmetics market that was already dominated by major European and American brands. Several K-beauty brands have already taken steps to compete in the Western market, some survived and some failed, and many other Korean cosmetics firms are figuring out ways to join this trend (Brand Finance, 2017).

The most accessible method to join the recent trend in the Western market would be through directly exporting products from Korea. In terms of trade information and statistics, there are many different sources to find such data like how Korea's cosmetics exports increased significantly from one year to another and the how the number of trading partners increased as well. However, although trade is an important method of international commerce especially for Korea, it offers limited strategic choices for individual firms. Firms should not just focus on exporting their products but also expand their scope of business operation to

engaging in foreign direct investment which offers dynamic strategic options. It is also important for firms to examine their current advantages and disadvantages they face in the global market and carefully choose the best business strategy to exploit the advantages and complement disadvantages.

In this respect, this paper tries to analyze the investment strategies taken by the most profitable Korean cosmetics firm, Amore Pacific, through major foreign direct investment theories such as John Dunning's OLI Framework (2001a) and Moon and Roehl's Imbalance Theory (2001) which provide both conventional and unconventional perspectives on FDI. Moon and Hur's Eight Generic Strategy (2014) which is derived from Michael Porter's Four Generic Strategy (1985) will also be used to analyze the strategic positionings taken by Amore Pacific to stay competitive in the global market.

Existing works primarily focus on more regional strategies and analysis of Korean cosmetics industry towards Asian countries rather than expanding the scope to globalization strategies. The major research objective of this paper will focus on Korean cosmetics industry's business strategy targeting the Western market which takes full advantage of resources and value chain activities to efficiently invest, set up strategic positioning, and overall enhance competitiveness in the global market. To do this, the current status of Korean cosmetics industry in

the Western market will be examined, and Amore Pacific's business strategy in the Western market with regards to the firm's foreign direct investment pattern and strategic positioning will be analyzed. This paper aims to provide in-depth analysis of Amore Pacific's success factors in the Western market for both Amore Pacific to further increase its global competitiveness and other Korean cosmetics firms to refer and benchmark possible business strategies.

2. Literature review

Business strategy should not be looked as a zero-sum game but as a positive-sum game which creates maximum values with minimum input for individual firms. In doing so, utilizing firm's resources most efficiently to generate maximum benefits is the key to be successful in the global market. Dunning's OLI Paradigm (2001a) which looks into ownership, location, and internalization advantages of a firm is a useful framework to understand the strength and weaknesses of a firm with regards to the global market. Although it is focused mostly on the field of foreign direct investment, it is crucial to examine and analyze a firm using this framework as business strategy and commerce should not only focus on international trade. The ownership advantage is the most fundamental variable in the OLI Paradigm. It is about firm's ability to have certain assets that generate enough value, such as blueprint, patent, or other technology. Location advantage talks about the benefits of saving production and transportation costs by investing and operating in more than one country and achieving synergistic effects from business clusters as well. Internalization advantage is about the gains of keeping internal expansion within a firm, as a means of protecting their comparative advantages and assets. All of the three variables are

important in the framework, and Dunning has advanced the model by incorporating alliance capitalism and asset-augmenting views.

Dunning's conventional FDI theory regarding the OLI Paradigm is indeed a fundamental and comprehensive model in explaining the general motivations of firms engaging in FDI. However, it fails to explain situations where firms without significant OLI advantages go abroad and succeed. No theory is by itself perfect in explaining the changing global environments, and the Imbalance Theory (Moon and Roehl, 2001) works very well to complement the limitations of the existing theory. The Imbalance Theory adds to what was lacking in the conventional theory, which is the motivation for firms with critical disadvantages to invest abroad as a way of balancing out their imbalances. Rather than firms in advanced countries investing in developing countries to exploit resources and economies of scale, the unconventional FDI focus on the firms in developing countries to invest in developed countries and learn about sophisticated market and technology.

In addition to efficiently utilizing resources and improving OLI advantages, a firm's strategic positioning in a specific industry needs to be carefully chosen and analyzed to be competitive in the global market. Michael Porter is a major proponent and the most influential contributor in this regard in the field of strategic management and competitiveness. Porter (1996) asserts that creating a unique

market position through cost leadership or differentiation strategy is crucial to achieving a long-term sustainable business strategy. Achieving this unique position requires tradeoffs by choosing the best fit in the business structure based on a thorough analysis of both industry and the firm. Porter first brought up the idea of his Generic Strategy in 1980 and gradually advanced his theory in the past years. Porter's Four Generic Strategies model was proposed in 1985 with cost focus and differentiation focus added to his former model.

Later in 1996, Porter introduced three ways in which firms can build competitive advantage: variety-based positioning, need-based positioning, and access-based positioning. He asserted that firms must choose the right positioning for their own business structure to develop a true competitive advantage. Although he did not directly incorporate these three positionings in his Four Generic Strategies, they fall under his focus strategy which makes the model Seven Generic Strategies (1996).

It is no doubt that Porter has made a phenomenal contribution with his Generic Strategies in the field of strategic management, but there were some limitations with his framework. Moon (1993) pointed out several issues with Porter's framework. One of the limitations is that the model is static rather than being dynamic. Another issue was that Porter's theories were business models

mostly based on already advanced companies in developed countries. To complement the limitations, Moon extends the model by incorporating an Asian perspective where companies chose a different approach of being "stuck-in-the-middle" but still become successful. According to Moon, being stuck-in-the-middle can be a viable strategic positioning and eventually firms will try to reach towards broad differentiation. Moon argues that firms cannot simply decide and start on with a unique fit but rather gradually change and adjust, and stresses the importance of considering the stage of development a firm is in.

To advance Porter's model, Moon and Hur (2014) came up with the Eight Generic Strategies. The Eight Generic Strategies distinguishes the competitive scope of product and customer into broad and narrow strategies, and provides four generic strategies of general, customer-based, product-based, and multi-scope strategies, which are further classified into two types of competitive advantages of either differentiation or cost leadership. In addition to more dynamic approach on generic strategies, the advanced model takes into account the importance of development stage, and how the classic stuck-in-the-middle situation does not result in failure. Firms which pursue various strategies and expand without losing their competitive advantages will be successful with broadened strategy.

The Imbalance Theory which is derived by the OLI Paradigm and the Eight Generic Strategies extended from the Generic Strategies do not degrade the existing theories on FDI and strategic positioning, but rather complement and enhance the overall workings of global business strategy. Advanced models will be more applicable to analyze the development and overall competitiveness of Amore Pacific in the Western market, which started its global expansion with critical disadvantages yet managed to be the leading cosmetics firm representing the heart of the K-beauty trend today.

3. Korean cosmetics industry overview

K-beauty is a term which refers to Korea's global influence on aesthetics and cosmetics (K. Kim, 2016). Korean cosmetics industry successfully entered into other Asian markets through effective marketing targeted on Asian consumers and with the support of Hallyu influence as well (U.S. Department of Commerce, 2016). According to the Korean Customs Service's 2016 data, Korea's cosmetics exports increased 53.1 percent in 2015 compared to the 2014 exports, mostly to China and Hong Kong, and has settled to become one of the major economic growth factors in Korea despite China's recent political retaliation issue due to conflicting views on South Korea's Terminal High Altitude Area Defense (THAAD).

Major Korean cosmetics firms such as Amore Pacific further expanded its business into the Western countries, mainly to the United States (U.S. Commercial Service, 2015). Korean brands are gaining recognition as the K-beauty trend is becoming more popular in the Western market, but many of them are still behind other Japanese or European brands. This could be due to the difference in culture, consumer preferences, or strategic failure in achieving unique positioning in the highly saturated Western cosmetics market with countless competitors.

Nevertheless, the new trend of K-beauty is constantly gaining interests and sales are definitely increasing (K. Kim, 2016).

The cosmetics market in the United States in particular can be seen as an extremely attractive market as it has the world's largest cosmetics market size of approximately 52.3 million USD, which accounts for 19.2 percent of the global cosmetics market size. It also experienced an average of 4.05 percent annual growth rate from the year 2012 to 2016, whereas the global cosmetics market faced negative growth rate. The United States' cosmetics market is expected to a show steady growth rate of approximately 3.98 percent up until the year 2020 (Euromonitor Country Report, 2017).

Table 1. Korean cosmetics export distribution by country

Rank	Country	2016 Export ($1,000)	Percentage Share	Growth Rate (15->16)
1	China	1,570,272	37.5%	33.96%
2	Hong Kong	1,248,250	29.8%	81.64%
3	**US**	**346,963**	**8.3%**	**43.73%**
4	Japan	182,647	4.4%	32.56%
5	Taiwan	135,985	3.3%	-2.46%

(KCII, 2017)

According to the 2017 data from the Foundation of Korea Cosmetic Industry Institute (KCII), Korean cosmetics exports to the United States showed a

growth rate of 43.73 percent from the year 2015 to 2016, and has become the biggest trading partner of the Western market. From the United States' perspective, the amount of Korean cosmetics import increased 47.85 percent from the year 2015 to 2016, showing greatest growth rate among the top 10 import countries including France and Germany. These data show how the demand for Korean cosmetics products are constantly increasing, whether it is due to the increased competitiveness of the products or temporary interest on the K-beauty trend, and Korean cosmetics firms should definitely take advantage of this situation.

Major brands are launched at the United States' beauty store Ulta and the global beauty retailers such as Sephora. Offline stores have a separate K-beauty sections established, and e-commerce product demands are also increasing through online channels such as Amazon. K-beauty is also prospering in the luxury department stores in the United States as well (Chung, 2015).

Through the KORUS FTA between Korea and the United States, 8% tariff on Korean cosmetics got removed and FDA (Food and Drug Administration) registration for the products are fairly smooth, causing no market entry barriers. The European market, on the other hand, has a difficult and expensive CPNP (Cosmetic Products Notification Portal) registration process for cosmetics products which creates more barriers of entry despite the removed tariff on Korean

cosmetics through the KOREA-EU FTA. Korean cosmetics exports to the United States are growing fast, and more and more brands entering into the United States and expanding their presence (Euromonitor Country Report, 2017). Since there are no FTA-related barriers for Korean cosmetics firms to expand their business to the Western market, K-beauty is expected to spread and grow even more in the upcoming years, which makes it even more important to examine the success factors of the most profitable Korean cosmetics firm for other firms to learn and benchmark.

4. Changes in Amore Pacific's OLI advantages through FDI

Amore Pacific, found in 1945 through the establishment of Korea's first cosmetics research lab, is the number one cosmetics company in Korea with the record of 4.8 billion USD sales record in the year 2016 globally (Women's Wear Daily Beauty, 2017). It is the first Korean beauty brand to reach the 7th in the Women's Wear Dialy's 2016 Beauty Top 100 Rankings (Amore Pacific News, 2017). Women's Wear Daily's annual rankings of the world's top 100 beauty companies are based on the sales of the previous fiscal year, and are widely acknowledged in the beauty industry. Amore Pacific was ranked as the 20th in 2006 and gradually advanced to finally be part of the top 10 global beauty brand in 2016. Amore Pacific is highly renown for its development of cushion foundation, one of the most innovative products representing K-beauty (Kwon, 2016), which will be further discussed under ownership advantage of Amore Pacific. It has applied for 177 patents just for its cushion foundation technology and 26 were registered (Suh, 2017). This kind of advanced technology and development, however, did not just occur out of the blue but rather through carefully chosen investment strategies, especially from Amore Pacific's foreign direct investment to France in 1990.

4.1 OLI advantages before FDI to France

The first ever foreign direct investment strategy taken by Amore Pacific was in the year 1990 when Sunghwan Suh, the founder of the company, opened up the first factory for cosmetics production in France. After entering into a technical partnership with a French cosmetics manufacturer Coty in 1959, Suh went on a business trip to Europe in 1960 and was truly inspired by the advanced cosmetics market (Ko, 2016). There he decided to take advantage of the advanced market by investing in France (Amore Pacific History, 2017). Some products from Amore Pacific were exported to other countries since 1964 and one of Amore Pacific's skincare brand 'Soon' was exported to France in 1988 but failed to make any presence in the French market. Suh realized that the "made in Korea" mark on the cosmetics products worked as a disadvantage to be competitive in the Western market (T. Kim, 2016).

During the 1990s, the cosmetics market was dominated by Western companies, and Amore Pacific clearly lacked sophisticated technology or market knowledge to compete in the Western market. Even the cosmetics market in Korea was intruded and by major Western cosmetics brands such as Estée Lauder, L'Oréal, and Chanel. Amore Pacific was trying to expand its business area into electronics, advertising, and financial services, but when the Korean cosmetics

market was threatened by the Western firms, Amore Pacific dramatically reduced more than half the number of its workforce and tried to refocus their business on beauty. However, as the Korean department stores were being taken over by the Western brands, Amore Pacific realized that it had to expand globally to increase competitiveness (Amore Pacific News, 2003). This is when it decided to open up its first overseas factory in the most advanced French cosmetics market in the hopes of upgrading the firm to the next level, which could have been seen as an extremely challenging step.

Amore Pacific's huge step to dive into the advanced market when it obviously faced significant disadvantages compared to its competitors clearly seemed to be risky. Amore Pacific did not have any superior OLI – ownership, location, and internalization – advantages, and the firm's investment to France played a central role in significantly advancing the OLI advantages.

Dunning's OLI Paradigm (2001) can be used as an excellent tool to first analyze the conditions of the firm before its investment to France. All three aspects of the paradigm are important, as they are interconnected and interdependent. Among the three variables, Dunning argued that having ownership advantage is the most important criteria. Without possessing any ownership advantage such as advanced technology or patent, a firm may not exist at all as it will be difficult to

create values facing global competition. If a firm has some kind of ownership advantage, then the firm may choose to either invest in a different country with low production cost or access to natural resources. By having significant ownership advantage, the firm can also choose to internalize to protect their technology or asset and maintain their competitiveness.

Ownership advantage, the most fundamental variable in the OLI Paradigm, refers to resources owned by a firm that can generate values (Dunning, 2001a). Any kind of technology or patent can be an example of ownership asset, but it is important to distinguish ownership asset from location assets. Assets that are embedded in the location such as natural resources and labor, or created location assets such as clusters of firms would fall under location advantage. Amore Pacific's ownership advantage before the investment to France was majorly derived from its technology developed from in-house R&D, and advanced airspun equipment developed with Germany in 1958 to upgrade its product formulation technology (Amore Pacific History, 2017).

Amore Pacific's incorporation of high-quality green tea cultivated from the Jeju Island to create unique cosmetics products would account for the firm's location advantage. Suh created the cosmetics industry's first tea farm in 1979 to use it as key beauty ingredient in its products. Amore Pacific's products were all

produced domestically at an automated factory since 1962 before the FDI to France and were mostly distributed and sold domestically. In terms of internalization advantage which refers to whether a firm keeps its core competencies to itself or not when it invests abroad, since the business was completely operating domestically without foreign direct investment, it is not applicable before the FDI to France.

Table 2. Amore Pacific's OLI advantages before 1990 FDI

Ownership advantage	• Technology developed from in-house R&D • Airspun technology
Location advantage	• Green tea cultivated from Jeju Island • Automated domestic factory for mass manufacturing
Internalization advantage	Not applicable

4.2 Motivations for FDI: Imbalance Theory

Amore Pacific basically did not have significant competitive OLI advantages before 1990. Suh's decision to even consider engaging in FDI could be seen as unrealistic according to Dunning's OLI Paradigm (2001a) regarding conventional FDI theory, because the major and most important reason for engaging in FDI is to exploit a firm's ownership advantage and resources it already has. Conventional FDI described by Dunning is mostly when firms in a developed

country which already own superior OLI advantages expand to developing countries for resource exploitation.

Dunning (2000) specified four types of motivations for engaging in FDI for a firm: market-seeking FDI, resource-seeking FDI, rationalized or efficiency-seeking FDI, and strategic asset-seeking FDI. Market-seeking FDI is when firms go abroad to a particular foreign market to expand market position, usually to a developing country with rapidly growing economy. The second motivation, resource-seeking FDI, is when firms go abroad to gain access to particular natural resources or exploit low skilled labor in developing countries. FDI for efficiency-seeking is mainly for reducing transportation cost or any other artificial barriers, and to exploit economies of scale. The last motivation described by Dunning is strategic asset-seeking FDI to protect or enhance a firm's ownership advantage by learning and complementing its competencies mainly in developed countries, which is quite different from the other three motivations focusing on exploiting resources.

For Amore Pacific's case, Dunning would explain that establishing a factory in France was for strategic asset-seeking FDI. Having lacking ownership advantage in Korea, Amore Pacific strategically chose to build a factory in the

world's most sophisticated cosmetics market in order to discover new resources and enhance its competitiveness in the global market.

However, Amore Pacific's motivation to invest in France was not solely for strategic asset-seeking, and Dunning's other three motivations even contradict the situation of Amore Pacific in 1990. Amore Pacific's products marked as "made in Korea" were not competitive enough and lacked brand recognition to be able to successfully expand its business in France. There was little to no chance for the products to be accepted by the sophisticated consumers in France. In addition, the factory was clearly not established to exploit natural resources, skilled labor, or economy of scale. From Dunning's conventional perspective on FDI, Amore Pacific lacked the criteria to engage in FDI, and his framework is limited to fully explain this case.

Moon (2016) argues that although Dunning's OLI Paradigm is the most fundamental model regarding FDI theories, it offers a rather one-sided perspective of advanced firms investing in developing countries for exploitation. From the 1980s, the "new" multinational corporations (MNCs) from developing countries without specific OLI advantages started to rapidly invest in developed countries, just like how Amore Pacific did in 1990. Moon explains that the reason why the emerging MNCs invested abroad was to complement their critical disadvantages

they have compared to advanced companies by taking advantage of the sophisticated market, consumers, technology, and overall business environment of developed countries. An example of this kind of unconventional FDI would be when firms from a developing country such as India invest in the United State's Silicon Valley to take advantage of the highly advanced technology hub.

As a way to extend the Dunning's conventional FDI framework, Moon and Roehl (2001) developed the Imbalance Theory which offers unconventional perspective on FDI for complementing disadvantages. The Imbalance Theory provides an explanation for why MNCs from developing countries which lack superior ownership advantage engage in outward FDI and explore in advanced markets to balance out their "imbalances" they face. According to Moon and Roehl, firm's motivations to invest globally extends far beyond exploitation of existing advantages. This unconventional perspective on FDI stresses the importance of exploration for innovation, autonomy, and discovering new knowledge, whereas the conventional perspective stresses on exploitation for increased efficiency. It is important for a firm to maintain a balance between exploration and exploitation, and the Imbalance Theory provides a dynamic perspective on both firm's resource exploitation and exploration process, especially for a firm like Amore Pacific in

1990 without resources to exploit, the Imbalance Theory works very well to explain why it chose to explore the advanced market.

In this regard, Moon's extended version (2007) of Dunning's motivation of FDI can be more applicable for deeper analysis of Amore Pacific's reasons behind the FDI to France. Moon came up with four extended motivations of FDI which are factor-seeking, market-seeking, related-and-supporting-sector-seeking, and strategic-business-context-seeking. First, the factors in factor-seeking FDI refers to both tangible and intangible resources that can play a critical role in a firm's overall performance. The factors consist of basic factors such as natural resources and cheap labor, and advanced factors such as technology and advanced managerial skills. Dunning's resource-seeking FDI is renamed as basic factors and advanced factors are extended from Dunning's strategic asset-seeking FDI. So Moon's factor-seeking motivation can be seen as a modified combination of the original resource-seeking and strategic asset-seeking motivations. Second, while the conventional FDI perspective describes the market-seeking FDI as market expansion, Moon's market-seeking motivation focus on exploring in a highly advanced market in the world to learn about the sophisticated consumers and business environment. The third motivation described by Moon is related-and-supporting-sector-seeking FDI. This refers to when firms go abroad to decrease

barriers such as transportation cost or different systems for financial infrastructure, as well as to increase the efficiency of global operations by expanding their business to the related and supporting sector in a different country. The last motivation described by Moon is strategic-business-context-seeking FDI which is missing in the conventional FDI perspective. This motivation refers to a firm strategically choosing an investment location where by going abroad to that particular location would upgrade the firm's competitiveness such as strategic positioning or overall image and reputation.

Utilizing Dunning's motivations of FDI on examining Amore Pacific's case was limited in that only one of the four motivations, the strategic asset-seeking FDI, could vaguely explain the reason behind the investment in France. Amore Pacific did not have enough resources to exploit in France, thus Moon's extended motivations model which puts more emphasis on exploration works better to explain this case. All of four motivations described by Moon can be applied to analyze the purpose of FDI to France. The factor-seeking motivation can suggest that Amore Pacific went to France to seek advanced factors including technology and skilled managerial capabilities. It also went abroad to learn about the sophisticated cosmetics market in France, and set up a factory there to not only adopt advanced cosmetics producing technology and reduce transaction costs of

exporting products to other European markets, but also to strategically increase its brand reputation by obtaining the luxury of having products marked as "made in France." Application of the Imbalance Theory and extended motivation for FDI clearly shows how Amore Pacific's investment in France was not for exploiting resources and making a profit like what Dunning's motivations describe, but more aimed towards exploring new markets, learning new technology, and increasing brand recognition to redress its imbalances of disadvantages and weak global competitiveness.

4.3 Changes in OLI advantages

According to the Imbalance Theory, Amore Pacific's FDI to France should have significantly enhanced its lack of competitiveness in the global market. This part of the analysis will examine whether or not the Imbalance Theory's hypothesis of complementing disadvantages proves to be right for Amore Pacific's case and how the specific OLI factors changed since the investment to France.

In the hopes of expanding globally to increase competitiveness, Amore Pacific opened up its first overseas cosmetics factory in 1990 at the most advanced French cosmetics market and started to grow. It started by developing and manufacturing a skincare brand 'Lirikos' but failed to attract European customers.

After failing its first shot at the French market, Amore Pacific changed its strategy to target the perfume sector (Lee, 2017). In 1995, Amore Pacific invited a professional who was working for the luxury French brand Christian Dior to collaborate on a fragrance project. After years of research, Amore Pacific launched its first perfume brand 'Lolita Lempicka' through licensing in 1997 targeting European consumers exclusively (English Chosun, 2005).

The immediate results were highly successful. Amore Pacific's first perfume brand Lolita Lempicka with a tag "made in France" quickly exceeded 1 percent market share in the French perfume market within eight months, and any brand that exceeds this percentage of market share is recognized as being successful in France, the home country of perfume and cosmetics (Hankyung, 2006). Since its launch, Lolita Lempicka has won several FiFi Awards such as the best French and European perfume granted by the international fragrance foundation (English Chosun, 2005). The market share has increased up to 2.6 percent in 2002, reaching the fourth biggest seller in the toughest market in the world (Amore Pacific News, 2003). With the help of this success, Amore Pacific could upgrade its factory into an ultra-modern manufacturing facility in 2004 (T. Kim, 2016). Lolita Lempicka was distributed over 1650 retailers in France and sold over 80 countries in 2006 (Hankyung, 2006).

The success case of Lolita Lempicka in France holds several important implications. First, through this investment, Amore Pacific could learn the sophisticated technology and trend through FDI in the most sophisticated cosmetics market in the world, which proves the Imbalance Theory to be perfectly applicable. Second, the power of "made in France" mark significantly helped Amore Pacific to successfully take up major market share in the French market and increase brand awareness. In addition, by fiercely expanding its perfume business through setting up an international branch in France and upgrading the production facilities, Amore Pacific could also acquire a luxury French perfume brand 'Annick Goutal' in 2011 (J. Kim, 2016). This particular acquisition was the first ever case for a Korean cosmetics company to acquire a foreign cosmetics brand, which suggests the great success of Amore Pacific's FDI to France for strengthening its global status in the perfume sector and expanding the company's brand portfolio.

Unfortunately, later in 2015 Amore Pacific had to withdraw its license right on Lolita Lempicka and had to cut off some workforce in its French branch (Mansfield-Devine, 2017). Amore Pacific also took another shot with the brand Lirikos and collaborated with French researchers to develop sophisticated technologies for luxury skincare brand but failed in the European market. However,

this does not mean that Amore Pacific's investment in France was simply a short-term success which ended up in failure. Examining the changes in the OLI advantages of Amore Pacific before and after the FDI to France will help with the analysis.

The most obvious and significant advancement among Amore Pacific's OLI factors since the FDI to France would be in its ownership advantage. Through setting up a manufacturing site in France, Amore Pacific could collaborate with French researchers to develop new products and obtain numerous specialized technologies for cosmetics production. In addition, by establishing an official French branch office and conducting business in the heart of the most sophisticated cosmetics market, Amore Pacific could try out different approaches to global business strategy. Signing collaborative partnerships and licensing and acquiring brands would have definitely helped improve Amore Pacific's international business operation and managerial skills, which is an important ownership asset along with advanced technology.

Having significantly improved ownership advantages, Amore Pacific continued to develop its own technologies through major research and development (R&D) in Korea. The most innovative and revolutionary product developed by Amore Pacific would be the famous 'cushion' that changed the

beauty routine for women all around the world. Cushion is a color cosmetics product that combines skincare, sunscreen, and foundation. The mixed formula is soaked in a sponge and packed in a compact case for a quick and easy application. The first ever cushion released by Amore Pacific was the 'IOPE air cushion' in 2008 after conducting more than 3600 tests with 200 different sponges. Since 2008, Amore Pacific has released diverse cushion products from 15 different brands using the same core technology. One cushion per second was sold globally with a cumulative unit of 100 million cushions sold by 2016, truly representing the leading K-beauty product (Amore Pacific News, 2016). Major Western beauty brands which have become competitors of Amore Pacific tried to copy the cushion technology, and later Amore Pacific decided to sign a memorandum of understanding granting access of its cushion technology to European luxury brands (Chung, 2015). In 2015, Amore Pacific even established a separate 'Cushion Lab' for continued research and innovation. Along with the cushion technology, Amore Pacific has applied for 177 patents globally and 26 patents registered as of 2016 (Amore Pacific News, 2016).

In terms of location advantage, Amore Pacific now has many R&D centers around the world to learn about different cosmetics market across the world, along with three major production sites in Korea, France, and China, and hub logistics

facilities in the United States as well for the most efficient global operation. With regards to internalization advantage, while Amore Pacific licensed Lolita Lempicka in 1997 which is considered as externalization, later on, it engaged in more internalized strategies such as strategic partnership and acquisition. Dunning (2000) argues that the benefits of internalizing increases by cutting down unnecessary transaction costs for increased efficiency through engaging in more intra-firm transactions. Amore Pacific now clearly has established efficient strategies for an internalized system.

The above changes in Amore Pacific's OLI advantages since the FDI to France in 1990 solidly support Moon and Roehl's Imbalance Theory. Through engaging in unconventional FDI, Amore Pacific could significantly redress its imbalances and have become one of the top global cosmetics company with enhanced competitiveness. It is continuously expanding its scope of OLI factors, and this may be the major reason why Amore Pacific was ranked as one of the World's Most Innovative Companies by Forbes in 2015.

Table 3. Amore Pacific's OLI advantages since 1990 FDI

Ownership advantage	• Numerous specialized technologies including the most innovative 'cushion' technology • Improved global managerial skills • 177 patents applied and 26 patents registered globally
Location advantage	• Numbers of R&D centers established across the world (China, France, the United States, etc.) • Three production sites in Korea, France, and China • Logistics hub facilitated in major cosmetics markets with the greatest demand for K-beauty
Internalization advantage	• Acquisition and partnership rather than licensing • Branch offices, R&D centers, and other necessary facilities established around the world for efficient global operation

4.4 Upgraded GVC through FDI

Carefully chosen FDI strategy can not only enhance the OLI advantages but also create synergistic benefits on the global value chain of firms. Global value chain (GVC) is a fairly recent concept solidified by Gereffi et al. (2005) which comprises the entire range of activities involved in bringing a product or service to the final consumer. It is a comprehensive chain starting from the very beginning of a product or service's value creation. Multinational enterprises engaging in interactive transactions that are linked all over the world are the main players in the GVC. Value chain activities, stemming from Porter's Value Chain (1985) include low value-added activities such as manufacturing and assembling to higher value-

added activities such as designing, research and development, and marketing. If a production is highly fragmented in different stages by global outsourcing and investment, it will have a longer global value chain.

GVC has a direct impact on managing the overall efficiency of global business operations. Scholars who study the GVC put high emphasis on today's interconnected economies and try to figure out how to create more values by minimizing transaction cost and upgrading the value chain activities (OECD, 2013). Upgrading the value chains to minimize unnecessary input and generate maximum output is crucial in the increasingly competitive global market.

Table 4. Types of upgrading in GVC

Product upgrading	Moving into more sophisticated product lines
Process upgrading	Transforming inputs into outputs more efficiently by reorganizing the production process or introducing superior technology
Functional upgrading	Acquiring new functions or abandoning existing functions to increase the overall skill content of activities
Inter-sectoral upgrading	Moving into new but related industries

(Humphrey and Schmitz, 2002)

In this regard, Humphrey and Schmitz (2002) suggest four different types of upgrading in GVC: product upgrading, process upgrading, functional upgrading, and inter-sectoral upgrading. Through FDI in France, Amore Pacific could significantly upgrade its GVC. It could move into more sophisticated product lines of cosmetics with enhanced ownership advantages, and utilize the production process to make global production and logistics more efficient. In addition, it upgraded its inter-sectoral GVC by stepping into fragrance industry in France. With this upgraded GVC, Amore Pacific could become the leading cosmetics firm representing K-beauty.

Table 5. Summary of Amore Pacific's OLI advantages before and after 1990

	Amore Pacific before 1990 FDI	Amore Pacific as of 2017
Ownership advantage	• Technology developed from in-house R&D • Airspun technology LACKS SUPERIOR OWNERSHIP ADVANTAGE	• Numerous specialized technologies including the most innovative 'cushion' technology • Improved global managerial skills • 177 patents applied and 26 patents registered globally
Location advantage	• Green tea cultivated from Jeju Island • Automated domestic factory for mass manufacturing DOMESTIC RESOURCE AND PRODUCTION	• Numbers of R&D centers established across the world (China, France, the United States, etc.) • Three production sites in Korea, France, and China • Logistics hub facilitated in major cosmetics markets with greatest demand for K-beauty
Internalization advantage	NOT APPLICABLE	• Acquisition and partnership rather than licensing • Branch offices, R&D centers, and other necessary facilities established around the world for efficient global operation

5. Strategic positioning analysis of Amore Pacific

Through the FDI to France and significantly upgrading its OLI advantages and GVC, Amore Pacific has now become the true leader of K-beauty. The K-beauty trend, however, although successfully spreading over the Western market, can eventually fade away and firms which fail to take on competitive strategic positioning will have to exit the market. This part of the analysis will examine the competitiveness of Amore Pacific in the Western market today by applying Moon and Hur's Eight Generic Strategies (2014).

Table 6. Moon and Hur's eight comprehensive generic strategies

		Customer-Based Strategy	
		Broad	**Narrow**
Product-Based Strategy	**Broad**	**General** Differentiation	**Customer-based** Differentiation
		General Cost Leadership	**Customer-based** Cost Leadership
	Narrow	**Product-based** Differentiation	**Multi-scope** Differentiation
		Product-based Cost Leadership	**Multi-scope** Cost Leadership

(Moon and Hur, 2014)

The Eight Generic Strategies extended by Porter's Generic Strategies allows more comprehensive analysis on diverse strategies undertaken by different firms in today's dynamic market. What is different from Porter's model is that the

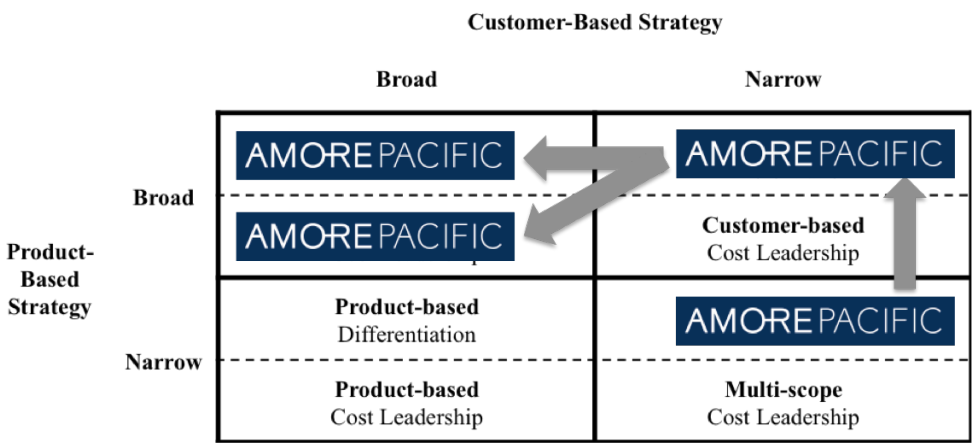
Eight Generic Strategies includes additional criterion which is the competitive target (customer or product-based strategy). Thus this extended model can be utilized to explain how to compete (differentiation or cost leadership) with what (broad or narrow range of products) to whom. Like mentioned before, the model distinguishes the competitive scope of product and customer into broad and narrow strategies, and provides four subcategorization of general, customer-based, product-based, and multi-scope strategies, which are further classified into two types of competitive advantages of either differentiation or cost leadership.

General strategy provides a wide range of products for a wide range of customers. This can be done based on differentiation or cost leadership strategy, and the same applies to other three subcategories. Product-based strategy offers selective products to a wide array of customers for the purpose of meeting particular needs. Customer-based strategy is the opposite of product-based strategy which offers a broad range of products to a selected group of customers, and multi-scope strategy is the opposite of general strategy which provides a narrow range of products to narrow group of customers.

5.1 Firm-level analysis through Eight Generic Strategies

The demand and interest for Korean cosmetics are increasing and it is important to thoroughly analyze the competitiveness of the leading K-beauty firm Amore Pacific at both firm level and brand level. For a firm-level categorization, Amore Pacific can be placed at both 'general differentiation' and 'general cost leadership' today. The following table illustrates the evolutionary path of the changes in Amore Pacific's firm-level strategy.

Table 7. Evolutionary path of Amore Pacific's firm-level strategies



The start of Amore Pacific in 1945 was inspired by Yoon Dokjeong, the mother of the company founder Suh Sungwhan, who produced high-quality camellia oils as a hair treatment for stylish Korean women. Three years later the company released its first brand product 'Melody cream' formulated with sophisticated ingredients and packaging. It also launched a pure botanically driven

‘ABC pomade’ specifically targeting style-sensitive men (Amore Pacific History, 2017). The beginning strategy of Amore Pacific according to the Eight Generic Strategies can be classified as multi-scope differentiation, offering unique and high-quality products for a unique set of customers.

The next strategy undertaken by Amore Pacific was customer-based differentiation. The company launched a brand ‘Amore’ in 1964 for personalized door-to-door sales targeting existing customers. The customer-based strategy was still narrow, but the company expanded its product lines of highly differentiated ingredients such as Korean herbal medicine ginseng in 1966 and Jeju Island’s green tea in 1989 (Amore Pacific History, 2017).

In 1991, Amore Pacific started to expand its customer range by launching a more affordable brand ‘Mamonde.’ Mamonde products still contained unique botanical ingredients but had lower price tag targeted towards younger generations. The company sought for an even wider array of customers by expanding into China in 1992 and kept on globalizing for a larger market. More launches of diverse brands for broader product and customer groups were set forth, including mid-priced brand ‘Laneige,’ low-cost brand ‘Etude House,’ highly differentiated brand ‘Sulwhasoo,’ and affordable but differentiated brand ‘Innisfree’ (Amore Pacific History, 2017). Amore Pacific clearly pursued a general strategy with both

differentiation and cost leadership methods, providing numerous product lines with wide price ranges to diverse groups of customers. Now Amore Pacific is continuously expanding the geographic scope of customers by fiercely penetrating into new markets and developing new product lines for even broader general strategy.

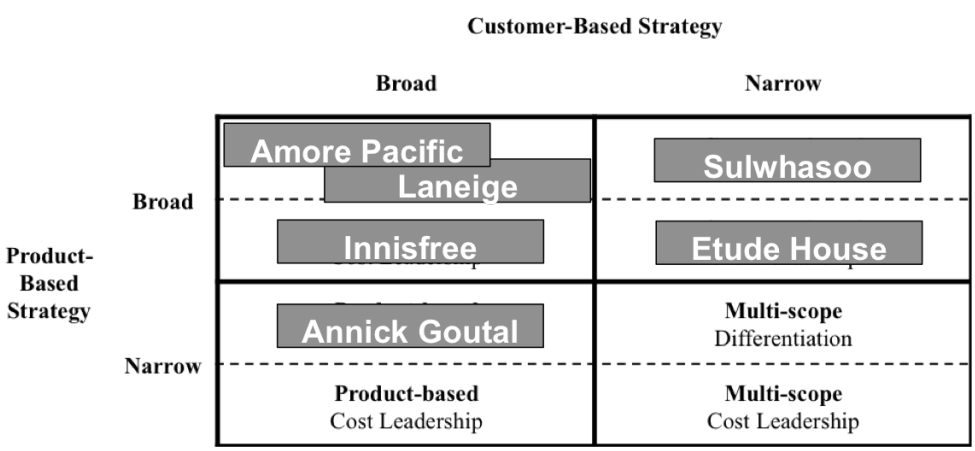
5.2. Brand-level analysis through Eight Generic Strategies

Amore Pacific has a wide range of cosmetics brands from beauty care brands like Laneige and Innisfree, to toiletry, perfume, medical beauty brands and even tea culture brand. Among the 24 brands of the company Amore Pacific, 16 are beauty care brands, and the following analysis will focus on 6 brands that expanded to the Western market: Amore Pacific, Sulwhasoo, Laneige, Innisfree, Etude House, and Annick Goutal.

In the beginning of the global expansion to the Western market, Amore Pacific focused on marketing luxury skincare products containing unique ingredients of Korea, whereas full ranges of both skincare and makeup products were offered in the Asian market. However, since the K-beauty trend started to prosper majorly in North America, Amore Pacific expanded the brands offered in the Western market. Amore Pacific first entered into the United States' cosmetics

market in 2003 with its most luxurious premium mother brand 'Amore Pacific' and also to Canada in 2008 with a total of 309 stores selling Amore Pacific products. Later in 2010, another premium line 'Sulwhasoo' launched in the U.S. market and later in 2015 to Canada with a total of 8 stores. More of a mid-priced brand 'Laneige' also moved into the U.S. market in 2014 and Canada in 2015, this time majorly expanding the number of stores selling the products to 846. In 2014, a premium fragrance brand developed through a large investment in France 'Annick Goutal' launched in the U.S. market. For the next step, Amore Pacific opened a large flagship store for their more affordable but differentiated brand 'Innisfree' in New York in 2017 (Amore Pacific Brands, 2017).

Table 8. Amore Pacific's brand-level strategies in North America



The table above shows the diverse strategies pursued by the company Amore Pacific. The company Amore Pacific takes on five different strategic

positioning in the North American market. Two brands, Amore Pacific and Laneige, are placed on general differentiation. The mother brand Amore Pacific is a luxurious brand which offers a wide range of skincare products as well as some makeup products like the famous cushion foundation. Although it is considered as a high-end brand with state-of-the-art technology and ingredients, it is widely available in major beauty retailers like Sephora for all customers. Laneige also offers a wide range of differentiated skincare and makeup products developed through the company's three core trademarked technologies and targets a broad range of customers.

Innisfree is placed on general cost leadership strategy, as the brand offers very wide range of affordable skincare and makeup products to broad range of customers. Even though it is placed on cost leadership, the brand formulates the products with differentiated ingredients from Korea's Jeju Island and puts great emphasis on its unique brand story as well.

Another luxurious brand of the company Amore Pacific is Sulwhasoo, which takes on a slightly different strategic positioning of customer-based differentiation compared to the brand Amore Pacific. Sulwhasoo does offer a wide range of expensive skincare products, but specifically targets customers looking for

highly differentiated ingredients from Korea. In addition, the products are only available in certain premium department stores.

The company also offers customer-based cost leadership brand Etude House. Etude House targets younger generations who are attracted by products in a cute packaging offered at a highly affordable price range. While the four brands mentioned previously can be classified as more skincare-focused brands using advanced technology and ingredients to develop functional cosmetics with some color makeup products included in their product lines, Etude House offers a very wide range of low-priced makeup products as well as some basic skincare lines.

While the cosmetics brands offered by the company Amore Pacific all take on broad product-based strategy, there is one brand Annick Goutal which is placed on narrow product-based differentiation strategy. Annick Goutal offers luxury perfumes that are made in France, but is not limited to certain customer groups.

According to Porter (1980), pursuing various strategies at the same time would cause the firm to be stuck-in-the-middle, resulting in strategic failure. However, the Eight Generic Strategies by Moon and Hur resolved this issue by proving that there are many firms which chose to pursue several strategies simultaneously but still managed to be successful, and it applies the same for Amore Pacific's case. Amore Pacific's dynamic strategic positioning enhances the

company's competitiveness in the global market. Amore Pacific is planning to diversify its brand portfolio even further, and to broaden its customer groups by actively expanding into Europe, Southeast Asia, and even the Middle East countries (Lee, 2017).

6. Conclusion

With growing interest on the K-beauty trend, many Korean cosmetics firms are expanding to Western countries, mainly to the United States which has the world's largest cosmetics market. This paper analyzes the key success factors of the leading Korean cosmetics company, Amore Pacific, which lacked sophisticated experience and technology compared to other Western cosmetics firms in the past but managed to be successful in the global market today.

For conducting such research, the paper first applies Dunning's OLI Paradigm to analyze Amore Pacific's changes in the OLI advantages before and after its investment in France, the most sophisticated cosmetics market in the world. Amore Pacific did not have any competitive OLI advantages before the 1990s, and the conventional FDI perspective is limited in justifying the motivation of such outward FDI. The Imbalance Theory by Moon and Roehl which offers unconventional perspective and motivations for FDI proves to be more applicable to examine Amore Pacific's case. The analysis on the changes of the firm's competitiveness before and after the FDI to France through the Imbalance Theory showed that Amore Pacific could significantly redress the disadvantages it had before the FDI and overall enhance its OLI advantages and GVC.

The current status of Amore Pacific's market positioning in the Western market was further analyzed through the application of Moon and Hur's Eight Generic Strategies, which is an extended version of Porter's Four Generic Strategy. The extended model is more suitable for analyzing the more dynamic business structure of Amore Pacific's in both firm and brand level analysis. The analysis displayed how Amore Pacific successfully managed to stay competitive in the North American market while simultaneously setting out five different strategic positioning strategies.

The major reason why Amore Pacific could successfully enter into the North American market was that they once invested in the toughest cosmetics market in the world and significantly upgraded its core competencies and the efficiency of its value chain activities. Amore Pacific could balance out its disadvantages of low appreciation for Korean cosmetics products and weak strategic positioning, and eventually increase competitiveness in the global market by developing core technologies and differentiated products to fit the sophisticated taste of the consumers in the Western market.

Now the story is completely different for Amore Pacific. It is clearly an advanced firm with superior OLI advantages that do not need to balance out its imbalances through engaging in unconventional FDI. No longer it needs to cover

up the “made in Korea” mark with “made in France” label as K-beauty products are proving its competitiveness in the global market. The future path of Amore Pacific should focus on engaging in strategic FDI for the purpose of exploiting its competitive OLI factors and increasing the overall efficiency of the global production and distribution management such as establishing a third manufacturing plant in Malaysia, and constantly challenging to expand its broad strategic positioning in the global market for long-term competitiveness.

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국문초록

서구 시장을 겨냥한 한국 화장품 산업의 세계화 전략: 아모레 퍼시픽의 경쟁력 분석

서울대학교 국제대학원
국제학과 국제통상전공
오유진

최근 “K-beauty”가 글로벌 시장에서 빠르게 전파되고 있는 추세로 한국 화장품에 대한 수요가 증가하고 있음에 따라 서구 시장을 겨냥해 전략적으로 사업을 확장하려 하는 한국 화장품 회사들이 늘어나고 있다. 본 연구는 해외직접투자(FDI)와 전략적 포지셔닝 분석을 기반으로 아모레 퍼시픽의 주요 성공 요인들을 분석한다. 아모레 퍼시픽의 1990년도 프랑스 FDI 사례에 Moon and Roehl의 불균형 이론(Imbalance Theory)를 적용하여 논증하며, 해당 FDI 전후로 아모레 퍼시픽의 OLI(Ownership-Location-Internalization) 우위 요인이 어떻게 변했는지에 대한 심층 분석을 도출한다. 또한, Porter의 본원적 경쟁 전략에서 파생된 Moon and Hur의 Eight Generic Strategies를 적용시켜 북미 시장에서 경쟁력을 유지하기 위해 아모레 퍼시픽이 선택한 전략적 포지셔닝을 살펴본다. 본 논문은 아모레 퍼시픽이 서구 시장의 높은 기대치에 부합하는 핵심 기술과 차별화된 제품을 개발함으로써 과거의 부족했던 OLI 우위 요인을 어떻게 극복하고 오늘날 글로벌 시장에서 경쟁력을 높일 수 있었는지를 보여준다.

주요어: 해외직접투자 (FDI), 불균형이론 (Imbalance Theory), OLI 패러다임 (OLI Paradigm), 본원적 경쟁 전략, 전략적 포지셔닝

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