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국제학석사학위논문

**Challenges and Opportunities of the Korean cosmetics market  
for European brands**

유럽 브랜드들의 한국 화장품 시장 진출 기회와 전략

2015 년 8 월

서울대학교 국제대학원

국제학과

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**Master Thesis in International Area Studies**

**Challenges and Opportunities of the Korean cosmetics market  
for European brands**

August 2015

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유럽 브랜드들의 한국 화장품 시장 진출 기회와 전략

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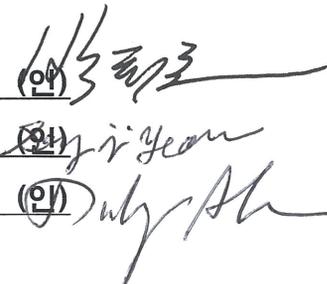
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## Abstract

### **Challenges and Opportunities of the Korean cosmetics market for European brands**

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The Korean cosmetics market bears many challenges for European brands. Its structural conditions make it more difficult for them to achieve growth and profits. This paper shows first that distribution channels are contrasted and competition is intense on this market. This is especially the case on the low-end segment, creating a bias towards mass consumption. High consumers expectations and preference for Asian expertise contribute to the incentive for high quality at a low price, which leads to compressed margins. Therefore, the conditions on this market alone would not justify the effort of European brands to compete on it.

However, if we consider the recent influence of South Korea in Pacific Asia, and the exportation through the Korean wave not only of cultural, but also of commercial products, we can identify an opportunity for European brands. As a cultural mediator, Korea exports Korean products that are often hybridized, as the direct result of western influences, conveying western lifestyles and consumption practices. This paper will use the term of beauty hybridization to describe this process applied to the cosmetics sector.

Following that second finding, it would thus be beneficial for European brands to use this exportation process to the rest of Pacific Asia through the mediation of the Korean market. South Korea could serve as a platform for European brands to reach the rest of Asia. European brands' success in Korea could induce success in other Asian countries thanks to the Korean mediation.

It is true that European and Korean brands hold differentiated comparative advantages on the market. However, if we draw the consequences from the beauty hybridization and Korean mediation process, we see that European brands can also learn, on segments where they don't hold a comparative advantage, best practices and know-how that are likely to be spread all over Asia.

Cosmetics, cosmetics' market, cosmetics' distribution, cultural mediation, culture hybridization, Korean wave

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## Chapter 1: Introduction

### I) Purpose of the study

L'Oréal, world leader in the cosmetics industry, has achieved a growth of eight percent in Pacific Asia in 2013, and thus successfully conquered the region, however with an exception: South Korea.<sup>1</sup> Numerous foreign brands face the same difficulties on this exceptionally competitive market.<sup>2</sup> Achieving growth seems difficult, if not impossible.<sup>3</sup> Because of the business nature of the topic, identifying the challenges of the Korean cosmetics market requires a precise knowledge of the market's structure and conditions. However, it must be complemented by an analysis of Korean consumers, derived from previous studies on the social importance of physical appearance in Korean society. A first area of research has focused on the social importance of beauty in the context of a culture of conformity.<sup>4</sup> Some scholars have found the origins for this importance in the Confucian roots of Korean society, others have related it to the legacy of traditional or official or non-official religious discourses.<sup>5</sup> A field of research has highlighted the specificity of the beauty standards and ideals in the Korean society. Some authors have argued that they

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<sup>1</sup> L'Oréal (2013). Rapport d'activité 2013, 21

<sup>2</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul.

<sup>3</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul.

<sup>4</sup> Kim, T. (2003). Neo-Confucian Body Techniques: Women's Bodies in Korea's Consumer Society. *Body & Society* 9(3): 97–113, in Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81.

<sup>5</sup> On influence of Confucianism, see: Kim, T. (2003) 'Neo-Confucian Body Techniques: Women's Bodies in Korea's Consumer Society', *Body & Society* 9(3): 97–113; Deuchler, M. (1992) *The Confucian Transformation of Korea*. Cambridge, MA: Harvard University Press.

On traditional and non traditional roots see: Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81; Kim A.E. (2005). Nonofficial Religion in South Korea: Prevalence of Fortunetelling and Other Forms of Divination. *Review of Religious Research*, 46(3), 284–302.

reflect the westernization of Korean society.<sup>6</sup> While an opposite current of scholars has argued that this standardized beauty is fully distinct from western models, middle way consists in considering the emerging Korean beauty as globalized.<sup>7</sup> The social importance of physical appearance and the need for expertise on Asian skin type could explain the development of specific consumers' expectations and beauty practices that European brands have difficulties meeting, as well as the promotion of local compared to foreign brands. However, foreign brands can be a means of maintaining elite-class image or gaining social recognition.<sup>8</sup> Furthermore, through the Korean Wave, also called *hallyu*, Korea has played a role of cultural mediator in Asia, exporting beauty standards conveyed by its cultural products, which has influenced cosmetics' sales.<sup>9</sup>

In the course of this thesis, we will answer the following question: what are the structural obstacles to the penetration of European brands on the Korean cosmetics market and how could there be an opportunity in overcoming them? A first hypothesis focuses on market conditions and consumers' characteristics. The Korean cosmetics market represents a challenge for European brands due to heated competition on the segment of low-price cosmetics on a market biased towards mass consumption, and highly sophisticated consumers. A second hypothesis is that the development of a Korean beauty related to the emergence of an East Asian identity and mingled with western influences is an opportunity, as the Korean cosmetics market can play the role of mediator of European products and

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<sup>6</sup> Wegenstein, B., & Ruck, N. (2011). Physiognomy, Reality Television and the Cosmetic Gaze. *Body & Society*, 17(4), 27–54.

<sup>7</sup> On globalized Korean beauty, see: Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*

<sup>8</sup> On the impact of the need for respect and achievement on the consumption of foreign versus local brands in China, see: He, Yanqun; Zou, Deqiang & Jin, Liyin (2010). Exploiting the goldmine: a lifestyle analysis of affluent Chinese consumers. *Journal of Consumer Marketing*, Vol. 27 Iss 7 pp. 615 – 628.

<sup>9</sup> Ryoo, W. (2009). Globalization, or the logic of cultural hybridization: the case of the Korean wave. *Asian Journal of Communication*, 19(2), 137–151.

lifestyle to the overall Pacific Asia region. First, this research aims at highlighting a new relationship between the study of the market conditions and former studies done on the relationship to appearance and consumption standards in Korea. Second, it extends the theories about Korea's role of cultural mediation to East Asia to the cosmetics industry and shows to what extent it constitutes an opportunity for European brands. Former research only gives a partial view of the Korean beauty market. Although the consumption of cosmetics plays an important role in Korea, there is little formal research on this practice. One must wonder, for example, how analysis specific to plastic surgery could also apply to the cosmetics industry. Furthermore, although former research has linked the development of the contemporary Korean beauty identity to the Korean wave, it has not studied the partaking of cosmetics to that phenomenon. One can thus complement the existing research by investigating the relationship between the cosmetic industry and the process of exportation of Korean lifestyle through globalization of the national media industry. This process of diffusion of Korean lifestyle and consumption standards also benefit European brands that are successful on the market.

The scope of this research was determined based on the nature of cosmetics exports from the European Union to South Korea, which are made mainly from skincare, make-up and perfumes.<sup>10</sup> Data sets on market domination, segmentation, imports and exports and distribution were examined to identify the main structural challenges. A qualitative analysis of the market was conducted through interviews of business practitioners and female and male consumers. Other empirical evidence were journal articles, stockholders articles and beauty blogs. Theoretical evidence grounded the analysis of the specificities of Korean consumer's expectations and the process of culture and lifestyle mediation operated by Korea's media industry. The aim of this thesis was to provide a holistic approach of a

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<sup>10</sup> Source: Comext. Last updated on: 16 Mar 2015. Retrieved from: <http://ec.europa.eu/trade/>

subject often under the monopoly of business practitioners, by combining quantitative analysis with a qualitative approach based on previous studies on beauty in the Korean society.

The first hypothesis, according to which there are structural and cultural market obstacles to the growth of European brands in Korea, was confirmed. These consist in contrasts between traditional and modern distribution channels, and a bias towards relatively high quality but low price mass consumption driven by well-informed and demanding consumers. The second hypothesis was also confirmed. The Korean media industry participates in creating an Asian beauty identity, which positions it as a cultural mediator between the West and the rest of Pacific Asia. Because of that status, Korea exports not only cultural products, but also lifestyle and consumption products, among which cosmetics play a large part. European brands also participate to the creation of hybridized Korean beauty models, and can use the Korean market as a channel towards the rest of the Asia Pacific market.

Nuances can nevertheless be brought to both hypotheses. The challenge is limited to the extent that Korean and European brands have differentiated comparative advantages on the Korean cosmetics market. European brands, on the one hand, hold a comparative advantage in high premium luxury through marketing differentiation and brand recognition. Korean brands, on the other hand, are especially successful on the low-end and entry premium segment, through competitive production timeframes, high research & development, well trained sales forces, and wide distribution availability. However, European brands can also benefit from competing on a segment where they don't hold a comparative advantage, in order to learn know-how, standards, and best practices widely followed in the rest of Asia. Here the second hypothesis helps specify the nuances that are brought to the first hypothesis.

First, the contribution of this thesis is to offer a market analysis of the cosmetics market aimed at identifying its specific challenges. Second, it is to see how existing theories on the specificity of culture and beauty ideals in Korea and the emergence of a Korean beauty model apply to the cosmetics' sector. Third, this research enables an extension of theories of hybridization derived from the study of the Korean wave. Along with the globalization of culture, the new beauty model currently emerging in Korea is hybrid; therefore it includes elements of European lifestyle and consumption that can be exported to the rest of Asia. Whereas the analysis of the market conditions does not alone justify heavy investment on the Korean cosmetics market, this research shows why its role of cultural mediation in Asia is a tremendous opportunity for European brands.

## **II) Background and literature review**

### **A) Background**

The South Korean cosmetics market is small relatively to the leading world's market, although its size is important in proportion to its population. It is ranked 11th globally with sales of \$6.834 million, equivalent to 2,6% of the world's cosmetics market.<sup>11</sup> It has grown by 1,3% in 2010. It is highly competitive with more than 700 companies competing on this market.<sup>12</sup> The two countries with the most important market sizes are the United States and Japan, equating to 14,3% and 10,9% of the world's market for cosmetics.<sup>13</sup> Compared to these markets, the size of the Korean cosmetics' market is relatively small.

To further our analysis, we can place the Korean cosmetics market in the context

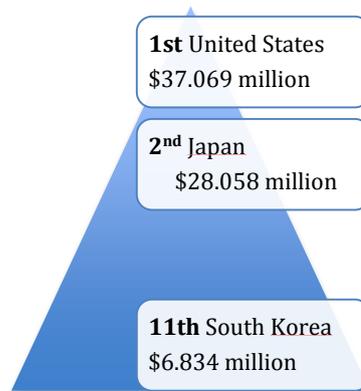
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<sup>11</sup> KHIDI Health Industry Statistics Annual 2013, South Korea Health Industry Statistics Annual (2013) – Korea Health Industry Development Institute (South Korea)

<sup>12</sup> Korea Cosmetic Association

<sup>13</sup> KHIDI Health Industry Statistics Annual 2013, South Korea Health Industry Statistics Annual (2013) – Korea Health Industry Development Institute (South Korea)

of the Asia Pacific region. The latter has the second most important cosmetics market after Europe, with a value of 80.600 million in 2012, equating to 31,2% of the world's market (Europe represented 37,2% of the world's market). Thus, it could be interesting to analyze the Korean cosmetics market in terms of influence on the overall Asia Pacific region.

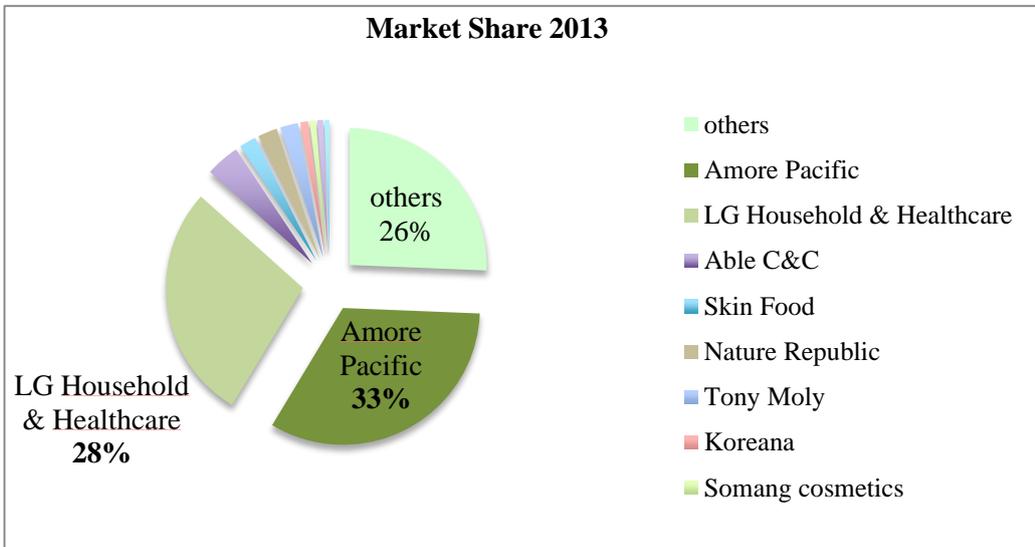


Source: KHIDI Health Industry Statistics Annual 2013, South Korea Health Industry Statistics Annual (2013) – Korea Health Industry Development Institute (South Korea)

## **1. The Korean cosmetics market's characteristics**

### a) A market dominated by two major companies

The first striking characteristic of the Korean cosmetics market is its domination by two major companies, whose combined market share represents more than 60% of the overall market, with positive growth rate over the year 2013.



*Source:* KHIDI Health Industry Statistics Annual 2013, South Korea Health Industry Statistics Annual (2013) Korea Health Industry Development Institute (South Korea)

The market leader Amore Pacific has sales of 2 696 billion won and grew by more than 10,6% since 2012. LG Household & Healthcare has sales of 2559,2 billion won. It grew by 6,1% since 2012.<sup>14</sup> The Amore Pacific group was the 17<sup>th</sup> Global cosmetics company worldwide in 2012, with sales equal to one tenth of those of the world leader, L'Oréal. The 10 leading brands on the Korean domestic market are Korean brands.<sup>15</sup>

However, growth of the overall market does not relate to uniform growth of all individual firms. Although the market grew by 3.4%, half of the top 10 companies have experienced a decrease in sales over the past year, the maximum concerning the firm Somang cosmetics (-37,5%), a company with only 0,9% of market share. The firm with the strongest growth is Nature Republic (+33,7%).<sup>16</sup>

Furthermore, when we analyze the leading firms more precisely, we see that they

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<sup>14</sup>Beauty Nuri

<sup>15</sup> *Ibid.*

<sup>16</sup> *Ibid.*

don't necessarily achieve profits on the domestic market. Amore Pacific has indeed achieved growing revenues between 2009 and 2013. However, as profit margins have decreased (from 12,8% in 2011 to 8,6% in 2013), the net income has remained stable.<sup>17</sup>

Thus, the Korean cosmetics market is a very competitive market, very only few firms achieve growth and on which it is even more difficult to increase net income. The repartition of sales between cosmetics segment, very oriented towards skincare, is also likely to increase competition.

b) Market production: a domination by skincare

The production of cosmetics by Korean manufacturers has enjoyed high growth between 2008 and 2012. The compound annual growth rate, that is to say the average year-on-year growth rate of an investment over a number of years reaches a level of 10,8% during that period.

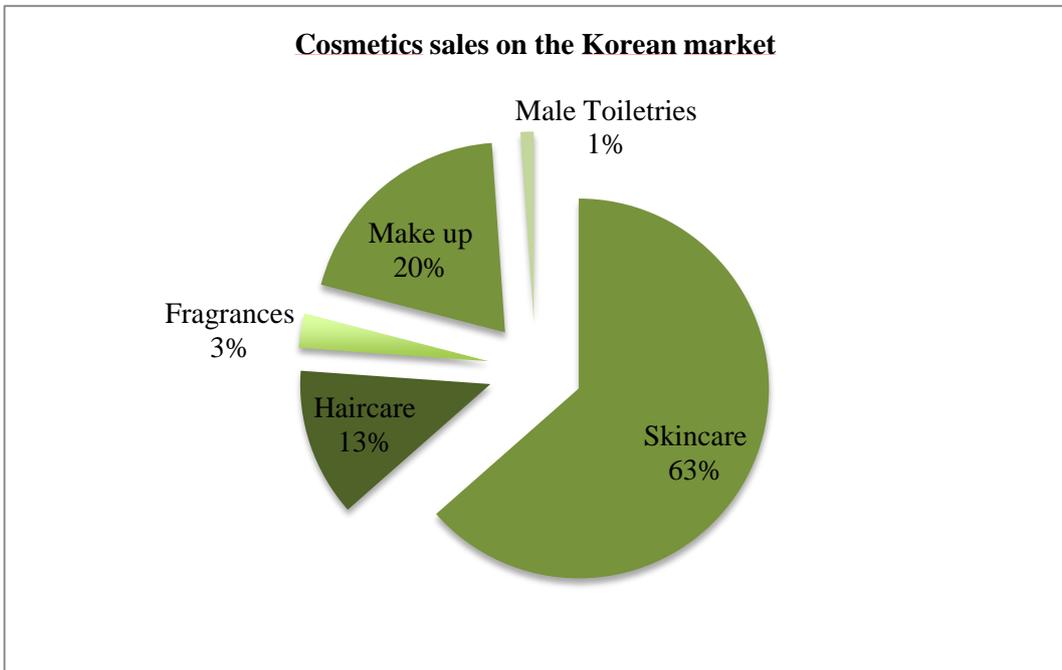
1) Sales on the cosmetics market

More than half of the cosmetics' market sales concern the skincare category, the most important segment, followed by make-up and haircare. The Fragrances segment has a very low market share.<sup>18</sup>

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<sup>17</sup> *Ibid.*

<sup>18</sup> Ministry of Health and Welfare, A survey on the Manufacture and Marketing Structure of Medical Device and Cosmetic Industry, in KHIDI Health Industry Statistics Annual 2013, *South Korea Health Industry Statistics Annual* (2013) – Korea Health Industry Development Institute (South Korea).



*Source: KHIDI Health Industry Statistics Annual 2013, South Korea Health Industry Statistics Annual (2013) – Korea Health Industry Development Institute (South Korea)*

## 2) Production on the cosmetics market

In 2012, most of the production is devoted to skincare, a category that has grown by 2,5% over the year, although the part of skincare in the overall production of cosmetics is slightly lower than in 2011.<sup>19</sup>

The production of make-up is decreasing sharply, by 13,5% since 2011, although it is the second category in terms of sales on the domestic market.<sup>20</sup> This can be explained by the fact that exports of cosmetics from the make-up category from the European Union to South Korea have increased.<sup>21</sup> Production of male toiletries, make-up and eye make-up

<sup>19</sup> *Ibid.*

<sup>20</sup> *Ibid.*

<sup>21</sup> Source: Comext. Last updated on: 16 Mar 2015 Retrieved from: <http://ec.europa.eu/trade/>

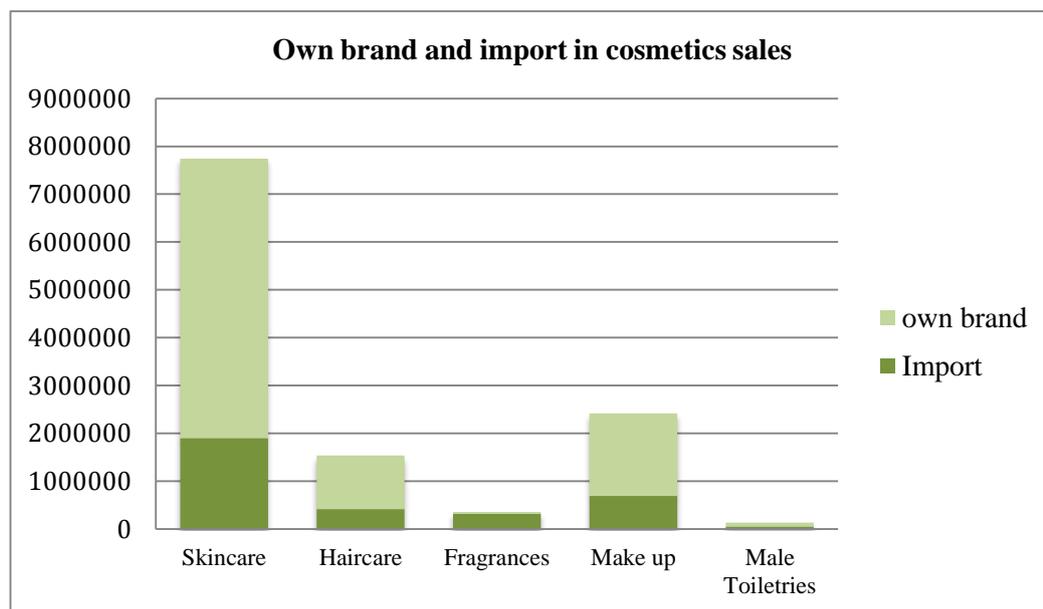
have decreased significantly since 2011.<sup>22</sup>

We can also notice that fragrances equate to only 0,3% of the cosmetics production, with a decrease in amount almost by half compared to 2011. This can be explained by the fact that for this category, unlike all other categories, the high majority of sales consists in imports and only 10% is made of home production.<sup>23</sup>

## 2. Imports and exports in the cosmetics sector

### a) A positive trade balance in the cosmetics' sector

The overall production has grown by a CAGR of 10,8% between 2008 and 2012. Exports have increased much faster than imports with a trade balance becoming positive in 2012. Exports have increased by 30,9% while imports have increased by only 8,5%.



Source: KHIDI Health Industry Statistics Annual 2013, South Korea Health Industry Statistics Annual (2013) – Korea Health Industry Development Institute (South Korea)

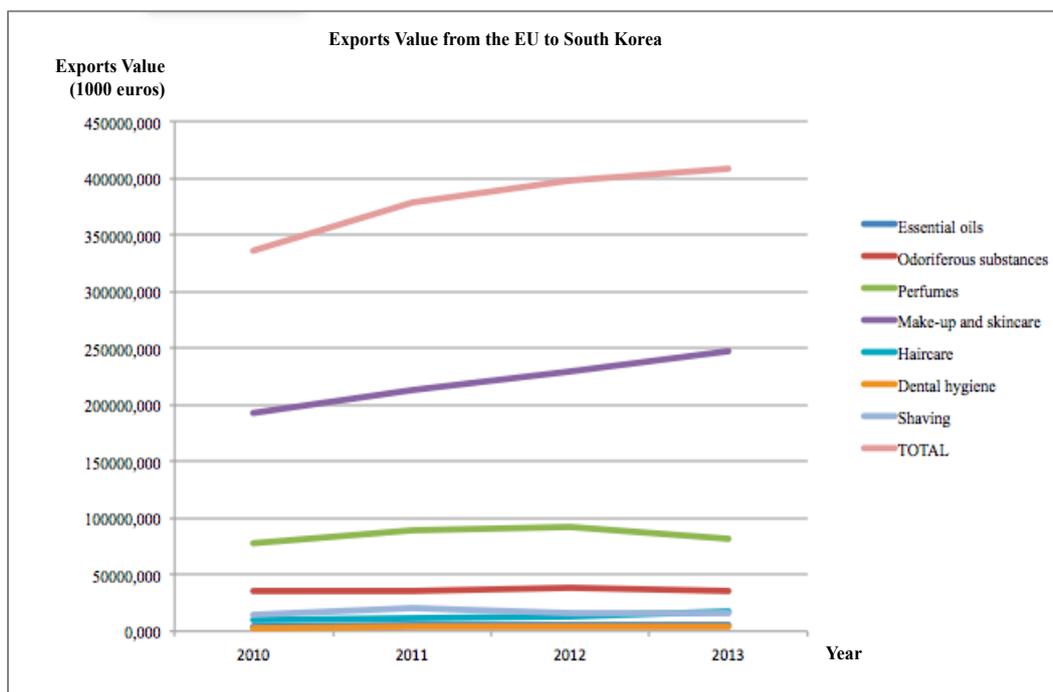
<sup>22</sup> Ibid.

<sup>23</sup> Ibid.

When we distinguish among the sales of cosmetics manufacturers between the sales of own brand and the sales of imported products, we observe that fragrances have a status of exception, with own brand products accounting for only 10% of domestic cosmetic manufacturer's sales.

Thus, we notice a relative low value of imports compared to own brand sales, except for the almost entirely imported fragrances segment. We need to analyze if exports from the European Union have increased in spite of the dominance of Korean exports over Korean imports.

b) Exports from the European Union to South Korea



Source: Comext

Last updated on: 16 Mar 2015

Retrieved from: <http://ec.europa.eu/trade/>

The products that make up most of the exports of cosmetics from the European Union (EU) to South Korea belong to the make-up and skincare category. In addition, the exports of products from this category have been continuously growing. The second category that is most exported by the European Union is Perfumes.

Because of the importance of skincare, make-up and to a lesser extent Perfumes in the export from the European Union to South Korea, we will focus our study mainly on these three categories

The Free Trade Agreement concluded in July 2011 between the European Union and South Korea, was planned to reach the cosmetics sector in Korea only after a period of 5 years, that is to say in 2016. From that year on, imports from the European Union to Korea are likely to increase.

The Free Trade agreement opens new opportunities for European brands and justifies conducting a thorough analysis of the Korean market conditions.

## **B) Literature review**

### **1. High consumers expectations and the consumption of foreign brands**

#### a) The social importance of physical appearance

##### 1) Korean relationship to appearance

A first area of research that can guide us in our study of the specificities of the Korean cosmetics' market is the research on the Korean relationship to appearance. Watchravesringkan, examining consumer vanity in three East Asian countries, namely South Korea, the People's Republic of China and Thailand, found that South Koreans participants tended to pay the highest attention to their physical appearance and express

more concerns about their own physical attractiveness.<sup>24</sup> Cross-cultural studies have shown that Korean women place greater importance on appearance, are more critical of their bodies and have lower self-esteem than American women<sup>25</sup>. T. Kim has shown that, compared to American women, Korean women are more conscious of how they are perceived by other people and more concerned about the negative consequences that leaving an unfavorable impression can have.<sup>26</sup> In the Korean collectivistic culture, appearance is deemed more important for evaluating the self and the other.<sup>27</sup>

## 2) Influence of Confucianism

Some authors argue that the importance of appearance is strongly related to the permanence of Confucian ethics. For example, Taeyon Kim describes the neo-Confucian gender differentiation between men as subjects and women as “subjectless bodies” in need of control and protection.<sup>28</sup> However, in the consumer capitalism, women’s beauty, no longer kept private, is now part of the public sphere and has become an object of consumption and scrutiny.<sup>29</sup> Therefore, in a “culture of conformity”, where the unity of the whole is more important than individual aspirations, there is a new “requirement of decorum” for women.<sup>30</sup> Furthermore, social success can be measured by approximation to the image of

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<sup>24</sup> Watchravesringkan, K. (2008). A cross-cultural comparison of consumer vanity in the People’s Republic of China, South Korea, and Thailand: An exploratory study. *International Journal of Consumer Studies*, 32, 103–112.

<sup>25</sup> Jung, J., & Lee, S. (2006). Cross-Cultural Comparisons of Appearance Dieting Behavior Between Korean and U.S. Women, *34*(4), 350–365.

<sup>26</sup> *Ibid*

<sup>27</sup> *Ibid*.

<sup>28</sup> Kim, T. (2003) ‘Neo-Confucian Body Techniques: Women’s Bodies in Korea’s Consumer Society’, *Body & Society* 9(3): 97–113.

<sup>29</sup> Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81.

<sup>30</sup> Kim, T. (2003). Neo-Confucian Body Techniques: Women’s Bodies in Korea’s Consumer Society. *Body & Society* 9(3): 97–113, in Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81.

the elite-class.<sup>31</sup>

### 3) A cosmetic gaze

The emergence of what Bernadette Wegenstein and Nora Ruck call a “cosmetic gaze”<sup>32</sup> can also be applied to Korea. It describes a gaze already informed by the techniques, expectations and strategies of bodily alteration and a way of looking at bodies as awaiting an improvement. This gaze is emphasized in contemporary media and reality shows on television and creates a short circuit between an outside and inside transformation. This analysis can be relevant in the case of the Korean society, where TV shows are increasingly successful, and K-pop idols or celebrities are judged on the basis of their looks.

### 4) Physical appearance and employment

Finally, physical appearance can be a criterion in hiring decisions. A 2006 study conducted among high school students found that appearance was considered of greater importance than skills or abilities when applying for a job.<sup>33</sup> Furthermore, a photograph is required for any job application.<sup>34</sup>

Therefore, Korean women engage in routine appearance-management behaviors, including the use of skincare and make-up products.<sup>35</sup>

Thus, studies have focused on the social importance of beauty in Korean society and explained it by various factors, such as the permanence of Confucian ethics, the association between appearance and social success, or the emergence of a cosmetic gaze,

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<sup>31</sup> Deuchler, M. (1992) *The Confucian Transformation of Korea*. Cambridge, MA: Harvard University Press.

<sup>32</sup> Wegenstein, B., & Ruck, N. (2011). Physiognomy, Reality Television and the Cosmetic Gaze. *Body & Society*, 17(4), 27–54.

<sup>33</sup> *Ibid.*

<sup>34</sup> Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81.

<sup>35</sup> Lee, S.-H., Rudd, N., & Kim, J. (2001). Body image I: A comparison of ideal beauty, body image, and appearance management behaviors among Korean and American women. *Journal of the Korean Society of Clothing and Textiles*, 25(5), 969-980

that implicitly assimilates exterior appearance to inner qualities. This can be related to the consumption of foreign brands, for it can meet specific consumers needs for achievement, uniqueness and respect.

b) Consumption of foreign brands in relationship to the need for achievement, uniqueness and respect

Some studies have tended to relate lifestyle to consumption, and more precisely to the preference for foreign brands. However, although there is a large body of lifestyle studies, very little research has focused on the Asia Pacific region.<sup>36</sup> There is a lack of studies on the Korean market in itself. Thus, we can focus on neighboring markets to find some clues to analyze correlations between preferences for local brands compared to foreign brands and need for achievement, respect, uniqueness or price consciousness.

Yanqun He, Deqiang Zou and Liyin Jin identified the impact of lifestyle on consumption patterns, and in particular brand preference for local against foreign.<sup>37</sup> The survey found that need for achievement and need for respect had a positive influence on brand discrimination. Consumers with need for achievement had stronger preferences for foreign brands. However, the identity of foreign brands was not sufficient in itself to satisfy the consumers' need for respect. Still, although the prestige associated to foreign brands may have diminished, the authors observed a positive first sight perception of foreign brands. However, they found that the need for uniqueness could be correlated either to the preference for foreign brands or to the preference for local brands, which can be interpreted in the way that aspiration to be unique can be satisfied regardless of the origin of the

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<sup>36</sup> Tai, H.S. and Tam, L.M. (1997), "A lifestyle analysis of female consumers in greater China", *Journal of Consumer Marketing*, Vol. 14 No. 3, pp. 287-307.

<sup>37</sup> He, Yanqun; Zou, Deqiang & Jin, Liyin (2010). Exploiting the goldmine: a lifestyle analysis of affluent Chinese consumers. *Journal of Consumer Marketing*, Vol. 27 Iss 7 pp. 615 – 628.

products.

From this survey, we can infer that foreign brands hold an advantage in terms of achievement and respect but that they still face the competition of local brands, in particular in terms of need for uniqueness. To go further than the consumption of foreign brands, we can consider how western standards apply to the Korean market.

## 2. The reinterpretation of western beauty standards on the Korean cosmetics market

Some Korean contemporary beauty standards are inherited from a very ancient past. A good example is provided by the studies conducted on the importance of whiteness in Asian societies.<sup>38</sup> However, other beauty criteria have been deeply modified, sometimes as a result of western influences. The permanence of western influences can be an asset for European brands in Korea.

### a) The emergence of a Korean reconstruction of western standards

Research has been conducted on the unusually high level of aesthetic surgery in South Korea. There have been attempts at finding the origins of this trend, but also at identifying its models and ideals. When studying the aesthetic surgery market, many authors have underlined the importance of Western influences.<sup>39</sup> Bernadette Wegenstein and Nora Ruck see the ideal-type as clearly Euro-centric, the latest capitalist media having little interest in changing the traditional Northern European beauty ideals.<sup>40</sup> The example of the fascination for wider eyes and white skin is often used to describe this westernization of beauty.

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<sup>38</sup> Li, E. P. H., Min, H. J., Belk, R. W., Kimura, J., & Bahl, S. (2008). Skin lightening and beauty in four Asian cultures. *Advances in Consumer Research*, 35.

<sup>39</sup> Park, S.U. (2007) ‘‘Beauty Will Save You’’: The Myth and Ritual of Dieting in Korean Society’, *Korea Journal* 47(2): 41–71., Kim, T. (2003) ‘Neo-Confucian Body Techniques: Women’s Bodies in Korea’s Consumer Society’, *Body & Society* 9(3): 97–113., Kim, T. (2003) ‘Neo-Confucian Body Techniques: Women’s Bodies in Korea’s Consumer Society’, *Body & Society* 9(3): 97–113.

<sup>40</sup> Wegenstein, B., & Ruck, N. (2011). Physiognomy, Reality Television and the Cosmetic Gaze. *Body & Society*, 17(4), 27–54.

However, as can be shown using the example of Japan, some characteristics are sometimes misunderstood as being western. According to Mikiko Ashikari, Japanese whiteness embodies Japanese racial identity and is perceived as different, and even superior to western whiteness.<sup>41</sup> In the case of the blepharoplasty, or double eyelid operation, Ruth Holiday and Joanna Elfving-Hwang insist on the fact that the goal is to obtain wider eyes, but wider eyes that look like Korean eyes, and don't look too artificially western.<sup>42</sup> They also emphasize that the assumption that Korean women want to look western denies the constructed nature of western beauty, and argue that the initial emergence of an ideal western type depended on the fact that it met preexisting notions of class and status.<sup>43</sup>

Some authors have argued that a new Korean model of beauty has emerged, replacing the westernized preexisting models in Korea. R.Holiday and J.Elfving-Hwang rather support the thesis that constructed Korean beauty standards result from a negotiation between globalized and national standards of beauty.<sup>44</sup>

b) A redefinition of masculinity and femininity

Another differentiation from the West can be found in the partaking of men to the beauty market. This can be explained by a greater similarity in masculine and feminine beauty ideals. The figure of the *kkonminam* with soft features and a slim silhouette, embodies this combination of male and female attributes, and redefines the former traditional (often militarized) perception of masculinity.<sup>45</sup> This has also been reinforced by the success of K-

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<sup>41</sup> Ashikari, Mikiko (2003a), "The Memory of the Women's WhiteFaces: Japaneseness and the Ideal Image of Women," *Japan Forum*, 15 (1), 55-79

<sup>42</sup> Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81.

<sup>43</sup> Ibid.

<sup>44</sup> Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81.

<sup>45</sup> Jung, S. (2010) 'Chogukjeok Pan-East Asian Soft Masculinity: Reading Boys Over Flowers, Coffee Prince and Shinhwa Fan Fiction', pp. 8.1–8.16 in Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81

pop boys bands and popular actors. Thus, firms on the Korean beauty market have to address more complex manly needs.

c) Impact of the Korean Wave

Finally, the confidence in an assumed Korean beauty identity and the emergence of a Korean ideal type has certainly been strengthened by the emergence of the Korean Wave or *hallyu*. To quote the definition of Jung-Sun Park, “the term refers to the growing popularity of South Korean popular culture, especially music, TV, dramas, movies and fashion styles in East/Southeast Asia, including China, Taiwan and Vietnam. It began in the late 1990’s and, by the early twenty-first century, it has become a widely visible phenomenon in the region.”<sup>46</sup> W. Ryoo argues that this phenomenon has triggered the development and exportation of a hybridized Korean culture and positioned Korea as a cultural mediator in Asia, exporting lifestyle and consumption standards that are themselves largely subject to western influence.<sup>47</sup>

Thus, previous studies have focused on the Korean reinterpretation of Western standards. The emergence of a globalized Korean beauty, mingled with western influences but distinct from it, questions the extent to which Korean consumers can accept European brands. This could suggest the existence of a challenge that European brands would face when meeting the demands of Korean consumers.

**d) Limitations of existing research and scope of study**

1) Building on previous studies

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<sup>46</sup> Park, Jung-Sun (2006).The Korean Wave: Transnational Cultural Flows in East Asia. In *Korea at the Center: Dynamics of Regionalism in Northeast Asia*. Charles Armstrong, Gilbert Rozman, Samuel Kim and Stephen Kotkin, eds. Armonk, NY: M.E. Sharpe, 2006.

<sup>47</sup> Ryoo, W. (2009). Globalization, or the logic of cultural hybridization: the case of the Korean wave. *Asian Journal of Communication*, 19(2), 137–151.

As it is mostly considered to be a business subject, there is little research conducted by scholars on the Korean cosmetics market, although it is deeply related to the studies introduced above. These analyze factors for consumers' high expectations and give indications on how they could relate to foreign brands' consumption. They also show how, on the Korean cosmetics market, a process of reinterpretation and hybridization of western cultural standards occurs, operated through the Korean Wave.

This research will build on these previous studies to identify the specific structural challenges of this market for foreign brands. It will also develop the previous studies on Korean culture hybridization in order to demonstrate the partaken of the Korean cosmetics market to that process.

#### 2) A widening of the traditional business scope to identify opportunities

This research will initiate a widening of the traditional business and economic scope of this subject and help identify more accurately than a mere economic analysis the challenges and opportunities on the cosmetics market. This study will pinpoint to what extent there is an opportunity for European brands in overcoming these challenges. Without this extension of the traditional scope, the analysis of business characteristics of the Korean cosmetics market would not alone justify the struggle of European brands to achieve growth on this market. Only the combination to other wider studies on Korean culture and its influence on the rest of Asia can justify the wish for European brands to compete on that market. It can provide a holistic approach of the Korean cosmetics market and show how the emergence of a renewed hybrid Korean identity can be an opportunity as well as a challenge for European brands.

### **III) Outline of the study**

In the course of my development, I will answer the following question: what are the structural obstacles for penetration of European brands on the Korean cosmetics market and how could there be an opportunity in overcoming them?

**H1:** The Korean cosmetics market represents a challenge for European brands due to contrasted distribution channels, highly sophisticated consumers' expectations, and heated competition on the segment of low price cosmetics on a market biased towards mass consumption.

**H2:** The development of a Korean beauty related to the emergence of an East Asian identity but mingled with western influences is an opportunity, as the Korean cosmetics market can play the role of mediator of European products and lifestyle to the overall Pacific Asia region.

My first hypothesis is related to the analysis of the market structure and conditions. The variables that seem to prevent European brands from gaining a strong foothold on that market are high competition on the low-end segment, contrasted distribution channels and consumers' sophistication. In addition, we can notice that contrasted distribution channels and consumer's sophistication are fixed variables, related to consumers' behavior and long-term market structure. As a matter of fact, the need for high quality at a low price is driven by high expectations from consumers for quality and price. This presence of consumers expecting quality but at a low price creates heated competition on the low price segment. Because of the market challenging conditions, it requires from European brands that they improve their differentiating skills, optimize their efficiency and increase their quality.

My second hypothesis relies on the assumption that the expansion of the Korean

cosmetics' market can't be studied independently from the global diffusion of Korean culture in which beauty standards play a major role. The development of a Korean beauty, associated to the Korean wave phenomenon but not limited to it, contributes to the emergence of an East Asian identity and consequently, to evolving standards in terms of lifestyle and beauty practices in Asia. In order to prove my hypothesis, I will rely on previous studies, which show this mediation of Korean lifestyle and products to other Asian countries in relationship to the Korean wave. According to that hypothesis, the cosmetics market is fully involved in that process and there is an opportunity for European brands to take advantage of this trend and take part in the construction of the globalized Asian beauty and lifestyle.

#### **IV) Methodology**

In order to prove my hypothesis, I will rely both on theoretical and empirical evidence in order to conduct a qualitative analysis of the challenges on the cosmetics market complemented by a quantitative analysis of the structural market conditions.

As theoretical evidence, I will pursue the reasoning initiated by the studies on the process of culture hybridization, accompanying the Korean wave phenomenon and crystallization of a Korean beauty identity, which participates to the construction of the contemporary Asian culture.<sup>48</sup> I will show how the creation of an Asian beauty identity, largely influenced by the western standards, is an important part of this process and induces the exportation of lifestyle and consumption patterns, which include the use of cosmetics. In order to analyze the specific expectations of Korean consumers, I will rely on studies about impact of product characteristics, risk perception and brand equity on purchasing

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<sup>48</sup>Ryoo, W. (2009). Globalization, or the logic of cultural hybridization: the case of the Korean wave. *Asian Journal of Communication*, 19(2), 137–151. <http://doi.org/10.1080/01292980902826427>

intention or cross-cultural comparison of consumers' behavior.<sup>49</sup>

As empirical evidence, this research will use the material from interviews conducted with practitioners of the cosmetics industry in order to understand their perspective on the business challenges in that sector, and have a better comprehension of the structural conditions on that market. 10 interviews took place with persons active in firms. They were all either marketing managers (L'Oréal, Amore Pacific, Estée Lauder), or managing distribution firms (Shinsegae).

Another complementary approach will be provided by reports containing recommendations dedicated to stockholders that provide an accurate perception of the price evolutions and consumption trends on that market.

In order to analyze the recent trends on the market, I will also use articles from general or specialized newspapers. Specialized articles' sources will include magazines dedicated to the cosmetics business (*Beauty Packaging*), or more leisure oriented online newspapers dedicated to the Korean wave (k-pop herald section of the *Korean Herald*) and Korean blogs dedicated to cosmetics. In order to provide illustration for my findings, I will conduct interviews with ten university students in their twenties. The sample was constituted of people that age because it corresponds to the highest average cosmetics consumption.

The data set considered was collected by the Korea Health Industry Development Institute, and provided by the Ministry of Health and Welfare, the Korea Cosmetic

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<sup>49</sup> On product characteristics, see : Choi, S. (2003), "The effects of the perceived product characteristics and conspicuous consumption on the fashion luxury involvement", *Journal of the Korean Society of Clothing and Textiles*, Vol. 27 No. 2, pp. 209-18.

On risk perception, see: Choi, Jayoung & Lee, Kyu-Hye (2003) Risk perception and e-shopping: a cross-cultural study. *Journal of Fashion Marketing and Management: An International Journal*, Vol. 7 Iss: 1, pp.49 – 64.

On brand equity, see: Jung, Jaehee & Sung, Eunyong (2008). Consumer-based brand equity. *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss 1 pp. 24 – 35.

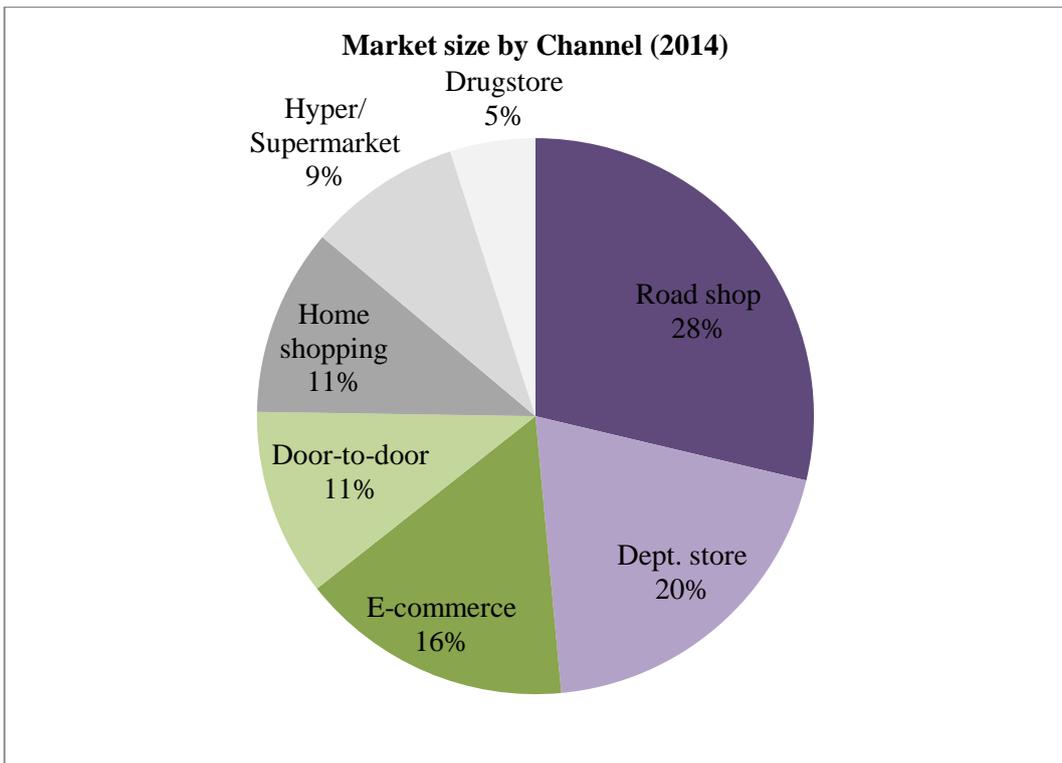
Association, Euromonitor, Beauty Nuri Database or Data Panel 2014. This precise data set will enable quantitative description and analysis of the market on which qualitative analysis can then be developed. It will show how quantitative micro-observations can be related to qualitative trends on the overall market. The use of data for market analysis will be particularly useful to prove the first hypothesis, since it will enable the identification of the main framework in which European brands have to compete on the Korean cosmetics market. The use of theoretical evidence illustrated by empirical analysis will switch the focus from the observation of the market's structural obstacles to the notion of opportunity to nevertheless compete on that market, which would not seem justified by studying only quantitative data such as market size or number of firms competing on each segment. Theoretical evidence will therefore serve as proof for the second hypothesis.

This research will differ from previous research firstly because there has been little if no research conducted on the Korean cosmetics' sector. Secondly, by combining reliable data sets and a more qualitative approach and relating the evolutions on the Korean cosmetics market to characteristics of the Korean society and culture and more global Asian trends, this thesis aims at providing a holistic approach of Korean cosmetics' production, distribution and consumption. This approach will draw both from the economic business analysis of the sector and from previous studies on beauty and consumption practices in Korea.

## Chapter 2: Finding: The Korean market, a competitive market in transition

### I) Distribution channels: a contrasted market in transition

The Korean cosmetics' market is very specific in terms of distribution channels and thus appears to be a market in transition, where traditional channels have not been entirely replaced by newly developed ones. This results in a very contrasted market combining very old-fashioned channels such as door-to-door sales that still represent an important market share, and very modern ones that are constantly growing. Furthermore, a new channel, the road shops, and especially monobrand shops hinder the penetration of European brands.



Source: Korea Cosmetic Journal

### A) Road shops, a major growing channel

Road shops are the most important channel and account for 28% of the market. This

channel has been increasing continuously overtime, by around 15% a year since 2011.<sup>50</sup> Companies have been able to open a large number of monobrand shops in a short period of time by adopting the franchise business model. This channel has expanded sharply, which has led to margin deterioration.<sup>51</sup> Some Korean brands have taken advantage of this evolution. For example, Amore Pacific has introduced the brand shop chain “Innisfree Herb Station”, offering affordable cosmetics to younger customers.<sup>52</sup> It has also opened a multibrand shop Aritaum, that offers products of its brands in easily accessible locations, and shows that it takes advantage of the new road shop channel.<sup>53</sup>

Sales at duty-free stores are anticipated to remain strong thanks to a continued increase of Chinese tourists’ consumption. The contribution of Chinese customers to the company’s total duty-free store sales has grown from 53% in 2012 to 55% in 2013. While Japanese tourists seem to prefer low-end brands, a high proportion of Chinese tourists tend to buy high-end products at duty-free stores.<sup>54</sup>

A good example can be found in the increased number of Chinese tourists travelling to Jeju to buy cosmetics at Duty Free shops. Nearly 2.3 million Chinese tourists visited Jeju during the first nine months of 2014, which represented a 48% year-over-year increase. Chinese visitors spend approximately \$2,000 each on the island, according to the Korea Tourism Organization, and shopping comes first in their expenses, before accommodations, entertainment or food.<sup>55</sup> Amore Pacific’s duty-free sales in South Korea

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<sup>50</sup> Korea cosmetics Journal

<sup>51</sup> Kim, Mina, *Cosmetics Survival games* (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

<sup>52</sup> Yoo, C., & Windsor, R. D. (2008). The changing face of Korean marketing management. In C. Rowley & Y. Paik (Eds.), R. Y. Chris, C. Rowley, & Y. Paik, *The Changing Face of South Korean Management (Working in Asia)*. London: Routledge.

<sup>53</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul.

<sup>54</sup> *Ibid.*

<sup>55</sup> WOYKE, E. (2014). K-Shopping. *Forbes Asia*, 10(13), 68-74

to customers from China, Taiwan and Hong Kong increased by 184% in the first half of 2014 versus the first half of 2013, in great part thanks to the Jeju business.<sup>56</sup>

### **B) Decrease but survival of traditional channels**

Before all, door-to-door sales are decreasing significantly. The door-to-door channel market size decreased by approximately 30% before stabilizing in 2014 (with a decrease of only 8%). It accounts for 11% of the market in 2014.<sup>57</sup> Door-to-door sales are expected to remain low. Traditionally, the channel has enjoyed popularity among consumers who live in small- to mid-sized cities without department stores or who cannot visit department stores during operating hours. However, department stores have increased their territorial presence, and online malls are expanding their cosmetics ranges. As a result, the door-to-door channel is steadily losing ground.<sup>58</sup>

Department stores represent 20% of market sales in 2014. They saw their market size decreased by around 10% a year from 2011 to 2013, but have enjoyed renewed growth in 2014.<sup>59</sup> Their growth is expected to continue after 2014 and they are attracting customers by increasing promotions (e.g., samples, gift certificates, etc.).<sup>60</sup> High-end brands are introducing low-priced lines and/or launching entry-level brands at department stores in order to win back customers.<sup>61</sup>

This evolution represents a challenge for Korean brands as well as for foreign brands. Amore Pacific built its success partly on its ability to achieve growth through

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<sup>56</sup> *Ibid.*

<sup>57</sup> Korean Cosmetic Journal

<sup>58</sup> Kim, Mina, *Cosmetics Survival games* (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

<sup>59</sup> Korea Cosmetic Journal

<sup>60</sup> Kim, Mina, *Cosmetics Survival games* (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

<sup>61</sup> Kim, Mina, *Cosmetics Survival games* (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

individual brand strategy both on the door-to-door sales channel and on the department stores channel.<sup>62</sup> It holds an advantage on the door-to-door sales channel that it introduced as a pioneer in 1964 and the decrease of this channel can be detrimental to the group.<sup>63</sup> However, the market leader has proven its ability to adapt its strategy by introducing innovative concept stores, such as the “Hue Place” or monobrand shops.<sup>64</sup>

### **C) Rise of new channels**

More recent channels such as e-commerce or home shopping are rising very rapidly. As described earlier, online malls are constantly expanding their cosmetics’ lineups. The market size of the E-commerce channel has grown by almost 170% between 2011 and 2014, the market size for home shopping by around 80%. Together, they equate to 27% of the market in 2014 (with a repartition of 16% for e-commerce and 11% for home shopping).<sup>65</sup>

Another important aspect is the development of the Hyper-Supermarket and also Drugstore channel. The Drugstore channel equates to 5% of the market in 2014, with a size that has been multiplied 1,5 times since 2011.<sup>66</sup>

### **D) Conclusion. A market in transition: past and present challenges**

Therefore, we can see that the market is in a transition from a market where traditional channels played a major role to a market where the purchasing process is less time consuming, with the generalized development of road shops and online buying. Still, the

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<sup>62</sup> Yoo, C., & Windsor, R. D. (2008). The changing face of Korean marketing management. In C. Rowley & Y. Paik (Eds.), R. Y. Chris, C. Rowley, & Y. Paik, *The Changing Face of South Korean Management (Working in Asia)*. London: Routledge.

<sup>63</sup> On the introduction of the Door-to-Door sales channel, see : *Ibid.*

<sup>64</sup> Yoo, C., & Windsor, R. D. (2008). The changing face of Korean marketing management. In C. Rowley & Y. Paik (Eds.), R. Y. Chris, C. Rowley, & Y. Paik, *The Changing Face of South Korean Management (Working in Asia)*. London: Routledge.

<sup>65</sup> Korea Cosmetic Journal

<sup>66</sup> *Ibid.*

direct sales channel, that used to play a major role in Korea, can not be overlooked even today, for the transition is far from being completed.<sup>67</sup> Traditional direct sales channels represent a challenge for European brands. They are emotional channels, which requires from cosmetics brands that they master a strong local network, difficult to develop for newcomers. Also, developing an operational door-to-door sales process could be detrimental to the image of international brands, especially if they belong to the luxury sector.

Thus, the completion of the transition of the Korean cosmetics market could favor European brands. The emergence of home shopping and e-commerce could benefit them, since they would more easily be available through that channel. Also the renewed growth of sales through department stores, is likely to increase their sales, since this is the preferential channel for foreign brands.

Foreign brands could thus take advantage of the transition from traditional distribution channels to more recent ones. However, the competitive environment that they would face is in itself also a great challenge.

## **II) An intensified competition**

The Korean cosmetics market is highly competitive, which can partly be explained by the fact that it is dominated by skincare and that the skincare segment in itself is highly competitive.

85,5% of all firms of the cosmetics market compete on the skincare segment (which in itself accounts for 58% of sales).<sup>68</sup> It's thus a highly competitive segment, even in proportion to its market share.

The make-up category is twice less competitive than skincare with 35,5% of the

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<sup>67</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul.

<sup>68</sup> *Ibid.*

firms of the cosmetics market competing on the make-up segment, and only 14,0% of them competing on the eye make up segment.<sup>69</sup> Make-up represents 18,3% of the market if we include eye make-up.

Fragrances, generating less revenue than just eye make-up, equate to only 2,7% of market share. It is not a very competitive segment, with only 9,2% of the companies competing on that segment.

A response by cosmetics firm to this situation of high competition has been to encourage make-up products over skincare. Companies have intentionally made efforts to boost the makeup product segment as the domestic cosmetics market is currently heavily focused on skin care products.<sup>70</sup> As a result, make-up products have grown more strongly than skincare in 2013.<sup>71</sup>

However, we need to analyze to what extent this high competition is concentrated on the low-priced to mid-priced segments, and through which mechanisms.

### **III) A bias towards mass consumption**

The low-end segments for creams concerns products with a price below 30 000 won. The entry premium segment for creams ranges from 30 000 to 80 000 won. Above 80 000 won, the segment is considered as premium. High premium qualifies creams above 150 000 won.

#### **A) From trading up to trading down**

##### **1) Trading up from 2007 to 2011**

From 2007 to 2011, the domestic cosmetics market grew at a CAGR of 10% thanks to three factors: first, an increase in premium products thanks to trading-up by consumers, second, a rise in the average selling price (ASP) enabled by the steady launches of high-end product

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<sup>69</sup> *Ibid.*

<sup>70</sup> *Ibid.*

<sup>71</sup> *Ibid.*

lines, and third, the increase of low-priced high quality products related to the emergence of mono-brand shops.<sup>72</sup>

## 2) Trading down since 2012

However, the market's growth decelerated in 2012 with a Year on Year growth of 7%, and in 2013 with a Year on Year growth of 5%.<sup>73</sup> In 2013, the domestic market has been characterized by a slowdown on the high-end segment and a heated competition on the low-end segment.<sup>74</sup> Consumers have had a tendency to trade down from premium products to mid-priced products. Companies have focused on introducing lower-priced, multifunctional makeup products instead of high-priced skin care products. In addition to that, the continued expansion of the mono-brand shop channel can lead to the achievement of quantitative growth through excessive promotions: thus, even though mono-brand shops maintain strong sales growth, their margins deteriorate.<sup>75</sup>

### **B) A decline of average selling price on the high-end segment**

There is an expected opportunity for premium, since the segment is expected to grow at a positive rate.

In 2013, the market was expected to be at positive growth between 2013 and 2015, with a CAGR of 7%.<sup>76</sup> The high premium market share is expected to be approximating 44% in 2016.<sup>77</sup> This value is relatively high compared to Asia average of 27%. Premium luxury cosmetics have market shares of 17% in China, 39% in Japan, and 56% in Hong Kong.

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<sup>72</sup> *Ibid.*

<sup>73</sup> *Ibid.*

<sup>74</sup> Kim, Mina, *Cosmetics Survival games (2013)*, KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

<sup>75</sup> *Ibid.*

<sup>76</sup> Euromonitor, 2013

<sup>77</sup> *Ibid.*

However, sales of premium products that are usually not influenced by economic downturns have decreased in 2013 due to consumers' trading-down and the launches of low-priced but high-quality products. A more rational consumption has developed, which has been detrimental to high-end skincare products.<sup>78</sup> Furthermore, demand for cosmetics is expected to shift to medical procedures, massage therapy and beauty supplements, an evolution that sets a limit to the price growth of premium products.<sup>79</sup> More and more, women tend to favor the immediate effects of plastic surgery compared to the long-term benefits of a premium brand.<sup>80</sup> They tend to prefer cheaper brands and invest in plastic surgery.<sup>81</sup>

Korean brands are weak on the luxury premium market, partly because low-end brands meet the expectations of consumers in terms of quality. This bias towards mass consumption also results from the existence of major market leading groups, owning many firms reaching from high-end to low-end, and providing relatively high quality low-end products. We can take the example of the Amore Pacific brand. In department stores, it achieves only \$21 million of sales in total, whereas La Prairie, a foreign brand with the same consumer target, has revenues of \$25 million and Sisley has revenues of \$77 million.<sup>82</sup>

### **C) Evolution of the low-end segment**

The low-end cosmetics sector grew steadily in a context of prolonged economic downturn, through aggressive marketing activities, and steady launches of new products. Because of

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<sup>78</sup> Kim, Mina, *Cosmetics Survival games* (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

<sup>79</sup> *Ibid.*

<sup>80</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaenge. Seoul.

<sup>81</sup> *Ibid.*

<sup>82</sup> *Ibid.*

high competition, the prices diminished. A 2005 analysis found that advertising expenditures had increased only weakly during the ten previous years whereas sales promotion expenditures increased at a rate of 20%.<sup>83</sup>

In 2013, Mina Kim, in her Cosmetics securities research, expected that the low-priced cosmetics segment would continue to gain market share.

However, she shows that marketing costs are likely to remain high because of intense competition among cosmetics makers. Aggressive marketing campaigns multiplied in 2014, as she suggested it would. She also argued that, because of the strong growth of low-end cosmetics, more companies would enter the already highly competitive market.<sup>84</sup> A majority of mono-brand shops are in charge only of distribution and marketing, and not of production, and as the low-priced products are not greatly differentiated, they are likely to focus more on marketing to increase sales. However marketing doesn't lead to higher prices, as consumers are now taking mono-brand shops' discounted prices for granted.

From 2014 on, growth in the low-end segment could be confined to only a handful of leading companies. As a result, the mono-brand shop channel may eventually go through restructuring, which should present leading firms with opportunities to reduce marketing expenses and boost the average selling price (by launching premium products).<sup>85</sup>

Thus, in this chapter, we have studied the structural obstacles to penetration of European brands on the Korean cosmetics market. These are the contrasted distribution channels and heated competition on the segment of low price cosmetics on a market biased

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<sup>83</sup> Kim, Dong Hoon, Kwangho Ahn, and Changjo Yoo (2005), Promotion Management: Integrated Marketing Communication Approaches, Hack-Hyun Press, in Yoo, C., & Windsor, R. D. (2008). The changing face of Korean marketing management. In C. Rowley & Y. Paik (Eds.), R. Y. Chris, C. Rowley, & Y. Paik, *The Changing Face of South Korean Management (Working in Asia)*. London: Routledge.

<sup>84</sup> Kim, Mina, Cosmetics Survival games (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

<sup>85</sup> Kim, Mina, Cosmetics Survival games (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

towards mass consumption. In order to validate our first hypothesis, we must further show that another challenge derives from the sophisticated consumers' expectations on this market. These influence the evolutions already analyzed in this chapter, as they drive the evolution towards lower price with maintained quality.

### **Chapter 3: Finding: Consumers' preference for Asian expertise**

#### **I) The development of Korean beauty**

##### **A) A claim of expertise on Asian skin type**

Korean beauty products have the reputation of being adapted to Korean skin, and more widely to Asian skins.<sup>86</sup> They are trusted to have an expertise in terms of Asian beauty.<sup>87</sup> This is an advantage that Korean brands also hold towards other East Asian countries, and especially China, with similar weather, ethnicity, and skin type.<sup>88</sup>

Korean skincare is trusted for its functions and its adaptation to Asian skin type. However for make-up, Korean women preferred to draw inspiration from other cultures, and enjoyed brands like Lancome or Estée Lauder.<sup>89</sup> The development of Korean make-up shows an emerging confidence in Korean fashion and style.<sup>90</sup>

##### **B) The recent renewed confidence in Korean beauty: evolution from skincare to make-up**

Comforted by their cultural influence over Pacific Asia, Koreans have gained confidence in their beauty identity and heritage. Korean consumers have finally accepted their identity.<sup>91</sup> Ten years ago, they wanted to imitate Western beauty. Nowadays, they have become more confident when handling fashion and beauty. This was also analyzed by studies on the evolving standards of plastic surgery.<sup>92</sup> The new emerging identity is authentically

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<sup>86</sup>Yun, E. (2015, April 7). *Fragrance Manager*, Amore Pacific. Seoul.

<sup>87</sup> *Ibid.*

<sup>88</sup> Lizzie. (2013, August 26). *The other Korean wave: The rising popularity of Korean cosmetics*. Retrieved 1 May 2015, from <http://beyondhallyu.com/fashion/korean-wave-korean-cosmetics-taking-world-well-quite/>

<sup>89</sup> *Ibid.*

<sup>90</sup> *Ibid.*

<sup>91</sup>Yun, E. (2015, April 7). *Fragrance Manager*, Amore Pacific. Seoul.

<sup>92</sup> Holliday, R., & Elfving-Hwang, J. (2012). *Gender, Globalization and Aesthetic Surgery in South Korea*. *Body & Society*, 18(2), 58–81.

Korean, although it is globalized and mingled with western influences.<sup>93</sup> It is not a mere consequence of westernization. The gradual acceptance and promotion of Korean beauty identity has been visible in the development scheme from skincare to make-up. Hera, a premium brand of Amore Pacific, used to have around 70% of its sales coming from skincare. Nowadays, make-up amounts for more than 50% of its sales.<sup>94</sup>

As a result of this renewed confidence in Korean beauty, brands tend to promote Korean traditions and cultural legacy as a means of differentiation.

### **C) A consequence: the promotion of Korean traditions and heritage**

Brands rely more and more on their Korean heritage as a means of differentiation. Amore Pacific brands use four specifically Asian ingredients: ginseng, green tea, soy and camellia, in line with their “Asian Beauty Creator Strategy”.<sup>95</sup> The importance of Korean traditions in Korean cosmetics can be shown by the success encountered by the brand Sulwhasoo, Korea’s leading luxury brand. The brand offers products made with ginseng and traditional medicine ingredients, and its packages embody oriental genetics.<sup>96</sup> Such quality and brand-related packaging is harder to find among Western products.<sup>97</sup> Similarly, the new branding of Amore Pacific’s brand Hanyul centers around the use of Korean traditional herbs. Indeed, several Korean brands are grounding their marketing on the fact that Korean beauty products often have specific formulations combining ancient ingredients or methods of

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<sup>93</sup> *Ibid.*

<sup>94</sup> Yun, E. (2015, April 7). *Fragrance Manager*, Amore Pacific. Seoul.

<sup>95</sup> Amorepacific Reveals Visions on China, Sustainability and More. (2015, April 13). Retrieved 2 May 2015, from <http://www.cosmeticsandtoiletries.com/marketdata/regions/Amorepacific-Reveals-Visions-on-China-Sustainability-and-More-299615981.html>

<sup>96</sup> Cosgrove, J. (2015). Passport to Beauty: DESTINATION SOUTH KOREA. *Beauty Packaging*, 20(1), 28-37.

<sup>96</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul

<sup>97</sup> *Ibid.*

preparation with modern technology and delivery systems.<sup>98</sup> For example, Amore Pacific claims that all the active ingredients of his brand Sulwhasoo are cultivated in Korea.<sup>99</sup> Asian naturalism is also the central brand-positioning of the one brand shop The Face Shop that held the top position on the market of monobrand shops in 2010.<sup>100</sup>

Thus, we have shown the Korean expertise on Asian skin type and recent renewed confidence in Korean beauty identity. Along with that revived Korean identity, consumers' confidence in Korean brands for segments where they are not traditionally strong, such as make-up, is increasing. Furthermore, Korean brands can achieve a successful differentiation through their cultural heritage. On a market where Korean brands are growing, European brands have to face the specific nature of Korean consumers' expectations. They are indeed particularly high for quality and price.

## **II) Consumers with high expectations**

One of the major reasons why the Korean cosmetics' market is a difficult market is its level of sophistication driven by customers with very high expectations and precise knowledge.<sup>101</sup>

### **A) Specific and complex needs**

#### **1. Expectations for packaging**

High consumers' expectations drive the constant quality and creativity improvement of

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<sup>98</sup> Cosgrove, J. (2015). Passport to Beauty: DESTINATION SOUTH KOREA. *Beauty Packaging*, 20(1), 28-37.

<sup>98</sup> Interview, April, 1st, 2015

<sup>99</sup> Cosgrove, J. (2015). Passport to Beauty: DESTINATION SOUTH KOREA. *Beauty Packaging*, 20(1), 28-37.

<sup>99</sup> Interview, April, 1st, 2015

<sup>100</sup> THEFACESHOP. (2012). *Label & Narrow Web*, 17(4), 40-42.

<sup>101</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul

cosmetics packaging. There is a comparative superiority of South Korean manufacturers in creating decorative packaging, which is driven by high consumers expectations in terms of aesthetics. They often buy based on the impression that they are faced with luxury products.<sup>102</sup> According to a survey released at the 1<sup>st</sup> International Cosmetic Packaging Seminar held in Korea in June 2014, 85% of Korean women responded that cosmetic packaging design is important, and 92% responded that packaging critically affects consumers' purchasing behavior.<sup>103</sup> A simple packaging runs the risk of appearing too plain and inexpensive to Korean consumers.<sup>104</sup>

Korean consumers hold high expectations in terms of products and packaging. But they also have more complex needs. An element of explanation can be the importance and specificity of Korean male cosmetics' consumption.

## 2. A growing male consumption

Men represent an important proportion of cosmetics' consumption. This can be explained by a relative empowerment of women: more independent and benefitting from the unbalance of the gender ratio, wishing to marry later than before, they can be more selective in the choice of their partner.<sup>105</sup> An important difference from the West can be found in the fact that this greater attention and care of men to and of their beauty, is not associated in the minds to homosexuality.<sup>106</sup> Along with the emergence of the ideal figure of *kkonminam*,

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<sup>102</sup> Cosgrove, J. (2015). Passport to Beauty: DESTINATION SOUTH KOREA. *Beauty Packaging*, 20(1), 28-37.

<sup>103</sup> *Ibid.*

<sup>104</sup> *Ibid.*

<sup>105</sup> Holliday, R., & Elfving-Hwang, J. (2012). Gender, Globalization and Aesthetic Surgery in South Korea. *Body & Society*, 18(2), 58–81.

<sup>106</sup> *Ibid.*

with soft, almost feminine, features<sup>107</sup>, men using skincare and even make-up are more and more common.

This partaking by men is not obvious if we consider the Male toiletries segment, which represents only 1% of all sales on the cosmetics market.<sup>108</sup> However, according to the results of a survey conducted in April 2014 by the Ministry of Food and Drug Safety, about one third of the male respondents said that they had used a face pack at least once during the last month and about 20 percent declared that they had used a BB cream.<sup>109</sup> Half of the men surveyed said they had used perfume, facial foam cleanser and perfume in the past month. 56% of surveyed men said they used sunscreen. Men wash their hair in average more frequently than women: 35 percent of men said they use shampoo daily compared to 30 percent of women. Men and women in their twenties used the most cosmetic products. For women, it amounted to 27 items per months, whereas the average was 13 for men.<sup>110</sup> The relatively small sales figures for the male toiletries segment compared to the actual use of cosmetics by Korean men can be explained by the fact that men don't necessarily use products that are specifically designed for men. In any case, the high market potential for man can explain why Korean brands are also investing heavily in advertisement directly targeted at men. For example, the actor Lee Min-ho represents the brand Innisfree. The actor Lee Dong-min represented the cosmetics company Shara Shara in a December 2014 campaign. The department store Lotte reported that the amount of male shoppers had

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<sup>107</sup> Jung, S. (2010) 'Chogukjeok Pan-East Asian Soft Masculinity: Reading Boys Over Flowers, Coffee Prince and Shinhwa Fan Fiction', pp. 8.1–8.16 in Holliday, R., & Elfving-Hwang, J. (2012). *Gender, Globalization and Aesthetic Surgery in South Korea. Body & Society, 18*(2), 58–81

<sup>108</sup> Ministry of Health and Welfare, A survey on the Manufacture and Marketing Structure of Medical Device and Cosmetic Industry, in KHIDI Health Industry Statistics Annual 2013, *South Korea Health Industry Statistics Annual* (2013) – Korea Health Industry Development Institute (South Korea)

<sup>109</sup> Yoon, S. (2015, March 31). The rise of the Korean metrosexual. Retrieved 3 May 2015, from [http://kpopherald.koreaherald.com/view.php?ud=201503311743540271614\\_2](http://kpopherald.koreaherald.com/view.php?ud=201503311743540271614_2)

<sup>110</sup> *Ibid.*

increased by 4% in 2014 compared to the previous year.<sup>111</sup> The Korean men's skincare market is currently the largest in the world<sup>112</sup>.

The growing and specific male consumption on the Korean cosmetics' creates more complex demands that are difficult to address for European brands. However, in addition to these qualitative high expectations of Korean consumers, another technical challenge is imposed on European brands. It is constituted by the high risk aversion of Korean consumers when purchasing online. The expectations related to online purchasing of cosmetics brands are especially relevant since this is one of the main channels for European brands.

## **B) Word of Mouth and Reputation**

### **1. Importance of reference groups in purchasing decision**

Purchasing behaviors differ between countries according to various world conceptions such as individualism versus collectivism. Western societies have been deeply influenced by individualism, whereas collectivism has greatly shaped the culture of non-Western societies, such as South Korea and China.<sup>113</sup> In order to understand the differences in purchasing behaviors among these societies, it can be shown that individualistic values include being independent from others, therefore the members of these societies are less likely to rely on others for their purchasing decisions. On the contrary, in collectivistic societies, people more often rely on reference groups when reaching a purchasing

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<sup>111</sup> Yoon, S. (2015, April 7). Cosmetics brands to target men. Retrieved 3 May 2015, from [http://kpopherald.koreaherald.com/view.php?ud=201504071422072007584\\_2](http://kpopherald.koreaherald.com/view.php?ud=201504071422072007584_2)

<sup>112</sup> DeNinno, N. (2012, September 18). The Korean Men Makeup Fad: South Korea Is Largest Market For Men's Skincare In The World. Retrieved 8 May 2015, from <http://www.ibtimes.com/korean-men-make-up-fad-south-korea-largest-market-mens-skincare-world-790100>

<sup>113</sup> Hofstede, G. (2001), Culture's consequences, 2<sup>nd</sup>ed., Sage Publication, Thousand Oaks, CA

decision.<sup>114</sup> This is especially the case for highly visible products such as fashion products. Yoo and Donthu showed that perceived quality has a stronger impact on Koreans than on Americans in their purchase decisions, and this was explained by the cultural differences in the level of uncertainty avoidance.<sup>115</sup> Perceived quality was considered more important for Korean people because the society encourages strong uncertainty avoidance, as opposed to the United States. Concerning the specific consumption of premium brands, previous studies reported that social aspects of luxury consumption such as conspicuous consumption orientation, social recognition and conformity were significant determinants of luxury consumption by Korean consumers<sup>116</sup>.

Thus, Korean consumers rely on reference groups to reach purchasing decision, and an actual form that this consultation can take is the reference to beauty and lifestyle blogs.

## 2. Influence of blogs on purchasing decision

The importance of relying on others or on a group to make a purchase decision is demonstrated by the importance of consumer blogs. This is partly because the blogging culture is now firmly established in Korea. 43% of Koreans read blogs, second country after Japan (74%).<sup>117</sup> The average Korean reads blogs slightly more than twice a week (2.03), which is more than twice the frequency in the United States (0.9).<sup>118</sup>

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<sup>114</sup> Jaehee Jung, Eunyoung Sung, (2008) "Consumer-based brand equity: Comparisons among Americans and South Koreans in the USA and South Koreans in Korea", *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss: 1, pp.24-35

<sup>115</sup> Yoo, B. and Donthu, N. (2002), « Testing cross-cultural invariance of the brand equity creation process », *The Journal of Product and Brand Management*, Vol. 11, Nos 6/7, pp. 380-399

<sup>116</sup> Choi, S. (2003), "The effects of the perceived product characteristics and conspicuous consumption on the fashion luxury involvement", *Journal of the Korean Society of Clothing and Textiles*, Vol. 27 No. 2, pp. 209-18.; Park, H., Rabolt, N. and Jeon, K.S. (2008), "Purchasing global luxury brands among young Korean consumers", *Journal of Fashion Marketing and Management*, Vol. 12 No. 2, pp. 244-59.

<sup>117</sup> (2007) *A Corporate Guide to the Global Blogosphere*, Edelman

<sup>118</sup> *Ibid.*

However brands have to be careful not to use blogs as corporate representation, in order not to make them appear too “commercial”, which could deter readers. Korean companies opt to use the blogging services of already existing portals. Naver (<http://www.naver.com>) and Daum (<http://www.daum.net>) offer separate brand blogs sections in which the number of brand blogs registered in 2006 was 120 and 240, respectively.<sup>119</sup> Bloggers also log videos on Youtube, which spreads their influence beyond the borders of Korea. For example, one of the most famous beauty bloggers in Korea is called Pony.<sup>120</sup> Her Korean blog (<http://blog.naver.com/highkick>) received a total amount of 4 million visitors.<sup>121</sup> She collaborated with a sample bow beauty service company.<sup>122</sup> Consumers tend to be very exclusive with bloggers and are very careful to choose the right one.<sup>123</sup> For, example, they prefer lifestyle bloggers compared to beauty bloggers. The lifestyle bloggers are very high-end consumers, for whom cosmetics consumption is only one part of a very spendthrift lifestyle, that associates hotel touring, traveling, high end fashion consumption, expensive presents and a kind of “gossip girl” culture and universe. The beauty bloggers are deemed much more common, they are “normal” students who consume cosmetics that are comparatively cheaper, and enjoy new products.<sup>124</sup> It’s hard to get the support from bloggers, as they don’t stay loyal to one brand in particular. They are very selective, since they want to maintain their position.<sup>125</sup> This is another manifestation of Korean consumers’ very high expectations.

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<sup>119</sup> *Ibid.*

<sup>120</sup> Yeomans, M. (2015, April 14). The power of Asia’s beauty bloggers: Who they are and what markets they influence. Retrieved 10 May 2015, from [http://www.cosmeticsdesign-asia.com/Market-Trends/The-power-of-Asia-s-beauty-bloggers-Who-they-are-and-what-markets-they-influence/\(page\)/3](http://www.cosmeticsdesign-asia.com/Market-Trends/The-power-of-Asia-s-beauty-bloggers-Who-they-are-and-what-markets-they-influence/(page)/3)

<sup>121</sup> *Ibid.*

<sup>122</sup> *Ibid.*

<sup>123</sup> Yun, E. (2015, April 7). Fragrance Manager, Amore Pacific. Seoul.

<sup>124</sup> *Ibid.*

<sup>125</sup> *Ibid.*

As a result of their attachment to the judgment of reference groups and sensitivity to third-party endorsement through beauty blogs, we can infer that brand recognition and brand loyalty have a high impact on the purchasing decision of Korean consumers. Brand recognition could be to the advantage of European Brands, often better acknowledged.<sup>126</sup> However, brand loyalty could create situation of path dependence, in which it is more difficult for European new-entrants to achieve growth on the market.

### 3. Impact of brand recognition and brand loyalty

In order to evaluate the impact of brand recognition and brand loyalty on the purchasing decision by Korean consumers, we can rely on studies concerning the impact of the different elements of brand equity on the purchasing intention. Consumer brand equity has four dimensions: brand loyalty, brand awareness, perceived quality and brand association.<sup>127</sup> Keller measures brand loyalty through the repeated purchases of a same product.<sup>128</sup> Aaker says that brand awareness can be defined as the ability to link a product to a certain category. Perceived quality is the aptitude of the consumer to recognize a product's superior quality compared to other products.<sup>129</sup> This perceived quality can be influenced by past experiences, third-party endorsements by celebrities, reference to others more or less known individuals.<sup>130</sup> He quotes the example of Clinique and Estee Lauder

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<sup>126</sup> for the example of China, see : He, Yanqun; Zou, Deqiang & Jin, Liyin (2010). Exploiting the goldmine: a lifestyle analysis of affluent Chinese consumers. *Journal of Consumer Marketing*, Vol. 27 Iss 7 pp. 615 – 628.

<sup>127</sup> Keller, K.L. (1993), "Conceptualizing, measuring, and managing customer-based brand equity", *Journal of Marketing*, Vol. 57, pp. 1-22

<sup>128</sup> Keller, K.L. (1998), *Strategic Brand Management: Building, Measuring and Managing Brand Equity*, Prentice-Hall, Englewood Cliffs, NJ, in Jaehee Jung Eunyong Sung, (2008), "Consumer-based brand equity", *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss 1 pp. 24 - 35

<sup>129</sup> Aaker, D.A. (1991), *Managing Brand Equity*, Simon & Schuster, New York, NY, in Jaehee Jung Eunyong Sung, (2008), "Consumer-based brand equity", *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss 1 pp. 24 - 35

<sup>130</sup> Jaehee Jung Eunyong Sung, (2008), "Consumer-based brand equity", *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss 1 pp. 24 - 35

that can be recognized as brands of a certain cosmetics category. Keller has defined brand knowledge as including two components: brand awareness and brand image.<sup>131</sup> Yoo and Donthu, based on Aaker's and Keller's definitions of brand equity, validated the three-dimensional model of brand loyalty, perceived quality, and brand awareness/associations, and unvalidated the four dimensional model.<sup>132</sup> They used commercial brands from three product categories (athletic shoes, camera film, and color television sets) for evaluation among three consumer groups (American, Korean American, and South Korean).

They found a strong relationship between brand equity and purchase intention on the one hand and between brand equity and brand attitude on the other hand, among all different groups. In further studies, they found that, among brand equity dimensions, the one that was affecting brand equity the most for Korean consumers was brand loyalty.<sup>133</sup> Jaehee Jung and Eunyong Sung conducted a study to compare impact of brand equity on purchase intention of fashion apparel for South Koreans in South Korea, South Koreans in the United States and Americans in the United States.<sup>134</sup> They found that for both South Korean groups, the main element of brand equity was brand loyalty. Considering the affinity of fashion with make-up, we can partly infer the extension of the results of this study to the cosmetics, and especially the make up industry.

In order to build strong brand loyalty, B. Yoo, N. Donthu and S. Lee recommended

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<sup>131</sup> Keller, K.L. (1993), "Conceptualizing, measuring, and managing customer-based brand equity", *Journal of Marketing*, Vol. 57, pp. 1-22, in Jaehee Jung Eunyong Sung, (2008), "Consumer-based brand equity", *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss 1 pp. 24 - 35

<sup>132</sup> Yoo, B. and Donthu, N. (2001), "Developing and validating a multidimensional consumer-based brand equity scale", *Journal of Business Research*, Vol. 52 No. 1, pp. 1-14, in Jaehee Jung Eunyong Sung, (2008), "Consumer-based brand equity", *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss 1 pp. 24 - 35

<sup>133</sup> Yoo, B. and Donthu, N. (2002). Testing cross-cultural invariance of the brand equity creation process, *The Journal of Product and Brand Management*, Vol. 11 Nos 6/7, 380-99.

<sup>134</sup> Jung, Jaehee & Sung, Eunyong (2008). Consumer-based brand equity: Comparisons among Americans and South Koreans in the USA and South Koreans in Korea. *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss: 1, 24 – 35.

to display products with good images, the store image being an important element of the marketing mix. Products should be distributed widely in order to serve convenience, save time, and access service for customers<sup>135</sup>. According to that criterion, we can deduce the advantage held by omnipresent very conveniently located monobrand shops in Korea, compared to the little number of department stores. The authors put forward the need for investment in advertising to improve brand equity. They warned against excessive promotions, as there is a risk that consumers think that they are being sold a low quality product.<sup>136</sup> Indeed, for European brands, to display low prices to meet competition could be detrimental to their brand images. However, still, setting higher prices must be justified by higher quality, in order to meet the high consumer's expectations on the market and compete efficiently with local brands, on a market where the price competition is very strong.

Thus, brand image plays a high role in the Korean purchasing decision, however the most salient characteristic of Korean consumers highlighted through cross-cultural comparisons is their brand loyalty. This can create situations of path dependence, especially on a market where traditional channels like door-to-door sales, relying on brand loyalty, are still important.<sup>137</sup>

#### 4. Conclusions: a challenge for European brands

Two conclusions can be drawn in regard to European brands. Firstly, this constant evaluation through reference groups makes it necessary to spread more knowledge and

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<sup>135</sup> Yoo, B., Donthu, N. and Lee, S. (2000), "An examination of selected marketing mix elements and brand equity", *Journal of the Academy of Marketing Science*, Vol. 28 No. 2, pp. 195-211, in Jaehee Jung, Eunyong Sung, (2008) "Consumer-based brand equity: Comparisons among Americans and South Koreans in the USA and South Koreans in Korea", *Journal of Fashion Marketing and Management: An International Journal*, Vol. 12 Iss: 1, pp.24 - 35

<sup>136</sup> *Ibid.*

<sup>137</sup> On brand loyalty in door-to-door sales : Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul.

information about the brands. Interviews with Seoul National University female students in their twenties showed that those who were not consuming foreign cosmetics most often said that they lacked knowledge on these cosmetics. This is even more the case on a market where door-to-door sales still equate to 11% of market shares, a channel on which consumers remain very loyal, and very emotionally attached to the brands they know.<sup>138</sup> This seemed to be confirmed by the strong impact of brand loyalty on brand equity. Furthermore, since the market is dominated by Amore Pacific and LG Household & Healthcare, it is more difficult for foreign products to develop their reputation, on a market where department stores only represent a minority of sales, and the monobrand shops channel, constituted mostly by Korean brands, is growing. The rapid development of e-commerce and home shopping, on the contrary, seem to be a real opportunity for European brands, since they can be as present as Korean brands on that channel.

Secondly, the high consumers' expectations both in terms of quality and price makes it very hard for foreign brands to compete and justify higher prices than Korean brands. Brand recognition in itself is not sufficient, as the importance of word of mouth, information and consumers' knowledge tend to show. Furthermore, the beauty practices in Korea are very specific, with many steps for skincare and the use of multifunctional creative products for make-up. The requirements for quality and packaging are very high and products' lifecycles are very short. This is a challenge in terms of competitiveness for European brands. They can't rely exclusively on their names or even on the beauty identity that they promote, but will need to meet the high expectations of Korean consumers.

This chapter finalized the analysis of core research tending to validate the first hypothesis, by showing the sophistication of consumers' expectations on the Korean

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<sup>138</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaeye. Seoul.

cosmetics market.

This completes the first part of this research, which confirms the first hypothesis. European brands are indeed faced with the challenges of market domination by two Korean leaders, contrasted distribution, heated competition on the segment of low price cosmetics on a market biased towards mass consumption, and sophisticated consumers' expectations. Considering the importance and variety of these challenges alone, it would not seem justified for Europeans to still compete on that market. However, this struggle can be justified by adopting a wider view on the status of the Korean cosmetics market towards the rest of Asia and its role of mediation. This influential position could represent an opportunity for European brands to increase their overall presence in Asia.

## Chapter 4: Finding: The opportunity of beauty hybridization

### I) Beauty hybridization

#### A) A glocal market<sup>139</sup>

The cosmetics market, although it is dominated by Korean brands, relies on standards and ideals that are global or transnational rather than purely local. The city landscape and consumption of the Asia-Pacific region includes more and more transnational elements. This can be in part explained by the fact that increased foreign direct investment, trade, cross-national corporate alliances and mergers, cultural exchanges, university partnerships have thickened the links between people, organizations, cities and governments of various nation-states.<sup>140</sup> As a result of global integration, cultures have become more and more *glocal*, the result of a mix of both global and local cultures.<sup>141</sup> Woongjae Ryou describes the Korean Wave as a process of culture hybridization that involves the adaptation and active articulation of global processes with local norms, customs, taste, needs and traditions.<sup>142</sup> According to him, “hybridization of culture occurs as local cultural agents and actors interact and negotiate with global forms, using them as resources through which local peoples construct their own cultural spaces, as exemplified in the case of South Korean cinema and television dramas”.<sup>143</sup> This way, the wide varieties of versions of modernity that have emerged from the process of globalization are never singular, or a pure replica of the Western. This hybridization is grounded on a common Confucian heritage.<sup>144</sup>

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<sup>139</sup> Ritzer, G. (2004). *The globalization of nothing*. Thousand Oaks, CA: Pine Forge Press.

<sup>140</sup> Lynn, H. (2005). Globalization and culture in the Asia-Pacific region. *Media Times Review*, February. Retrieved May 12, 2006, from <http://mediatimesreview.com/february05/Globalisation.php>

<sup>141</sup> *Ibid.*

<sup>142</sup> Ryou, W. (2009). Globalization, or the logic of cultural hybridization: the case of the Korean wave. *Asian Journal of Communication*, 19(2), 137–151. <http://doi.org/10.1080/01292980902826427>

<sup>143</sup> *Ibid.*

<sup>144</sup> Park, J. (2006). The Korean wave: Transnational cultural flows in Northeast Asia. In C. Armstrong, G.

However it inherited a lot from Western culture, and especially American culture, and is therefore not strictly closed to it.<sup>145</sup>

## **B) The attractiveness of foreign brands**

Consumers are not nationalist and the market is global.<sup>146</sup> It is interesting to see that the beauty standards conveyed by Korean brands are interfused with Western and European influences. The image of France, for example, is very strong in the cosmetics sector. Among 34 Amore Pacific brands, 6 of them have names that sound French or are French words: Laneige, Mamonde, Mise en scène, Verite, Etude House, and Espoir. It is also the case in China, South Korea's biggest export market, where some brands choose on purpose names in Chinese that sound French when pronounced phonetically.<sup>147</sup> According to Erine Yun, fragrance manager at Amore Pacific, the first quality of a brand like Annick Goutal (bought by Amore Pacific in 2011) is that it is a French brand.<sup>148</sup>

## **II) Cultural mediation to Pacific Asia**

### **A) The Korean wave: a hybridization of western culture**

#### **1. Western culture made accessible by South Korean intermediation**

The Korean wave is a hybrid product of western influences mingled with Korean own cultural identity. It is the channel of transmission of a hybridized Western culture that can

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Rozman, S. Kim, & S. Kotkin (Eds.), *Korea at the center: Dynamics of regionalism in Northeast Asia* (pp. 244\_256). New York: M.E. Sharpe.

<sup>145</sup> *Ibid.*

<sup>146</sup> Yun, E. (2015, April 7). *Fragrance Manager*, Amore Pacific. Seoul.

<sup>147</sup> Shadbolt, P. (2014). *South Korea drives Asia's love affair with cosmetics*. Retrieved from <http://edition.cnn.com/2014/11/05/world/asia/virtual-think-tank-china-asia-cosmetics/>

<sup>148</sup> Yun, E. (2015, April 7). *Fragrance Manager*, Amore Pacific. Seoul; On the take-over by Amore Pacific of Annick Goutal, see: Kwaak, J. (2011, August 11). *Amore's French deal receives snub*. Retrieved 10 May 2015, from [http://www.koreatimes.co.kr/www/news/biz/2013/08/123\\_92603.html](http://www.koreatimes.co.kr/www/news/biz/2013/08/123_92603.html)

more easily be accepted when incarnated in East Asian products. It gives a sign of how a country considered “in-between”, or sub-periphery, can develop a niche culture and reposition itself as a cultural mediator involved in and part of a global cultural transformation.<sup>149</sup> The South Korean lifestyle, close in many aspects to the American lifestyle, is easier to apprehend for other Asian countries. Through the Korean Wave, the South Korean media industry translates Western culture to fit Asian tastes.<sup>150</sup> For example, the differences between Chinese and Western cultures may be too important for direct importation of Western popular artifacts.<sup>151</sup> In an article for the International Herald Tribune, N. Onishi quotes a 23 years-old graduate student from Tsinghua University in Beijing: “We know that South Korea and America have similar political systems and economies. But it is easier to accept that lifestyle from South Koreans because they are culturally closer to us. We feel we can live like them in a few years.” This can be accurately completed by the quote of Jin Yaxi, a 25-years-old graduate student at Peking University: “we like American culture, but we can’t accept it directly”.<sup>152</sup>

## 2. An acceptable past history for other East Asian countries

Japan has been exporting its popular culture since the 1980’s and the acceptance of this culture has been facilitated by the economic and political power that it held in the region. However, South Korea holds an advantage compared to Japan in that it doesn’t bear the same colonial past, hindering the reception of its culture in some parts of Asia. For China, South Korea doesn’t carry past bad memories and its traditional relationship with other

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<sup>149</sup> Ryoo, W. (2009). Globalization, or the logic of cultural hybridization: the case of the Korean wave. *Asian Journal of Communication*, 19(2), 137–151. <http://doi.org/10.1080/01292980902826427>

<sup>150</sup> *Ibid.*

<sup>151</sup> *Ibid.*

<sup>152</sup> Onishi, N. (2006, January 10). A rising Korean wave: If Seoul sells it, China craves it. International Herald Tribune. Retrieved from [www.iht.com/articles/2006/01/02/news/korea.php](http://www.iht.com/articles/2006/01/02/news/korea.php)

Asian countries is non-threatening.<sup>153</sup> Japan's culture is also deemed too individualistic, too Westernized, too post industrial while South Korean media culture seems to bear broader cultural affinities with other Asian countries. The 'in-between' stance of South Korea, not only in terms of economic development and political power, but also in terms of culture hybridization, enables it to be a mediator between the West and many Asian countries such as China, Vietnam and Singapore.<sup>154</sup>

### 3. The Korean soft power as an efficient way to sell capitalistic products

Therefore, the access to the Korean domestic market for lifestyle goods such as cosmetics can be an efficient way to gain access to other Asia-Pacific countries thanks to the South Korean soft power. The South Korean media industry and Korean companies pursue profit maximization by selling their products and services to the largest number of consumers, not only in South Korea, but also overseas. This capitalist exportation of Korean products has been justified in the name of national interests.<sup>155</sup> As a result, South Korean popular culture and products find a niche in the Chinese and other Asian markets.<sup>156</sup> The development of K-Beauty can be perceived as part of this mediation process.

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<sup>153</sup> Park, J. (2006). The Korean wave: Transnational cultural flows in Northeast Asia. In C. Armstrong, G. Rozman, S. Kim, & S. Kotkin (Eds.), *Korea at the center: Dynamics of regionalism in Northeast Asia* (pp. 244\_256). New York: M.E. Sharpe

<sup>154</sup> *Ibid.*

<sup>155</sup> Ryoo, W. (2009). Globalization, or the logic of cultural hybridization: the case of the Korean wave. *Asian Journal of Communication*, 19(2), 137–151. <http://doi.org/10.1080/01292980902826427>

<sup>156</sup> *Ibid.*

## **B) The impact of the Korean wave on the sales of Korean favorite cosmetics**

### **1. A wish of imitating South Korean idols**

The *hallyu* phenomenon is, according to the scholars Yin, Kelly Fu Su, and Kai Khiun Liew, one of “imagined cosmopolitanism”<sup>157</sup>. Along with what the authors call the globalization of Koreanness, consumers from East and South East Asia want to travel to Korea, dress like entertainers and consume similar products.<sup>158</sup> With the success of Korean dramas, movies, and music in China, cosmetics brands have considerably increased their market share.<sup>159</sup> Chinese consumers copy the style of South Korean soap opera and music stars. They are looking for the particular products that they use. The stores try to get the exact shades that South Korean actresses are using.<sup>160</sup>

### **2. The relationship of K-pop music and Korean dramas to advertising for cosmetics**

In parallel to that, Patrick A. Messerlin and Wonkyu Shin state that the K-pop dance and song industry was innovative when it was faced with the necessity of going online, because of its incapacity of reaching success in the CD industry<sup>161</sup>. Korean dance and song industry firms understood that Internet was very often used by the advertising industry. They allowed K-pop stars to become models in advertising, particularly in the cosmetic and fashion sectors, as a way to gain substantially more revenue as well as online presence. Amore Pacific uses this trend by hiring celebrities to promote its various brands: Song

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<sup>157</sup> Yin, Kelly Fu Su, and Kai Khiun Liew (2005). *Hallyu in Singapore: Korean Cosmopolitanism or the consumption of Chineseness*. *Korea Journal* 45.4: 206- 232.

<sup>158</sup> *Ibid.*

<sup>159</sup> Park, Jung-Sun, (2006). *The Korean Wave: Transnational Cultural Flows in East Asia*. In *Korea at the Center: Dynamics of Regionalism in Northeast Asia*. Charles Armstrong, Gilbert Rozman, Samuel Kim and Stephen Kotkin, eds. Armonk, NY: M.E. Sharpe, 2006.

<sup>160</sup> Shadbolt, P. (2014). *South Korea drives Asia’s love affair with cosmetics*. Retrieved from <http://edition.cnn.com/2014/11/05/world/asia/virtual-think-tank-china-asia-cosmetics/>

<sup>161</sup> Messerlin, Patrick A. and Shin, Wonkyu, *The K-Pop Wave: An Economic Analysis* (July 1, 2013). Available at SSRN: <http://ssrn.com/abstract=2294712> or <http://dx.doi.org/10.2139/ssrn.2294712>

Hyekhyo for Laneige, Jun Jiheon for Hera, Park Shinhae for Mamonde. It also pays for product placement in Korean dramas. For example, it had some skincare and makeup products featured in the drama *My Love From the Star*. As a consequence of the success of the show, Amore Pacific saw its sales rocket.<sup>162</sup> And this could also be a possible way for European brands to further their reach. As an example, rumors about the fact that the main actress of *My Love from the Stars* was wearing a Yves Saint Laurent lipstick increased the sales of the product tremendously.<sup>163</sup>

### 3. An increase in the exports of cosmetics

The success of the Korean Wave can be one of several factors explaining the tremendous increase of exports of South Korean cosmetics. In 2012, Korea's exports of cosmetics amounted to \$1,067 billion, a growth by 32,6% compared to 2011.<sup>164</sup> In particular, skincare exports grew by 1,500 percent over 15 years (1998~2012), accounting for 61 percent of commodity exports.<sup>165</sup> Among the top 10 countries to which South Korea exports, 8 are Asian countries, and exports to these countries amount to 81,6% of its overall exports in 2012. A striking fact is that exports to Japan, China and Hong Kong make up to more than 60 % of the overall Korean cosmetics exports. The growth of exports to Hong Kong is especially high, since the amount of exports has more than doubled since 2010. Overall, Amore Pacific has grown by 31% on the Chinese market in 2012, which is more than all other leading groups on the market. For example, L'Oréal, the leader on the Chinese market, grew by only 12% on that market in 2012.

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<sup>162</sup> *Ibid.*

<sup>163</sup> Lee, J. (2014, March 24). YSL gets free ride on drama sensation. Retrieved 8 May 2015, from <http://www.koreaherald.com/view.php?ud=20140324001347>

<sup>164</sup> Korea Pharmaceutical Traders Association, Facts & Survey Report, Annual, in KHIDI Health Industry Statistics Annual 2013, *South Korea Health Industry Statistics Annual* (2013) – Korea Health Industry Development Institute (South Korea)

<sup>165</sup> Kim, S. (2014, January 12). Korean cosmetics become global standard. Retrieved 3 May 2015, from [http://www.koreatimes.co.kr/www/news/biz/2015/02/330\\_149605.html](http://www.koreatimes.co.kr/www/news/biz/2015/02/330_149605.html)

#### 4. The creation of Asian standards

South Korean cosmetics firms are creating global standards for Beauty in Asia and in the world. A good example is the all-in-one BB creams, including moisturizer, tints, and sunblock. The cushion cream could be the next product to become a global standard after the BB cream. Amore Pacific first launched it, under its IOPE brand in 2008. They can be described as a liquid foundation soaked in a sponge featuring a makeup base, sun protection, and skin moisturizer all in one product.<sup>166</sup> In France, Lancôme, l'Oréal's leading skincare brand launched the Miracle Cushion Cream end January 2015.

The South Korean cosmetics group Amore Pacific Corp. is the leading player on the Asia-Pacific facial care market, with 13,3% share of the market value. When we consider the Asia-Pacific region, we include Australia, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Taiwan, Thailand, and Vietnam.

### **5. The Asia-Pacific facial care and make-up market opportunity**

#### 1. Important growth on the Asia Pacific market

The Asia-Pacific facial care market experienced strong growth between 2008 and 2012.<sup>167</sup> Its compound annual growth rate (CAGR) was 5,4% over that period, with total revenues of \$26.253,7 million. For comparison purposes, the Chinese market for facial care grew by 10% to reach the value of \$10.185,2 million, whereas the South Korean market grew by 1,8% to reach \$2.858,4 million. The expected value of the Asia-Pacific market is forecast to be \$37.332,9 million in 2017, which means an increase of 42,2% since 2012. The CAGR is predicted to be 7,3%.

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<sup>166</sup> Cosgrove, J. (2015). Passport to Beauty: DESTINATION SOUTH KOREA. *Beauty Packaging*, 20(1), 28-37.

<sup>167</sup> Marketline Industry Profile: Asia-Pacific. (2014). *Facial care Industry Profile: Asia-Pacific*, 1-35.

Market consumption volumes grew with a CAGR of 6,5% between 2008 and 2012 to attain a total amount of 4.406,1 million units in 2012. The expected market volume's CAGR between 2012 and 2017 is 8,2%, to reach \$6.544,8 million units.

## 2. Growth of the anti-agers and make-up segments

The segment generating the highest value is the anti-agers segment, with total revenues of 6.833,5 million, that is to say 26% of the market's overall value. The second most lucrative segment is the other moisturizers with revenues of \$5.220,9 million, equivalent to 19,9% of the market.

The Asia-Pacific make-up market grew by 4% in 2013 to reach a value of \$10,286.3 million.<sup>168</sup> In 2018, the Asia-Pacific make-up market is forecast to have a value of \$12,436.6 million, an increase of 20.9% since 2013.<sup>169</sup> South Korea accounts for 10,1% of the market value, and is thus the third player on that market after Japan and China.<sup>170</sup>

### **III) Opportunity of development: the example of Fragrances**

#### **A) The difficult Korean fragrance market**

The fragrance market in Korea is nowadays very weak. It represented only 2,7% of the overall sales on the cosmetics market in 2012. Furthermore, 87% of the fragrances sales were made of imported fragrances. Fragrances are the only category for which imports are superior to Korean brands' sales.<sup>171</sup> Most selling agencies of perfumes that are doing well are importing them in the first place and don't offer local perfumes.

For a Fragrance manager at Amore Pacific, this can be related to the image

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<sup>168</sup> Marketline Industry Profile: Asia-Pacific. (2014). *Haircare Industry Profile: Asia-Pacific*, 1-37.

<sup>169</sup> *Ibid.*

<sup>170</sup> *Ibid.*

<sup>171</sup> Ministry of Health and Welfare, A survey on the Manufacturing and Marketing Structure of Medical Device and Cosmetic Industry, in KHIDI Health Industry Statistics Annual 2013, *South Korea Health Industry Statistics Annual* (2013) – Korea Health Industry Development Institute (South Korea)

associated to wearing perfumes. She quoted the anecdote of Korean women, who, when offered to wear a strong or clearly perceptible perfume, answered, seemingly offended: “I’m not this kind of woman!”<sup>172</sup> The bestselling perfume of Annick Goutal, Amore Pacific’s brand is *Petite Chérie*, a perfume that is barely identifiable as such, for it smells like shampoo, conveying an image of woman who is “lovely, kind, nice, pure, innocent, even subordinated in some ways”.<sup>173</sup> There is a double minded aspiration of Korean women to at the same time look very pretty and entirely natural, which explains that they would prefer to pretend that they “didn’t do anything”, even when wearing a perfume.<sup>174</sup>

In focus groups, when asked what they expect from a perfume, women from various backgrounds tend to reply similarly that they want to find a perfume that enables them to be “different”, to express their identity. Still when faced with a choice of perfumes, they always chose the same three brands of perfumes: Chloé, Lanvin and Marc Jacobs. There is still a concern for Koreans to make the safe choice and remain within the mainstream, and this goes against the development of the fragrance segment.<sup>175</sup>

## **B) A potential for development**

### **1. The parallel to the emergence of a more daring make-up**

However, there might be an opportunity for an evolution and a widest penetration of fragrances on the cosmetics market. This seems to be confirmed by the fact that make-up became more and more daring and more and more visible in Korean fashion, which shows an evolution from the natural, subtle trend. In the past, the brand Yves Saint Laurent could not succeed on the Korean cosmetics market, for it embodied strong, independent women,

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<sup>172</sup> Yun, E. (2015, April 7). *Fragrance Manager*, Amore Pacific. Seoul.

<sup>173</sup> *Ibid.*

<sup>174</sup> *Ibid.*

<sup>175</sup> *Ibid*

with very visible, intense make-up. However, the recent make-up hits of the brand, such as the *Vernis à Lèvres* show that this image is more and more accepted nowadays. In 2014, the market share of Yves Saint Laurent grew by 151,6% in the department store channel.<sup>176</sup> The same evolution can be observed for the brand Giorgio Armani.<sup>177</sup> The trend towards wearing perfumes, even stronger ones, could thus take place, along with the evolution towards wearing more daring make-up.

## 2. Choice of Amore Pacific to develop an expertise on perfumes

The choice of Amore Pacific to buy Annick Goutal shows that there is a prospect of Korean brands for developing perfumes. For now it is still difficult to sell a brand like Annick Goutal on the cosmetics market, since, as a niche brand, it is supposed to target selective consumers, which is impossible on such a small market where all consumers need to be treated identically. Still, the choice of Amore Pacific to buy Annick Goutal in 2012 relied on the conviction that a traditional fragrance brand with in-house Perfumer and high expertise could help Amore Pacific develop its know-how and learn best practices, on a segment that is far from its core competencies. There is a hope from Amore Pacific to slowly develop fragrances on the Korean cosmetics market, and later in Asia. Although fragrances are not a priority on the Asian market yet, they are necessary if a cosmetics group aims at becoming truly global.

### **C) Growth of the fragrance category on the Asia-Pacific market**

There is a gradual growth and growth expectation of the fragrance category on the Asia Pacific market. The Asia-Pacific fragrances market grew by 5.8% in 2013 to reach a value of \$3,214.2 million. It has been growing at very stable rates over the last five years. The market is expected to keep the momentum with growth rates increasing slightly in the next

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<sup>176</sup> Data Panel 2014

<sup>177</sup>Yun, E. (2015, April 7). *Fragrance Manager*, Amore Pacific. Seoul.

few years up to 2018. The performance of the market is forecast to accelerate, with an anticipated CAGR of 6.5% for the five-year period 2013- 2018, which is expected to drive the market to a value of \$4,404.7m by the end of 2018. Comparatively, the Chinese market will increase with a CAGR of 14.6%, and the Japanese market will decline with a CAGR of -1.2%, over the same period, to reach respective values of \$643.2m and \$334.3m in 2018.<sup>178</sup> The wider recruitment of consumers to the fragrances segment in Korea could be a way to gain a stronger foothold on that market.

#### **D) Conclusion: Opportunity for European brands**

The education of Korean women and men to fragrance consumption could be a great opportunity for European brands, since a majority of the sales of perfumes are made of imports and they hold a clear advantage on that segment. Even the two perfume brands owned by Amore Pacific have France as a major market and one of them is a typical French brand Annick Goutal, with an identity clearly associated to the city of Paris. The success of European perfumes in Korea could guarantee their success in the rest of Asia, through the process of cultural mediation that we have identified. This could especially be the case since Korean competitors are weak on the fragrance segment.

This chapter identified and analyzed the process of cultural mediation operated by the Korean cosmetics' market between western culture and the rest of Asia through the transmission of a hybridized Korean culture. It showed that this process involved the exportation of consumption and lifestyle trends, among which beauty practices and the use of cosmetics. It extended this theory in showing how European brands could participate to this hybridization of Korean beauty and take advantage of the role of mediator of the

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<sup>178</sup> Marketline Industry Profile: Asia-Pacific. (2014). *Fragrances Industry Profile: Asia-Pacific*, 1-37.

Korean cosmetics market to the rest of Asia.

The case study of fragrances is an example of segment where European brands hold an advantage over Korean brands, and can take an advantage of the cultural mediation process operated on the market, provided that the market for fragrances will grow. Thus, this shows the relevance of identifying comparative advantages of European brands compared to Korean brands, in order to see the way in which this brands could more efficiently succeed on the market, and thus take advantage of its process of mediation throughout Asia. However, there are limits to identifying comparative advantages in the continuation of the hybridization theory. By competing on segments where they do not hold a comparative advantage, brands can learn know how and best practices.

## **Chapter 5: Discussion on findings: Limits to the Korean market challenge and extended opportunities**

The low-end segments for creams concerns products with a price below 30 000 won. The entry premium segment for creams ranges from 30 000 to 80 000 won. Above 80 000 won, the segment is considered as premium. High premium qualifies creams above 150 000 won.

### **I) Limits to the Korean market challenge: differentiated comparative advantages for Korean and European brands**

#### **A) Korean brands: a comparative advantage on the low-end and entry premium segment**

Korean brands hold a comparative advantage on the low-end and entry premium segments thanks to two main factors: competitiveness and a core competency in sales. However, they hold a disadvantage on the high premium segment due to weaker marketing and high quality of mid-priced ranges or brands under the leading groups.

##### 1. Korean firms' competitiveness

###### a) Fast product development

Korean manufacturers are characterized by fast product development compared to their foreign competitors. Korean timeframes for production are reducible to about one or two months from brand concept origination to production.<sup>179</sup> For comparison purposes, the average development timeframe at L'Oréal, the world leading cosmetics manufacturer is from one year to eighteen months. Korean firms also have thorough localization strategies, and have developed a preemptive expansion capacity to prepare for an increased demand.

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<sup>179</sup> Cosgrove, J. (2015). Passport to Beauty: DESTINATION SOUTH KOREA. *Beauty Packaging*, 20(1), 28-37.

These shorter development periods can be explained by the fact that products lifespans are much shorter than in the West. A three-year product lifecycle is deemed very long.<sup>180</sup>

b) A high investment in R&D

The high investment in Research and Development enables the creation of innovative products, formula and packaging. R&D costs amounted to approximately 3% of sales in 2012, with a value of 2291 million won, an increase by 75% in value compared to 2008.<sup>181</sup> The sales amount/R&D cost ratio decreased from 4,15 to 2,88 between 2010 and 2012, whereas sales increased, which shows that the investment in R&D increased during that period.<sup>182</sup> What is also interesting is the very high proportion of use of own research costs among R&D costs. In 2012, it amounted to 93% of all R&D costs. Amore Pacific for example, has tremendously strengthened its R&D facilities over the years.<sup>183</sup>

2. A core competency in sales

One of the Strengths of Amore Pacific lies in its very developed training of salesmen and women.<sup>184</sup> The training system is very strict, including many incentives, teambuilding events connecting salesmen and managers.<sup>185</sup> Once a year, the most successful salesmen are presented and compensated. The know-how and the connections of the sales department

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<sup>180</sup> Cosgrove, J. (2015). Passport to Beauty: DESTINATION SOUTH KOREA. *Beauty Packaging*, 20(1), 28-37.

<sup>181</sup>Ministry of Science, ICT and Future Planning; Korea Institute of Science Technology Evaluation and Planning, Survey of Research and Development in Korea, and Korea Health Industry Development Institute, 2013 The Fact and Analysis of the Research & Development in Health Industry 2013 in KHIDI Health Industry Statistics Annual 2013, *South Korea Health Industry Statistics Annual (2013)* – Korea Health Industry Development Institute (South Korea)

<sup>182</sup> *Ibid.*

<sup>183</sup> Jeon, Sang Gil and Baek, Woon Jung (2003). *Managing Customer Value Creation in AMOREPACIFIC*, Management Education Review, Vol. 6 (2), 110-128, in Yoo, C., & Windsor, R. D. (2008). The changing face of Korean marketing management. In C. Rowley & Y. Paik (Eds.), R. Y. Chris, C. Rowley, & Y. Paik, *The Changing Face of South Korean Management (Working in Asia)*. London: Routledge.

<sup>184</sup> Chung, S. (2015, April 1). *Cosmetic Manager*, Shinsaenge. Seoul.

<sup>185</sup> *Ibid.*

are very high.<sup>186</sup> Leading firms in Korea tend to invest in the sales department, and have a weaker marketing.

### 3. A weak marketing department

#### a) Secondary importance of marketing

The comparative disadvantage of Korean brands on the high-end segment can be explained by the weaker role played by the marketing department. This reduces the ability to convince of the additional value provided by a differentiating positioning of the brands. Thus, due to mid-priced ranges with reasonable quality, consumers tend to stick to the low-end to mid-end segment.

#### b) The evolution towards a *marketing performance* approach

However, one of the changes that are now undergone by Korean firms is the evolution from a traditional *marketing department* approach to a *marketing performance* approach.<sup>187</sup> While the former corresponds to the limitation of marketing to traditional functions such as sales and research, the latter confers a more strategic and critical role to marketing inside the firm, resulting in a more marketing driven organization.<sup>188</sup> As a result, the groups now invest more in marketing for their brands, as shown for example by the branding of Hanyul, centered around Korean herbs and traditional medicine.<sup>189</sup>

### 4. A weaker high-end segment

#### a) High quality of mid-priced products and weak premium segment

Korean premium brands are having more difficulties to compete on the market because of a relative high quality of mid priced products, under the same groups. For example, if we

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<sup>186</sup> *Ibid.*

<sup>187</sup> Yoo, C., & Windsor, R. D. (2008). The changing face of Korean marketing management. In C. Rowley & Y. Paik (Eds.), R. Y. Chris, C. Rowley, & Y. Paik, *The Changing Face of South Korean Management (Working in Asia)*. London: Routledge.

<sup>188</sup> *Ibid.*

<sup>189</sup> *Ibid.*

consider the department store channel, we see that the brand Amore Pacific, which is positioned by the group as high premium, has a market share of only 1,2%. La Prairie, a foreign brand, has a market share of 1,3% and Chanel has a market share of 8,8%.<sup>190</sup>

b) Development of lower-end ranges under premium brands

In order to attract new consumers, cosmetic companies have started developing relatively low-end ranges under their premium brands. For example, Amore Pacific achieved revenue growth after launching products such as serum or foundation, with a lower end position under the Sulwhasoo premium brand. In the department store channel, Sulwhasoo is the leading brand and achieved a growth of 3,4% in 2014.<sup>191</sup> However the launch of relatively lower priced products under this brand makes it an entry premium brand rather than a high premium brand, especially when compared to European brands such as Chanel or La Prairie. LG Household & Healthcare's Belif products, that are relatively low-priced among other department store lines, are showing striking revenue growth relative to other brands. In the department store channel, it achieved a growth of 54,4% in 2014.<sup>192</sup> Mina Kim, in her report to advise on securities purchase for KDB Daewoo, expects that this line will manage to win back consumers who have switched to mid-priced cosmetics items. She believes that premium cosmetics brands' department revenue will recover through this strategy.<sup>193</sup>

**B) European brands in Korea: a comparative advantage on the high premium segment**

European brands hold strong positions on the luxury premium market, whereas they face

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<sup>190</sup> Data Panel 2014

<sup>191</sup> Data Panel 2014

<sup>192</sup> *Ibid.*

<sup>193</sup> Kim, Mina, *Cosmetics Survival games* (2013), KDB Daewoo Securities, 2014 Outlook, November 20, 2013, 1-31

more difficulties on the entry premium segment.<sup>194</sup> In order to conduct our study, we can analyze sales on the Department stores channel, which is the preferential channel for foreign brands, along with online commerce and home shopping.

#### 1. A comparative advantage in high premium luxury

In 2014, in the department store channel, the top 10 leading brands were Sulwhasoo, Chanel, Hera, Ohui, Estee Lauder, Christian Dior, Kiehl's, SKII, Sisley and Mac.<sup>195</sup>

Although the top department store brand is the Korean brand Sulwhasoo, the premium brands Chanel with a market share of 8,8%, Christian Dior with a market share of 5,5% and Sisley are also leading brands on that channel. Among the 30 top selling brands on the department channel, 13 are European brands (15 if we include Kiehl's and Shu Uemura, both own by the L'Oréal Group). However, when we look more closely, only high premium brands are really achieving growth in 2014. This is the case of the brands Chanel, Christian Dior, La Prairie, Yves Saint Laurent or Crème de La Mer, with respective growths of 2,5%, 4,8%, 2,5%, 151,6% and 6,7%.<sup>196</sup>

#### 2. Difficulties on the entry premium segment

The situation is much more difficult on the entry premium market, as shown by brands such as Lancome, Biotherm, Clinique, Clarins with respective decreases of -7,7%, -12%, -22,7%, and -5,4% in 2014. In an interview, a Seoul National University student explained that he used to buy Clinique products but then switched to a Korean brand, because he thought the price difference was not justified. A cosmetics manager at Shinsegae, the leading department store in Korea, explains that Korean consumers deem entry premium European brands too expensive. They would either buy high premium European skincare products,

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<sup>194</sup> Chung, S. (2015, April 1). Cosmetic Manager, Shinsaeye. Seoul.

<sup>195</sup> Data Panel 2014

<sup>196</sup> *Ibid.*

as they trust the high price to be justified, or stick to Korean brands.<sup>197</sup>

3. The successful differentiation positioning of European brands: case study of L'Occitane and Fresh

L'Occitane and Fresh have achieved growth in 2014, respectively of 3,5% and 11% on the department store channel, which makes them stand out compared to other entry premium brands. These brands are also both characterized by a very differentiating positioning.

L'Occitane sells product that contain natural ingredients from the French region of Provence, which gives the brand a very strong identity. The sales force is trained to explain to clients that all natural products come from a family farm in the South of France. In the beginning, L'Occitane was not successful in Asia, but its CEO Reinold Geiger, unlike competitors like Origins, Aveda or Kiehl's, decided not to develop technical packaging, but rather to keep nature-related packaging strongly related to the story of the brand. L'Occitane now makes 50% of its sales in Asia, which is more than the sales made in Europe and in the US combined.<sup>198</sup>

The brand Fresh, owned by the LVMH group offers artisanal products made from natural ingredients, and communicates on the fact that some of them are made by hand in a monastery. This differentiates it greatly from its competitors. Furthermore, its communication is adapted to the Korean market. On Korean's Mothers day on May 10<sup>th</sup>, its website displayed a campaign dedicated to mothers called "Fresh Moms".<sup>199</sup>

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<sup>197</sup>Chung, S. (2015, April 1). Cosmetic Manager, Shinsaenge. Seoul.

<sup>198</sup> O'Connor, C. (2011, March 23). The Billionaire Behind L'Occitane's Asian Expansion. Forbes. Retrieved from <http://www.forbes.com/forbes/2011/0411/features-billionaire-behind-loccitane-asian-expansion.html>

<sup>199</sup> <http://www.fresh.com/KR/about#turns21>. Consulted on May, 10th 2015.

Thus, European and Korean brands have different comparative advantages on the cosmetics market, which reduces the challenge of trading with each other. While Korean brands are strong on the low-end and entry premium segment, European brands succeed on the high-end premium segment. This situation is subject to change, of course, with Korean brands like Hera and Sulwhasoo outperforming European brands at department stores.<sup>200</sup> European and Korean brands can also have a differentiating positioning, which confers them a comparative advantage. It can be, for example, a claim of Asian Beauty expertise for Korean brands, and, for European brands, a differentiation through artisanal or natural products with an imaginary setting. This brings a nuance to our first hypothesis of a challenge of the cosmetics market for European brands, although it does not infirm it.

## **II. Extended opportunity of the Korean cosmetics market: know-how and best practices**

However, European entry premium brands are still trying to compete on the Korean market. Following our second hypothesis, there is an interest for European brands to compete on the same segment as Korean brands. Even entry premium brands, although they don't currently hold a comparative advantage relatively to Korean brands, can be accurately developed on the Korean cosmetics market.

This market, as it plays a role of culture mediator and trendsetter in Pacific Asia, seems to be a strategic base for European brands to acquire know-how and best practices in skincare and make-up development. They could gain an expertise on the Asia-Pacific expectations and beauty practices and come closer to the standards on the Asia-Pacific market.

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<sup>200</sup> Yoo, C., & Windsor, R. D. (2008). The changing face of Korean marketing management. In C. Rowley & Y. Paik (Eds.), R. Y. Chris, C. Rowley, & Y. Paik, *The Changing Face of South Korean Management (Working in Asia)*. London: Routledge.

This chapter identified comparative advantages of European brands compared to Korean brands. These enable them to more efficiently succeed on the market, and thus take advantage of its process of mediation throughout Asia. By conducting this analysis, we brought a nuance to our first hypothesis, because the challenges on the market are limited by the existence of comparative advantages. Still, this analysis in terms of comparative advantage itself was moderated with respect to our second hypothesis. The role of cultural mediator of the Korean cosmetics' market justifies competing even on segments without comparative advantage to learn know-how and best practices and then foresee the future trends in Asia.

## **Chapter 6: Conclusion**

### **I) Conclusion**

The Korean cosmetics market constitutes a challenge for European brands. European leading firms struggle to achieve profitability and growth on that market. Relying on market knowledge and on previous studies on the social pressure on physical appearance in Korea, this paper identified the main structural challenges on this market. These consist in high competition on the low-end segment with a general bias towards mass consumption, a contrast in distribution channels and high consumers' expectations.

Developing on the emergence of a Korean beauty expertise on Asian skin type and a regional influence through the Korean Wave, we showed how it contributes to the elaboration of a Korean identity that spreads to the rest of Pacific Asia. In that process, Korea plays the role of cultural mediator of a hybridized culture often resulting from western influences. As intermediary between the United States, Europe and the rest of Asia, it exports some aspects of Western culture that could not be accepted directly.

The success encountered by the Korean Wave in Asia has tremendously increased the sales of Korean cosmetics products but it has also given a push to the sales of European bestsellers on the Korean cosmetics market. Thus, European brands can take advantage of this process of cultural mediation from Korea to the rest of Asia. This is an opportunity that compensates for the identified challenges. It encourages an investment of European brands on the Korean cosmetics market in order to gain market share, which would not be justified by merely analyzing the market size, rank and structure.

Furthermore, our findings were discussed. The challenges identified in validating our first hypothesis are limited by the fact that European brands and Korean brands each hold comparative advantages on the market although the frontiers are shifting incrementally. The former hold an advantage on the low-end and entry premium segment

while the latter are strong on the high-end segment. Still, in the continuation of our second hypothesis, there is an advantage for brands in competing also on segments where they don't hold a comparative advantage. By acknowledging Korea's role as a trendsetter, European brands can learn best practices and know-how on the market and foresee the future standards in the overall Pacific Asia region.

## **II) Opportunities for further research**

A question further researched could be how European brands take advantage of the newly developing distribution channels in Korea, such as e-commerce or home shopping and how they are practically becoming part of Korean lifestyle, and influencing Korean culture.

Furthermore, since Korean brands are more and more aiming at becoming global, studies could be conducted on the newly born globalized beauty culture in Asia, and its ability to reach the West. This could imply studies on the receptivity to Korean culture by European countries. This kind of research has been advanced on the cultural products related to the Korean Wave. Some authors have argued that no East Asian country has succeeded in exporting its culture to Europe yet.<sup>201</sup> Jin-mo Im describes East Asia as a production center and subcontracting base for Europe and America, which he even names a cultural colony. He sees Korean products as mere copies of elements of Japanese and American waves. Im does not see Asian culture as developed enough to compete with western culture. Building his theory on the main concept of cultural hegemony, he shows that a solution for China to finally become a global cultural center would be to use Korea as a stepping-stone, and a means to establish a cultural identity. The connection between Korea and China appears to him as a way to counterbalance the influence of the United

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<sup>201</sup> Im, Jin-mo. (2001). Bungeo eomneun bungeoppang-i jal pallyeo? (Carp Bread Without Carp. Does It Sell Well?). *Munhwa yondae* (Cultural Action) 21, in Hae-Joang, C. (2005). Reading the 'Korean wave' as a sign of global shift. *Korea Journal*, 45(4), 147-182.

States and Europe and to raise the status of East Asia.<sup>202</sup>

This can be discussed and other aspects can be investigated, for example the ways in which the Korean Wave should be adapted to reach western countries. We can wonder if this can go along, as in Asia, with the diffusion of consumer capitalism. Some authors have held opposite views. Paik Won Dam, although she earlier perceived the Korean Wave as a mere embodiment of western capitalism, showed an evolving position. She affirmed that the diffusion of Korean cultural products could no longer go hand in hand with pure capitalist interests, and should rely on a more authentically Korean identity.<sup>203</sup> Jin-mo Im also recommends searching for something “authentically Korean” and rejecting pure commercialism.<sup>204</sup> As pointed by Cho Hae-Jang, one can discuss the definition conferred to the Korean culture that can be shared throughout the world and its circumscription.<sup>205</sup> Park describes the Korean culture as the embodiment of a Korean sensibility that is the one of the whole world. However he does not associate dance and music to this cultural phenomenon.<sup>206</sup> He distinguishes Korean culture, as embodied by movies for example, from popular culture. We could infer that the recent Korean beauty culture would be excluded from the authentic Korean culture that should be exported. One could discuss whether some brands strongly relying on traditions could still benefit from the success of

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<sup>202</sup> Ibid.

<sup>203</sup> For his first position, see: Paik, Won (2001). Hanil-ui sangeopjuui munhwa-ga gonggi-chereom urideul jubyeon-e paengbaehae itda. (The Korean/ Japanese Commercial Culture Surrounds Us Like Air). *Munhwa yondae* (Cultural Action) 21,

And evolution see: Paik, Won Dam (2005). *Dongasia-ui munhwa seontaek hallyu* (The Korean Wave: A Cultural Choice of East Asia). Seoul: Pantagram Publisher

Both cited in Hae-Joang, C. (2005). Reading the ‘Korean wave’ as a sign of global shift. *Korea Journal*, 45(4), 147-182.

<sup>204</sup> Im, Jin-mo. (2001). Bungeo eomneun bungeoppang-i jal pallyeo? (Carp Bread Without Carp. Does It Sell Well?). *Munhwa yondae* (Cultural Action) 21, in Hae-Joang, C. (2005). Reading the ‘Korean wave’ as a sign of global shift. *Korea Journal*, 45(4), 147-182.

<sup>205</sup> Ibid.

<sup>206</sup> Ibid.

an authentic Korean culture.

Very concretely, one could wonder if the promotion of cosmetics and export to Europe could go hand in hand with the diffusion of Korean popular culture, without being an obstacle to its reception in Europe. Excessive commercialism of Korean culture could result in its loss of credibility. However, if we take other examples, we see that cosmetics have always been related to prior waves of creation, and to fashion in particular. The commercial success of the perfume *Opium* by Yves Saint Laurent was conditioned by the prior recognition of its creator. It granted to the brand, reserved to elite consumers, an access to mass consumers, which contributed to its long-term success. The question can be raised whether the same mechanisms could play for Korean culture, which is still a niche culture in Europe and could gain access to a wider audience by relying on capitalistic products. One could question the possibility and opportunity of combining objectives of profitability and of artistic recognition in the European context.

This goes along the view, held by industrialists and neoliberals that market and sales should be the prior objective of the Korean Wave in line with the creation of a cultural industry. In that sense, the Korean wave increases sales and exports of Korean products and must be supported by the Korean government. In important discussions between cultural industry figures, the main concern was to transform the Korean Wave into a sustainable source of income.<sup>207</sup> They emphasized a “cultural engineering mindset”, in order to improve competitiveness.<sup>208</sup> However, the ability to sustain such a dynamic is questioned by many authors. Dong Yeun Lee argues that the products created by the “illicit union” between an export-oriented state and a short-term capitalist logic cannot achieve a

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<sup>207</sup> Hae-Joang, C. (2005). Reading the ‘Korean wave’ as a sign of global shift. *Korea Journal*, 45(4), 147-182

<sup>208</sup> Ibid.

high level of quality and therefore a long-term presence.<sup>209</sup> The Korean wave in that sense would only be a short-term support for the export of cosmetics. However, one could wonder if the Korean beauty industry has become strong enough to stand without reliance on the Korean cultural industry, for example thanks to its expertise on Asian skin type and on skincare in general.

One could thus further examine if Korea could be a reciprocal mediator of consumption patterns from Asia to Europe, as it could be from Europe to Asia, in particular in terms of use of cosmetics and the diffusion of beauty practices. To that extent, we can wonder if these exchanges are detrimental to one sphere of influence over the other or if they are mutually beneficial. The repeated use by authors of the term “counter-flow” and the notion of opposite waves of cultures could lead to believe that these different forms of culture and consumption are not compatible. However, through the example of the strong links between French movies and independent Korean movies, we can see that these different waves can evolve along similar directions and benefit from mutual influences. This aspect could be further researched.

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<sup>209</sup> Hae-Joang, C. (2005). Reading the ‘Korean wave’ as a sign of global shift. *Korea Journal*, 45(4), 147-182

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## 초록

# 유럽 브랜드들의 한국 화장품 시장 진출 기회와 전략

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한국의 화장품 시장은 유럽의 브랜드들에게 많은 도전을 야기한다. 한국 화장품 시장이 지닌 구조적 조건은 유럽에서 온 브랜드들이 그 안에서 성장하고 이윤을 창출하기 어려운 환경으로 구성되어 있다. 본 논문은 유통 채널이 대조적이고 경쟁이 치열한 이런 한국의 화장품 시장을 묘사한다. 특히 저가 화장품 시장에서 두드러지는 이 특징은 대량 소비를 위한 편향을 이끌어낸다. 또한 아시아 전문성에 대한 높은 소비자의 기대와 선호는 높은 품질의 제품을 낮은 가격에 판매하도록 촉진함으로써 이윤 폭의 압축으로 이어진다. 이에 따라, 화장품 시장 조건 자체로 볼 때 유럽의 브랜드들이 한국에서 정당하게 경쟁하기란 쉽지 않다.

그럼에도 불구하고, 최근 아시아 태평양 내 한국의 영향력과 한류를 통한 문화 및 상품의 수출은 유럽의 브랜드들이 진출할 기회를 제공한다. 문화적 매개자로서 한국은 종종 서구 문화의 영향의 직접적 결과로 나타난 하이브리드된 제품을 수출하는데 이는 서양의 라이프 스타일과 서구 소비 성향을 전달하는 역할을 한다. 본 연구는 이 현상을 '뷰티 하이브리드화'라는 용어로 규정하여 화장품 분야에서

이 과정이 어떻게 적용되는가를 설명한다. 두 번째 연구 결과에 뒤이어 유럽 브랜드들이 한국의 이러한 수출 과정을 통해 아시아 태평양 시장에 진출하는 것이 유리하다는 점을 강조한다. 이로써 한국 시장은 유럽의 브랜드들이 한국 외 다른 아시아 국가에 진출하는 교두보의 역할을 할 수 있다. 유럽의 브랜드들이 한국에서 거두는 성공은 한국 시장을 통하여 다른 아시아 국가들에서의 성공으로 이어질 수 있는 것이다.

한국의 화장품 시장에서 유럽과 한국의 브랜드가 각기 차별화된 경쟁 우위를 보유한 것은 사실이다. 그러나 '뷰티 하이브리드화' 과정과 매개자 역할을 하는 한국에서 얻는 교훈을 통해, 유럽 브랜드들은 경쟁 우위를 갖지 못한 영역에서도 아시아 전체로 진출할 수 있는 전략에 대한 벤치마킹 사례와 노하우를 얻을 수 있을 것이다.

화장품, 화장품 시장은, 유통 채널이, 뷰티 하이브리드화, 문화적 매개자,한류