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Master's Thesis of Graduate School of International Studies

Comparison of the
Competitiveness of LG H&H and
Amorepacific: A Generalized
Double Diamond Model Approach

LG 생활건강과 아모레퍼시픽의 경쟁력 비교연구:
일반화된 더블 다이아몬드 모델을 통한 경쟁우위
분석을 중심으로

August 2023

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Comparison of the Competitiveness of LG H&H and Amorepacific: A Generalized Double Diamond Model Approach

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Abstract

The cosmetic industry has played a major role in the development and economic success of South Korea. Korean beauty companies have successfully emerged in the industry with the popularity of Hallyu (i.e., Korean Wave) in Asia and beyond. However, K-beauty has been gradually losing its ground in China, one of the largest importers of Korean cosmetics, as a response to the political tensions between Korea and China, such as the THAAD system in 2016 and COVID-19 in 2019.

Recently, Korean major beauty companies, LG H&H and Amorepacific, have diversified their company portfolio and strengthened their export and niche markets, such as ASEAN and the U.S. markets. According to the Women's Wear Daily (WDD), Korea is one of the top 10 beauty markets in the world. With innovative beauty technology, the Korean cosmetic industry has continued to grow in the global market ranking 6th largest beauty market in the world.

The purpose of this research is to compare and analyze the competitiveness of the two companies, LG H&H and Amorepacific, at a domestic and global level. How these two major cosmetics companies have continued their long-term stronghold in the cosmetic industry? What determines the competitiveness of these companies? Which company has the competitive advantages in the home country and the global market?

The competitiveness of the LG H&H and Amorepacific is measured by applying the generalized double diamond model to find useful measures to strengthen the global competitiveness of the Korean cosmetic industry. The cosmetic industry was first compared in terms of the four determinants of the generalized double diamond model: thereafter, the domestic and international model were compared. Approximately 31 sub-variables were extracted to measure the eight determinants and secondary data were collected from selected sources. The result of comparing the domestic

diamond models showed that LG H&H and Amorepacific have shown competitive advantages in different determinants in both domestic and international level. Global Model displayed that LG H&H showed competitive advantage in factor conditions, demand conditions, and firm strategy, and structure with its business model built based on the aggressive M&As, while Amorepacific displayed competitiveness in related and supporting industries with investing on R&D to produce innovative products. This research has visualized a whole picture of each firms' competitiveness in the fast-moving cosmetic industry.

Keyword : Generalized double diamond model, cosmetic industry, K-beauty, beauty, Amorepacific, LG H&H

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Chapter 1. Introduction

1. Background

Though the word ‘cosmetics’ has been in use for thousands of years, the standards and meaning of the word differ with time and culture. In Europe, cosmetics are defined as products used in any part of the body (face, hair, body, genitals) to maintain or protect the body in good condition, mainly for cleanliness. European idea of cosmetics originated from Middle Ages- where the face was whitened and the cheeks rouged. However, the attitude towards cosmetics varied over time, with the use of cosmetics once being frowned upon at many points in Western history. Regardless of the various changes in social attitudes towards cosmetics, ideals of appearance were occasionally achieved through the use of cosmetics.

On the other hand, Korea defines cosmetics as a product used in the human body to add charm by cleaning, brightening his/her appearance, and maintaining healthy skin and hair. The birth of Korean beauty dates back centuries ago. From skincare to makeup, Korea had been emphasizing the concept of healthy skin, since the 3 Kingdom of Goguryeo, Baekje, and Shilla. The ideology of cosmetics was to wear makeup rather lightly to meet beauty. Makeup was broadly defined as care not only for external purposes but also

internally; people believed that ‘within a beautiful body, rests a beautiful soul.’ Regardless of status and wealth, both men and women adopted beauty practices to fulfill natural and modest looks. The beauty standard of clean and delicate looks has always been held in high regard in Korean culture. (Kim, 2002)

The importance of beauty has carried out to the modern period. Korea has become one of the top 10 beauty markets in the world. With the forefront of cutting-edge skincare technology, the Korean cosmetic industry is constantly flourishing. In 2022, South Korea ranked the 6th largest beauty market in the world, occupying 4.11% of the market share of the beauty industry.

Table 1. ‘The 2021 Beauty Top 100’ by country

<Unit: Billion (KRW), %>

Rank	Country	Number of Company	Market Sales (2021)	Market Sales (2020)	YoY Variation (vs. 2020)	Market Share (2021)
1	United States	33(+ 2)	72,100	63,932	12.78	30.67
2	France	11(-3)	54,888	51,619	6.33	23.35
3	United Kingdom	7(+ 2)	33,760	24,302	38.92	14.36
4	Japan	13(+ 1)	22,324	21,401	4.31	9.49
5	Germany	4(-1)	11,966	11,276	6.12	5.09
6	South Korea	3(-1)	9,652	8,993	7.33	4.11
7	Brazil	3(0)	9,018	8,828	2.15	3.84
8	Switzerland	5(0)	6,837	6,360	7.49	2.91
9	China	7(+ 2)	4,539	2,883	57.44	1.93
10	Spain	1(0)	2,830	1,590	77.99	1.20
11	India	4(0)	2,818	2,350	19.90	1.20
12	Italy	4(+ 1)	1,765	1,664	6.08	0.75

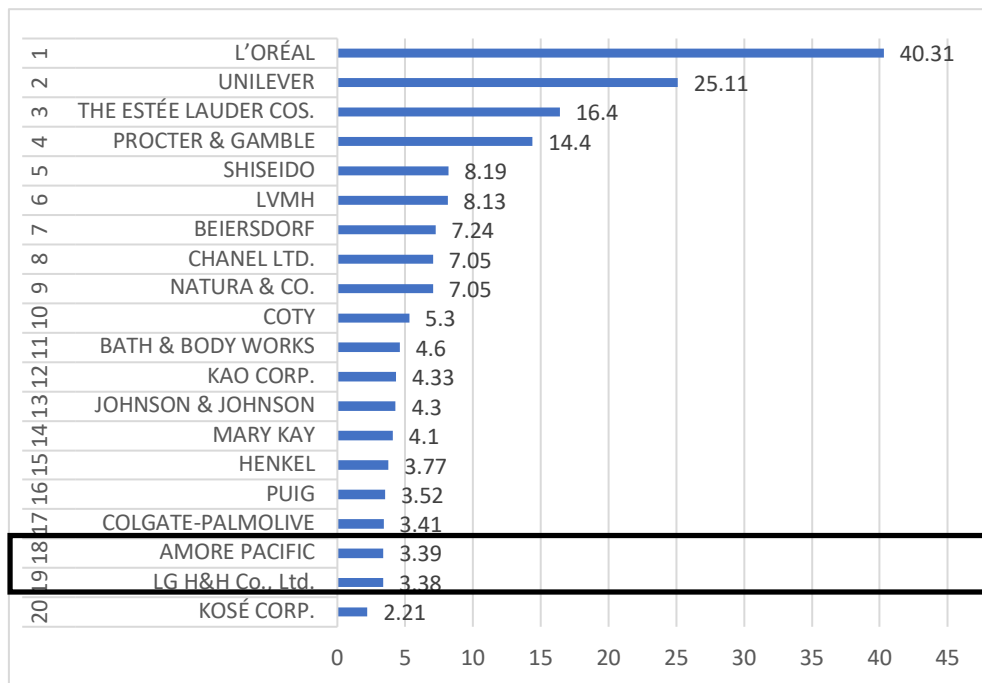
13	Peru	2(0)	1,556	1,336	16.47	0.66
14	Netherlands	1(-1)	788	4,808	-83.61	0.34
15	Russia	1(0)	273	260	4.88	0.12
16	United Arab Emirates	1(0)	250	250	0.00	0.11
Total (16 countries/100 companies)			235,113	211,852	10.98	100.00

*Source: WWD Beauty Report (2022)

The positive attitude toward beauty has contributed to creating unique and sophisticated trends in the Korean cosmetic industry, known as Korean beauty (i.e., K-beauty). K-beauty refers to beauty trends and products originating from South Korea. Over the past decades, no country has had a greater impact than K-beauty. Though people often tend to associate cosmetics with Western countries due to historical and cultural background, Korean cosmetics companies have been recognized in the industry as the trend-leaders. There has been much rhetoric that Korea will be the next leader of the cosmetic industry with the booming cultural influence of Hallyu (i.e, the Korean Wave), a cultural phenomenon that has introduced an eclectic mix of Korea and “global” elements encompassing music, film, drama and even lifestyle products. Hallyu represents a broader wave of K-lifestyle. Hallyu’s success promoted the consumption of Korean goods, and services by appealing to a foreign consumer base, particularly for cosmetics, fashion, and music-related content. (Jun, 2017)

The two top beauty companies, LG Household & Health Care (LG H&H) and Amorepacific, have placed within the top 20 global cosmetics brands according to the WWD ranking in 2022. Amorepacific ranked 18th place by creating US\$3.39billion market sales and LG H&H ranked 19th by producing US\$3.38 billion market sales in global beauty industry. The global beauty sales gap between LG H&H and Amorepacific is very close to determine the competitive advantage in the global market.

Graph 1. Top 20 Global Cosmetics Brands 2022



(based on beauty sales in 2022, Unit = \$bn)

*Source: WWD

2. Purpose of Research

The purpose of this research is to measure the competitiveness of the two companies, LG H&H and Amorepacific, at a domestic and global level. How competitiveness of a company will drive future outcomes? Which factor determines the competitiveness of a company: market revenue or growth rate?

K-beauty has witnessed tremendous growth with the popularity of Hallyu. However, K-beauty has been gradually lost ground in China, a core Hallyu market, as a response to Korea's plan to deploy a Terminal High Altitude Area Defense (THAAD) system in 2016. Korea's decision to deploy the THAAD system to enhance Korea's defense capabilities vis-à-vis an increasingly aggressive nuclear North Korea- agitated China, one of Korea's largest markets for Hallyu consumption. China used hard power (with respect to Korean industry in general and Hallyu in particular) to show dissatisfaction with Korea's security moves. Simultaneously, the tensions between Korea and China brought some of the effects of policy changes in China. According to Euromonitor, Amorepacific and LG H&H have not placed as the top cosmetic brands in China in 2018. Amorepacific's Innisfree took 17th place, marking 1.1 percent of the market share, and Laneige took the 37th, marking 0.6 percent. LG H&H's History of Whoo ranked 46th place at 0.5 percent.

Korean brands have been hitting a great wall in the Chinese cosmetics market. K-Beauty has faced several challenges. First, Japanese high-quality, high-tech products started to target the Chinese market, while European brands targeted the upper hand in the premium market. Secondly, Chinese beauty (C-beauty), has been making rapid progress based on the incorporation of Chinese medicine and eco-friendly image, and most importantly, reasonable and affordable prices relative to global brands. Lastly, the K-beauty trend in China experienced changes amid the conflict between Korea and China over the former's deployment of the THAAD, which the latter considered a threat to its security and COVID-19.

However, Korean LG H&H and Amorepacific will not deter. Both companies are working on diversifying and strengthening their export and niche markets. Korea's aggressive marketing of local cosmetic brands through strategic product placement in popular dramas and films has benefited from local and overseas sales of cosmetics. Korean cosmetic companies enlisted star actors and actresses as models and "brand ambassadors" to further spur the respective brand's popularity. (Forbes, 2015) For instance, Amorepacific used global K-pop idol, Blackpink Jennie as a brand ambassador and a model for Hera since 2019. As a result, demand from global customers led to the outperformance of the brand.

Blackpink Jennie's promotional effects have enhanced the brand image.

The success of the K-beauty has been studied by many scholars. Most of them approached it as a subject of Hallyu, for example, how Hallyu and K-culture have brought the fame of K-beauty particularly in the Chinese market.^① The study mainly focused on one factor, such as its international sales volume or a strategy or an initiative that the Korean cosmetic companies took to explain why they found success. However, a single factor cannot measure the company's competitive advantage. The mixture of various domestic and international factors should be considered for competitiveness analysis. Porter (1990) introduced the theory of competitive advantage by identifying trade and FDI as the major tools to gain and enhance sources of competitiveness of nations and firms. Porter explained the competitive advantage of nations into a single diamond model; interplaying four self-reinforcing determinants which are: 1) factor conditions, 2) demand conditions, 3) firm strategy, structure, and rivalry, 4) and related and supporting industries. However, this model failed to incorporate the effects of multinational activities (Moon, Rugman, and Verbeke 1998). Moon et al (1995)

^① E.g., study 1. K-beauty and the globalization of Cosmetic industry in China, study 2. How K-beauty brands become competitive in world market, etc.

extended Porter's single Diamond to the Generalized Double Diamond model (GDD) to incorporate multinational activities and government as an endogenous factor.

The GDD model is used to measure the comprehensive analysis of a firm including multinational activities into the framework. Moon & Lee (2004) adopted the GDD model at the firm level to analyze the competitive advantage of Samsung Electronics Company (SEC) compared to that of Sony and revealed its real character through the study.

This research aims to study the competitive advantages between LG H&H and Amorepacific using the approach adopted by the Generalized Double Diamond model. The main objective is to understand the competitiveness of the two companies, in their true character, within a balanced and comprehensive framework, different from previous studies done for Korean cosmetic companies. The study will allow us to examine the competitiveness of LG H&H and Amorepacific by constructing diamonds at domestic and global levels.

The paper will proceed as the following: the history and trends of the cosmetic industry at a domestic and global level are explained. Then by reviewing literature reviews to examine why the generalized double diamond model is suitable to compare the two largest cosmetic companies from the same country and the actual

methodology will be presented. The empirical study applies the GDD model and constructs the global diamond model to resolve the limitation of the GDD model. Lastly, LG H&H and Amorepacific will be analyzed thoroughly to compare their competitive advantages.

Chapter 2. Theoretical Background

1. Understanding Cosmetic Industry

Today, the cosmetic industry requires not only an understanding of the culture but also high technology and intense knowledge. The cosmetics industry is divided into two major categories: beauty and daily beauty. Beauty includes skincare, make-up, and fragrance. The skincare sector consists of the biggest sales volume but recently, the make-up sector is growing rapidly according to Euromonitor. Daily beauty (DB) includes haircare, men's products, and oral & body care products. Beauty and daily beauty are categorized further into luxury, premium, mass, and pharmaceuticals.

Local cosmetic brands used to be popular in the domestic beauty market because of differences in skin color, type, and culture. Daily beauty routines varied based on demographics and cultural background. However, the cosmetic industry has been influenced by globalization. The meaning of "beautiful" is becoming unified by communicating internationally. The Internet certainly broke the barriers amongst global beauty consumers: global consumers can share different yet popular beauty trends with no geographical limits. For example, the rise of the Hallyu in the West carried over to K-beauty. In 2018, the '10 Step Korean Skin Care Routine,' received

global attention, especially in the U.S. according to the Soko Glam.

As a result, multinational cosmetic companies, like L’Oréal, P&G, LG H&H, Amorepacific, and Shiseido, have competed fiercely in the global beauty market using their unique marketing skills. The Western brands often use the image of prestige and luxury that was built from a long history. On the contrary, Korean cosmetic brands, fairly new compared to European global companies, obtain a comparative advantage from being innovative. K-beauty received global attention by developing innovative products, such as facial mask sheets, which adhere to skin and infuse it with concentrated essence, and cushion foundation, a liquid formula housed in a sponge-like cushion in a compact. Amorepacific and LG H&H, two major cosmetic companies in South Korea, have continued to be ranked in the top 20 global cosmetic brands in recent years.

Table 2 Top 20 Global Cosmetics Brands Market Sales (2022)

<Unit: Billion (KRW), %>

Rank 2022	Rank 2021	Company	Country	Market Sales (2022)	Market Sales (2021)	YoY variation
1(-)	1	L’ORÉAL	France	40.31	38.19	5.55
2(-)	2	UNILEVER	United Kingdom	25.11	23.82	5.42
3(-)	3	THE ESTÉE LAUDER COS.	United States	16.40	17.70	-7.34
4(-)	4	PROCTER & GAMBLE	United States	14.40	14.60	-1.37
5(-)	5	SHISEIDO	Japan	8.19	9.20	-10.98
6(-)	6	LVMH	France	8.13	7.82	3.96
7(+ 2)	9	BEIERSDORF	Germany	7.24	6.99	3.58

8(-)	8	CHANEL LTD.	United Kingdom	7.05	7.19	-1.95
9(-2)	7	NATURA & CO.	Brazil	7.05	7.45	-5.37
10(-)	10	COTY	United States	5.30	5.00	6.00
11(+ 3)	14	BATH & BODY WORKS	United States	4.60	4.60	0.00
12(-1)	11	KAO CORP.	Japan	4.33	4.93	-12.17
13(+ 2)	15	JOHNSON & JOHNSON	United States	4.30	4.50	-4.44
14(+ 3)	17	MARY KAY	United States	4.10	3.90	5.13
15(+ 1)	16	HENKEL	Germany	3.77	4.13	-8.72
16(+ 3)	19	PUIG	Spain	3.52	2.83	24.38
17(+ 1)	18	COLGATE-PALMOLIVE	United States	3.41	3.48	-2.01
18(-5)	13	AMORE PACIFIC	South Korea	3.39	4.61	-26.46
19(-7)	12	LG H&H Co., Ltd.	South Korea	3.38	4.81	-29.73
20(-)	20	KOSÉ CORP.	Japan	2.21	2.74	-19.34

*Source: WWD

1.1. Korean Cosmetic Companies

1.1.1. LG Household & Heath Care (LG H&H)

LG Household & Heath Care (LG H&H) is one of the major South Korean consumer goods companies that sell cosmetics, household goods, and beverages. The company was originally founded in 1947 by Koo In-Hwoi (Founder of LG Corporation) established Lucky Chemical Industrial Corp, and launched “Lucky Cream,” the very first cosmetics product in Korea and “Lucky Toothpaste,” the first toothpaste brand in Korea. In February 1995, the company changed its name to LG Chemical Ltd, then in April

2001, LG H&H spun off from LG Chemicals. When CEO Suk Y. Cha joined the company in 2005, the company made a successful turnaround and experienced rapid growth driven by a myriad of strategic mergers and acquisitions (M&A). With the acquisition of Coca-Cola Beverage in 2008, CEO Cha successfully restructured the business into three categories: cosmetics, household goods, and beverages.

LG H&H changed its scope to become Korea's leading cosmetic company through myriad of aggressive M&As: owning over 30 brands across the segments divided into four different divisions: luxury, premium, mass cosmetic products, and daily beauty products. Since 2005, LG H&H focused on the cosmetics business by launching new high-end brands such as 'The History of Whoo', 'SU:M37', and 'belif'. In 2010, the company completed its cosmetics product portfolio by acquiring mass cosmetic brands like 'The Face Shop.' Finally, the company acquired 'Violet Dream'(former VOV) to strengthen its make-up business in 2012. In 2014, the company obtained a local cosmeceutical firm, CNP Cosmetics Co., Ltd, to follow the new beauty trend of emerging cosmetics and pharmaceuticals, by producing functional cosmetic products. In two decades, it has become the largest cosmetics company in South Korea, and it continues to narrow the gap with its global competitor.

1.1.2. Amorepacific

Amorepacific is a South Korean beauty company, operating about 32 beauty, personal care, and health brands. The firm was founded in 1945 by Suh Sung-whan, and named “Taepyengyang,” meaning Pacific Ocean in Korean. He established Korea’s first cosmetics research laboratory and dedicated heavily on R&D and innovation. In 1997, Suh Kyung-bae, the son of the founder, took over and rebranded the firm into Amorepacific to target the global market, turning the company into a cosmetic chaebol by managing numerous cosmetics brands. It is the second-largest cosmetic company in South Korea and has become the world’s 18th-largest cosmetics company, boasting 30 beauty brands in its portfolio. Its luxury lines, such as Sulwhasoo and Amore Pacific, is housed in the U.S. department stores, including Bergdorf Goodman, Neiman Marcus, Bloomingdales, and Nordstrom. The premium brands, Primera and Laneige, are sold in Target, Sephora.

The success story of Amorepacific is explained by its unwavering commitment to its original ethos, ‘we make A MORE beautiful world’ established back in 1945: products infused with naturally-derived ingredients, formulated based on the R&D. The company is devoted to studying natural ingredients founded in Asia, especially green tea and ginseng, as well as fruits and flowers native

to Korea. Amorepacific focus on combining harvesting heritage botanicals nature and advanced technology which sets it apart from other cosmetic companies. For instance, Amorepacific is well known for its cushion technology. Such technology aimed to combine skincare, sunscreen, and liquid foundation into one formula, a Korean trifecta reminiscent of the hugely popular BB cream. In March 2008, the company introduced the revolutionary cushion formula in the form of a compact called ‘cushion foundation,’ which changed the makeup habits of South Korean women. The demand for cushions didn’t stop at the domestic level, the cushion garnered global appeal, creating different compacts across other Amorepacific brands. (Chung, 2016) Amorepacific recorded rapid growth in 2015, mainly with high demand from Chinese customers.

1.2. Market Size

Despite the global economic crisis in 2009, the South Korean cosmetics market has grown dramatically compared to other industries. Consumers’ purchasing power in the beauty industry has continuously improved due to economic development and an increase in GDP. The cosmetic industry has become one of the most important industries in South Korea’s economy. With an increasing number of women participating in the economy and an increase in interest in

grooming men, people's desire to pursue Korean beauty started to recognize cosmetics as consumer goods. Cosmetics were used regardless of age or gender, breaking away from the narrow consumers' point of view that once has been treated as luxury goods in the past. This is the most prominent factor propelling the growth of the K-beauty market.

Korean cosmetic companies are well known for being innovative yet cost-effective. LG H&H and Amorepacific put a lot of emphasis on the R&D of cosmetics with more effectiveness to meet consumers' growing demand. Korean cosmetics gained attention from Western brands with the invention of BB creams and cushion compacts. Moreover, Hallyu is another prominent factor influencing global consumers to try K-beauty. K-pop and K-dramas gained oversea fans, especially Chinese customers; it has also helped LG H&H and Amorepacific to record skyrocketing sales in all channels such as door-to-door, department store, and especially duty-free between 2014 and 2015.

However, with the diplomatic tension between the Chinese and South Korean governments in 2016, Korean cosmetic companies are experiencing a difficult time. Although the proportion of exports to China (including Hong Kong) first exceeded 40% in 2013 and rose to 67.3% in 2016, the export sales fell to 60% after the THAAD crisis

in 2017. Both LG H&H and Amorepacific have made a strategic decision to reduce the dependence on exports to China and tried to diversify their export lines to ASEAN countries and the U.S. Recently, cosmetics export to Southeast Asia have been increasing due to the Korean Wave, but these regions are relatively small cosmetic market, so the effect of diversifying exports is not significant. As so, LG H&H and Amorepacific have targeted the U.S. market as the next destination.

Table 3. Market Size by region

2023	Sales (US\$ bn)	CAGR 2023-2027 (%)
Europe	131.80	2.06
U.S	91.41	2.60
China	59.06	5.41
Japan	40.62	2.82
South Korea	12.58	2.56
ASEAN	29.97	3.56

*Source: Statista (Beauty & Personal Care)

1.3. Market Trend

According to the WWD 2022 report, the top 100 global cosmetic companies started to focus on customization based on consumers' needs. Providing personalized experiences for customers is becoming popular domestically and internationally. Most companies are actively adopting new technology to provide personalized products. Currently, IOMA Paris, Le Labo, and LVMH

(BITE LIP) are examples of customized cosmetic brands. In addition, skin-care-oriented companies such as L'Oréal, Shiseido, and Amorepacific are expanding the scope of existing cosmetic brands to customized cosmetics.

There are several ways that brands provide customization for customers. First, it provides customized products by recommending pre-made products or providing products that contain specific ingredients based on the customer's skin condition and lifestyle. For example, IOMA Paris placed skin diagnostic devices in offline stores. Customers are diagnosed with skin conditions with the help of store staff and can purchase products with personal labels directly in the field. Also, make-up brands started to provide customized experiences for customers. BITE BEAUTY has a business model that manufactures and sells lipsticks customized to customers and provides on-site consulting services that match an individual's skin tone and product color. Customers can receive product manufacturing consulting services by booking online and store visits.

Second, innovative technology is used to provide solutions produced from real skin data of numerous customers and massive research assets. For instance, Amorepacific opened 'IOPE LAB' online and offline to provide unique IOPE's special skincare routine. Prescription managers tailor solutions at the site and customers can

watch the manufacturing process. Customers can purchase personalized serums and 3D masks based on their skin type and the concern of individuals. (AMOREPACIFIC, “IOPE LAB)

Lastly, companies are expanding refill stations to offer eco-friendly purchasing experiences where customers can reuse containers and purchase a quantity of their choice. For example, Amorepacific opened Refill Station at the AMORE store in Gwanggyo, which was the first such store in South Korea. At the Refill station, customers can purchase as many shampoos and up to 15 body wash products of their choice in a dedicated refill container. The dedicated refill container, which reduces 30% of plastic usage, makes it eco-friendly and economical. To provide fresh and safe products, the refill containers are kept only within 100 days of manufacture, and are sterilized with UV LED lamps before putting the product in. (AMOREPACIFIC, “Refill Station, Content without Packaging.”)



Refill Station in AMORE store, Gwanggyo, South Korea

2. Literature Review

2.1. Cosmetic Industry

The recent global cosmetic industry preference is defined as cosmeceuticals, sustainability, organic ingredients, and personalization. The new cosmetic trend has shifted to clean, natural, and organic products. The technologically advanced and user-friendly products have been driving the market's growth. According to the Centre for the Promotional of Imports report from developing countries (C.B.I), the natural cosmetics market in Europe is composed of 5 percent of the total European cosmetics market. France and Germany are the leading exporters of natural ingredients. The global cosmeceuticals market witnessed a robust CAGR of 8.6% valued at \$45.56 billion in 2021, expected to reach \$95.75 billion by 2030 according to Strategic Market Research.

Cosmeceuticals contain both cosmetic and medicinal properties to elevate effects on skin health and beauty; cosmeceutical skincare products contain an active ingredient that affects skin cell functions. An increase in customer consciousness of physical appearance, a rapid increase in the aging population, and the growth of disposable income in emerging economies are the key drivers of the increase in demand for the global cosmeceutical

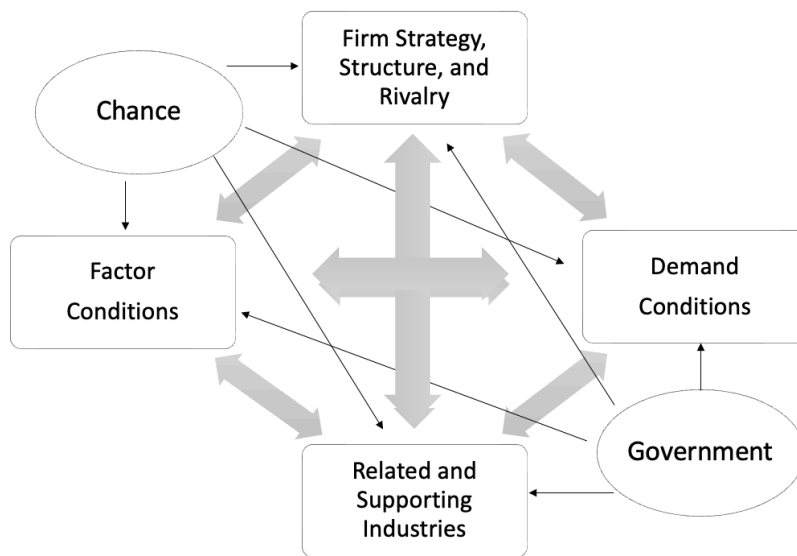
products market. With a rise in advanced technologies such as nanotechnology for the development of new bioactive ingredients and plant stem cell technology, consumers are looking for products and methods to maintain and even improve their appearance to look beautiful and youthful. The United Nations World Population Report stated that there were 680 million middle-class households in emerging markets which is forecasted to rise by 2.7% in 2030; middle-class households in developing countries stood at around 176 million in 2018 and is predicted to increase by 6.3% by 2030. The rise in income translates into people using more cosmetic products, which creates opportunities for the market's growth. ("Cosmeceuticals Market Size, Share, Growth Analysis, 2030")

2.2. Porter's Single Diamond Model

Michael Porter (1998) proposed the single diamond model to help understand the competitive advantage that nations or firms possess based on certain factors. Porter stated that a nation's success in a particular industry is achieved if it possesses a competitive advantage relative to its competitors. By criticizing traditional theories that are limited to macro-economic factors, such as natural resources, exchange rates, labor force, and trade balance,

Porter proposed a single diamond model that emphasizes the micro foundation for the creation of national wealth by finding four common attributes for those countries possessing international competitive industries. As Figure 1 demonstrates, his model consists of four determinants of the diamond model which are: 1) factor conditions, 2) demand conditions, 3) firm strategy, structure, and rivalry, and 4) related and supporting industries.

Figure 1. The Diamond Model



*Source: Porter 1995, 1998

- (1) Factor conditions refer to factors inputs that are composed of production, such as human, physical, knowledge, capital resources, and infrastructure that are necessary to compete in

the industry. These factors are further divided into basic and advanced factors and generalized and specialized factors.

(2) Demand Conditions refer to the industry's natural demand of the home market, such as the degree of sophistication of buyers, and market size.

(3) Firm strategy, structure, and rivalry refer to how they manage to compete in both macro and micro conditions. The macro refers to the governance and regulations which create, organize, and manage the firm. The micro is the natural structure of an industry that shapes the domestic rivalry where clustered firms can stimulate productivity and promote value creation that is the basis of national growth.

(4) Related and supporting industries refers to the existence of supplier industries and other related industries that are competitive suppliers which helps to reinforce innovation and internationalization in the value chain in promoting competitiveness. The lack of competition and support industries limits the potential productivity growth.

There are two uncontrollable exogenous variables: government and chance. The government refers to incentives and regulations as well as other economic and industrial policies that are not controlled by the firms in the industry. Chance refers to unexpected events like

war, natural disasters, major technological breakthroughs, and other unexpected conditions that can disrupt the business environment. Porter (1990) concentrated on the superiority of domestic factors and neglected the efficient foreign resources.

2.3. The Generalized Double Diamond Model

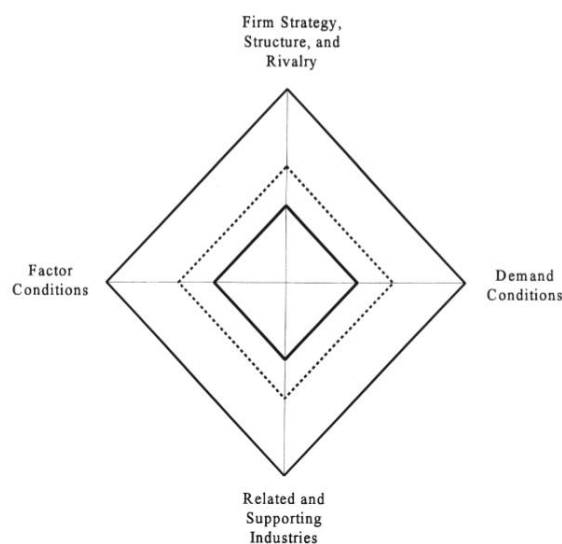
Globalization of the world economy requires a transnationalization of most components of Porter's diamonds of competitive advantage because a good interaction of domestic and foreign resources can allow the efficient creation of competitive advantages. Although Porter's diamond model is revolutionary, it neglects internationalization, the human factors, and the cultural dimension. Because the four attributes of Porter's diamond model are limited to domestic context, Moon, Rugman, and Verbeke (1995) introduced the generalized double diamond model (GDD) by extending Porter's single diamond to measure the international competitiveness of final and intermediary goods. GDD consists of domestic and foreign diamonds, which is a more effective method for measuring developing global and sustainable competitive advantage.

Moon believed that competitiveness should be included through international transactions of final and intermediate goods through trade (demand conditions) and of input factors such as

human capital and technology through FDI (factor conditions). Thus in the GDD model, internationalization of all four determinants of the diamond model is incorporated: factor condition, demand condition, related and supporting, firm strategy, structure, and rivalry, and related and supporting. Moon's model is a better fit for all small open economies, like South Korea and Singapore. (Moon, 2016)

Figure 2 demonstrates the model where the outer dashed-line diamond represents the international competitiveness of a nation, while the inner solid-line diamond represents the domestic competitiveness. With the variation of size and shape, it can measure the degree of value-added activities through internationalization. The dotted line represents an international diamond, determined by both domestic and international parameters.

Figure 2. The Generalized Double Diamond Model



*Source: Moon, Rugman and Verbeke 1998

The GDD model is proven to be more effective as it considers multinational activities. The model provides visualization of both domestic and international competitiveness paradigms. Also, it treats the government as a critical endogenous variable, which influences the four determinants of the Diamond Model. The GDD model is used by many scholars to compare competitive advantages among countries or industries. For instance, Jin and Moon (2006) examined the competitive advantage of the Korea Apparel industry by using GDD. This study indicates that it is not always necessary to have every determinant at an optimum level to obtain a competitive advantage, because one sufficient determinant could assist and strengthen an insufficient factor. (Jin & Moon, 2006)

2.4 Model Application at Firm Level

In the literature of competitiveness, to the extent that Generalized Double Diamond Model brings together firm-specific linkages between the determinants, his model is useful and potentially predictive for firm levels as well as industrial and national studies (Bark & Moon, 2002). Likewise, its extended model which have determinants related to international environments and human factors can be used to explain individual firm's competitiveness more comprehensively.

Liu and Hsu (2009) compared the competitiveness of the economies Taiwan and Korea, using the generalized double diamond model. Since Taiwan and Korea are both small open economies with relatively small domestic markets, it is crucial to search for foreign markets to secure economies of scale. Taking multinational enterprises into consideration is necessary in measuring the competitive advantage of each country in textile industry. Taiwan surpasses Korea in all decisive factors with the exception of demand condition in the domestic diamond (2000-2004), which is due to the Korea's population being more than double that of Taiwan's. As to the international diamond, Taiwan displayed comparatively high competitiveness in all four parts of the international diamond. The empirical results shows that government and opportunity have been embedded heavily into the four key diamonds in a double diamond model. (Liu & Hsu, 2009)

Moon and Lee (2004) compared Samsung (SEC) and Sony within the framework of the generalized double diamond model. There is much to consider when evaluating a multinational firm's competitiveness. Internationalization makes things more complex and certainly a firm cannot be evaluated just by its market size. The paradigm of the generalized double diamond incorporates multinational activities of the competitiveness of SEC and Sony

through the comparison based on size and shape of the domestic and international diamonds to reveal major strategic differences. Sony is more advanced than SEC in internationalization with a better balance. (Moon & Lee, 2004)

Chapter 3. Methodology

1. Research Position

This study is designed to analyze the competitiveness of two leading cosmetic companies, LG H&H and Amorepacific, within the analytical framework of the Generalized Double Diamond at the firm-level. Since both companies are located in South Korea, both companies experiences similar conditions of the exogenous variables, government and chance.

Research proposition 1. Compare the domestic and international parameters of LG H&H and Amorepacific in terms of four determinants of the model which are: 1) factor conditions, 2) demand conditions, 3) firm strategy, structure, and rivalry, and 4) related and supporting industries. Research proposition 2. Analyze and compare the domestic and international diamond models of LG H&H and Amorepacific. The data was collected from annual reports (2020–2022) of each company, and government statistics websites (KOSIS and KOTRA), stated under the data summary table.

1.1. Descriptive Data and Variables

In this research, the variables for each determinant of the generalized double diamond model at domestic and international

levels are selected to identify which company, LG H&H or Amorepacific, has the competitiveness advantage in the domestic and global cosmetics market. Each determinant has domestic and international variables: a total of 31 proxy variables are selected to measure the four determinants (factor conditions, demand conditions, firm strategy, structure, and rivalry, and related and supporting industries).

1.1.1. Factor Conditions

The GDD model's factor conditions are examined at the domestic and international levels. Each factor condition is divided into basic and advanced variables. Domestic basic factors examine firm size by measuring total revenue, the number of employees, and the average of total liabilities and equity (2020–2022). Productivity is represented by profitability, which includes the return on equity (ROE). For the advanced domestic factor, average expenses on R&D investment and a number of worksites including research centers and factories in the home country.

For international factor conditions, international sales are represented by the three-year average of international sales between 2020 and 2022 and the average revenue of the beauty sector in the same period. The research facility is measured by the

number of major overseas workplaces for international advanced factors. The descriptive data for factor conditions are summarized in table 4.

Table 4. Descriptive Data for Factor Conditions

	Variable		Proxy	LG H&H	Amorepacific
Domestic	Basic	Firm Size	Number of Employees (2022)	4,429	4,951
			Avg. total Liabilities and equity (Billion, KRW) 2020-2022	9,168	5,873
		Avg. Total Revenue (Billion, KRW) 2020-2022	7,707	4,477	
	Productivity	Profitability (ROE, %)	12	2	
	Advanced	R&D Investment	Avg. of R&D expenses over total sales, 2020-2022 (%)	3	3
International	Basic	International Sales	Avg. of International Market Sales,2020-2022 (%)	42	35
			Avg. revenue of beauty (Billion, KRW) 2020-2022	4,007	4,416
	Advanced	Research Facility	Number of worksites	20	12
			Major overseas workplaces (Overseas local corporation)	4	16

*Source: Annual Report LG H&H 2020~2022
Annual Report Amore Pacific 2020~2022

1.1.2. Demand Conditions

The size of home-demand affects the competitive advantage, though the advanced sophistication of a market has a greater impact. The large home-demand allows a company to quickly invest in new trends and adopt new technologies to meet the high standards of the consumers. For domestic and international conditions, market size and consumer sophistication are chosen as basic and advanced variables respectively. The overall sales represent the demands of each company in the markets. Furthermore, global cosmetic brands rank by WDD is used to measure demands of global customers. The descriptive data for demand conditions are summarized in the Table 5.

Table 5. Descriptive Data for Demand Conditions

		Variable	Proxy	LG H&H	Amorepacific
Domestic	Basic	Market Scale	Avg. revenue of the beauty sector in South Korea, 2020-2022	2,483	2,320
			Market Share (Beauty),2022 (%)	22	17
			Market Share(Daily Beauty),2022 (%)	39	12
			E-commerce beauty market revenue, 2021-2022 (Billiom, KRW)	14	94
	Advanced	Consumer Sophistication	Brand Power Index, 2023	3,444,386	4,615,101
			Number of Consumers' Complaints, 2020	66	477
International	Basic	Oversea Market Scale	Total overseas/exports Sales in 2022 (Billion, KRW)	2,872	1,493
			Avg. revenue of the beauty sector in overseas, 2020-2022	2,301	1,680
	Advanced	Sophistication	Global Cosmetics Brands Rank, 2022	19	18

*Source: Annual Report LG H&H 2020~2022
 Annual Report Amore Pacific 2020~2022
 Women's Wear Daily (WDD)

1.1.3. Firm Strategy, Structure and Rivalry

Competitiveness in a specific industry result from convergence of the management practices. Firm's strategy structure refers to both macro and micro conditions. As so, companies' market share and number of brands in domestic and global beauty market is considered basic factors. For management efficiency, the proxies are chosen based on companies' strategy based on ESG, such as number of Carbon Neutrality projects and a number of vegan cosmetics brands, a recent beauty trend. The descriptive data for demand conditions are summarized in the Table 6.

Table 6. Descriptive Data for Firm Strategy, Structure and Rivalry

	Variable	Proxy	LG H&H	Amorepacific
Domestic	Rivalry	Numbers of Brands	82	32
		Market share of the company in beauty market, 2021(%)	50	48
	Management Efficiency	ESG: Numbers of Carbon Neutrality Projects	8	8
		Number of vegan cosmetic brands	1	3
International	Market Competition	Market share of the company in global beauty market, 2021(%)	2.05	1.96
	Global Business	Number of global Networking countries	57	25
		Number of M&A,2020-2022	20	4

*Source: Annual Report LG H&H 2020~2022
Annual Report Amore Pacific 2020~2022

1.1.4. Related and Supporting Industries

The GDD model considers the existence of successful networks of supporting industries as having a positive spillover effect. The presence of related and supporting industries that are internationally competitive provides effective supply of cost-effective inputs. It also promotes innovation and improvements through the increased flow of technology and information. Domestic and international variables are measured by size of the market share and R&D performances and patent. The descriptive data for demand conditions are summarized in the Table 7.

Table 7. Descriptive Data for Related and Supporting Industries

	Variable	Proxy	LG H&H	Amorepacific
Domestic	Innovation	Number of innovative technologies collaboration with related industry, 2020-2023	2	7
		R&D performance, 2020-2022	41	36
	R&D	Number of Research Facility Department	6	7
		Sum of Domestic Patent	1,872	1,488
International	Size	Number of major subsidiary company	15	27
	Sophistication	Sum of International Patent	666	1,577

*Source: Annual Report LG H&H 2020~2023
Annual Report Amore Pacific 2020~2023

Chapter 4. Empirical Findings

1. Calculation Method

To calculate the competitiveness index, for each variable, a maximum value of “100” is given to the company that has the higher value, and a relative ratio in terms of percentage is given to the country that has the lower value. If the variable is measured by several elements, impartial weights are given to each element. For example, LG H&H has 4,429 employees while Amorepacific has 4,951. To calculate the score for each company, Amorepacific gets 100 because it has more employees, and LG H&H gets a partial value of 89 ($4429/4951*100$), which represents 89 percent relative to the number of Amorepacific employees. LG H&H has earned higher scores in total liabilities and equity and total revenue than those Amorepacific. Also, LG H&H invested more R&D over total sales than those Amorepacific. Therefore, the maximum value “100” is given to three of the four-factor conditions of LG H&H. After calculating a score for each proxy, domestic and international variables can be calculated as the sum of the score divided by the number of proxies in each determinant. Thus, the empirical results show that the competitive index of LG H&H’s domestic factor condition is 98 ($89/4 + 100/4 + 100/4 + 100/4$).

The maximum value “100” is given to the company that scored higher value in each proxy. However, there are two exceptional cases that applies opposite way of calculation. First, for the number of Consumers' Complaints in 2020, “100” is given to the company that has less complaints. LG H&H received relatively less complaints compared to Amorepacific. Thus, LG H&H received “100” and Amorepacific scored $14(67/477*100)$. For Global Cosmetics Brands Rank in 2022, Amorepacific scored “100” since it placed 18th, while LG H&H placed 19th. And the calculation as follows: $18/19*100=95$. Table 8 displays the summary of proxy values for four determinants of the GDD model.

Table 8. Proxy value for four Determinants of the GDD model

Determinants		Variable		Proxy	LG H&H	Amore pacific
Factor Conditions	Domestic	Basic	Firm Size	Number of Employees (2022)	89	100
				Avg. total Liabilities and equity, 2020-2022	100	64
			Avg. Total Revenue, 2020-2022	100	58	
		Productivity	Profitability (ROE, %)	100	19	
		Advanced	R&D Investment	Avg. of R&D expenses over total sales, 2020-2022 (%)	100	99
	Number of worksites	100		60		
	International	Basic	International Sales	Avg. of International Market Sales, 2020-2022 (%)	100	84
				Avg. revenue of beauty (Billion, KRW) 2020-2022	91	100
		Advanced	Research Facility	Major overseas workplaces (Overseas local corporation)	25	100
	Demand Conditions	Domestic	Basic	Market Scale	Avg. revenue of the beauty sector in South Korea, 2020-2022	100
Market Share (Beauty), 2022 (%)					100	77
Market Share(Daily Beauty), 2022 (%)					100	31
E-commerce beauty market revenue, 2021-2022 (Billiom, KRW)					15	100
Advanced			Consumer Sophistication	Brand Power Index, 2023	75	100
Number of Consumers' Complaints, 2020				100	14	
International		Basic	Oversea Market Scale	Total overseas/exports Sales in 2022 (Billion, KRW)	100	52
				Avg. revenue of the beauty sector in overseas, 2020-2022	100	73
		Advanced	Sophistication	Global Cosmetics Brands Rank, 2022 (Source:WDD)	95	100
Firm Strategy, Structure and Rivalry	Domestic	Rivalry		Numbers of Brands	100	39
				Market share of the company in beauty market, 2021(%)	100	96
		Management Efficiency		ESG: Numbers of Carbon Neutrality Projects	100	100
				Number of vegan cosmetic brands	33	100
	International	Market Competition		Market share of the company in global beauty market, 2021(%)	100	96
		Global Business		Number of global Networking countries	100	44
				Number of M&A,2020-2022	100	20
Related and Supporting Industries	Domestic	Innovation		Number of innovative technologies collaboration with related industry, 2020-2023	29	100
		R&D		R&D performance, 2020-2022	100	88
				Number of Research Facility Department	86	100
				Sum of Domestic Patent	100	79
	International	Size		Number of major subsidiary company	56	100
		Sophistication		Sum of International Patent	42	100

2. Construction of the Generalized Double Diamond Model

Based on the sub-variable values, domestic and international diamond models for both companies are constructed to measure the competitive advantage in the global cosmetics market.

2.1. Domestic Diamond Model

The table 9 summarized the scores for the domestic diamond model. LG H&H has competitive advantages in 2 out of 4 determinants, which are factor conditions and demand conditions. The result demonstrates that LG H&H has competitive advantage in current domestic cosmetics and households market revenue. LG H&H maintains more brands. As so, the total sales of all brands of each company demonstrates that LG H&H has comparative advantage in domestic market.

However, it is interesting to see that comparison between top two cosmetic brands of each company display that Sulwhasoo has comparative advantage in the domestic market. Domestic diamond model displays comparative advantages in firm strategy, structure and rivalry and related and supporting industries. In 2022, Sulwhasoo successfully launched a brand campaign to declare its reinterpreted identity and universe. Although Amorepacific's total market share in

domestic market is less than LG H&H, according to the Amorepacific IR Report (2020–2023), Amorepacific continuously reinforced foundation for growth by launching new key products and strengthening multi-brand shop channels of luxury and premium brands. The company is focusing on quality, becoming a K-beauty leader, rather than increasing quantity by increasing number of brands and workplaces. Amorepacific strengthened its brand strategy by launching limited edition products, and differentiate offline customer experiences, diversifying marketing content through the roll out of renewed store identity.

Even though LG H&H has bigger market share of the beauty and daily beauty industries, Amorepacific produces over seven times that of LG H&H e-commerce beauty market revenue. With COVID-19 and globalization, the offline sales have rapidly transported into the online platform. Many domestic distributors, such as Market Kurly, Naver shopping, and Coupang provide efficient shopping experience for consumers. E-commerce, being a starting stage, Amorepacific seems to be aggressively invests in online market, especially the global cross-border B2C e-commerce market.

Cross-border e-commerce market allows to sell goods and services across international borders through a digital platform. This fast-driven market is currently valued at USD 893.95 billion in 2022,

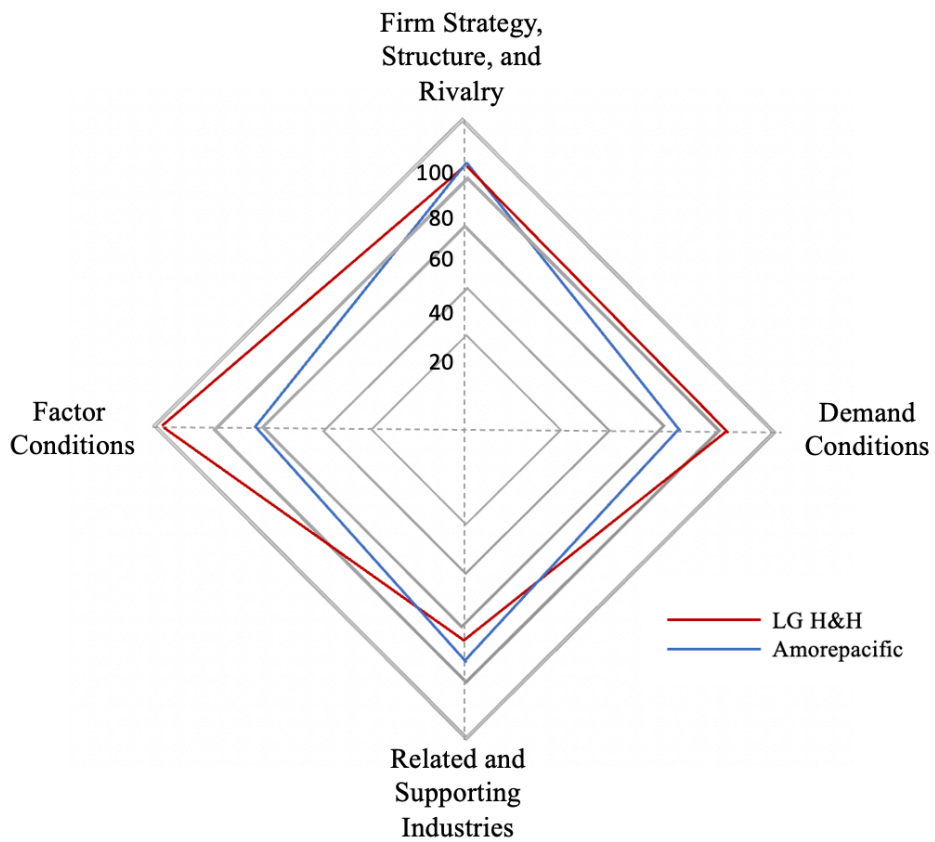
and the market is expected to grow at a CAGR of 24.7% and reach 8,138 billion by 2023. Amorepacific, being the first to open cross-border e-commerce platform called “AMORE MALL” to simultaneously expand their customer base by offering customers with more purchasing options at reasonable prices. Cross-border e-commerce platforms have calibrated the procedure by eliminating the need for third parties and facilitating data transfer, products and services between businesses from various nations.

The success of AMORE MALL has triggered LG H&H to follow the footstep of Amorepacific in opening various cross-border e-commerce platform for its brands, such as belif, GLINT, freshian, and CNP by 2023. Since cross-border e-commerce platform can establish a foothold in numerous global marketplaces by offering goods and services originated from the company’s home country to customers overseas, e-commerce has become crucial part of the company’s portfolio. Although LG H&H has bigger market share in the domestic market, fast-moving e-commerce market will greatly impact the growth of the company in the future. In the near future, Amorepacific’s strong investment in innovation and firm’s strategy could turn over the domestic market share of the two companies.

Table 9. Domestic Double Diamond Determinants Scores

Determinant	LG H&H	Amorepacific
Factor Conditions	98	67
Demand Conditions	82	69
Firm Strategy, Structure and Rivalry	83	84
Related and Supporting Industries	63	74

Figure 3. Domestic Diamond Model



2.2. International Diamond Model

The table 10 summarized the scores for the international diamond model. LG H&H and Amorepacific both display unstable diamond shape, but showing comparative advantages in different determinants in international level. While Amorepacific has competitive advantage in factor conditions and related and supporting industries, LG H&H has competitive advantages in firm strategy, structure, and rivalry and demand conditions.

After the COVID-19, the influx of customers patterns of purchasing behaviors changed. The pandemic propelled online activities to be more prevalent than offline activities and influx of consumers into various social media referred to reviews and sample products under the impact of the influencers. In result, LG H&H and Amorepacific took different strategy to not only to recover from losing momentum in China, but also to replace them with English to boost their market share in North America and other Asian countries.

LG H&H's The History of Whoo took a path to strengthened its brand strategy and structure by launching its new anti-aging line, "Royal Regina." After comprehensive rebrand in June 2023. Traditionally, Whoo incorporated Chinese characters and drawn inspiration from royal ceramics and lotus flowers, with a golden color scheme to symbolize Asian luxury. However, Chinese characters and

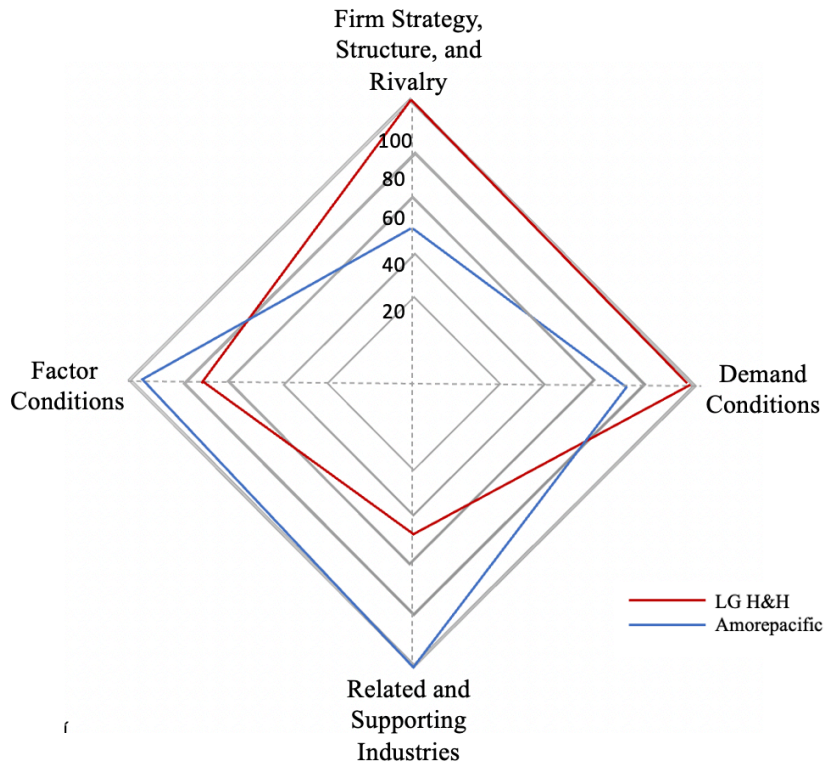
palace design were removed from the new product lines to refocus on global expansion.

While LG H&H strengthened its brand by producing new product lines, Amorepacific has rebranded Sulwhasoo by appointing Rose, a main vocalist of K-pop girl group BLACKPINK, to fil a commercial for the brand and Tilda Swinton, a British actress, as a global ambassador for its rebranding campaign, engaging in extensive brand marketing to expand its overseas markets. Focused on different determinants, it is difficult to define which company has the absolute competitive advantage in international cosmetic industry.

Table 10. International Double Diamond Determinants Scores

Determinant	LG H&H	Amorepacific
Factor Conditions	72	95
Demand Conditions	98	75
Firm Strategy, Structure and Rivalry	100	53
Related and Supporting Industries	49	100

Figure 4. International Diamond Model



2.3. Exogenous Variables

Porter (1990) emphasizes the government policies that succeed are those that create an environment in which companies can gain a competitive advantage rather than those that involve government directly in the process. All cosmetic companies abide by national regulations since cosmetics products have direct contact with consumers. However, LG H&H and Amorepacific are both South Korean cosmetics companies, having headquarters in Seoul, so unexpected government factors will either affect both companies or

have no effects. Although government trade policy should pursue open market access in the global market. When the government finds a trade barrier in a foreign country, it should concentrate its remedies on dismantling barriers. (Porter, 1990). In fact, in 2016, the Korean government failed to dismantle such barriers in China due to its diplomatic tension around the issue of THAAD deployment. The Chinese government banned cosmetics trade by various non-trade barriers, so both LG H&H and Amorepacific experienced a downfall. Keeping a stable government and diplomatic environment is one of the most critical ways to help companies' global competitiveness.

Moreover, Porter explains chances as an unpredictable and uncontrollable nature of events. Moon, Rugman, and Verbeke (1995) denoted that it should only be considered as an exogenous variable, not included in the diamond model. However, chances can significantly influence the competitiveness of an industry. For example, Hallyu allowed Korean cosmetics companies to boost their opportunities to become the next leader in the Cosmetic industry. The chances played a significant role in the growth of K-beauty in the global market. Overall government and chances have both affected LG H&H and Amorepacific equally, these factors cancelled out when measuring the competitive advantage of the company.

3. Global Diamond Model

The Generalized Double Diamond model indicates new competitive advantages and solutions for the industry in each of the four determinants through internationalization. However, it is not necessary for a country to have every determinant at an optimum level to succeed. One sufficient determinant could assist and strengthen an insufficient one. Therefore, instead of having four perfect individual determinants, it is important to establish a self-reinforcing system using a range of robust competitive advantages.

Thus, the global diamond model is formed by calculating the average sum of the scores from the domestic and international diamonds. Table 11 summarize the scores for each determinant. As the world becomes more globalized, firm alliances and networks have become increasingly complicated and the characteristics of entry modes have been changed; the boundary between home and global cosmetics market started to break. E-commerce has become fastest-growing retail channel; its barrier is dismantled and becoming effectively borderless world. For example, Amorepacific launched global Amore Mall, where global customers can make direct purchases from the online store. Instead of looking domestic and international diamond separately, the combination of all proxies into a single global diamond model. This model will cover the limitation of

the GDD. In fact, LG H&H and Amorepacific display competitive advantage in specific determinants in the international diamond model by each having comparative advantages.

Table 11. Global Double Diamond Determinants Scores

Determinant	LG H&H	Amorepacific
Factor Conditions	85	81
Demand Conditions	89	74
Firm Strategy, Structure and Rivalry	92	68
Related and Supporting Industries	56	87

Extending from the Moon’s Generalized Double diamond model, the global diamond can be crucial in under globalization. Looking into the domestic and international diamonds separately and regarding the determinants of each firm’s competitiveness, the global diamond model displays a clearer picture, which synthesizes the domestic and international diamonds. First, considering the shape of the diamond, LG H&H and Amorepacific scored very closely in factor conditions and demand conditions. However, LG H&H has comparative advantage in firm strategy, structure and rivalry, while Amorepacific has comparative advantage in related and supporting industries.

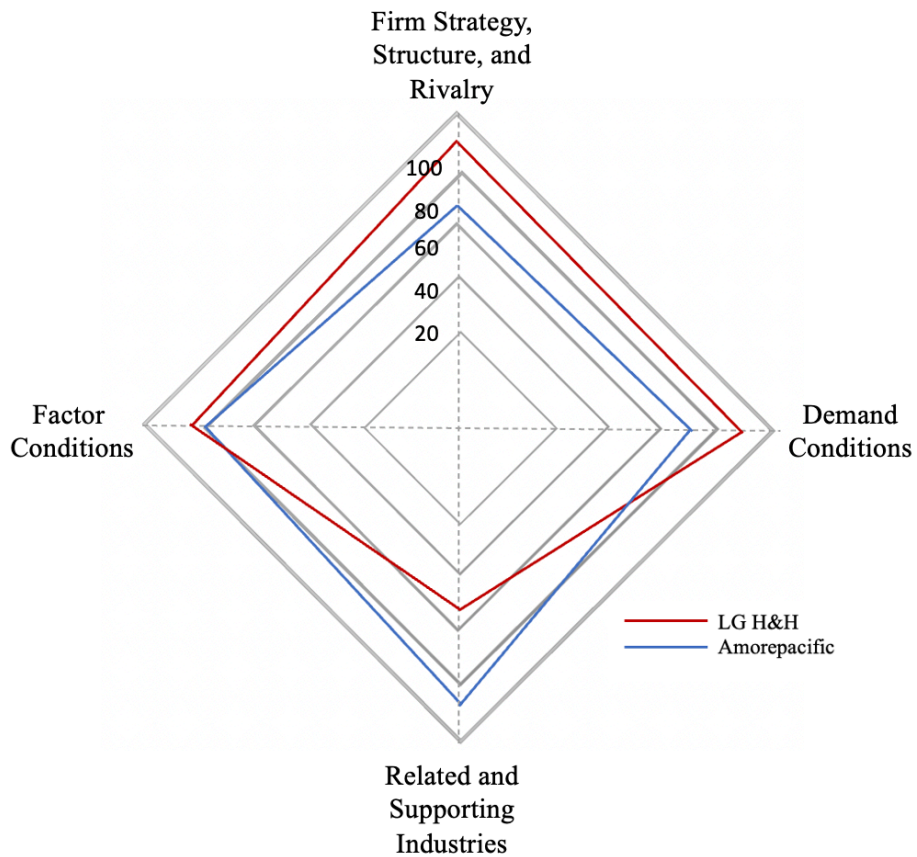
Amorepacific has recently been successful in envisioning

being the K-beauty leader in its business areas and setting up strategies to gain momentum in the U.S cosmetic market. North America sales doubled by increasing marketing investment in major brands. Amorepacific has successfully achieved notable business growth in the U.S cosmetic market and reduced dependency on the Chinese market. Amorepacific-affiliated brands, especially Sulwhasoo and Laneige, carried the high growth of overall sales in the United States, a global mecca of beauty products. Since 2019 Laneige's Lip Mask product has shown an average of 25 percent of sales growth, becoming the best-selling product in the lip category. (Kim) However, to become the leader of K-beauty, Amorepacific will have to figure how to mobilize the other determinants of the diamond. For example, while Amorepacific surpasses LG H&H in e-commerce beauty market revenue domestically, it lags behind LG H&H in number of global networking countries and the volume of overseas and export sales, which may be critical factors in the global cosmetic market.

Regarding the size of the diamond, LG H&H seems to have competitive advantage in domestic market. However, the international diamond indicates that both LG H&H and Amorepacific have competitive advantage in different determinants and has room for further improvement through internationalization. On the other

hand, the global diamonds of LG H&H and Amorepacific illustrate more balanced diamond compared to those of international diamonds. The result demonstrates that a firm may lack competitiveness in its domestic market, but it can supplement its weaknesses through appropriate multinational activities.

Figure 5. Global Diamond Model



Chapter 5. Conclusion

1. Implications

This study applied the Generalized Double Diamond Model to compare the competitiveness of top Korean cosmetic companies, LG H&H and Amorepacific. K-cosmetics brands are known to be innovative and trend leaders. For the analysis, approximately 31 proxies have been extracted to measure eight determinants of domestic and international diamonds. Porter's single diamond model provides a comprehensive methodology to analyze a firm's competitiveness at the national level, while Moon, Rugman, and Verbeke's GDD model provide a more suitable framework for this study as it incorporates the international activities of firms. However, it is hard to draw a fine line between which activities of multinational companies are purely domestic and which are foreign. Globalization has caused domestic and international operations to work closely. Therefore, extending from the generalized double diamond model, the global model has merged the two diamonds to explain the competitiveness of LG H&H in a truly global sense.

From the analysis, it is evident that LG H&H has a bigger market share than Amorepacific in the domestic market. On the other hand, Amorepacific invests heavily in building the firm's portfolio

rather than increasing instant revenue. However, both companies still need a lot of improvement at an international level, especially when starting to build a new portfolio in the U.S market. They have to enhance brand awareness at the international level. LG H&H and Amorepacific have different positions in the global cosmetic industry. Both companies have been diversifying their international business by targeting the U.S cosmetic market, the largest cosmetic market, to rebuild their successful portfolio.

In 2020, LG H&H formed M&A with New Avon Company, one of the world's largest direct-selling companies in cosmetics and personal care, to aggressively enter the U.S market and strengthen its presence in the biggest cosmetic market. Until 2018, LG H&H grew its total sales to \$3.3 billion through various M&A and expanded its prestige lines, high-end mass brands, and lower-priced brands to target young people in Asia. The growth of LG H&H has not just the building of its portfolio through vigorous M&A, but also its strategy to diversify channels and open up wider access to overseas markets. LG H&H formed a directly managed local subsidiary and tried to tap into the U.S market but was unable to grow significantly. Therefore, the company agreed to acquire New Avon to focus on becoming a distributor for entering the offline market. Moreover, LG H&H also focuses on e-commerce by selling

premium brands and daily beauty products globally on Amazon and Shopee. Although LG H&H successfully increase its profitability through various M&A and opening up new distributors and diversifying its channels, it lacks in strengthening the brand image like Amorepacific. Because the cosmetic market is a fast-changing, the company has to continuously rebrand its brand identities and reinforce its major lines. For instance, Amorepacific posted robust sales growth by not only reinforcing its lip category by launching ‘Lip Sleeping Mask Pink Lemonade,’ but also enhancing customer experience with showcasing the first virtual store of Laneige.com. In 2023, LG H&H has a major plan to launch ‘Lip Serine’ to change the customers’ experience in lip balm. To revolutionize the lip category, the company has to enhance customer experience by reinforcing online and offline marketing. For example, LG H&H can collaborate with famous K-pop idols for a launching event to introduce the new product to domestic and global customers. Amorepacific celebrated BTS’s 10th anniversary by participating in ‘2023 BTS Festa’ offering various customer-engaging events to introduce Amorepacific brands to global BTS fans.

In addition, LG H&H has the potential to become a new leader in innovative tailored technology cosmetics. LG H&H can collaborate with LG affiliates, like LG Electronics to benchmark the new

technology-based beauty trend. K-beauty is also known for its innovation. For instance, Amorepacific invests in R&D to develop tailored technologies, such as Mind-linked Bathbot, a robot that analyzes in real-time the user's emotions using brain waves to customize a bath bomb, and the Authentic Color Master by Tonework, which customizes makeup products using AI and robot arms. Having various LG affiliates, LG H&H is in a better position to be the leader of the rising beauty trend of customization.

Moreover, Amorepacific has taken a different position in the global market. The company accelerates entering the U.S market by launching its brands in Sephora U.S. Sulwhasoo, a luxury brand that represents Korea, is expanding in the North American market by opening the best luxury department stores in major cities across the U.S, including New York and Canada. Furthermore, Amorepacific has been concentrating on accelerating cross-border e-commerce websites. The company introduced a direct purchase e-commerce platform called global 'Amore Mall,' which will be available in a total of 61 countries and regions, including China, North America, Europe, and Middle East. The new platform will strengthen its global presence after shut down the physical stores in China. Moreover, Amorepacific can expand its inner beauty and tea culture lines to stabilize the company's portfolio. Despite the issues such as THAAD

and COVID-19, LG H&H continuously achieved profits because of the refreshment sector. Beauty sales decline during the summer season, while refreshment sales increase during the summer. As so, refreshment and beauty make a perfect balance in sales. Moreover, beauty sales were negatively affected by China's lagging consumption recovery, however, LG H&H managed to grow continuously due to its refreshment sector. Refreshment sales grow due to the strong demand for zero sugar and energy drinks, such as 'Coca-Cola Zero,' and 'Monster Energy'. Following the LG H&H business structure, Amorepacific should invest in inner beauty and Osulloc to be ready and defend itself from unexpected economic and political situations.

The globalization and COVID-19 have brought major changes in the purchasing pattern in the beauty market. The company's domestic and international business model has changed; it is hard to draw a strict borderline between the domestic and international model as the boundary between the home and global cosmetics market started to break. We believe that this study contributes to drawing a wholistic picture of the competitiveness of both companies in the global cosmetic market.

2. Limitations of the Study

The purpose of this study is to analyze the competitiveness of the two biggest Korean cosmetic companies. While the methodology is comprehensive in the sense that a number of proxies were used to compare the competitiveness of LG H&H and Amorepacific, it can be further specified and improved. First, it can emphasize the exogenous variables such as government and chance into the scope as they heavily influence the company's business strategy. Second, while this study has focused on competitiveness at the firm level, a further study on the aggregate competitiveness of cosmetic related firms at the industrial level shows the strong interaction between a firm's competitiveness and the cosmetic-related industry's competitiveness. Therefore, this study is only adequate for a relative comparison only.

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국문초록

최근 외모에 대한 관심도는 남녀노소 불문하고 증가되고 있다는 점으로 화장품은 사치재에서 필수재로 변하였고 화장품 시장은 급격하게 변화되고 있다. 한국 화장품 시장은 한류 열풍에 힘입어 세계 곳곳의 한국 화장품 수요가 증가함에 따라 2000년대부터 화장품 사업 또한 크게 성장세를 보인다. 우먼스 웨어 데일리 (WDD) 잡지 조사에 따르면 화장품 시장은 매년 꾸준한 선상제를 보이고 있으며 2022년 기준 한국 화장품 시장 규모는 세계 6위를 기록하며 호황을 누리고 있다. 전통적인 서양 국가 화장품과 달리 한국 화장품은 빠르게 변화되고 있는 소비자들의 취향에 발맞춰 더 새롭고 유니크한 화장품 개발하는 국가로 글로벌 뷰티 시장에서 두드러지고 있다. 엘지 생활건강과 아모레퍼시픽은 빠르게 변하는 유행에 따라 즉각적으로 독특한 제품들을 개발하고 다양한 고객들의 기호에 맞게 제작해 줄 수 있는 능력이 가지고 있는 기업들이다.

최근 한국 화장품 산업은 중국 수출 감소로 위기감이 고조되고 있는 K 뷰티는 새로운 블루오션을 개척해야 한다는 분석이 나오고 있다. 중국 성장 잠재력은 크지만, 이미 중국 화장품 시장도 고착화 단계에 이르렀고 일본과 유럽의 글로벌 럭셔리 브랜드, C 뷰티의 치열한 경쟁이 이뤄지는 중국 시장만 특별하게 접근하기보다, 아세안 국가 또는 미국 시장에서 성장성에 프리미엄을 부여하여야 화장품 산업이 국내 정제의 효자 역할을 할 수 있을 것이다.

본 논문은 한국 대표 화장품 기업인 엘지 생활건강과

아모레퍼시픽의 국내와 글로벌 경쟁력을 비교하기 위해 고안되었다. “일반화된 더블 다이아몬드 모델”을 활용하여 각 회사의 경쟁력을 시각화하여 각 기업의 글로벌 활동들을 효과적으로 포함시켜 더욱 포괄적이고 균형적인 연구를 통해 각 기업이 성공 가능해 왔던 요인을 세분화하여 살펴보고자 한다.

중심어: 일반화된 더블 다이아몬드 모델, 화장품 산업, K-뷰티, 아모레퍼시픽, 엘지 생활건강

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