

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Business Strategy Analysis of Domestic Beauty Business in the U.S.A.

Expanding Towards Emerging Asian Markets

A thesis submitted in partial fulfillment of the requirements

For the degree of Master of Business Administration

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## ABSTRACT

Business Strategy Analysis of Domestic Beauty Business in the U.S.A.

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This paper will study about beauty industry in terms of “business strategy” which is referred an overall plan that helps a firm to be in control for the success as it allows businesses adopt to market changes(Grant, 2010).

This study begins with the overview of the global beauty industry. From the Chapter 2, the global beauty industry will be analyzed using Porter’s Five Force. After identifying where powers and dynamics lie in the global market, elements as well as benefits of a globalization. Based on these facts, this study will determine which market U.S. companies take advantages and have better opportunities. Following this, several key ‘must-know’ factors to enter those market are presented.

From the next chapter, interviews with the executives in cosmetic industry are conducted in order to assess business strategies in various organizations, which are difficult to ascertain by survey.

The core problem addressed in this study is:

- What successful business strategies could be implemented by U.S companies in overseas emerging market?

Ultimately, this study is designed to provide suggestions for successful ventures into international business after discovering hidden opportunities and uncover sources of future market growth.

## **Introduction**

This research focuses on the implications of the importance of having strategies and the overall business strategies in international beauty industry.

This study will provide a clear view of emerging trends and demand requirements in the global beauty care industry. It will be composed of studying global beauty care products industry: regional characteristics, government regulations, market size and performance, product segments and case study from a major cosmetic company.

The objective of this thesis is to study business strategies of U.S.A-based cosmetic companies that are planning to expand their business into the emerging market such as major Asian pacific regions. The paper will attempt to unravel questions through interviews with executives in the industry. Throughout these processes, this study intends to present hands-on recommendations and feasible ideas based on the practical information that can be applied to corporations that are planning to global business.

## Chapter 1. Introduction of Global Cosmetic Industry

Cosmetic sales are forecasted to continue to grow in both the United States and other global markets<sup>1</sup>, as many consumers feel that well-groomed appearance with beauty products may help in achieving social goals<sup>2</sup>. According to a market research from Lucintel, worldwide market for global beauty industry has been affected by several economic downturns. It still continues to expand with some projections claiming 8.5% growth by 2014. Revenue in the industry is forecast to reach an estimated \$265 billion in 2017 with a CAGR of 3.4% in five years (2012-2017).

One of those considerable signs that growth rates are bouncing back is highly influenced by the growing middle classes in developing countries and their improved living standard. As GCI Magazine(2013) stated that emerging markets<sup>3</sup> around the globe including Asia and Latin America offer great potential for value growth thanks to rising incomes and growing consumer demand for better products; AP region is expected to generate \$26 billion and Latin America is estimated about \$22 billion.

The United States is one of the biggest cosmetic markets in the world, with total revenue of 53.7 billion in 2011 and projected to reach \$64 billion within five years(GCI Magazine, 2013). However, the middle class in developing nations are expanding. Their demand for better beauty products and even for the high-end item segment has been

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<sup>1</sup> In practical affairs, "global" and "international" tend to be used interchangeably. In the last 20 years, Barbalova(2011) stated that global or international beauty market has grown by 4.5% a year on average (CAGR) while annual growth rates ranging from around 3% to 5.5%. In other word, this market has seen to be stable and have capability for resilience in unfavorable economic situation as well as proven for continuous growth.

<sup>2</sup> In a recent study shows(Nash, Fieldman, Hussey, Leveque and Pineau, 2006) that a person when using cosmetics may feel more attractive and perceived to be more successful; four women's pictures were presented and some of them were with cosmetics and some of them were without cosmetics. This study found that women with cosmetics in those pictures were regarded as more looking healthier and having confident.

<sup>3</sup> About four-fifths of the world's six billion people live in emerging markets and these include several potentially large markets in Asia and Latin America(mckinsey,2011).

significantly increased compare to North America’s market. As the data show, the increasing rate does not change much in matured markets such as US, France and UK, but the emerging markets such as Asia Pacific region and Latin America has led the growth rate for the prestige beauty market(NPD,2012).

Table 1

Growth rate

<b>Prestige Beauty Growth by Country: 2012 vs 2011 vs 2010</b>		
<i>Country</i>	<i>Dollar Percent Change</i>	
US	+7%	+11%
France	-1%	+3%
China	No data available	+22%
UK	+5%	+9%
Mexico	+9%	+15%

Sources: The NPD Group,Inc (compiled from

<http://www.gcimagazine.com/marketstrends/segments/skincare/CEW-NPD-Trend-Presentation-Looks-at-Growth-of-Prestige-Market-in-2012-188366341.html>)

Therefore, it is important to understand their spending traits as the customers from those nations are expected to lead the market growth.

### 1.1 Product category

Cosmetics<sup>4</sup> is literally a careful blend of water, oils and surfactants with other nutritional components, and commonly known as the combination of skin care and make-up (GCI Magazine, 2013). According to FDA(Food and Drug Administration), the main purpose

<sup>4</sup> The FDA(Food and Drug Administration) which control and regulate cosmetics in the U.S. defines cosmetics as “intended to be applied to the human body for cleansing, beautifying, promoting attractiveness or altering the appearance without affecting the body’s structure or functions.”

of using cosmetics is to enhance the physical attraction or the human body odor. The origin of cosmetics is from Greek which means “technique of dress and ornament” and the first archeological<sup>5</sup> evidences found in the tombs of ancient Egyptian pharaohs. In a global view, Perry Romanowski(2014) from Chemist Corner cited that the global cosmetic industry<sup>6</sup> can be categorized into five main business segments: skincare, hair care, make-up, fragrances and toiletries.

Table 2

Category

Facial skin care	Facial skin care takes 27%. The range of skin care is much more diverse than any other category items; skin moisturizer, cleanser, anti-aging, acne care products. The most influential companies in this market are Procter & Gamble (Olay) and Unilever (Vaseline).
Personal care and toiletries	The personal care category represents 23% and it contains sun care, toothpaste, deodorants and other personal care products. The dominant companies are P&G, L’Oreal, and Unilever.
Make-up	Make-up has 20% of the cosmetic industry and is made up of foundation, eye shadow, lipstick, blush and nail polish etc. it has various numbers of different color array and the market is highly segmented. Maybelline and Clinique are one of its significant brands (Euromonitor,2012).
Hair care	Hair care presents 20% in this category and it includes shampoo,

<sup>5</sup> Physical attraction has been historically deep routed and highly valued. Archaeological evidence of cosmetics starts from ancient Egypt and Greece -approximately 840 BC(Perry Romanowski,2014).

<sup>6</sup> Search for defining differences between cosmetic industry and beauty industry can be debatable. Ministry of domestic trade, co-operatives and consumerism (2013) mentioned from their research of guideline for beauty industry that the beauty industry refers to trades which provide services as follows: any commercial products and services procedure which is intended to maintain, or enhance a person’s external physical appearance or to produce a greater feeling of well-being including facial or body treatments. Therefore, this study defines those two words as the same category/definition.

	conditioner, styling products, hair color and relaxers. The current dominant players are Procter & Gamble (Pantene) and L’Oreal.
Fragrance	Romanowski(2012) mentioned that this market has taken a hit in the last past few years. This is the highest profit segment of the cosmetic industry. However, consumers are appeared as fickle since it comes to them as a fashion. It makes companies to continue to reformulate to compete. Only a few brands such as Chanel #5 lasted for a long time.

Sources: Worldwide Cosmetic Sales (compiled from

<http://chemistscorner.com/a-cosmetic-market-overview-for-cosmetic-chemists>)

When people in general mention about the cosmetic industry, they simply think about the color makeup segment. However, table 2 illustrates the product classification and shows that the value of skin care is greater than any other segments. As the skin care<sup>7</sup> category grew even during the recession period while adding around \$15 billion between 2007 and 2011 to reach a value of \$96.5 billion, it became the cornerstone of beauty products (Romanowski, 2014).

Market analyst from Euromonitor International, Nicole Tyrimou (2012), published a study containing the statements that Asian market from the total skin care sales value in 2011 accounted for 43%. However, there is a steady growth in this region and predict that almost 70% of total skin care growth will be driven from Asian over the next five years, reaching to \$11 billion. Major global premium brands such as Chanel, Christian Dior<sup>8</sup> had already concerned the region and reflected in their product launching. In the meantime, as Asian market dominates skin care products, their popular beauty items such

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<sup>7</sup> GCI Magaine(2013) has analyzed the global beauty care industry and presents its findings that skin care category will increase up to \$91 billion by 2014 which is primarily expected to support from the Asia-Pacific.

<sup>8</sup> For instance, Chanel’s newly launched Jardin Zen make-up lines are for an Asia-exclusive.

as Sun Block<sup>9</sup> and Blemish Balm<sup>10</sup> are also overall rise in the Western market. As measured by sales level and the demand for color cosmetics, it has shown moderate growth as the third largest cosmetics segment of the world and the fragrance category has fell after the regression(Nicole Tyrimou,2012). Besides, the global hair care market, comprising of shampoos, conditioners, styling agents and hair colorants, have slowed down.

## 1.2 Distribution Channel

Distribution (or place) is one of marketing mix components<sup>11</sup>. As stated by Kotler & Keller(2011), Distribution is the process to make product and services available to consumers or business firms. Product distribution takes place with the use of channels. Channels are sets of interdependent organizations that help consummation productive (Kotler & Keller, 2011). In practice, most organizations apply different channels by any means and this channel mix<sup>12</sup> is prevalent.

In the recent years global distribution channels' pattern changes were detected. These changes, which took place between 2000 and 2010, are presented in following Graph 1.

### Graph 1

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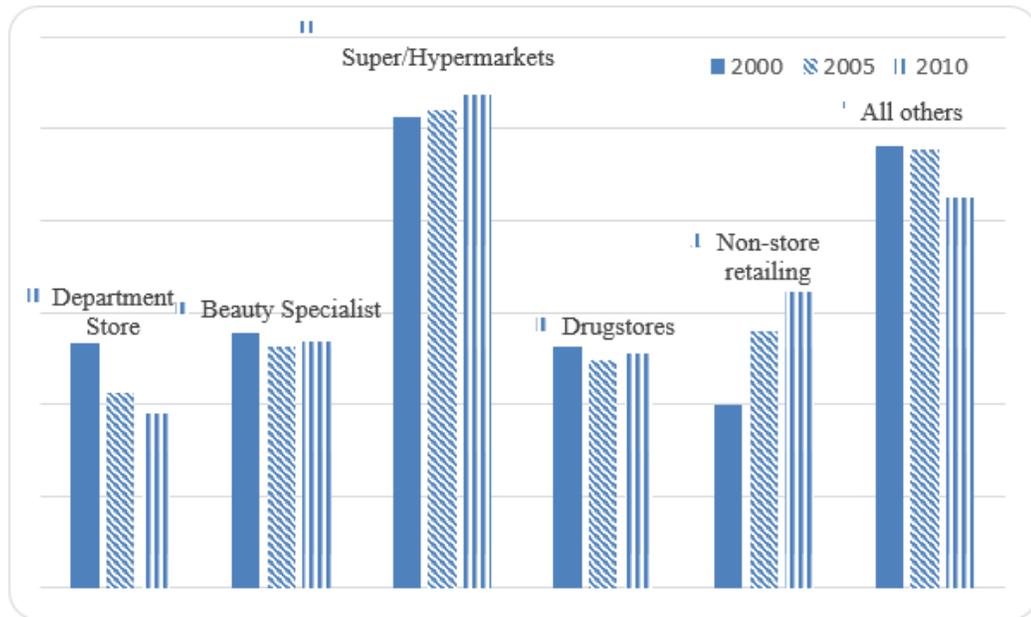
<sup>9</sup> Asian are historically admiring for white skin and it is well connected with its high sun block sales volume in Asia. Since most Asian women have more wide pigment range than Caucasians, their skins look more apparent with blemishes and sun damages. It is also main reason for Asian customers to purchase sun protection items(Geiger,2002).

<sup>10</sup> BB cream stands for blemish balm. It was originally formulated in the 1960s in Germany to protect patients' sensitive skin after facial peeling or skin surgery. It became popular in Asia as it is promoted as an all-in-one facial cosmetic product and it helps to make-up in a short time and gives a natural skin tone.

<sup>11</sup> Marketing mix consists of product, promotion, price and place.

<sup>12</sup> Direct sales, online retailing, e-commerce and many other types of channels are used altogether. Recently, retailing via smartphone(m-commerce) is growing fast.

## Global Beauty Distribution Channels 2000-2010



Source: Barbalova 2011, Moulin 2012, Euromonitor International (compiled from [http://www.in-cosmetics.com/RXUK/RXUK InCosmetics/ documents/IC11](http://www.in-cosmetics.com/RXUK/RXUK%20InCosmetics/documents/IC11)

EuromonitorInt GlobalBeautyAndPersonalCare)

As the data shows, the market share of department stores is steadily decreased while the sales of beauty specialists, hypermarkets, and drug stores remained almost same digit. However, department stores are much needed as the primary distribution channel for high-end cosmetics brands because they have to promote luxury brand image, ensuring decent services and standardized prices(Nicole Tyrimou, 2012). Tyrimou related that another fact is the sharing of hypermarkets and supermarkets as a cosmetics sales channel. They established a solid foothold in world distribution channels over the years. For what concerns the remaining sales channels, the importance of the non-store retailing channel is gradually increased(Nicole Tyrimou, 2012). This channel includes online

shopping mall, C to C(consumer-to-consumer) direct sale<sup>13</sup> and m-commerce<sup>14</sup> over the internet. With the stream of this trend, the online shopping mall sales is also growing rapidly. According to Euromonitor International’s estimates, the online distribution channel in the global cosmetics sales reached 3% in 2010 and the top three online sales markets are South Korea, France and United States.

### 1.3 Key Players

There are a couple of global cosmetic brands around the world that compete each other to obtain more market share (Kumar, Massie & Dumonceaux, 2006). Mary Field (2012) from Brand Finance explained that Olay from Proctor & Gamble marked the top spot with 11.8 billion in most valuable cosmetic brand league because it has improved their product image and widened channels globally. Despite of Avon’s sufferings from its brand value fell by 22%, but still remained as number two at \$7.9 billion with their overseas sales growth in developing countries(Forbes, 2012). It is believed by Forbes that global beauty brands strengthened their brand value, moving up among major brands has been shown.

Table 3

World’s Largest Beauty Brands

<b>Rank</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Brands	Olay	Avon	L’Oreal	Neutrogena	Nivea
2012 Brand Value	\$11.8 Billion	\$7.9 Billion	\$7.7 Billion	\$6.2 Billion	\$5.6 Billion
2011 Brand Value	\$11.7 Billion	\$10.2 Billion	\$7.6 Billion	\$6.4 Billion	\$6.6 Billion

<sup>13</sup> Such as eBay and amazon.

<sup>14</sup> An abbreviation of a Mobile-commers

Change from 2011	6%	-22%	-1%	-2%	-15%
<b>Rank</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>
Brands	Lancôme	Dove	Estee Lauder	Biore	Shiseido
2012 Brand Value	\$5.1 Billion	\$5.0 Billion	\$3.7 Billion	\$3.3 Billion	\$2.9 Billion
2011 Brand Value	\$5.7 Billion	\$4.5 Billion	\$3.3 Billion	\$3.0 Billion	\$3.0 Billion
Change from 2011	-10%	12%	22%	11%	-2%

Source: The Top 10 Global Beauty Brands from Forbes Research<sup>15</sup> (compiled from

<http://www.forbes.com/sites/jennagoudreau/2012/04/20/the-top-10-global-beauty->

[brands/and http://www.forbes.com/2006/02/08/best-selling-](http://www.forbes.com/2006/02/08/best-selling-)

[cosmetics\\_cx\\_me\\_0209feat\\_ls.html](http://www.brandfinance.com/images/upload/cosmetics_2013_spc.pdf) and

[http://www.brandfinance.com/images/upload/cosmetics\\_2013\\_spc.pdf](http://www.brandfinance.com/images/upload/cosmetics_2013_spc.pdf))

#### 1.4 Trends That is Corresponding to the Consumer Features

According to Hoyer and MacInnis(2008)' evidence from consumer behavior research, indicates that consumer behavior reflects the totality of consumers' decisions in response to the acquisition, consumption, and disposition decisions of goods, services, activities, experiences, people and ideas over time. The consumers' behavior and attitude is critical in any industry because they can strongly influence product development and business direction.

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<sup>15</sup> It is a research data from Forbes based on projected revenues, customer loyalty and willingness to pay a price premium, royalty rates and current market value from skincare, makeup, hair-care and shower products category.

Global beauty has become a huge industry which affects the daily lives of almost everyone (Geoffrey Jones, 2010). As the global beauty business permeates our lives and greater access to international markets, demand for trendy goods with innovative and diverse are needed.

Ejiofor (2006) stated that the market trend is the overall market activities of its direction, behavior and pattern in a given market sector. Identifying and predicting key market trends are important to business as they can show opportunities to grow and allow to take advantages of positive changes. It is also beneficial to keep ahead over competitors, especially, when a firm is planning and developing their business growth strategies. Beyond this, today's globalization is changing the beauty industry; consumer trends and product developments.

Based on current performance and the development of the global cosmetic market, several major trends assure the continued sales profitability into the future.

a) Anti-aging products because of growing aging population in the world

U.S Administration on aging reported that people who are over 65 years old represented 12.4% of the population in the year 2000 but are expected to grow to be 19% of the population by 2030.

The younger generation is looking for general skin, makeup, and hair care products. While the older generation finds more specific functional cosmetics products (Skincare Forum, 2012). There is a clear trend of the market heading towards anti-wrinkle products because the aging population in the world is steadily swelling.

b) Luxury brands due to improvement of the standard of living

A new study by the McKinsey Global Institute (MGI) suggests that almost 3 billion people, or more than 40 percent of today's population, will join the world's middle class by 2050. Specifically, the rapid development of China and India's economy would lead to sustain improvements in peoples' standards of living and cosmetic markets witnessed a continued vigorous development. Also an increase in demand, not only for greater variety of cosmetics, but also for high-end luxury brands.

c) Organic products demand with overall well-being trend

Well-being trends have penetrated all spheres of life and lifted the sales of cosmetics labeled "natural"<sup>16</sup>, "botanic or herbal" and "eco". The demanding for safety and eco-friendly products were raised. Consumers became more aware of the harmful ingredients in traditional beauty product lines. They are now willing to pay more if they are protected from items that contain chemicals such as preservatives, parabens, silicones, pesticides, artificial colors, and etc. Thus, natural and organic beauty items are moving toward mainstream from niche. Such products used to be sold at specialty outlets, however can be seen in more mainstream stores such as drugstore or department stores.

d) High function products drove from the busy modern life style.

U.S Bureau of Labor Statistics describes that, on average, employees who are living in developed countries spent almost forty hours per week at work in 2012. In addition, Americans spent 5.5 billion hours sitting in traffic in 2011. Today, many people are too

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<sup>16</sup> Market analysis Baidu insists that with high-tech biochemical engineering, cosmetic brands are now focusing more on biological active and natural plant extracts. As a result of the trends with safe and natural for skin care, potential for cosmeceutical market is huge.

busy to spend enough time to care for their beauty. Therefore, they ask markets to have high functional products that provides instant results, thereby the launching of various intensive treatment items and high-tech beauty applicators.

e) Men's skin care growth

According to the Los Angeles Times'(2010) story covering the growth of men's cosmetics in the marketplace, more and more men are willing to spend money to care for their skin. Hence, men's grooming skin care is the one of the fastest growing segments in the cosmetic industry. Lastly, as per a study of Euromonitor, the global men's grooming market grew by 7.4% in 2010, thereby reaching 29.6 billion US dollars. Especially Europe, Germany and Spain had 100% increases from 2005.

f) Changing shopping habits by Internet shopping malls

Although department stores use to perform marginally better than any other channels, their market share of beauty products have declined over the past ten years and the internet retail has built an absolute growth reaching about \$11 billion in 2010(Nicole Tyrimou (2012). According to Samsung research, more than 40% of the world's population will be online in 2020 and many consumers are expected to increase their online presence. In this regards, brands tend to make their website more optimized for internet devices such as smartphones or iPad devices since they see more than 95,000 beauty blogs.<sup>17</sup> Many bloggers are sharing their experiences through YouTube, Facebook and Twitter with billions of consumers.

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<sup>17</sup> Sean Singleton who is a director of Skive Group spoke on the subject of social media in 2011 at In-Cosmetics show in Milan, Italy that recent statistics indicate that there are approximately 200m blogs and 95,000 beauty blogs. Aged between 35 to 49 old women are the fastest growing in those blogosphere.

### 1.4.1 Global Skincare Trend

From 18th century, the beauty industry has boomed and many popular brands such as L'Oreal, Elizabeth, Arden, and Revlon has established during these years(Julie Willett,2010). Over the last hundreds years, skin care trends continued to change with times. Companies invested heavily in research to gather information about market trend and launch new items to attract more customers. New technology from firms' R & D(research and development) was enough to produce efficient beauty items and surprise customers.

Today, facial skin care is the biggest of the global market as it accounts for 27% in 2012 which is driven primarily by the Asian market (Lennard, 2010). In addition to whitening items' popularity with a long history, this category is highly segmented to identify consumers' expectations that are being fully satisfied. Based on these facts and due to its increasing importance, skin care is therefore in need of investigation.

The followings are vital skincare trends driving the growth of the global beauty industry.

#### a) Fast-act and high-tech formulas<sup>18</sup>

Like any other industries, beauty is also scientifically and technologically advanced in formulations. The high-tech revolutions have seen particularly important in skincare. The beauty author, Dale Walker said that trends from typical active ingredients such as AHAs, enzymes, and peptides has been gradually moved to the next level like stem cell,

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<sup>18</sup> For instance, to compete with other fast-acting products such as Clinique Even Better Clinical Dark Spot Corrector, Neutrogena All-in-1 Acne Control daily scrub and facial dark spot serums treatment are claimed to “fade the look of past acne marks, clear present breakouts and help prevent future breakouts with innovative ingredients”. The Neutrogena product claims to work in one week(Dale Walker,2010).

genetic, EGF which are based on genetics to help enhance cellular's youth longevity.

With their high-performance, most of those products are focused on caring more specific targeted areas as removing dark spots and eliminating wrinkles(Dale Walker,2010). For high function results, many brands also introduce multi-function items that combine a moisturizer, refining pores and reducing wrinkles in one item.

#### b) Eco-evolution<sup>19</sup>

There has been an increased demand in organic skin care items based on the ideas that natural product might be safer and healthier for the skin. Infusion of extracts from herbs such as rosemary, oregano, eucalyptus, lavender, and pure essential oils became the basis of beauty recipes and the ingredient certification labels from USDA, EcoCert certification, or the National Products Association became influential (Skincare Forum, 2012).

#### c) Inner beauty

Staying and looking younger has become a major trend. People are not satisfied with a little bottle of cream anymore, hence beauty went deeper. Edible cosmetics enrich inner beauty since beauty supplements provide complementary effects adding to regular cosmetics(Cosmetic business media,2013). The newest way to make skin glow, acne cleanup, and dark circle brighten can be made effectively with ingesting pills that often contain nutrients, such as cod liver oil, fish oil, multivitamins, and etc. Cosmetic business media(2013) consider that Asia is regarded as the most important regions for ingestible

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<sup>19</sup> For instance, Caudalie, French vino-therapy cosmetic brand, produce only an eco-friendly line with no animal test, parabens, phthalates or petrochemicals.

beauty because Asians are the one who wants to look good for their age as long as possible.

d) Seek for fun and alternatives

While people are on a budget during the recession, DIY(do it yourself) beauty became popular since they can enjoy professional salon care results with lower price at home (GCI Magazine, 2013). It also provides a lot of fun with unique products according to their wide range of variety mixtures.

As consumers seek alternative options in beauty, demand for home laser technology such as deep exfoliating electronic brush<sup>20</sup>, portable IPL(Intense Pulsed Light)<sup>21</sup> machine, hand held laser, and etc. have seen dramatic sales growth in recent years and it plays an increasingly important role in the cosmetics and personal care industry (Nicole Tyrimou ,2012). Industry expert, Karen Doskow saw that global electronic beauty devices market had experienced a dramatic fifty percent growth in 2011, and the demand for the beauty applications on the AP region are continuously growing. In this regards, we see many major brands introduces items with DIY ideas.

e) Looking for new ingredients

Since anti-ageing is a key area of new product development, Imogen Matthews from Cosmetic Business Media identify that human oligopeptide-1 (EGF), sirtuins, fullerenes, NGF (Nerve GrowthF), animal derived collagen, stem cells, and neuroscience are popular. Besides, there are strong demands for exotic oils along with trends that are

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<sup>20</sup> Such as Olay Pro X Advanced Cleansing System, Proactiv Deep Cleansing Brush, Clarisonic cleansing brush and Neutrogena Wave.

<sup>21</sup> Based on Gold's study, it is for removal of pigment, hair and other purposes.

finding more unique ingredients and nut oils that are known for remarkable effects for moisturizing and protecting to skin and hair(Romanowski, 2012). Especially Moroccan Argan oil and macadamia nut oil are currently most prevalent.

## Chapter 2. Global Marketing Strategy

### 2. 1 Global Marketing Strategy: Porter's Five Force Analysis

Porter(1986) summarized the five forces to analyze global marketing strategy<sup>22</sup>. Five forces is a strategic tool designed to have a global overview and helps to review of a market position based on five key factors. They include threat of new entry, intensity of rivalry in the industry, bargaining power of customers and suppliers as well as the threat of substitutes (Porter, 1986). Knowledge of this idea enables companies to have a corporate strategy while understating industry's weaknesses and strengths.

#### a) Threats of entry and exit

In porter's five forces(1986), threat of new entry means the new competitors that pose existing market players. The cosmetic industry has a moderate threat of new entrants. According to Jim MacLellan's lecture from Port of Los Angeles in 2013, reduction of tariff and transportation and convergence between customer preferences have made it easier to trade worldwide. One of considerable factor is that OEM companies provide everything except services. This enables entry companies to start the business conveniently and fast. Few small to middle scaled companies that are targeted online sales channel frequently use OEM companies' counselling and products to launch their brands. However, for those companies that are planning to start with an actual manufacturing process and aimed to have a large market share, they are considered to have a low threat of new entrants. In accordance with Euromonitor international trend

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<sup>22</sup> Strategy is different from tactics because strategy is not a detailed plan, but rather gives a direction to make a decision for a firm or individual.

report(2012),giant companies may enjoy economies of scale make it a barrier to entry especially for small and middle scale firms

Like barriers to entry, barriers to exit also can be explained between small to middle sized companies and large scaled firms. If a company mainly worked with OEM companies, they are relevantly easy to exit. However, firms with high investment will be difficult to leave the industry without achieving the certain level of outcomes. They might be already spent too much on manufacturing and advertisement. Introducing a unique and high tech items requires in-depth knowledge from resources and huge cost(Nicole Tyrimou, 2012).

#### b) Bargaining power of buyers

In porter's five forces(1986), bargaining power of buyers refers consumers can press business to make them to produce better products and services at a lower cost. The cosmetic industry has a high bargaining power of customers. This is due to several factors. There are an increase competition and availability of high substitute items from a variety of manufacturers in market, buyers are able to force them to reduce price (Porter, 1986).

#### c) Bargaining power of suppliers

In porter's five forces(1986), bargaining power of suppliers refer suppliers can press businesses by reducing the product or material availability, increasing prices and lowering quality. The cosmetic industry has a low bargaining power of suppliers. This is due to the high number of large suppliers. There are many small to large OEM manufacturing factories and companies that are already equipped with their own R & D

centers in the market. With this diverse choices, consumers have a better position as opposed to the suppliers. However, some of suppliers who have a patent or rare ingredients can have a high bargain power to the price.

d) Threat of substitutes

In Porter's five forces(1986), threat of substitutes refer the alternative products that customers can buy instead of the product. Cosmetic industry has a high threat of substitutes. Since there is a low switching cost and many other options for consumers, they simply purchase competitors' products if they are not satisfies with its high price or low quality(Porter, 1986). In this sense, firms in this industry should try to be innovative and differentiate to meet their target market segments, otherwise they will lose a business ground before long.

e) The intensity of competitive rivalry

In Porter's five forces(1986), the intensity of rivalry refer firms in an industry press others and limit each other's potential profits. When conducting five forces, there are fierce rivalries in cosmetic industry. Especially, matured markets such as countries from Western and Europe face market saturation and become stagnant. It is because more competitive market decrease profits as competitors try to steal others market share, making the industry less attractive (Porter, 1986). Various global cosmetic brands fiercely compete to survive in those regions while some firms enjoy their growth in less competitive emerging markets.

As seen above, Porter's five forces analysis(1986) helps where a firm should towards and what strategies to choose. While understanding the competitive forces, firms can use industry analysis to guide their strategic decisions.

## 2.2 Globalization

To expand corporations' presence in globe, analyzing the industry is essential. Likewise, understanding where an organization should move forward to gain greater market share is important. It can be accomplished while expanding their market reach and create other revenue sources in other nations(Collis, 1991).

There are several driver factors from inside and outside of a company to do a business globally.

### a) Internal factors

Firms' organizational capabilities and their commitments affect to become a globalization (Collis, 1991). Without employees' strong commitment, firms' international business will be delayed. Douglas and Craig(1989) proposed that company's international experiences such as from initial foreign market entry is another influencing factor.

### b) External factors

Cost is a considerable factor of being globalization (Levitt,1983) with economies scale and scope aspects. A company's product, marketing and management's competitiveness across markets is observed as a factor by Hout, Porter and Rudden(1982). In conformity

with their study, regulations and political factors should be looked into when mapping the environments because those can cause possible barriers.

Table 4

Definitions of Globalization in Business

Author	Discipline	Definition/Description
Dunning(1993)	Economics/ Business	“...growth of international production...[reflecting] the way that changes in the structure and organization of the world’s resources and capabilities impinge on the cross-border production and transaction strategies of companies.”
Rodrik(1997)	Economics	“...a process involving the international integration of markets for goods, services and capital which pressures society to alter their traditional practice.”
Dicken(1998)	Economic geography	“...the geographic extension of economic activity across national boundaries...[and] the functional integration of such internationally dispersed activities.”

Source: T.Clark, L.L.Knowles / Journal of International Management 9 (2003) 361–372

There can be no doubt that world trade and has been growing over the last fifty years and this economic phenomenon has helped some firms to become powerful. The globalization is the growing economies between interdependent nations by reducing international barriers (Knight, 2000) and it comes with cost and time efficient benefits (Simon-Miller, 1986). Grant (2010) argued that global players conquer other competitors with two reasons: providing globally standardized goods to the world market allows to have scale economies and lower key barriers.

Theodore Levitt (2006) argued that “Everywhere everything gets more and more like everything else as the world’s preference structure is relentlessly homogenized” and states that “companies must learn to operate globalization as if the world were one large market – ignoring superficial regional and national differences...” He proposed advantages of expanding business into a global market.

a) Economies of scale

The extra cost savings that occur when higher volume production from development, manufacturing and marketing allows unit costs to be reduced and this subsequent replications reduce a fraction of the original cost(Ghermawat,2008). Ghermawat(2008) explained these as advantages form cross-border aggregation. For instance, when a company exports their best selling items to other countries, they can produce goods with a lower cost per unit as the size of the item is increased.

To put it concretely, new models, new design, and other forms of research often requires huge amount of dollars. The more countries where the beauty items can be sold means the greater number of countries that can contribute to recover of research and development (R&D) costs.

b) Economies of scope

The cost savings created by business units while sharing activities or transfers know-hows and skills from one part to another(Ghermawat,2008). For instance, a domestic cosmetic sale team can also work for the international sales to sell more than products from the total range in a company.

Other benefits continues.

c) Learning benefits

Global infrastructure permits to learn new ideas, have new experiences, and practice.

Learning from subsidiaries allows to take advantages of local resources and exploit its capabilities(McKinsey, 2010). For example, P & G recognized Japanese obsessiveness over cleanliness and developed<sup>23</sup> special cleaners in Japan and then introduced into other markets.

d) Searching national resources

Global strategy<sup>24</sup> does not need to run a production in one location. These arise by choosing and switching manufacturers with lower labor costs or raw materials. Firms can enjoy the efficiencies from exploiting national resources in different countries (McKinsey, 2010). For example, cosmetic bottles and packages are assembled from in China where labor wages are lower and formulate ingredients in countries having R & D knowledge and sophisticated skills such as Northern America or Europe.

e) Global brand recognition

The benefit that derives from having a brand that is recognized throughout the world and the internationalization enhance the brand image and increase loyalty(McKinsey, 2010). For example, customers of the global brand such as Chanel expect and receive the same

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<sup>23</sup> One of the representative examples is “Swiffer”.

level of service at all its department stores around the world and it helps to build a positive prospering brand image.

f) Emergence of new markets

As more businesses, there are more chances to meet distributors or find new potential markets from new networks and knowledge.

Table 5

Globally Standardized Marketing Pros and Cons

<b>Standardization</b>	
Advantages	Disadvantages
Economies of scale in production and distribution	Ignores differences in consumer needs and wants
Lower marketing costs	Ignores differences in brand product development
Consistency in brand image	Ignores differences in the legal environment
Uniformity of marketing practices	

Source: Contemporary Strategy Analysis 7th Edition

As explained above, general globalization views the world as a big single market (Levitt, 2006). Work by Porter illustrates that there are central marketing roles in a global strategy: configuration, coordination and linkage. The first role of international marketing

relates with various marketing activities such as advertisement, product development, sales promotion, channel selection and others and they should be performed either centrally at the corporate or locally at the regional subsidiaries (Porter, 1986). In keeping with Porter's opinion, the second is functioning as a following strategic role since it standardizes and modifies marketing activities in different countries to fit each countries' circumstance. The last strategic role of international marketing from Porter(1986) is a linkage of the rest activities. It can possibly unlock the limitations of international standardization in the marketing function.

Globalization is unavoidable as the home market goes into fierce competition and high cost with limited resources, making overseas expansion more attractive.

### 2.3. Glocalization

Global firms use a new term that encapsulates the global and the local-“glocalization<sup>25</sup> (Grant, 2010)” strategy as a means of improving their global business performances based on local dynamics. This approach proposes that there should be synchronization between standardization (uniforming both communication programs and products) and localization (customizing both the communication programs and products). For being better suited to its new environments, there are several processes that a firm should go

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<sup>25</sup> One of well known examples of glocalization is McDonald. They allow countries or regions to customize its basic rules. For instance of Happy Meals, China provide corns instead of fires and the mutton-based Maharaja Mac replaces the beefy Mac. Some cities provide motor scooter deliveries which is not provided in U.S. market(Kotler, 2011).

through. Giulianotti and Robertson<sup>26</sup>(2007) presented that there are four local-level globalization processes.

- a. Relativization: preserving in spite of global influence
- b. Accommodation: absorbing certain part while maintaining key principals
- c. Hybridization: synthesizing some part of local and global practices
- d. Transformation: favoring the international practices

National differences should be considered to successfully penetrate at the target market. Customers vary across markets and all these differences require at least some adaptation. The market leader brands are consistent in their “theme (Grant, 2010)”, but reflect differences of product development, consumer behavior, legal or political environment.

*Case Study: Example of L’Oreal Korea’s Glocalization*

L’Oreal has 28 global cosmetic brands that generate around 50 million Euros. L’Oreal Korea in 2012 produced 334 billion won in revenues with 1,480 employees (Korea Times, 2013). According to Richard Cymbberg’s interview with Korea Times, president and executive director of L’Oreal Korea, Korea is the ideal market for the glocalization of L’Oreal’s business. When asked about the different characteristics of the Korean cosmetic industry from other countries, he said

“...I have stationed in Brazil, the U.K., Germany and the U.S. Korea and worked for 34 years, I found Koreans are heavy consumers of skincare products. Skincare accounts for almost 50 percent and 15 percent is makeup. Many Korean women’s tendency to use a

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<sup>26</sup> The term of glocalization has found in the globalization process in many research and literature. Their social perspective of the globalization can be also applied to business field.

full range of skincare products including a cleansing oil, eye and lip remover, cleansing foam, booster (a kind of thin serum to moisturize skin right after the face is washed), toner, serum, moisturizing lotion, cream and sun block, while most Western consumers would rely on a cleanser, toner and one faithful moisturizer that has sun protection factor...”

In a point of glocalization view, L’Oreal launched a new electronical cleansing device brand in 2013 that Cymberg believes it especially fits Korean consumers’ needs.

Compared with Western consumers, Korea women tend to triple (foam and two type of oils) wash to clean. It made L’Oreal to lunch Clarisonic’s vibrating cleansing device<sup>27</sup> which has “cleanse six times as effectively as hands do” marketing slogan in Korea and received a good response from the market. With a careful market research, L’Oreal has connected local tastes with an international product.

One unique glocal-strategy of L’Oreal in Korea is hiring sales representatives at department stores on full-time and(Korea Times, 2013). Not like other countries, Cymberg(2013) said that Koreans are more sensitive for service quality. Thus, L’Oreal provide permanent contracts to improve customer services.

One case of a Korean phenomenon spreads to the international market by L’Oreal is BB cream<sup>28</sup>(Korea Times, 2013). L’Oreal have learned its popularity in Korea and even rapid spreading to other East Asia, Maybelline New York from L’Oreal group re-

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<sup>27</sup> It was developed by the inventors of Philip’s Sonicare electric toothbrush and L’Oreal acquired Clarisonic in 2011.

<sup>28</sup> BB cream is all-in-one makeup product that contains foundation, premier, sun block and other functions of anti-wrinkle or whitening.

formulated BB cream for Western women<sup>29</sup> and became the best seller in Europe(Cymbberg, 2013).

All in all, adopting differences through careful market research, it made L'Oreal to celebrate its 20th anniversary in Korea. Korea is one of the firm's 10 strategically important global and glocal testing markets(Korea Times, 2013).

In reality, global strategy is a mixture of global standardization and local adjustment. Taking into consideration the fact that globalization with one apparent strategy cannot fulfill diverse needs from the customers.

Globalization is a powerful real aspect of the world economy and global strategy is understood here through openness, integration and borderless international economy in worldwide trade and exchanges (Knight, 2000).

While analyzing outlook of global cosmetic industry and business strategies, one question may arise from a corporation's perspective; which markets to enter.

#### 2.4. Opportunities in emerging market: Focus on Korea and China

One of the sharpest distinction of global marketing is divided into developed and developing (Kotler, 2011). Developed countries such as Northern America are typically facing a significant competition of various brands and high expectations of consumers in market.

The cosmetic industry in the United States has been enjoyed by a period of peace and prosperity(Rathje & Zimring, 2012). Since the nineteenth century, an identifiable

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<sup>29</sup> It is Maybelline Dream Fresh Glow BB Cream and widely launched in the U.S. and Europe.

cosmetic industry has established in the United States. After that, Hollywood in U.S. cinema led the cosmetics use into the mainstream in 1930s. Many American learned how to style and makeup by imitating the actress from television shows and movies (Rathje & Zimring, 2012). Market researcher Cory Schulz(2013) at Euromonitor states that the United States is now the biggest cosmetic market in the world , with an estimated total revenue of about 54.89 billion U.S. dollars and employing about 53,619 people in 2012.

However, many beauty experts estimate that room for growth in America cosmetics market is unclear as the market is already big and saturated. The United States cosmetic industry is currently facing challenges including high competition and a matured market (Skincare Forum, 2012). That might not work as bad for the time being, but firms should make provisions for the future as a long-term view. Taken together, many domestic firms in any industry expand their geographic reach in order to have new market of opportunities.

After deeper insight into global cosmetic industry in previous chapters, prospecting two Asian countries, Korea and China among emerging regions are suggested. Those markets are comparably less competitive and have favorable legislations as well as distribution channels to exporters. In addition, their various needs and demands indicate that there are great potential to grow. Hence, two nations are the primary marketplaces that firms should concern. Fundamental knowledge for cosmetic firms who wish to enter or have an existing business in those countries is discussed in detail.

a) Korean markets

U.S. and Korea entered into U.S.-Korea Free Trade Agreement on March 15, 2012 (United States Trade Representative, 2012). It means trading economic freedom between two nations by bringing countless opportunities. United States Trade Representative (2012) stated that Korea is currently the 7th largest goods and services trading partner of the US with a total trading volume of \$125 billion in 2011.

Table 6 shows that based on the laws, regulations, and institutional arrangements, the Korean government is more open and supportive to foreign companies than the US government. As more women in Korean enter the labor force and gain more incomes, they have become enthusiastic cosmetics users.

Recently, the industry has been in turmoil with issues such as animal testing, containing chemicals, and confusion with organic certifications(Nicole Tyrimou, 2012). In most countries, the industry is certainly subjected to regulatory requirements, and different countries apply different regulatory systems. For example, EU and China see dandruff-shampoo as cosmetics but US and Korea regulate it as drugs or quasi-drugs. Therefore, it is important to understand the cosmetics regulatory differences around the world.

Table 6

Ranking Ease of Doing Business

<b>Economy</b>	<b>2013 Ranking Ease of Doing Business</b>	<b>Starting a Business</b>	<b>2012 Ranking Ease of Doing Business</b>
United States	4	13	4
Hong Kong	2	6	2
<i>Taiwan, China</i>	<i>16</i>	<i>16</i>	<i>25</i>

United Kingdom	7	19	7
<b><i>Korea</i></b>	<b>8</b>	<b>24</b>	<b>8</b>
Australia	10	2	15

Source: Global Finance Magazine (compiled from <http://www.gfmag.com/tools/global-database/economic-data/11862-best-countries-for-doing-business.html#ixzz2NYmw4ORE>)

- i) Regulations and procedural requirements: Studies from skin care forum (2012) shows that Korean Food and Drug Administration (KFDA) categorizes cosmetics into three groups: general cosmetics, functional cosmetics, and quasi-drugs. KFDA regulates all three categories, and quality control testing is conducted by the Korea Pharmaceutical Traders Association's (KPTA) Pharmaceutical Research Institute (Skincare Forum, 2012). The forum (2012) explained that the functional and quasi-drug cosmetics are not evaluated as a finished good, but as each efficacy individual ingredient. If a product contains any raw materials from "cows, lambs, or goats (Juntao Xia, 2012)", the certificate needs to state the amount and type of materials used in the product.
- ii) Trends by product category: According to Samsung (2006), Korean women seem to care about health with well-being trend; they prefer natural or organic cosmetic products. Also, since they want to look healthier and younger, functional cosmetics of whitening, sun block, and anti-aging have become very popular. Juntao Xia (2012) from Skin Care Forum sees that Asian women, especially Korean, are receptive to Western products in regards to foreign health and beauty items.

Another notable market is the male consumer segment. Korean men are also becoming significant consumers of cosmetics as the competition become severe among job seekers. For the moment, male grooming products are no longer of female products' extension lines. Some brands concentrate solely on male grooming products and LG H&H(2010) found that sales of eye cream, mask pack, moisturizer are growing fast.

iii) Distribution channel: Generally, Skincare Forum(2012) instructed the cosmetics brands can be grouped in three categories: mass, masstige, and high-end; each of them has its own typical distribution channels.

Conglomerates such as Amorepacific and LG H&H have transformed traditional stores into their self-owned retail channels: Arittaum and Huplace. Brand shops such as Etude House, Faceshop, Missha and Tonymori are also big players in the market.

If brands are high-end and pricy, then they should consider moving into department stores to take advantage of the credibility of the department stores. This strategy will work well even for a completely new brand. However, the downside is that this strategy requires a big budget to launch and ongoing financial supports to sustain future growth.

To target mass or masstige markets, a company can consider drug stores, beauty shops, home shopping, and online markets. However, taking a good shelf space is critical and keeping a good relationship with merchandisers could be challenging. Lastly, multi-channel retailers should consider the possible conflicts between online and offline stores in terms of variety mix of products and prices(Juntao Xia, 2012).

Table 7

Sales Channels in Korea

Channel	Stores	Comments
Department stores	Lotte, Hyundai, Galleria, Shinsage, etc.	Seasonal displays and at least three sales girls are needed for each branch.
Brand shops	Etude House, Faceshop, Missha and Tonyomori, etc.	It can be helpful to promote brand images with high quality services and fixed prices. Brand owners can have autonomy operation such as promotions in stores.
'One stop shop' in Drug Store/ Pharmacies	GS-watsons,Olive Young,W-store and any regular drugstores, etc.	It offers a wide variety of cosmetics brands in different quality and price items to appeal different needs from customers.  Many branded cosmeceuticals are distributed in pharmacies such as Vichy,Caudalie,Avene.
Markets	E-Mart,Home plus,LOTTE Mart etc	Cleanser, hand & body creams are popular.
Home Shopping	GS Home Shopping, CJ Home Shopping, Hyundai Home Shopping, LOTTE Home Shopping, etc.	Too much promotions but good for increasing brand awareness.
Other off lines	Specialty Store,Chain Store	For hospitals: one of the

	Dutyfree shops, Clinics, Esthetic, Dermatology, Plastic Surgeon, etc.	hardest channels to do business with doctor's high self-esteem and they common practice of asking for rebates.
On-Line	Brand Portal Site ,Specialty Site, etc.	Low barrier to enter but hard to keep a fixed retail price.

Source: BASF Personal Care and Nutrition (compiled from <http://www.skin-care-forum.basf.com/en/artikel/home/review-of-cosmetics-regulations-in-asia/2012/12/07?id=a016034e-663a-4159-bf20-2cdae216763e&mode=Detail>)

iv) Labeling under legal regulations: KPCA exam the labels of cosmetic packages(Yo Be, 2012). Yo Be(2012) who is a consultant at Cosmetics and Toilets magazine mentioned that if it is imported cosmetics, Korean label must be placed on the outer packages. The label should indicate the country of origin, importing company name, importer's address, ingredients, retail price, and date of manufacture(Yo Be, 2012).

#### b) Chinese Markets

Understanding the Chinese market has become increasingly important for many Western companies of all sizes and shapes because of economic slowdown in the United States and in Europe. According to China National Commercial Information Centre (CNCIC), China has continued to grow at a fast rate with double-digit over the last couple of years. Currently China ,based on CNCIC(2011) report, levied 30% consumption tax on high-end cosmetics but still many Chinese are interested in purchasing foreign brands and even shop abroad because some regard imported brands as better than domestic brands.

i) Regulations and procedural requirements: Product safety has long been a major concern in China's cosmetics market <sup>30</sup>and State Food and Drug Administration (SFDA) had recently re-structured the rules to be similar to the regulations in the EU and the USA(Skincare Forum, 2012). Based on a research by Skin Care Forum (2012), the SFDA provides the industry with guidelines, such as issuing a number of requirements covering, labeling, and hygiene standards. In addition, Juntao Xia(2012) stated that cosmetics containing any new ingredients which have not been previously approved are required to process a pre-approval from the SFDA before it enters to the Chinese market.

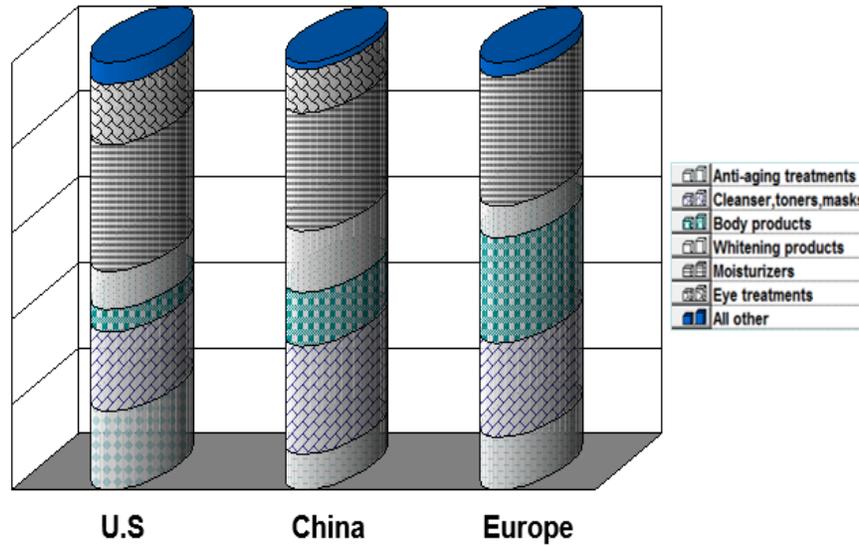
ii) Trends by product category: Li Yanbing(2006), vice-secretary general of the chamber of beauty culture and cosmetics of the All-China federation of industry and commerce, in an interview with from China Daily mentioned that whitening products are big and growing. Skin whitening has a long history in Asia and pale skin has been highly prized(Nicole Tyrimou, 2012). Asia became the major driving force in the global whitening market since 1970's. (Graph 2)

## Graph 2

### Market Share of Cosmetics

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<sup>30</sup> Johnson & Johnson baby shampoo brands were embroiled in scandal of defective cancer-causing chemicals in Nov, 2011. Chinese consumers had become more concerned about product safety and the Chinese government had launched better cosmetic regulations after that(CNCIC,2011).



Source: China Daily, Inc

Like many other countries, the males' skincare market in China is emerging in the cosmetics industry. According to a report by Alibaba Research Centre (2012), males grooming was five times faster than female skincare market and reached 4 billion yuan in 2010 as grew by 27% yoy in 2009 and 40% yoy in 2010. Facial cleansing product is the most popular product category for men.

Another market with great potential is for children beauty products. A reporter Hu Huiting at the China information center(2002) related that the Chinese government has been controlling its population growth with a family planning policy and it restricts urban couples to have only one child. 'Little emperors syndrome' describes families how they indulged children and are willing to support everything. Based on the research by Euromonitor (2012), child care products are estimated to reach 8.7 billion yuan in 2013. It is remarkable since it was merely 5.3 billion yuan in 2010, a stunning about 61% increase over the three-year period. In addition, baby care retail sales are expected to increase from 3.5 billion yuan in 2010 to 5.8 billion yuan by 2013(Euromonitor, 2012).

iii) Distribution Channel: There are three categories: mid- to high-end foreign cosmetics, rising brands with substantial capital support, and low-end or lesser-known cosmetics (Daxue Consulting,2012). Those channels are classified according to the level of service quality and financial support from the head quarter.

Most of the Chinese cosmetic brands use intermediaries to distribute their products rather than using direct selling. According to Daxue(2012), department stores, supermarket, and internet are the most popular sales channels.

Table 8

Sales Channels in China

Channel	Stores	Comments
Department stores	Beijing Hualian,Dashang Group,Isetan and Mitsukoshi Department Stores, Jiuguang Department Store,Pacific Sogo,Parkson, Shin Kong Place. etc	It is true that launching a brand in department stores plays an important role in brand building but competing for counter spaces has become a keen competition in China.
Markets	Huadu, Yonghui, E-mart, Walmart. etc	For low to mid-range cosmetics brands or products, supermarket is a proper sales channel but the entry costs have been constantly increasing over the past years.
'One stop shop' in Drug	Watsons,Sasa,Sephora,Cosmart	People can buy various

Stores	and Gialen. etc	items at one place including cosmetics and accessories. However, their products can be counterfeit products and customers are less assured about their quality thesedays.
Brand shops	Etude House, Faceshop, Missha. etc	Specialty stores: It is expected that this sales channel will become another major channel for cosmetics. Especially, Korean brand shops are popular among trend setters.
Pharmacies	China-based brands Longliqi and Corty are commonly found brands. etc	People believe that this channel has a better profit margin since many consumers repeat their purchases. According to the aforementioned report by HKTDC, more than 170 enterprises have entered the cosmeceuticals market. It is expected that the cosmeceutical market in China would grow by 10-20% yoy to reach 20

		billion yuan in 3 to 5 years.
Internet retailing	<p>There are many types of B2C online retailing online websites. etc</p> <p>Strawberrynet.com and sasa.com provide a wide range of cosmetics. etc</p> <p>Gaopeng.com and meituan.com offers items at discounted rates. etc</p>	Internet retailing: With the significant advancements in online channel, many companies have built online platforms to reach customers. Chinese customers often use this channel to buy foreign cosmetics brands.

Source: Fung Group (compiled from

[http://www.funggroup.com/eng/knowledge/research/industry\\_series22.pdf](http://www.funggroup.com/eng/knowledge/research/industry_series22.pdf))

iv) Labelling under legal regulations: All imported cosmetics in China need to be verified and approved by the Chinese Inspection and Quarantine authority (CIQ) (Skincare Forum, 2012). Then, the products receive the CIQ labels on the packaging. If any changes made to the cosmetics, the modifications need to be verified and should follow the proper procedures set by the SFDA.

#### *Issues and Considerations for Entering the Emerging Market in Asia*

As discussed above, each country in the Asia Pacific region has different regulations, but they all have a common purpose to ensure that cosmetics has safe ingredient and no harmful-related.

South Korean cosmetics market is growing and catching up at a rapid pace with more developed nations (GCI Magazine, 2013). Critics at GCI Magazine(2013) analyzed that there is a notable trend heading towards high-end premium cosmetic brands. The younger generations use general skin care and hair care products while the older generation has more specific needs for their cosmetics products (Skincare Forum, 2012). Another notable clear trend is the rising demand from the male grooming sector.

China is the second largest cosmetic market in Asia Pacific after Japan, and consumers' demand keep growing from various segments due to their improving lifestyles and rising income(Nicole Tyrimou, 2012). However, the level of development of the market is still very low. This advises a massive growth possibility for international cosmetic exporters. In the meantime, China's counterfeiting brands has become a hot issue in the cosmetic industry for many firms that are preparing to enter the market or existing corporations in China.

Table 9

Cosmetic Regulations in the Main Economies of Asia Pacific

	<b>Korea</b>	<b>China</b>
<b>Authority</b>	Korea Food and Drug Administration(KFDA)	China State Food and Drug Administration(SFDA)
<b>Rules and regulations</b>	Korean Cosmetic Products Act(KPCA)	Regulations for the hygiene supervision of cosmetics
<b>Pre-market approval</b>	Required by Korea Pharmaceutical Traders	Required under SFDA Hygiene License for Cosmetics

	Association(KPTA)	
<b>labeling</b>	Comply with Korean Cosmetics Act	Comply with Chinese national standard GB 5296.3-2008
<b>Post marketing reporting system</b>	Yes	N/A

Source: Pharmaceutical Affairs Act (PAA) (compiled from <http://www.skin-care-forum.basf.com/en/artikel/home/analysis-of-the-penetration-of-topically-applied-substances-through-the-skin-barrier/2013/06/d9157b53-8919-4855-bfe7-42a0e72979b4/review-of-cosmetics-regulations-in-asia/2012/12/07?id=a016034e-663a-4159-bf20-2cdae216763e&mode=Detail>)

### **Chapter 3. Research Question and Objectives**

From all possible perspectives of studying for global marketing strategies in cosmetic industry, the aim of this exploration is to answer research questions. Since the objective of this study is to investigate what is the elements of globalization and how global cosmetic brands shape their global strategies.

Globalization marketing strategy is also examined in this paper to study how global oriented firms deal with challenges when entering international business. As a result of questions arose how multinational companies understand about globalization in order to step into the target markets and how to deal with their local strategies. This brought to the following major question.

- What is the meaning of globalization to your firm and what are your global business strategies?

To answer the problem statement, this research contains six thesis questions:

- How to develop global business strategy to expand your business in an international market (global strategy constitutions)? How does it impact the way in which business performs?
- What are the key success factors of beauty industry in the international environment, especially in emerging markets?

- What are the risks of an international business and how to deal with those issues?  
If any, what could be the barriers to export your brand or products?
  
- How do you understand about glocalization(the combination word of globalization and localization) in marketing field?
  
- If your company adopts differentiations when expanding business into other nations, what examples of effective global marketing have you experienced?
  
- Do you expect that there will be more exporting trades with other emerging countries in the future? If so, what does your organization currently prepare for this plan?

## **Chapter 4. Methodology (Qualitative: Interview)**

Based on Odendahl and Shaw's research (2001), personal interviews are an effectual method on collecting informations. Contrasted with email and mobile interview, face-to-face consultations make more precise and detailed responses because of spontaneous interactions.

Interviews are one of well-recognized forms of qualitative research. Mason (1996) argue that face-to-face interviews are a desirable plan when researchers seek to understand of people's knowledge and skill which are valuable assets of the social reality that investigators' questions are designed to analysis. Therefore, this type of research elicits data for a certain study and can be demonstrated with rich descriptions(Mason,1996).

Business strategies, specifically, are hard to be found by brief survey tools because these are executed with diversity within an organization. Lindolf and Taylor (2002) stated that the best informants for interviews have various experience and are well appreciated by their peers or superiors. Interviewees for this study are brand managers, executives and CEOs in relevant organizations, such as cosmetic or consulting companies.

For Interview Preparation, Patel and Davidson (2003) proposed important preparations that are expected in the interview method:

1. Ensure that every interview questions cover every aspect of the problem.
2. Evaluate all questions to avoid any distractions that may divert to the main issue.
3. Develop interview skills and gain confidence about the interview content.

To meet those criteria, the interviewer reviewed materials<sup>31</sup> as much as possible to increase the chances that all questions should cover the topic. As could be found above, interview questions prepared before the interview to keep the researcher to be on track. Interviewer sent sample questions to participants prior to the interview so that they could be prepared on the research subject and gather the maximum knowledge. Interviews conducted about thirty-minute to an hour per interview. When participants signed a consent form, interviewees could decide alternatives whether they want to be remained anonymous. If they did not want to answer for certain questions, participants could skip the sensitive question or even drop out of the interview. Interview questions were open ended in order to give sufficient time for the participant. The follow-up queries were determined by participants' former responses.

During the interview, participants in this research and researcher's conversations made a record. Dictations of audio files made right after the interview and kept in a secure location, separate from this signed consent form. With Odendahl and Shaw's(2011) suggestions, data had logically and systematically collected in a manner of providing answers to the research questions in coherent ways.

Hunter(1995) said that one tactic to identify and access to participants could be attending events. From May to August in 2013, researcher participated in an "Export Workshop Series" provided by small business development center (SBDC) in Los Angeles, California. "Cosmoprof" which is the leading worldwide cosmetic trade event for the professional beauty sector in Las Vegas, Nevada and the make-up world's biggest gathering, "IMATS" in Pasadena, California. These trials gave a way to build a network

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<sup>31</sup> Those are books, articles (trends, forecasting and other reports that touch on the subject), and magazine and past research thesis as well.

in the cosmetic industry all over the world and gave a chance to have an interview from them.

## Chapter 5. Research Findings

This study originated from two main problems: (1) why do U.S. companies enter the international business and (2) what successful global marketing strategies were implemented by the U.S. companies. Through the previous analytical review, this study explored to answer these hypotheses: (1) the globalization's elements and benefits must be proved in the real market and (2) having a strategy must be valuable in a brand in order to have advantageous position itself in today's competitive environment and firms should have specific know-how to develop global business successfully. Findings through interviews with market experts in cosmetic industry confirmed those points.

The interviewees for this study were

- Javahery Mensoor (CEO at VIP Cosmetics, The cutting edge of fashion and Beauty Company. Doing business with more than ten countries such as United States, Brazil Canada, China, England, Iran, Korea, Japan, Mexico, and etc).
- Jung Yon Ok (CEO at Codina, French organic skincare, Doing business mainly with America and Asia).
- Mary Ershadi (Export Manager at Rozge Cosmeceutical, High-end skincare provider, Doing business with more than thirty-five countries such as United States, Canada, England, German, Saudi Arabia, Korea, and etc).
- Domonique Rosario (Executive Assistant at B&C Skin Tight, Spa & Salon beauty provider, Doing business with mainly with North America and Europe).
- Richard J. Hanson (Sales & Marketing Manager at BellaPierre Cosmetics, Natural mineral cosmetics, Doing business with more than twenty countries such as

United States, Australia, Canada, China, Colombia, England, India, Singapore, Vietnam, and etc.).

- Svenya Nimmons (PR Coordinator at MUD Cosmetics, Professional education institute for make-up artists, Doing business with more than ten countries such as United States, Belgium, Ghana, Guam, Japan, Mexico, United Kingdom, and etc.).
- Kyung Eun An (Brand Marketing Manager at Cailyn, A leading mineral beauty brand, Doing business with more than ten countries such as United States, Canada, Mexico, Korea and some of countries in Europe etc). Contacting the interviewees for this research was conducted from March 1, 2013 to August 5, 2014.

#### *Assurance of the element and benefit of global marketing*

Globalization's major factors were proven during the interview. CEO at VIP Cosmetics replied to a question that what internal elements of globalization are. He considers that successful international business heavily depends on employees' commitments. Svenya Nimmons at MUD explained that the company could be stable at the international market with the company's support for the employees' global education and financial investment for expanding business to the outside of America. Those efforts had motivated workers to devote their duties, becoming a firm to be a global player. Sales & Marketing manager at BellaPierre cosmetics continued that companies' trials and experiences to sell the products to foreign countries helped a lot to learn the real world markets.

Most firms such as Richard J. Hanson at BellaPierre cosmetics, Domonique Rosario at B&C Skin Tight, and Mary Ershadi at Rozge Cosmeceutical assented that trade agreements are the most critical globalization element since it has an impact international exchanges of goods. As one of external aspects of being globalization corporations,

Kyung Eun An at Cailyn agreed that they entered the Korean market as the government eased its restrictions on imports. CEO at Codina also pointed out that firms that want to find new opportunities outside of America, they should consider starting a business with countries under Free Trade Agreements and strongly recommended to go explore Asian and Pacific rim economies since they have much high rates of growth.

Besides, BellaPierre cosmetics insisted that rapid dispersion of technology as one of the international business elements because it affects a company's communication ability with customers. E-commers site and social networks allow businesses to reach over a large geographic area. This study found that all of researched companies use online shopping malls to meet their customers directly. This is one of the fast-growing sales channels driven by the globalization effect.

Table 10

Findings from the Interview

<b>Globalization Elements</b>	
<i>Internal</i>	<i>External</i>
a) Employees' commitments	a) Regulations
b) Employee education and financial investment	b) Technology
c) International business experience	

Talking about the benefits of globalization, all of the companies from the interview agreed that international business boosts their overall sales. Javahery Mensor at VIP Cosmetics said that they started an overseas business to increase sale revenue and brand

recognition. PR coordinator of MUD Cosmetics, Svenya Nimmons, said they regard the international market as great opportunities with a global market growth and try to make thorough preparations. Mary Ershadi at Rozge Cosmeceutical mentioned that international expansion provides new opportunities for profits since producing higher volume of products provides extra cost savings.

First and foremost, Codia admitted that they could increase the revenue while raising work efficiencies as they allocated employees to work for the export business as well. A firm can take advantages while expanding an employee's capability as he or she applies their domestic tasks to manage similar overseas agenda. Several companies such as Rozge Cosmeceutical and Cailyn cosmetics certified this point during the interview that managers work both for domestic and export marketing simultaneously.

VIP companies confirmed the fact that globalization also gives a benchmarking or learning opportunity. Some cosmetic companies who have business experience and studied overseas market bring beauty items and filtering into their home market. For instance, BB cream was not popular until 2012 in the Western market while it took about 13% of cosmetic market in Korea (GCI Magazine, 2014). CEO at VIP Cosmetics is planning to develop BB cream to launch in America since they saw its notable success in European and Asian countries.

Mary from Rozge Cosmeceutical and Kyung Eun from Cailyn claimed that since they are running a factory and produce products by themselves, flexibility of obtaining ingredients and resources from other nations at a low cost is a big benefit.

Table 11

## Findings from the Interview

<b>Globalization Benefits</b>
a) Economies of scale: Cost savings with higher volume production, R & D saving
b) Economies of scope: Sharing activities and transfer an employee's capability to a similar job
c) Searching national resources: Obtaining ingredients and resources from other nations
d) Learning benefits: Benchmarking opportunity

Throughout the interview, it appeared that all researched companies have confirmed that they are willing to expand their business internationally, and globalization's elements and benefits in real market have been demonstrated.

### *Implementing global business strategy*

Despite of all benefits of growth in globalization, it can be dangerous and risky with barriers. International business firms are responsible to comply with the regulations and the laws of trading countries because different governments and business system may have conflicts. Therefore, it is necessary to have a basic knowledge of how these affect the company. Understanding differences in legal operations among countries is important to the firm's growth and success as it addresses complex business issues in advance.

Mary from Rozge Cosmeceutical said that they had a hard time to do international business due to the lack of information about certificate of free sale, freight, international payment method, and even customs law which are the fundamental notions. Without it, the firm had a hard time to start a business with target markets because they had to spend

a lot of time figuring it out. Mary said that import and export taxes and the length of shipping time became problematic. Risks of international business include fraud and failures to pay were most of the research firm's concerns. B&C Skin Tight said they were not confident with collecting money from overseas and complicating import and export documentation and regulations.

Before starting a business in a certain country, Richard J. Hanson at BellaPierre cosmetics mentioned that language and cultural barriers were the major considerable factors. The owner were concerned about the miscommunication that evolves high cost and did not understand why a favorable product in U.S. did not appeal to other nations' customers. The president of Codina expressed that the lack of foreign markets information delayed their international business as it made it difficult to hire the right person and organizations which have knowledge of the law and regulations.

As mentioned above, there are several common barriers that nationwide companies face. Internal forces such as marketing, finance, labor, and production can be controlled by a company and the external forces such as political, legal, socioeconomic and sociocultural are generally not controllable. Researcher found during the period of review that successful international entrepreneurs had identified problems and strategies to overcome or reduce those barriers. These include cooperating with other companies such as trade associations, taking advantage of government programs and regulatory structures. Fear of lacking knowledge of regulatory document process, target market conditions, language and cultural concerns can be cleared if the company hires professional employees or consulting firms. Also, many governments provide information about foreign environments and services that support with laws and restrictions. Those often

give a networking or possible financing. VIP Cosmetics, for instance, took those advantages from Korea government agency, KOTRA (Korea Trade-Investment Promotion Agency) and CANTON fair (China Import and Export fair) where provides information of regulations and international business connections through various national trade promotion activities.

Table 12  
Findings from the Interview

<b>International Business</b>	
<i>Barriers</i>	<i>Solutions</i>
a) Complication of an import and export documentation b) Money collecting c) Lack of foreign markets information d) Language and cultural differences	a) Collaboration with other firms to deal with import and export business process b) Make use of government programs and regulatory structures designed to support international business entrepreneurs

Strategy is the means to achieve certain goals. One of key strategic aspects of international business is concentrating on their main brand. Rozge Cosmeceutical has several brands but focus on Rozge brand for the global market. That is because of its productivity and the cost. Establishing global production and distribution system is another critical global strategy. Rozge Cosmeceutical indicated that they decided to have a super factory in America to interact with the global market quicker than other

counterparts that do not run their own. A corporate's agility and adaptability helps to manage multiple orders from different countries.

BellaPierre cosmetics said that choosing a right distribution system and distributor for the target market is mandatory. His company chose a direct investment and established a subsidiary in London to cover major areas of the world. They expect that the office builds an effective distribution system to enter for a bigger continent, Europe.

Making good quality products at a proper price can be one of the basic global business strategies. Mary at Rozge Cosmeceutical said that the company tried to produce high-quality products at a proper price. Their belief is being honest. Rozge Cosmeceutical see some international companies exaggerate the function of beauty items and run a business using celebrity marketing. Those companies simply enhance textures so that customers feel like it is actually working, but there is no apparent result after using the item. She describes producing cosmetics as selling your vehicle. People may show their interests in a car because of its color, shape, or reputations. However, it is useless if the car is not moving.

In that sense, she believes that the most basic and fundamental global strategy is from making a good product and offer it to customers at a right time. It naturally made vendors from other countries contact the firm first and keep a trustworthy business relationship for long term periods.

All of the companies agreed that building global networks and opening new possibilities are helpful in running a global business successfully. For this, it appeared that they attend international beauty conventions and trade shows on a regular basis. Building a deeper

relationship with valuable contacts from those events is a main factor to expand the firms' business.

Being aware of the impact of applying different business activities to local markets is important as it gives the market flexibilities against standardization. For example, companies often launch new special gift sets according to the nation's holidays. Kyung Eun An from Cailyn said that they change labels on the packages since all ingredient lists should be appeared on the packages in Korea. Javahery changed the coporation website outlines in China. Since they prefer to have more contents and images on one page, they specifically designed it to fit local markets. In addition, B&C Skin Tight suggested that using different advertisement image is helpful to approach target customers. Sometimes, brands consider changing Western model to Asian women in Asia market to create a friendly image or rather use a product picture. VIP Cosmetics claimed that people want both global and local brands; brands that make them to feel as a part of belongings in the international community as well as feel comfortable in their home culture, language, and ethnic.

Since each product need to meet different regulations from different countries, some changes from ingredients, labeling, and launching product ranges are necessary. For instance, Mary from Rozge Cosmeceutical said hydroquinone, skin whitening ingredient, is not allowed in certain countries such as Korea and Philipines. However, China and Africa accept that as a functional ingredient. Therefore, their products' main features and package designs have developed under the same standard for worldwide coverage, but some functional items are released locally.

Following this adjustment, Rozge Cosmeceutical specifically launched a brightening cream for Asia. As Javahery at VIP Cosmetics confirmed, when the company decided to enter the Asian market, they quickly learned that local perceptions of beauty equated pale-skin as "beautiful". Due to these relations, they promoted a regional discount for bronzing or tanning products and specifically launched sun block and whitening creams in those market. Javahery explained that people see tanned skin is considered to be better in the southern Europe, Africa and Western countries. Those different perspectives make Asian women use more sunscreen while Caucasians use more tanning items and facial foundations. Likewise, Cailyn cosmetics did not launch body care products to some of Asia countries since they are more into the facial care.

Lastly, understanding cultural and ethnical differences may significantly impact a firm's product development and marketing communications. Recognizing regional and national differences is important and a number of responses were observed how they adopt local needs in this research. Javahery Mensoor who is CEO at VIP Cosmetics highlightend that potential for emerging markets, especially Korea and China, is huge since he learnd Asians are favorable to the international brand and their economic conditions were increased. If the company experiences more about the cultural and ethnical differences and performs better local marketing campaigns, he assures that the firm will hit profits particularly hard in emerging markets.

### Table 13

#### Findings from the Interview

<b>International Business Key Strategies</b>
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### Standardization

- a) Concentrating on a firm's powerful brand
- b) Making good quality products and offer at a right time
- c) Cost saving through economies of scale and scope
- d) Establishing global production and distribution system
- e) Building global networks and opening new possibilities

### Globalization

- f) Customized marketing plans according to different regions
- g) Understanding cultural and ethnical differences
- h) "Think global, Act local"(Kotler,2009): implementing local marketing activities while stick to the global main performance

Doing an international business and having its strategies are valuable and take advantages over other competitors. As seen above, business strategies for international market are various in practices. Multinational companies often need to customize their products and services into target markets. Nowadays, the real issue for researched companies is what decisions they will treat globally or locally. Firms generate more revenues adopting standardization with economies of scale and scope at the first stage of expanding geographical reach. However, entrepreneurs must see that customized marketing according to each country or region characters should be applied to penetrate deeply into the market, establishing a long-run brand. In effect, many critics believe that globalization encourages items aimed for global distribution to the tastes of local customers. Companies on interviews prove this point is true.

Companies from the interview are currently working on planning more detailed marketing performances for the future. Their global tactics which are based on the marketing mix variables such as product, price, promotion and distribution are on a progress. VIP Cosmetics and Rozge Cosmeceutical are preparing new products to target emerging markets using different ingredients and packages. BellaPierre Cosmetics calculate a separate price for each market because of its different currencies, market conditions, transportation cost, and order quantity. Cailyn Cosmetics prefer to use SNS events in Korea and China as the firm saw the data that they are prone to spend more time on internet to update blog, twitter, and mobile applications. The company also uses different sales channels. For instance they are focused on selling their products at beauty supply stores in Northern America, but they use a different sales channel such as home shopping in Asia. It applies to Codina as they are selling their products in spas in America and mainly selling their brands through internet in other countries in order to fit into a different nation's market situations.

#### *Additional suggestions*

The researcher found that most researched companies had fear of risk or mistakes when starting an international business and those limit firms overall business performances. However, they kept trying to enter new businesses and overcame barriers with a continuous series of adventure challenges, resulting in building an international brand.

One substantial finding from this study, the researcher found during the whole process of the interview that some participants still remained in “accommodation” or at the initial stage in “hybridization” in Giulianotti and Robertson's four local-level globalization

processes despite of their efforts. Except Rozge Cosmeceutica and VIP Cosmetics, B&C Skin Tight, BellaPierre cosmetics, Cailyn and Codina prefer to find local distributors instead of investing directly in foreign markets. This partial invest business have problems as these process make firms to be a passive involver, causing limitations. Brands from interview ensure main global performances, but miss details as simply confirm the rest parts upon local partnership company's requests. Then the brands' knowledge about the market solely lean on the distributors' report. As such, that is mainly from participants' passive investment about international business and its constraints to advance to the next level.

In contrary, the French cosmetics giant L'Oréal invested directly while entering foreign markets. They could interact with target consumers and react immediately; L'Oréal has changed the hiring process as well as main focus products to penetrate new markets which are turned out to be successful. The case study in Korea exemplifies "transformation" as favoring the international practices. L'Oréal brand now considered one of amicable brands among Korean customers passing through the last three phases and people in Korea favor to L'Oréal in the international marketing campaigns.

To address those issues for the interviewee companies, firms in the primary stage of the international business hire overseas experts or bilingual employees to have an effective communication and do benchmarking competitors to adapt outstanding practices. Firms who wish to be an active international business, they may set "incubator unit (Grant, 2010)" that combines the flexibility and autonomy as a startup. This growth hub increase chances its business with nurturing, informative and supportive steps. It helps to reduce risks and cost by mistake. Moreover, firms can send an export manager in a certain

country to execute the export strategy for selected countries and enter the potential market directly later. Through those trial and errors, firms should systemize knowledge as it offers massive possibilities for value creation.

Lastly, this research is applicable for companies that are trying to increase their market presence over the globe and compare their strategies with other firms. However, concentration on a few cosmetic companies is limiting the scope of this study. For deeper insight in future research, in-depth interviews with global key players will be required. Globalization has been studied in other industry, but translation into implementation in the cosmetic market is still not explored thoroughly. This study is estimated to be a foothold for future research.

## **Chapter 6. Conclusion**

The cosmetic industry seems to be continuously developing in globe as projected to reach \$265 billion in 2017. As porter's five forces analysis estimated that brands are facing fierce competitions with various brands, product substitutes and pressures from the growing buyer's power. However, many researched companies confirmed that there are great opportunities in emerging market, especially Korea and China.

Globally standardized marketing strategies can have several advantages through lowering marketing costs and economies of scale in production. However, lack of local integration limits its success on a worldwide scale. Globalization should be compatible with globalization as a complementary strategy as it help to overcome standardization's issues and problems; "one size fits all (Levitt, 2006)" strategy. In other words, multinational companies must develop global strategies by utilizing business experiences. This should be incorporated from all of the marketing mix variables and made with a hybrid approach that depends on many factors. Namely, successful corporations must present strategic directions while regional business units concentrate on the local customer differences.

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## Appendix A

Email script: My name is Hwasoon Yun, and I am a graduate student attending California State University at Northridge, CA. Currently, I am pursuing my master's degrees in Business Administration (MBA), concentrating in International Business.

Driven by my academic interest and professional enthusiasm, I am researching global beauty industry. My goal is to gain a better understanding of the industry. In particular, I am interested in studying the beauty company to identify potential market niche to expand business overseas.

I would like to ask Mr./Ms. \_\_\_\_\_ to participate in my research because you have extensive experience and knowledge of the topics I am exploring.

There are about 7 questions in this survey and it will take 20 minutes to an hour, depending on the future stance of your business.

Your participation in this study is completely voluntary. There are no foreseeable risks associated with this project. However, if you feel uncomfortable answering any questions, you may skip those questions. All information will be coded and will remain confidential.

Please advise me the best time to have an interview with you if you are interested in participating in my thesis project. Thank you very much for your time and support in advance. If you have questions at any time about the survey or the procedures, you may contact Hwasoon Yun at 818-434-1815 or by email at hwasoon.yun.602@my.csun.edu.

Phone call script: Hello My name is Hwasoon Yun, and I am a graduate student attending California State University at Northridge, CA. Currently, I am doing my thesis and particularly studying about global beauty industry.

Could you be able to make me to connect one of your marketing staffs in your company?

If no, the phone conversation will be finished.

If yes, the phone conversation will keep continue.

To marketing staff: I would like to invite you to participate in my research since your company has been working in a global industry and you have experiences and knowledge of the topics I am exploring. There will be about 6 questions and will take less than 30 minutes, depending on your interests. All information will be remained confidential and only used for the thesis paper. Could you please make some time to participate this research? Your participation in this endeavor is greatly appreciated.

If he says yes: When would you like to schedule an interview with you? Thank you. Also could I have your email address? I will send the detail introduction of my thesis so you can review it before the interview. Thank you so much. See you soon. Have a nice day.