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MASTER'S THESIS

**MARKETING KOREAN COSMETICS IN ITALY: A FEASIBILITY  
STUDY OF MARKET ENTRY**

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## INTRODUCTION

Korea is among the world's most innovative and successful countries in the cosmetic industry since the so-called Hallyu (Korean wave) phenomenon took off and Korea quickly became a global player in the skincare industry (Kim, 2014). Korean cosmetics are indeed widely known and appreciated worldwide with exports to 129 countries reaching \$1.45 billion in 2014, according to the Korean Customs Service (Koreanet, 2014). Today, famous international giants, such as Target, Urban Outfitter and Sephora are introducing them in their stores as hit products (Shin, 2014). Despite the growth of Korean skincare products already being substantial in the last 15 years, with a growth of 1500 per cent (Kim, 2014), their popularity is expected to grow further over the next years (Kim, 2014). Korean cosmetics do not only possess the advantage of being highly innovative, thanks to the extensive R&D investments (Kang, 2012), but also because of the high amount of natural and refined ingredients, appealing not only to locals but also for international customers.

Europe though has little to no knowledge about Korean cosmetic excellence, with internet stores being one of the few sources offering them to European consumers. AmorePacific, the biggest and strongest company in the Korean cosmetic industry, has already tried to penetrate the European market once in 1990, but very unsuccessfully (Ernst & Young, n.d.). The reason for their failure was attributed mainly to the negative country of origin (hereinafter COO) effect European consumers had towards South Korea at that time. Korean cosmetic companies have since then been very careful about extending their exports to Europe. In fact, no Korean company attempted to open a physical store in Europe before 2015. In this year Missha, a smaller competitor of Amore Pacific, opened its brand store in Germany, making it the first Korean cosmetic store in Europe (Shin, 2015). However, this is only a small step for Korean cosmetic companies, which are instead extensively present already in the American and Asian markets.

Italy, where Korean brands are not present at all, is a peculiar case in Europe. There are many possible explanations for the absence of Korean brands in Italy. For example, Italy has very good cosmetic production itself, especially in regards to luxury cosmetics (Lojacono, Airoidi, 2014). This makes it difficult for new foreign brands to successfully penetrate the market. Italy is also placed 6th in the world in terms of most innovative countries in the cosmetics industry (Gervasio, 2015). Furthermore, the lack of Korean brand presence in Italy might also be due to a negative COO effect for South Korean goods in Italy. Perhaps, more than an animosity towards Korea, Italian consumers are affected by strong consumer ethnocentrism in their purchasing decisions. They are also very proud of the "Made in Italy" tradition appreciated all around the world, which, paired with increased animosity because of the recent crisis, makes them more ethnocentric than most other countries (Pastore & Giraldi, 2010).

If Korean cosmetic companies wish to penetrate the Italian market, it is therefore very important they accurately study and understand the market and its consumers. Understanding consumer decision making, COO effect and consumer ethnocentrism, and being able to minimize risk or use market/consumer specifics to their advantage is fundamental to avoid repeating the same mistake as AmorePacific did in France in 1990. The theoretical part of this thesis is thus based on three main theoretical concepts. Firstly, a whole chapter is dedicated to the consumer decision-making process and the factors affecting it. A subchapter about consumer decision making related to cosmetics is also introduced. The second theoretical concept reviewed in this thesis is the so called COO effect. With the desire of explaining the concept in detail, two connecting concepts of consumer animosity and consumer ethnocentrism are also summarized with regard to the COO effect.

The purpose of the thesis is to understand the appeal and potential of the Korean cosmetic industry (skincare products) in the Italian market. The main objective of the thesis supporting this purpose is to analyze the level of consumer ethnocentrism, consumer animosity and COO effects, as well as specific consumer decision-making factors and purchasing habits of Italian consumers in the cosmetic industry. Thus, an important objective is to analyze the level of possible COO effects towards Korea and its cosmetics, so as to evaluate the feasibility of entry of Korean cosmetic companies in the Italian market and, following a literature analysis of the possible entry strategies, to define the best possible strategies to adopt.

With this in mind, I have formulated the following research questions:

- How much do Italians know about Korean cosmetics?
- Does a negative COO effect towards Korea exist in Italy? Is there a difference between younger and older consumers?
- Would young Italian women be interested in Korean cosmetics? What kind of marketing strategy would be effective for them?
- Would older Italian women be interested in Korean cosmetics? What would be the best strategy to conquer this kind of demographic?
- Does a market for male cosmetics exist in Italy? Would Korean cosmetics be interesting for the Italian male population?

The empirical part of my thesis is based on a survey of Italian consumers (n=175). Survey data was collected with an online questionnaire in Italian. In addition to descriptive uni- and bi-variate statistics, factor analysis, construct validity and correlation analysis were used as statistical methods; all analyzed in the statistical software package SPSS.

My thesis is divided into five sections. In the first section, a literature review of the main theoretical concepts adopted in the study is carried out. A general overview on consumer decision making, consumer ethnocentrism, consumer animosity and COO effects, as well as their factors and consequences, are presented. The second part consists of a review of the



economic rise of South Korea and the background of the so-called Hallyu wave, followed by an analysis of both the Korean cosmetic market and the Italian cosmetic market. Both markets are analyzed in terms of market trends, segments and industry analyses (with the aid of Porter 5 forces' analysis). The section continues with a separate chapter on male cosmetics. Section three presents a comparative analysis of three distinctive Korean brands and their possible direct competitors in the Italian cosmetic market. Section four is composed of two parts. First, research hypotheses are explained, followed by an explanation of the survey methodology and instrument. The second part consists of data analysis and presents the results from my survey of Italian consumers, followed by results of hypotheses testing. In the fifth section, the main results of my thesis work are presented and divided between the managerial and theoretical implications of my research. Finally, I summarize my work in the conclusion. In this study I have found interesting and generalizable insight not only for the Korean cosmetic companies looking towards Italy as a potential market, but also for all cosmetic companies that have or wish to have business in Italy. The answers to important questions like, what Italian consumers value most, and what do they look for in cosmetics, are clarified in this thesis. Also, regarding the general case of the three Korean cosmetic brands analyzed in the thesis, an interesting insight on consumers' opinion about them and possible entry strategy were found. Furthermore, special focus was placed on the role of male cosmetics, male models in female cosmetics and consumers' opinions on them. Furthermore, a special attention was placed on the role of male cosmetics, male models in female cosmetics and consumers' opinions on them. Nevertheless, a need for extensive advertising and publicity of South Korean products emerged from the survey. While consumers are not skeptical or reluctant to try out Korean cosmetics only because of their origin, they are still unaware of their quality, so an extensive advertising is needed. Lastly, some managerial and theoretical insight on the cosmetic industry can also be derived from my study. As for most new market strategies, though, before being able to come up with a successful plan, it is important to acquire all the necessary information. In the case of this thesis, this begins with the overview of relevant theories.

## **1 UNDERSTANDING THE CONSUMER DECISION-MAKING PROCESS**

Increasing globalization has not only affected companies. The entry of companies into new markets has brought more and more product alternatives, which have had a big impact on how consumers make purchasing decisions (Scriven, 2014). For instance, while consumers once had to rely on what was available in stores, they can now carry out extensive research on the alternatives available, both in other stores and online. As a result, brand names are losing importance, as consumers get more and more concerned with the actual characteristics of the product, instead of just trusting brand names (Scriven, 2014).

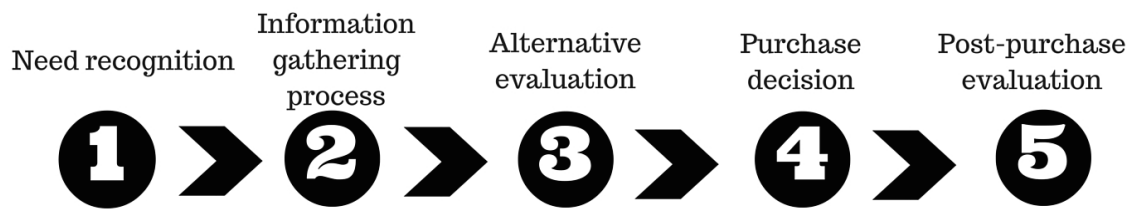
As globalization increases, cultural differences are shrinking, and younger generations are said to have become "*global citizens*" (Rašković, 2011, p. 13), as well as adopt specific *glocal* consumer identities (Douglas & Craig, 2011). In this new society, countries and markets are

starting to converge, both in terms of culture and in terms of purchasing desires, and there is a lot of talk about the actual needs for market adaptations. Companies have to decide how much to adapt their product to the market, as opposed to having a standardized product that works for all markets. While standardization was somewhat made simpler by increasing globalization, some scholars still insist on the impossibility of creating a unified and integrated strategy in such a multivariate context (Douglas & Craig, 2011). The idea of “*glocalization*” was thus introduced (Svensson, 2001, p. 15). The idea is to merge local, international, multinational and global strategy approaches, with the objective of creating a global strategy in which the need of local adaptation is still present and balanced to achieve market success. With glocalization, the balance between adaptation and standardization is optimized. But to be able to adapt to local markets, a company must have clearly in mind the desires and decisions-making factors affecting consumers.

People undergo decision-making situations every day, from choosing what to eat for dinner to taking more complex decisions, like choosing schools or jobs. People also make a decision when buying products or services, especially in today’s globalized markets, where there is an abundance of different offers. Of course, price plays an important role when we are talking about consumer decision-making factors, but might not be the most important factor in certain circumstances (i.e. depending on product type and level of involvement). For example, an ethnocentric individual might prefer a local product even when the price is higher, or people might decide to purchase whatever is available in their neighborhood’s store for the sake of convenience. There are countless factors, which influence consumer decision making, and which have been studied across various fields. Psychology analyzes mental processes involved in making a decision, microeconomics concentrate on the relationship between price elasticity and demand, and marketing explores factors such as brand loyalty and ethnocentrism. Although initially decision making was researched only from a psychological perspective, the relevance of decision making for marketing purposes was soon understood. It is extremely important for companies to try and understand the processes behind consumer decision making, so as to be able to influence consumer decisions when purchasing. For instance, by determining decision-making patterns of consumers, it is easier to segment the market and develop more effective marketing strategies for targeted segments (Wanninayake, 2014). Similarly, understanding the steps that occur when people make a purchase decision might help one in deciding the correct strategy for reaching your customers. Understanding your consumers’ decision-making style will also determine how much and how often you want to disclose information about the product to them.

First of all, it is important to clearly understand the *purchasing decision process* standing behind consumer decision making. A buying process is a sequence of steps or procedures that people undergo when deciding and subsequently buying a product. According to the Engel, Blackwell & Kollat model (1968), there are five basic steps constituting the process of buying. They are displayed in Figure 1.

Figure 3. Steps in the consumer decision-making process



Source: Based on theory of Engel, J., Blackweel, R. & Kollat, D., *Consumer Behavior*, 1978

The first step is need recognition, or understanding that you have a necessity to buy something. The triggering factor can be either internal stimuli, where people recognize they have a need that needs to be addressed, or external stimuli, where they are simply reacting to a market stimulus, such as an advertisement, a new store opening or a sale promotion. The second stage is the information gathering process, where consumer gather and analyze both internal data, which is the consumers' memory of past purchases and already previously acquired information, and external data, which is information about the product received from external sources, be it friends and family or an advertisement. Other theorists have given different definitions of product knowledge. Brucks (1985), for instance, divides product knowledge in three categories: perceived knowledge, objective knowledge and experience-based knowledge. Alba & Hutchinson (1987) instead defines product knowledge as your expertise about the product and your familiarity with the product.

After that comes the evaluation of alternatives, where consumers compare and rank the alternatives they have based on objective characteristics and decision-making factors (price, functions and so on), as well as their subjective perception of the products. It is important to have clearly conveyed the characteristics of your product to the consumer, so that he can make a correct evaluation. Next is the stage where the purchase decision is actually made. This decision will rely on the acquired information, the evaluation process the consumer went through when thinking about the purchase and finally on the actual shopping experience (i.e. setting, ambiance etc.). For instance, one could visit a store thinking of buying one product, but deciding to try something else instead because of a price promotion. Finally, after the purchase, the consumer makes his post-purchase evaluation. This stage should not be underestimated. Although the customer has already made up his mind about this particular purchase, this final stage will determine if he will make a repeated purchase in the future. His opinion of the brand, that was first created when receiving external information, is also modified here, and will represent his internal data for future purchases (Engel, Blackwell & Kollat, 1968). It is important to note, however, that it is not necessary for all steps to be present in every purchase (Peter & Olson, 2005).

This process alone already points out many different aspects marketers have to pay attention to when trying to influence the consumers' decision making. Understanding your consumers' needs, having strong and positive brand awareness, conveying enough information to consumers and providing pleasant shopping experiences are fundamental steps in directing

consumers towards your products, as well as establishing satisfaction and loyalty. Having described the general characteristics and stages in the consumer decision making process, I turn my attention to specific factors within this process and the corresponding consumer decision-making styles (hereinafter CDMS).

## **1.1 Consumer decision-making factors**

### **1.1.1 General consumer decision-making factors**

There are several theories that try to shed light on the complex psychology behind consumer decision making. Multiple factors, which might affect our decision making, have been consequently analyzed. For example, according to Juliusson, Karlsson & Garling (2005), past decisions have a great influence on future decision making. People tend to be more inclined to repeat a purchase when already having a positive experience with a product or its brand. On the other hand, people always avoid repeating a mistake (Sagi & Friedland, 2007, from Dietrich, 2010). This being said, however, consumer innovativeness, i.e. the inclination towards trying out new products and brands, also plays a part in the consumer decision-making process (Steenkamp, Hofstede, & Wedel, 1999; Tellis, Yin, & Bell, 2009).

Another category of factors influencing consumer decision making are demographics. Reed, Mikels & Simon (2008) showed that older people tend to be more risk-averse and thus prefer having fewer alternatives than younger people when making a choice. Lizarraga, Baquedano & Cardelle-Elawar (2007) have found similar results when testing differences in decision making based on age. They also found that there is a substantial difference in decision making according to gender. Im, Bayus & Mason (2003) have also proven that with age, the desire for innovation declines, making older people more inclined to repeat familiar purchases than to try new products. Innovativeness is an important factor influencing decision making, and it was found not only to be related to demographics such as age, but also to individual's psychological characteristics, such as an inclination toward innovation, the so-called "innovative behavior" (Bartels & Reinders, 2011, p. 605). Lastly, innovativeness was found to be related also to product specific variables, such as product involvement and product knowledge (Bartels & Reinders, 2011).

Many researches have indicated personal characteristics as a factor in consumer decision-making, defining people according to their *decision-making style*, which refers to the "*mental orientation or approach a consumer has toward making a choice*" (Leo, Bennett & Hartel, 2005, p. 32). Vroom & Yetton (1973), Driver, Brousseau & Hunsaker (1989), Ali (1993) and Muna (2008), for example, theorized a categorization of decision-making styles regarding business decision styles inside companies. For marketing purposes, though, the most important is to understand how consumers make decisions, as well as what specific antecedents, factors and moderators shape those decisions.

Harren's career decision-making style (1979) model is recognized as the first introduction of the concept of a decision-making style in the broader area of management. He identified three

different styles (Kawa, Rahmadiani & Kumar, 2013):

- The *rational* decision-making style defines people clearly and rationally analyzing all the information and making a logical decision.
- The *dependent* decision-making style refers to people that rely on other's people opinions and suggestions when making a choice.
- The *intuitive* decision-making style describes people that rely mostly on internal stimuli like feelings and emotions to make a decision.

In a marketing context, however, the so-called *Consumer Style Index* or CSI (Sproles & Kendall, 1986) is the most widely recognized way of categorizing consumer traits, comprising of quality conscious, brand conscious, innovation/fashion conscious, recreation conscious, price conscious, impulsive, confused by over choice and brand loyal consumers (Leo, Bennett & Hartel, 2005). Quality conscious consumers are those consumers that search thoroughly for the best quality products; brand conscious consumers are those that purchase famous brands' products, associating them with the best available quality; innovative conscious consumers have a positive predisposition towards new and innovative products, while recreation conscious characterizes people based on their willingness and desire to shop; price conscious consumers mostly rely on price when shopping, while impulsive consumers tend to purchase products unpremeditatedly, with little consideration of price, brand and other factors. Consumers that are confused by excess choice tend to have a difficult time choosing due to the vast amount of products and information available, and lastly brand loyal consumers are those that always purchase in the same stores (Sproles & Kendall, 1986).

Generally speaking, while people usually tend to definable according to one, they do have traits from all decision-making styles. For example, Hirschman (1985) and Hoch & Loewenstein (1991) theorized how both long-term rational factors and short-term intuitive factors affect decision-making of a single purchase. Similarly, consumers usually make both rationally planned and impulsive purchases according to Welles (1968, in Suelin, 2010).

Hofstede's cultural dimension theory is also frequently mentioned when trying to define consumer decision-making styles, since culture has been shown to have a great influence on people's attitudes, and consequently on their decision making. Hofstede's framework defines six dimensions for analyzing a culture, namely:

- *Power distance* defines the acceptance of a country's population toward social inequalities.
- *Individualism* refers to how people value themselves compared to the larger circle or society they live in.
- *Uncertainty avoidance* weights the people's acceptance of uncertainty and unknown.
- *Masculinity/femininity* describes countries based on the presence of certain factors as materialism, ambition and competitiveness that are defined as masculine and others, as family and quality of life that are said to be feminine.
- The *long-term orientation* defines the importance society gives to the future versus the

present; finally.

- *Indulgence/restraint* defines the amount of restrain the society shows towards their desires and impulses (Hofstede, 1973-2010).

Leo, Bennet & Hartel (2005), for instance, make use of Hofstede's theory to show how the cultural dimension can determine a person's brand loyalty and quality consciousness. They stress the importance for any organization to understand the cultural background of the market they are in and implement it in their marketing and business strategy in order to conquer the consumers. On a general note, though, little research has been carried out to determine which Hofstede's dimensions have more effect directly on the decision-making style of consumers, as Hofstede is mostly analyzed for understanding managers' and companies' decision-making (Bultjens, Noorderhaven, n.d; Khairullah & Khairullah, 2013). Understanding and incorporating the cultural framework in a company's marketing strategy, nevertheless remains an important asset for companies, especially when targeting foreign markets (Leo, Bennett & Hartel, 2005).

Product (and product categories) themselves influence the decision making of consumers. Product characteristics, available alternatives, brand name, location, price, packaging, advertisement and sales promotions all either positively or negatively influence consumers' choices. It is clear, though, that they vary greatly from one industry to another (Kawa, Rahmadiani & Kumar, 2013; McCabe, 2014; Tran & Fabrice, 2013).

Another important product aspect which greatly affects decision making is consumer involvement towards a certain product. This refers to the amount of information you need and how personally interested you are in making a certain decision. The first one to use this concept in marketing was Krugman (1965), who theorized over the low involvement of TV commercials (Lin & Chen, 2006). The most famous researcher of consumer involvement is Traylor (1981), who defined it as "*reflecting recognition that a particular product category may be more or less central to people's lives, their sense of identity, and their relationship with the rest of the world*" (Te'eni-Harari & Hornik, 2010, p. 500). Although many different types of involvement exist (Chen & Lin, 2006), the one most relevant for decision-making is purchase involvement, defined by Slama & Tashchian (1985) as consumers' concern over his buying activity (Chen & Lin, 2006). Rothschild (1984) has defined it as "a motivational and goal directed emotional state that determines the personal relevance of a purchase decision to a buyer" (Brennan & Mavondo, 2000). The level of purchase involvement goes from low involvement, for everyday repeated purchases (like grocery shopping), to high involvement, for purchases that require a high amount of thought and consideration (an example is buying a house). People tend to buy more impulsively when the involvement necessary for a product is low. At the same time, though, it can be said that when buying impulsively one has no time to weight alternatives and think rationally, so that kind of purchase can be defined as a "*low involvement purchase*" (Marketing Principles, p. 95). High involvement purchases, instead are usually associated with *extended problem solving*, in which people usually take a lot of time in weighting the available alternatives, their prices, qualities and so on (Marketing Principles,

2012). It is important to note, though, that although there are some products that are de facto considered either low or high involvement products, on a general note, involvement levels vary by people, not product categories (Marketing Principles, 2012).

It is essential to understand how involvement levels affect decision-making. For important decisions that have a high level of involvement, alternatives evaluation and information gathering are very important, while post-purchase evaluation is of lesser importance because repeated purchases are unlikely. The exact opposite is true for low involvement products. While people tend to not gather much information or evaluate too many alternatives for low involvement products, the post-sale evaluation is crucial to assure that a repeated purchase occurs. Other factors that influence decision-making are COO effect and consumer ethnocentrism, which will be analyzed in a separate chapter.

### **1.1.2 Consumer decision-making factors related to cosmetics**

There are indeed some decision-making factors, which are specific to certain industries. As in most industries, cosmetics experts have been researching to find what factors are most relevant when buying cosmetic products. Most of the previously mentioned factors do influence cosmetics purchases decision making, although there are some that are stronger than others. First of all, age and gender have stronger influence in cosmetic purchase. While women still purchase much more than male consumers, as women age the amount of cosmetics they purchase changes. Marital status also has an impact on cosmetic purchases. While married women decrease their interest in cosmetics, married men purchase more cosmetics than single men (Ramshida & Manikandan, 2014). Tsai & Kand (n.d.) have found that cosmetics are generally regarded as a low involvement purchase, although a generalization is difficult in this particular case due to the high variability in product prices and frequency of purchases. While one might feel little to no involvement when buying a shampoo that has a very low price and will be repurchased quickly, a very expensive night cream or a durable foundation might constitute a high involvement purchase and might require a lot of information gathering by consumers. In general, though, it is fair to say that cosmetics are a low involvement product category.

Surprisingly, most of the recent research on cosmetic-related consumer decision making focuses on developing Asian countries. There is, however, little research about factors influencing cosmetics decision making in more developed countries. This might result in an unrealistic representation of reality. Bilkey & Nes (1982), Wang, Siu & Li (2004) and Frimpong (2011) found out, developing countries tend to prefer foreign products to domestic ones, believing they are of superior quality and design and that they can portray their high social status better. On the contrary, developed countries tend to prefer locally-made products, although certain product categories are can be exceptions.

Ponbamrungwong & Chandsawang (2009) researched the specific case of Thai consumers, finding that having a positive brand image doesn't automatically mean that people will buy

your products. Furthermore, their research pinpointed to the fact that the cosmetics market is one where novelty is more important to consumers than brand. This means that consumers tend to try out new products, even if this entails switching brands regularly. This is again related to the innovative behavior of consumers presented by Bartels & Reinders (2011). Khraim (2011) and Limbad (2013) found similar results for Abu Dhabi female consumers. In the cosmetics industry, keeping consumers loyal is very difficult, because consumers value novelty and innovation more than brand name, so they switch brands frequently. Interestingly, the same research showed that brand name, price, product quality, promotion and store events do affect consumer decision-making in the cosmetic segment, and packaging has shown no relevant influence on purchase decision making. This, though, clashes with Duff's (2007) research that showed proof of women looking for more and more attractive designs in cosmetics, including line, shape and details (Limbado, 2013). Suelin (2010) too, by analyzing Japanese consumers, found a strong relevance for the influence of packaging towards cosmetics consumption.

Although novelty seems to hold a bigger impact on cosmetic purchase decisions, brand is still important. Phoosangthong & Sermsiriwatt (2006) analyzed brand importance for Thai consumers and, consistently with similar research carried out by Ukpebor and Ipogah (2008) in another industry, that a recognized brand does influence their decision when purchasing cosmetics (Ponbamrungwong & Chandsawang, 2009). In an analysis of Indian consumers Desai (2009) found proof that quality is considered more important when choosing cosmetics than price, which is a surprising result considering cosmetics are generally regarded as a low involvement product. Furthermore, other factors influencing cosmetics decision making that emerged from his research are friends and family opinion and re-sellers' suggestions. Another important factor that affects purchase decision making in the cosmetics sector is trust. People tend to distrust cosmetic companies' claims about the effectiveness of their products, even for brands they already tried out and were generally satisfied with. This also results in not having strong brand loyalty (Limbado, 2011).

Suelin (2010) also found multiple factors that have either a strong or a weak influence on cosmetics decision making, while her research focused on Japan, a developed country. She found out that there are both external and internal factors influencing cosmetic purchases. Excluding the already mentioned factors such as price, product quality and brand, an important factor emerging from Suelin's (2010) research is *society*. Differences in society's perception and values of beauty influence consumer decision making. Knowing that a certain country views white skin as beautiful enables you to clearly know consumer's purchases will go towards that direction. Furthermore, the level of a society's pressure to look beautiful and perfect has been shown to influence the level of purchase in cosmetics. The country's economic situation also influences purchases, especially in the industry of cosmetics, which are not basic commodities. According to Suelin (2010, p. 2917), though, internal factors are just as influential as external factors. Among these, "*expressing identity*" and "*building self-confidence*" are the most relevant. Guthrie, Kim & Jung (2008) also found that for USA



female cosmetics users, one's self-perception influenced greatly the amount of cosmetics purchased. It is clear, then, that understanding the cultural specifics of a market is fundamental to be able to predict consumer purchase levels and style.

As the literature on consumer decision-making factors is vast, the main theories are summarized in Appendix A, with a separate section for cosmetic related decision-making factors. As stated before, consumer ethnocentrism, animosity and country of origin are very important decision-making factors, and will thus be analyzed separately in chapter 1.2.

## **1.2 Customer ethnocentrism and animosity**

Before analyzing customer ethnocentrism, it is fundamental to understand the general concept of ethnocentrism. Sumner (1906, p. 248) came up with this sociological phenomenon, defining it as “*the technical name for the view of things in which one's own group is the center of everything, and all others are scaled and rated with reference to it*”. The concept has been then extended to identify the tendency to think that one's way of thinking and doing things, one's values and customs are superior to those of others. Basically, it implies that people tend to prefer their in-group and dissociate themselves from the out-group (Sumner, 1906, in Josiassen, 2011). Shimp & Sharma (1987) first analyzed the influence of ethnocentrism on consumer's buying decisions, creating the term consumer ethnocentrism (Wanninayake, 2014). This concept refers to the tendency of consumers to buy local products instead of foreign ones, as they believe that buying foreign products hurts their domestic economy. To test the level of consumer ethnocentrism Shimp & Sharma (1987) created the consumer ethnocentrism scale, which is to this day the most referenced scale for measuring consumer ethnocentrism in marketing.

To clearly understand the effects of consumer ethnocentrism on consumer purchase behavior, it is important to understand its antecedents. Baughn & Yaprak (1996), for example, defined consumer ethnocentrism as part of a broader concept that is economic nationalism, which not only comprises purchasing decisions but companies, products, jobs and workers. Keillor and Hult (1999), instead, defined consumer ethnocentrism as part of national identity, which also encloses national heritage, cultural homogeneity and belief system (Josiassen, 2011). Multiple studies have tried to analyze what causes ethnocentrism in consumers. There is a general consensus that four broad categories of consumer ethnocentrism antecedents exist (Shankarmahesh, 2006). These include: (1) socio-psychological, (2) economic, (3) political and (4) demographic factors.

The socio-psychological category is defined as the most personal one and is made of “state-of-mind” antecedents. One of the antecedents in this category is *cultural openness*, which defines one's acceptance of other cultures and their products. The relationship between cultural openness and consumer ethnocentrism is negative (Shimp & Sharma, 1987; Nik-Mat, Abd-Ghani & Al-Ekem, 2015), meaning that the more you're culturally open the less ethnocentric you are. Cultural openness does not, though, grow proportionately with one's

experiences with foreign cultures, as one would imagine. Although people think that more exposure brings more acceptance of others, Rosenblatt (1964) has shown that those workers that experience the most exposure to foreign social groups, as diplomats or border dwellers, have a higher level of ethnocentrism than average (Shankarmahesh, 2006). This could of course be influenced by the peculiarity of the jobs analyzed and the difficulty in analyzing work un-related travelers, as traveling was not as common as today, but it might also show that exposure doesn't always mean acceptance.

Another concept in this category is *world-mindedness*. Although similar to cultural openness, it refers to the view of the world as a single place, in which everyone is part of the same group and where there is no difference between local or foreign products. Shankarmahesh (2006) defined it as a state of mind in which the primary reference group is humankind itself. As it can be easily deduced, higher levels of world mindedness mean lower levels of ethnocentrism. *Patriotism*, a concept very different than world mindedness, can also affect consumer ethnocentrism. It is defined as love for one's country and its products (Shankarmahesh, 2006). Many researchers, such as Han (1988), Klein & Ettenson (1999) and the more recent Nik-Mat, Abd-Ghani & Al-Ekem (2015) and Jain & Jain (2013) have empirically proven the positive relationship between patriotism and consumer ethnocentrism (Shankarmahesh, 2006), showing that the more you love your country the more you regard it as superior to others. However, although less numerous, some researches have proven the opposite (Shankarmahesh, 2006), showing that loving one's own country doesn't necessary influence the purchases of goods. *Conservatism*, defined as "a tendency to cherish traditions and introduce changes only occasionally, reluctantly and gradually" by Sharma, Shimp & Shim (1995, p. 28 can also lead to ethnocentrism. Consumer conservatism has been shown to have a positive correlation with consumer ethnocentrism (Shankarmahesh, 2006). The Hofstede dimension of *Collectivism-individualism* has also been proven to hold a correlation with ethnocentrism. Consumers that are more concerned with their collective group instead of focusing on individualistic goals have a positive correlation with consumer ethnocentrism (Nishina, 1990, in Shankarmahesh, 2006; Nik-Mat, Abd-Ghani & Al-Ekem, 2015).

Another sphere of consumer ethnocentrism antecedents is the economic environment. Rosenblatt (1964), for instance, has studied the relationship between capitalism and ethnocentrism, discovering a tendency in capitalistic countries to have less ethnocentrism (Alsughayir, 2013). Economic downturn and instability instead strengthens ethnocentrism. In the current economic crisis, most countries have been shown signs of increased ethnocentrism, as in the case of Italy (De Nisco, Mainolfi, Marino, Napolitano, 2013) and Greece (Pappas, 2010). Interestingly, Fernandez-Ferrin et al. (2015) research instead, showed that those that were most worried about their country's economic situation showed less signs of ethnocentrism.

Studying the growth of ethnocentrism in Greece following the 2008 economic crisis, Pappas (2010) noticed that politics too can influence the level of ethnocentrism in a country. Political environment is, in fact, the third category of antecedents studied in consumer ethnocentrism.

Rosenblatt (1964) showed in his study about ethnocentrism and nationalism that political propaganda does influence the level of ethnocentrism in a society. Pappas (2010) found economic downturn and instability to influence political propaganda, showing proof that as the economic crisis grows worse, political propaganda and anti-immigration campaigns grow. It has been also proven that ethnocentrism can increase due to a war or attack from another country (i.e. Dube & Black (2010) have shown a high increase in ethnocentrism in the United States after the terrorist attack in 2001), or a natural catastrophe that brings the country closer together (Kongsompong, 2005, analyzed the resulting increase in ethnocentrism in Thailand after the Tsunami in 2004).

The final and the most discussed category of ethnocentric antecedents are demographics. Multiple studies have studied the relationship between ethnocentrism and *age*, *income*, *gender* and *education*. The reason is clear: knowing which demographic characteristics most influence consumer ethnocentrism and in what amount, makes it easier for marketers to segment consumers when introducing foreign products. In his review of antecedents to ethnocentrism, Shankarmahesh (2006) has listed multiple studies (Balabanis, 2001, Han & Terpstra, 1988, Sharma, Shrimp & Shin, 1995) that have proven that older consumers tend to be more ethnocentric than younger consumers. Jain & Jain (2013) found similar results regarding Indian consumers. Josiassen (2011), Lohano, Ahmed, Quareshi & Siddiqui (2014) and Chryssochoidis, Krystallis & Perreas (2007) too found that ethnocentrism grows with age. Shankarmahesh (2006) supposes that the increasing cosmopolitanism and traveling opportunities of younger generations might be the underlying reason for this inverse relationship.

*Gender* is said to have an influence on ethnocentrism. While the majority of studies point to the fact that women tend to be more ethnocentric than men (Josiassen, 2011, Lohano, Ahmed, Quareshi & Siddiqui, 2014), there are some other that found no significant difference in gender regarding ethnocentrism (Jain & Jain, 2013). Pentz, Terblanche & Boshoff (2014) in an interesting analysis of both white and black consumers in Southern Africa, find that, while gender has an influence on ethnocentrism for white consumers, it does not have an influence for black consumers, where female and male respondents showed the same results. Finally, there are some studies, as Tordjman-Nebe's (2010) analysis of Spanish youngsters, which show the opposite: while women tend to regard foreigners as inferior, they are also more tolerant regarding product consumption. Research has thus been very inconsistent.

*Education* has been analyzed to see if it holds a correlation with ethnocentrism. Meuseen, De Vroome & Hooge (2013) in analyzing this effect list multiple previous researches (Bobo & Licari, 1989; Case, Greeley & Funchs, 1989; Nie, Junn & Stehlik-Barry, 1996) that have proven the existence of a negative correlation between education and ethnocentrism: the higher the education, the more open-minded a person is. Hooghe, Meeusen & Quintelier (2013) too have found similar results when analyzing younger populations. The youngsters with lower level of education were shown to display higher level of ethnocentrism, which continued to grow with age. Lastly, the majority of ethnocentrism experts have tried to also

analyze the impact *income* has on consumer ethnocentrism. As summarized by Shankarmahesh (2006), the most influential studies on the subject (Sharma, Shrimp & Shin, 1995; Bruning, 1997) conclude that there exists a correlation between income and consumer ethnocentrism. Although the most obvious consideration would be that poorer consumers can't afford the privilege of being picky between local and foreign products, their research has shown that this correlation is negative. This means that as income grows, people tend to be less and less ethnocentric. Both point to the conclusion that this is mostly due to higher purchase power for foreign products and possibility to travel, thus having a higher level of cosmopolitanism. In a more recent study Lohano, Ahmed, Quareshi & Siddiqui (2014) found similar results, in which older and low income people were more ethnocentric than younger, high income ones. Josiassen (2011) and Jain & Jain (2013) instead conclude that income does not influence consumer ethnocentrism in any way.

Although there is a vast amount of literature that agrees ethnocentrism increases with age, decreases with income and education, and that women tend to be more ethnocentric than men, there is still enough literature that argues otherwise. Cleveland, Laroche & Papadopoulos (2009) show, in an analysis of eight different countries that the influence demographic factors have on consumer ethnocentrism varies across countries. Balabanis & Diamantopoulos (2004) too confirm this thesis. This could stand as a reason as to why researches haven't been consistent with each other. As a general rule, Wang & Chen (2004) argue that consumers in developed countries tend to regard home products favorably, thus increasing consumer ethnocentrism towards foreign imports. In developing countries, instead, foreign products are seen as having better quality than local products, so consumer ethnocentrism tends to be lower. Watson & Wright (2000) argue that, in case of unavailability of local products, very ethnocentric customers will prefer purchasing products from foreign countries that are perceived as having a similar culture as the home country. This has very important implications for marketers, especially when trying to enter in a market with a product that is not yet present there.

However, consumer characteristics are not the only antecedents of consumer ethnocentrism. Chryssochoidis, Krystallis & Perreas (2007) and Balabanis & Diamantopoulos (2004) found interesting data confirming the fact that product categories can show varying consumer ethnocentrism levels. Sharma, Shimp & Shin (1995, in Chryssochoidis, Krystallis & Perreas, 2007) conclude that the lower the level of involvement, the higher the ethnocentrism levels customers display. Furthermore, they show that for necessities, the effect of ethnocentrism diminishes. Wong, Polonsky & Garma (2008) confirm this thesis showing that Chinese consumers don't display high consumer ethnocentricity when purchasing high involvement products. Cleveland, Laroche & Papadopoulos (2009) too found that consumer ethnocentrism varies across product categories. Shankarmahesh (2006), instead, found evidence that consumer ethnocentrism is inelastic with respect to price and that it doesn't vary with product categories or attributes.

The literature concerning the effects of ethnocentrism on consumer purchasing behavior is just as extensive. According to Kaynak & Kara (2002), consumer ethnocentrism “*expresses the effects of buying intentions regarding home-grown products instead of those products from countries that are perceived to be different from the home country*” (Wanninayake, 2014, p. 7). This means that consumers that display a high level of ethnocentricity tend to prefer buying local products, even when these are more expensive or of lower quality. Shimp & Sharma (1987, in Shankarmahesh, 2006) explain it as a belief held by highly ethnocentric consumers that it is morally and socially wrong to purchase foreign products; first of all, imports not only harm national producers, but also the national economy as a whole; second, buying foreign product is unpatriotic. In a more recent analysis, Balabanis & Diamantopoulos (2004) state that consumer ethnocentrism implies a preference for domestic products, but doesn’t necessarily imply a distrust or rejection of foreign ones. Mixed opinions exist regarding the ethnocentric consumer perceived quality of foreign products. Fernandez-Ferrin et al. (2015) mention older researches (Han, 1988; Herche, 1994; Shimp & Sharma, 1987) that demonstrate the negative effect ethnocentrism has on consumers’ quality perception of foreign products and reaches the same conclusion in his research: there is consistent proof that consumer ethnocentrism does negatively affect product judgment, not only buying decisions. Furthermore, Herche (1994, in Fernandez-Ferrin et al. (2015) even revealed that the negative effects ethnocentrism has on consumer decision-making is stronger than the possible positive effect of communication and other marketing techniques. Tong & Li (2013) have shown that ethnocentrism in the sportswear sector comes with a positive evaluation of the quality of brands that are produced locally and a negative evaluation of the quality of brands that produce in a foreign country.

Supphellen & Gronhaug (2003, in Reardon et al. (2005)) instead, argue that highly ethnocentric consumers refuse to buy foreign products regardless of quality. They decide to buy local products without evaluating the products first. Huddleston, Good & Stoel (2000) further argue that ethnocentrism doesn’t affect product quality perceptions. Baughn & Yaprak (1996) too argue that ethnocentrism brings a preference toward one’s own country rather than holding a negative view towards any country in particular.

Again, as consumer ethnocentrism is such an important factor, the available literature is very extensive. Appendix B summarizes the main literature papers on consumer ethnocentrism, its antecedents and its effects on consumer decision making.

Consumer ethnocentrism is often confused with consumer animosity, although they are two different concepts (Klein, 2002). Ethnocentrism implies a preference towards home products, so it relies on the idea that buying foreign products is morally inappropriate, without though making any difference between foreign products. Animosity refers to consumer disliking and refusing to buy products from a particular country (Josiassen, 2011). Klein, Ettenson & Morris (1998, in Josiassen, 2011) argue that most common reasons for consumer animosity are war, economic and political issues. Riefler & Diamantopoulos (2007) add religiosity or

simply personal issues to the antecedents of consumer animosity. Ang et al. (2004) divide animosity in four categories:

- *National animosity*, animosity at a country-level.
- *Personal animosity*, which generates from personal situations or experiences.
- *Situational animosity*, defined as emerging from a temporary reason for animosity.
- *Stable animosity*, which is long-term, stable and sprouts from war or other historical events.

Animosity implies that a consumer might hold resentment towards a particular country, refusing to buy its products, but willing to buy other foreign products (Klein, 2002). Some argue that although the reasoning is different, both have the same results: while creating a negative perception about foreign products, animosity increases the positive perception towards home products, favoring purchases of the latter (De Nisco, Mainolfi, Marino & Napolitano, 2013).

As for consumer ethnocentrism, a debate among experts exists about whether animosity influences a consumers' perception of quality. According to Klein (2002), animosity is not related to product quality judgment. Simply put, consumers do not view products from a country they feel animosity towards as bad quality products; they just refuse to buy them. Shoham, Davidow, Klein and Ruvio (2006), in a later study, instead, found that in the specific case of Jewish Israeli consumers toward Arab Israelis' products, that animosity did influence product quality perception. Fernandez-Ferrin et al. (2015) in an analysis of antecedents of both consumer ethnocentrism and *animosity*, found that, while age and education affect ethnocentrism, they don't affect animosity. Patriotism instead was found to predict both.

### **1.3 The Country of Origin (COO) effect**

The country of origin (COO) is the country of production of a product. The impact which the provenience of a good has on consumers' perceptions and decision making is defined as the so-called country of origin (COO) effect. It is a psychological effect defined as "*the positive or negative influence that a product's country of origin may have on consumers' decision processes or subsequent behavior*" (Samie, 1987, in Sui, 2014, p. 6). It is usually conveyed to the customer with the phrase "Made in" (Amine, Chao & Arnold, 2004). Consumers, as human beings, hold perceptions and opinions about foreign countries. Bad past experiences, exposure and general inclination towards a country too influence consumers' perception of that country (Abraham & Patro, 2013). Josiassen, Assaf & Karpen (2011) developed a model of two different origins for country perceptions:

- (1) The *summary effect*, taking place when one has past experiences with other products from the same country.
- (2) The *halo effect*, which refers to a general impression a consumer has about a country.

So, for instance, one might have tried a Chinese product, which fell apart after two days

(summary effect) or one might see South Africa as a poor country with no ability to innovate (halo effect). Zdravkovic (2013) added animosity to the list of antecedents for the COO effect, showing it has a significant and negative effect on the country of origin perceptions of consumers. Whether these are stereotypes or wrong ideas is not important, because truthful or not, they nevertheless influence the perception a consumer has of products that originate from that country. This effect can be either favorable to a company in the case of positive country of origin effect or negative, if the opposite holds (Roth & Romeo, 1992).

There has been considerable debate among scholars regarding the validity of country of origin effect nowadays. Although the majority still insists on the importance of country of origin effect on consumer decision-making, others believe it might not be such an important attribute in consumers' purchase decisions. Liefeld (2004), for instance, analyzed consumers' knowledge about the country of origin of purchased products. Only 6.5 percent knew the exact COO of the product they were buying, but only 2.2 percent stated that it influenced their decision. Arndt (2004) too argues that consumers either don't know or don't care about where the products they purchase come from, suggesting the country of origin effect has been highly exaggerated. Buehlmann et al. (2006) also added that even retailers in most cases have no knowledge about the country of origin of the products they are selling. Samie, Shimp & Sharma (2005) and Balabanis & Diamantopoulos (2008) again suggest the concept of country of origin effect has been inflated, showing that consumers have very little knowledge about country of origin and that their perceptions are mostly wrong, because they're based on the association of brand names with a country's language. Other researchers believe that, because of the more and more globalized economy, country of origin lines are blurring, making it both difficult for consumers to clearly understand where a product is from, but also for an actual country of origin of the product to exist (Unusier, 2006, in Zdravkovic, 2013).

In fact, many have argued about whether to consider the country of manufacturing, or the country of the brand as the COO. Hui & Zhou (2003) found that when the country of manufacturing is different and has a lower perceived image than the country of origin of the brand (for example, Nike shoes produced in Indonesia), then this negatively influences consumers' quality perception of the brand. Srinivasan, Jain & Sikand (2004) instead found that the country of the brand is more important for consumers than the country of manufacturing, thus it is beneficial for a company to choose a positive image country for the brand, while shifting production to a less developed country. Magnusson, Westjohn & Zdravkovic (2011), further expand the reasons that lead consumers to have a wrong understanding of the country of origin of a brand: one reason lies in the association of price and quality, so people tend to associate low quality products with developing countries and high-priced products with developed countries, without actually checking the actual origin. Another reason lies in companies' attempt to hide their country of origin when this is unfavorable.

Although all this research points toward the inability of consumers to correctly evaluate the country of origin when making a purchase, Magnusson et al. (2011) argue that what is

important is not whether the consumer knows the correct country of origin; even a wrong perception might create a (positive/negative) country of origin effect. For example, even though one might mistakenly assume Audi to be an Italian car, this does not prevent coo effects from taking place: his opinion of the product will change based on his opinion of the country he thinks the product is from, no matter if this information is correct or not. For example, Zhou, Yang & Hui (2010) found that Chinese consumers who perceived a local product as foreign attributed a better quality to it than consumers that perceived the same product as local. This shows that the actual COO has little to do with COO effect, “*accurate country of origin knowledge is not a prerequisite for country of origin to affect the brand perception*” (Magnusson et al., 2011, p. 466).

Although COO effect does influence all products originating from a country, it has been proven that the effect is not the same for all product categories (Roth & Romeo, 1992). A country might benefit from a positive COO effect for certain product categories and be hindered by negative perceptions for others. In their research, Rezvani et al. (2012) mention that the COO effect is the strongest when customers have no knowledge about a product, or a specific brand. That's when, by using their general knowledge and quality perception of a country, they infer the quality of the product. Maheswaran (1994) confirms this, finding that the greater the level of consumer expertise regarding a certain product, the weaker the COO effect will be. This means that when a consumer has a vast knowledge about a product, he is more likely to base his judgment on product's specifics and specific brand names more than on the country of origin (Maheswaran, 1994). In the same study he also suggests that the level of information available regarding a product will reduce the COO effect too. Schaefer (1997) also found evidence that when a brand is unfamiliar, people do rely on the COO to make a decision, but that it diminishes exponentially when the brand is known and even more when the consumer has a direct experience with it. Chu et al. (2010) too conclude that the COO does not have an important impact on already well-established brands. Zdravkovic (2013) added involvement as a moderator of the COO effect. Thus, while country of origin is shown to have more influence on decision making in low involvement products, it doesn't hold much power in high involvement decision making, where product attributes and specific hold a much bigger importance.

Marketers and companies in general are increasingly interested in the antecedents and effects of the COO effect on product purchases, satisfaction and even loyalty. The reason is that, while changing consumers' perception of a country's products is difficult and takes a consistent high performance for a long period of time (Tse & Gorn, 1993), companies can instead shape and modify consumer perceptions of their brand by utilizing an appropriate marketing strategy (Badri, David & Davis, 1995). Managers can try to enhance the country of origin in case of favorable image, or try to hide or distort in case of negative image. Companies often adopt a *foreign branding strategy*. This implies that companies try to hide the actual origin of a brand by choosing a foreign name or logo and trying to associate the brand with a foreign country holding a favorable image (Magnusson, Westjohn &



Zdravkovic, 2011). The use of foreign-sounding names, for example, is also part of foreign branding. It usually implies using a name from a country for which a positive association is made with the product sold (Melnyk, Klein & Volckner, 2012). For instance, South Korean bakeries often display French names (Tout Le Jour, Paris Baguette, etc.) in hopes of attracting customer by creating a positive image for the brand by associating it with world-famous French pastries. The use of foreign branding is especially popular in developing countries (Zhou, Yang & Hui, 2010).

The positive effects of foreign branding have been shown by many (Leclerc, Schmitt & Dubé, 1994; Tran & Fabrizze, 2013). Melnyk, Klein & Volckner (2012) argue that it is not always advisable to use foreign branding. While for utilitarian products people tend to not pay much attention to country of origin, the same does not hold for hedonic products, for which customers realize the difference between the actual and implied country of origin. In the second case the consumers could negatively change their perception of the brand because they feel betrayed (Melnyk, Klein & Volckner, 2012).

It is then clear the importance of understanding every aspect of a country, including ethnocentrism levels, various possible general animosities and the country's perception towards other countries. In this way a company can understand the decision-making process for the consumers in that country and use this knowledge to devise and implement the best marketing strategy.

As already said, the COO, together with all the other consumer decision-making factors, is an important concept for a firm that is trying to optimize its strategy in global markets. Moreover, keeping a good balance between adaptation and standardization is necessary to be successful, since standardization enables economies of scale, while adaptation increases costs, but is necessary for meeting local specifics. In this sense, understanding how consumers make decisions regarding their products is of vital importance. To optimize this balance, though, it is also extremely important to understand the economic, political and cultural background of your market countries. For Korean cosmetic companies wishing to sell in Italy, it is very important to clearly understand the characteristics of the market they're venturing into. Before that, though, understanding where one comes from, the competitive advantages arising from it and the potential similarities and differences between the two markets is also important. With this in mind, the next three chapters will be divided in the following way: first, an analysis of South Korea, with a historical/economical background, followed by an analysis of the Hallyu wave, the Korean culture wave that has brought the attention of other countries toward South Korea and its pop culture, including cosmetics. The following chapter analyses the Korean cosmetic market, in terms of segmentation, trends and marketing. Finally, chapter 4 analyses the Italian cosmetic market in a similar way, in order to clearly see similarities and differences in the two markets.

## 2 RISE OF KOREA

Although Korea is a strong global player today, ranking 13<sup>th</sup> in nominal GDP in the world according to the International Monetary Fund (2014), it has not always been this way. Two very peculiar aspects make Korea a very interesting economy. First of all, Korea has experienced the fastest economic transition in the last 60 years, going from the poorest country back in the 1950s to one of the richest countries today (Rauhala, 2012). Its average yearly growth rate of 7 per cent, maintained for 50 straight years, is considered one of the fastest growth rates ever, although it was overshadowed by the growth of its neighbor China (Noland, 2014). A detailed review of the history of the Korean economy is present in Appendix C. The second interesting factor is the so-called Hallyu wave, which began in 1990s and that has made Korea famous, both in terms of pop culture and tourism. Thanks to the popularity of Korean TV dramas first, followed by music and fashion afterwards, Korea has again experienced a big economic growth. As both the economic situation of the 1960s and the modern explosion of the “Korean fever” are important for the development of the Korean cosmetic industry, they will be briefly described in the following chapter.

### 2.2 Korean economy today

For completely understanding the differences in the cosmetic markets of South Korea and Italy, it is important to first understand the general features of both economies. Table 1 compares the main economic indicators and the rankings of the two countries according to the World Economic Forum (2015).

Table 1. Brief economic comparison of South Korea and Italy

DATA	SOUTH KOREA	ITALY
<b>Population</b>	50.2 million	59.7 million
<b>GDP</b>	\$1221.8 billion, per capita \$24,328.98	\$2,072 billion, per capita \$34,715
<b>GDP (ranking)</b>	12 <sup>th</sup>	11 <sup>th</sup>
<b>GDP as a share of world's total</b>	1.92 per cent	2.08 per cent
<b>Global Competitiveness Index</b>	26 <sup>th</sup> /144, score 5.0	43 <sup>rd</sup> /144, score 4.4
<b>Institutions (Korea: 69<sup>nd</sup>)/(Italy: 106<sup>th</sup>)</b>	Best: Property rights (47 <sup>th</sup> ). Worst: Corporate ethics (95 <sup>th</sup> ).	Best: Property rights (72 <sup>nd</sup> ). Worst: Public sector performance (139 <sup>th</sup> ).
<b>Infrastructure (Korea: 13<sup>th</sup>)/(Italy: 26<sup>th</sup>)</b>	Best: Fixed-telephone lines (4 <sup>rd</sup> ), Railroad infrastructure (10 <sup>th</sup> ). Worst: Mobile telephone subscriptions (65 <sup>th</sup> ).	Best: Mobile telephone subscriptions (20 <sup>th</sup> ). Worst: Quality of air transport infrastructure (63 <sup>rd</sup> ).
<b>Macroeconomic environment (Korea: 5<sup>th</sup>)/(Italy: 111<sup>th</sup>)</b>	Best: Inflation (1 <sup>st</sup> ). Worst: Government debt (52 <sup>th</sup> ).	Best: Inflation (59 <sup>th</sup> ). Worst: Government debt (136 <sup>th</sup> ).

(table continues)

(continued)

<b>Health and primary education</b> (Korea: 23 <sup>th</sup> )/(Italy: 26 <sup>th</sup> )	Best: Primary education enrollment rate (31 <sup>st</sup> ). Worst: Tuberculosis incidence (89 <sup>th</sup> ), Business impact of tuberculosis (79 <sup>th</sup> ).	Best: Life expectancy (7 <sup>th</sup> ). Worst: HIV prevalence (63 <sup>rd</sup> )
<b>Higher education and training</b> (Korea: 25 <sup>rd</sup> )/(Italy: 45 <sup>th</sup> )	Best: Tertiary education enrollment rate (2 <sup>nd</sup> ). Worst: Quality of education system (66 <sup>th</sup> ), Quality of management schools (59 <sup>th</sup> ).	Best: Quality of management schools (28 <sup>th</sup> ). Worst: Extent of staff training (132 <sup>nd</sup> ).
<b>Goods market efficiency</b> (Korea: 23 <sup>rd</sup> )/(Italy: 71 <sup>st</sup> )	Best: Buyer sophistication (8 <sup>th</sup> ). Worst: Business impact of rules on FDI (98 <sup>th</sup> ).	Best: Trade tariffs (5 <sup>th</sup> ). Worst: Effect of taxation on incentives to invest (140 <sup>th</sup> ).
<b>Labor market efficiency</b> (Korea: 83 <sup>th</sup> )/(Italy: 126 <sup>th</sup> )	Best: Country capacity to retain talent (25 <sup>th</sup> ). Worst: Cooperation in labor-employer relations (132 <sup>nd</sup> )	Best: Redundancy costs (12 <sup>th</sup> ). Worst: Effect of taxation on incentives to work (137 <sup>th</sup> ), Pay and productivity (131 <sup>st</sup> ).
<b>Financial market development</b> (Korea: 87 <sup>th</sup> )/(Italy: 117 <sup>th</sup> )	Best: Financing through local equity market (47 <sup>th</sup> ). Worst: Soundness of banks (113 <sup>th</sup> ).	Best: Availability of financial services (75 <sup>th</sup> ). Worst: Ease of access to loans (136 <sup>th</sup> ).
<b>Technological readiness</b> (Korea: 27 <sup>th</sup> )/(Italy: 37 <sup>th</sup> )	Best: Fixed-broadband Internet subscriptions (5 <sup>th</sup> ). Worst: FDI and technology transfer (67 <sup>th</sup> )	Best: Internet bandwidth (32 <sup>nd</sup> ). Worst: FDI and technology transfer (119 <sup>th</sup> ).
<b>Market size</b> (Korea: 13 <sup>th</sup> )/(Italy: 12 <sup>th</sup> )	Best: Foreign Market size (8 <sup>th</sup> ). Worst: Exports as percentage of GDP (47 <sup>th</sup> ).	Best: Domestic market size (12 <sup>th</sup> ). Worst: Exports as percentage of GDP (98 <sup>th</sup> ).

Source: World Economic Forum, Global Competitiveness Report, 2015-2016

As it can easily be seen from table 3, Italy and South Korea are quite different. Although Italy is better ranked in terms of GDP and population, it has a lower general ranking according to the WEF of 2015 in terms of overall competitiveness. In particular, the biggest difference can be seen in the macroeconomic environment of the two countries, with South Korea ranking 5<sup>th</sup> and Italy ranking 111<sup>th</sup> out of 144 countries. The difference is also substantial in terms of efficiency of the goods market, with Italy ranking extremely low on the effect of taxation on incentives to invest, and labor market efficiency, although South Korea ranks quite low here as well. In terms of the other indicators, there is no big difference between the two countries, although Italy always seems to rank worse than South Korea. Regarding indicators which might be specific for my research and that might influence the entry of Korean cosmetic companies in Italy, the effect of taxation both on investment and work, the efficiency of the legal framework and the pay and productivity indicators are worrisome, as Italy ranks among the last five countries in all of them. Before analyzing the specific characteristics of the Italian market, though, it is important to understand the strength of Korean cosmetics first. For this reason, chapter 2.3 summarizes the history of the Korean wave, the Korean Pop Culture and reviews the rise in popularity of Korean cosmetics.

## 2.3 Hallyu: the Korean Wave

The Korean Wave (also known with its Korean name as *Hallyu*) is a phenomenon referring to the fast and extensive spreading of Korean culture in other countries (Kim & Lee, 2014). Since it involves both national consumption and exports of Korean culture, it is considered both a national and a transnational phenomenon (Ravina, 2009). The term was first used by Chinese media and journalists in regards to the astonishing success South Korean TV dramas, music and fashion were experiencing in China in the mid-1990s (Ryoo, 2009). Up to that point, Korea was almost exclusively importing only movies and dramas from abroad, but when a restriction on imports was lifted in 1998, the South Korean government started worrying about the possibility of Japanese goods flooding the country, so they decided to strengthen their own media productions. The Minister of Culture assigned a substantial budget to companies in the cultural industry and succeeded in greatly improving the overall quality of domestic production (Ryoo, 2009). Korea in a short time became one of the few countries where cultural content that is produced locally has a bigger success than foreign produced content (KCIS, 2011).

The first countries to experience the Korean Wave were ethnic Chinese countries such as China, Taiwan, Hong Kong and Singapore. In 1997, a South Korean drama called *What is Love* stirred the country's attention. Later, the trend expanded to South East Asian countries like Vietnam, Thailand and Malaysia. It became popular in Japan in 2004, stirring the most interest when the country's housewives became completely obsessed with a drama called *Winter Sonata*. Eventually it reached other continents, from America to Europe in recent years. The popularity of the Hallyu in Japan was especially interesting, considering it was the only developed country at that time to follow the Korean Wave and that, historically, Japan was the one whose culture was most popular in Asia until that moment (Yang, 2012). South Korea didn't hold a very positive image in Asia until that moment. It was mostly associated with political corruption, the war between North and South Korea and the consequent instability in both countries (Kim, Lee & Chon, 2010). This was especially true in Japan due to continuous disputes on territory and lingering political animosity. For the first time, thanks to these TV dramas portraying the lives and values of South Korea, Chinese and Japanese people were able to see not only the similarities Korea shared with their own culture but also the peculiar characteristics the country had (Yang, 2012). People from neighbor countries started visiting South Korea more frequently thanks to the Hallyu and according to a survey proposed to tourists in 2005, around 67 per cent of the respondents stated that the Hallyu phenomenon motivated them to visit South Korea (Kim, Lee & Chon, 2010). Another survey among Japanese housewives has shown that Korean dramas totally changed the perception Japanese women had of Koreans. They now view them as polite, generous and sophisticated (KCIS, 2011).

Multiple scholars tried to understand the underlying reason for such an impressive popularity, and the mainstream opinion about the popularity of the Hallyu in other Asian countries is to be attributed to racial and cultural proximity between Korea and the receiving countries.

South Korean dramas were shown to have many aspects of the Confucian culture and ethics, such as harmony, morality, family and filial obedience, which are common values for viewers in East Asia embedded in Confucian philosophy (Yang, 2012). People were able to relate to Korean dramas portraying familiar values more than they would relate to Western dramas, where individualistic values are stronger (KCIS, 2011). Many though, have argued that this is not enough to fully explain the Hallyu success in Asia (Yang, 2012). For example, South Asian countries, such as Philippines and Indonesia, have no direct link to Confucian values, plus they do not have many cultural elements in common with Korea (Yang, 2012; Ryoo, 2009). This is even truer today, when the popularity of Korean entertainment and culture has expanded far beyond the Asian continent. Jung (2009) argues that it is not solely the traditional Asian values that attract foreign consumers, but that it is the transnational and hybrid mix between the typically Asian and the typically western cultural aspects that attracts both sides (Jung, 2009).

Another theory about Hallyu concerns the gender aspect of the phenomenon. Considering the vast majority of Hallyu fans are women (this was especially true for the first Korean wave), many theorists attribute the popularity of the phenomenon to a desire of housewives and young women of freeing themselves from male dominance by consuming woman-targeted cultural products (Oh, 2009). An interesting aspect that experts have not been able to explain yet, is the age gap between Hallyu fans across countries. While in Japan, it is mostly housewives from their thirties that are interested in Korean culture, in China it is mostly teenagers and young women in their twenties who enjoy Korean pop culture (Oh, 2009).

The term wave, when it was first used, implied a temporary effect (Lee, 2013). Both foreign nations and Korea itself were quite sure that it was only a fad that would eventually die out. But as the so-called first wave of Hallyu was decreasing in popularity in Japan and China, a second wave, called Neo-Korean Wave appeared (KCIS, 2011). It is considered as a slightly different wave, mostly because it not only comprises of TV dramas, but has also expanded to K-Pop, fashion, travel, food, medicine, language and information technology. It has also reached much further than just neighbor Asian countries, arriving in America and Europe (Ryoo, 2009). Another thing that sets it apart from the first wave is that the government much more actively participated in the expansion of the Korean culture overseas. Internet played a very important role too, allowing not only neighbor countries, but also people from all over the world to access Korean media contents (KCIS, 2011; Dator & Seo, 2004)

Although the initial positive reaction of the Korean Wave was not expected, the Korean government was quick to catch up on this money-generating phenomenon, and it has been actively promoting the Hallyu wave ever since (Park, 2011). Not only are huge amount of funds allocated to the entertainment and media industries, but the government is actively trying to increase both exports and travelling to Korea, with good outcomes. According to the Export-Import Bank of Korea, the stream of revenues generating from the Hallyu phenomenon reached 150 billion won (around \$130 million) in the first six months of 2012 (Kim & Lee, 2014). The very popular drama *Winter Sonata*, for example, created a 2 trillion

won (around \$1.7 million) export effect since its first airing in Japan (Cho, 2011). Tourism too has experienced a substantial growth since the first appearance of the Hallyu wave. (Kim & Lee, 2014) People's interest in Hallyu-related content naturally led them to buy Korean products and a desire to visit the country (Kim & Lee, 2014). Not only Korean products, though, but also Hallyu-related marketing, are spreading in foreign countries fast. Japan has witnessed a fast growth of Hallyu-related cafes and even Hallyu idol owned bars, for example (Park, 2011)

Not everything about the Korean Wave is positive, though. As the Hallyu phenomenon was extending to foreign countries, the anti-Hallyu hate movement was spreading too (Kim & Lee, 2014). Not only consumers, but intellectuals, local industries and mass media have shown their disapproval of the popularity of the Korean culture in their countries (Yang, 2012). China, for example, was very accepting of Hallyu in the beginning, but as foreign dramas started gaining more popularity than local ones and the tastes of youths changed towards Korean culture, many started disapproving of the hype around the Korean Wave (Kim & Lee, 2014). In Japan too, the anti-Hallyu movement is present. Many anti-Korean books and comics appeared, but the interesting aspect is that they were mostly written by middle-aged or even older men, in the same age-segment as the housewives obsessed with *Winter Sonata* and its handsome Korean main actor (Ravina, 2009). While animosity is most present in countries that have a historic relationship with Korea, non-Asian regions, such as America and Europe are driven by skepticism and mistrust more than real animosity. Although both experts and even the government of Korea are unsure about the future of the Hallyu in terms of sustainability in such a fast-changing society, it has already been 25 years since the rise of the Hallyu and for now, nothing indicates that the trend is slowing down (Ryoo, 2009).

### **2.3.1 Popular culture**

The first industry that was, and still is, related to the Hallyu phenomenon is the TV drama industry. The first drama to gain popularity overseas was called "*What is Love?*". It aired in China in 1997 and gave origin to the Korean Wave. Korean dramas became so popular in China that the country first reduced the number of Korean dramas on air by half, and then banned the illegal download and streaming of foreign dramas online (Maliangkay, 2006). Similarly, the Taiwanese government considered banning Korean dramas whatsoever to safeguard the country's own drama industry. The situation was similar in Japan, where the drama *Winter Sonata* became so popular that middle aged women all over the country became obsessed with the main actor, so much that he is said to be the reason for the sudden change in opinion towards Koreans by Japanese (KCIS, 2011). The drama that gained most foreign attention, though, was *A Jewel in the Palace*. This was a historical drama portraying the life of a palace physician, which after gaining the highest audience share for a drama in Korea until then (57 per cent), was first exported in East and South East Asia, but later became popular in 89 countries all around the world (MBC, n.d.)

Another industry that is relevant to the Korean Wave is the movie industry. Although Korean cinema was considered weak and was not appreciated neither home nor overseas before the wave hit, today South Korea is the seventh largest filmmaker in the world and its cinema is said to be the most profitable and successful after Hollywood (Ryoo, 2009). Furthermore, although before the 21<sup>st</sup> century only three Korean movies were recognized internationally, from 2002 onwards, Korean movies are constantly getting prizes at world-famous festivals (Ryoo, 2009).

Finally, although not in the center of the first wave, music became a big part of Hallyu with the second wave. Three main companies make up the industry of Korean pop music: SM Entertainment, YG Entertainment and JYP Entertainment. They were all founded in the late 1990s and have seen their profits increase exponentially since the neo-Hallyu wave hit (Bloomberg Business, 2014). In recent years, Korean pop songs (known as *Kpop*) are quickly gaining popularity far beyond Asia (Yang, 2012). Kpop exports astonishingly increased for 167.7 per cent in 2010 and 113.3 per cent in 2011 (Deloitte, 2012), gaining particular attention in Europe after the unexpected success 2011 SM Town large-scale concert in Paris (Kim & Lee, 2014). This was further enhanced by the astonishing popularity of South Korean pop singer PSY, whose song *Gangnam Style* reached more than 1.5 billion views on YouTube in 2012 only, and introducing an increasingly larger audience to Korean pop culture and becoming the most viewed video on YouTube (Griffiths, 2014).

### **2.3.2 Tourism and exports**

As already mentioned, the growing interest in Korean dramas and music also brought along an increasing interest in Korea as a whole. Hallyu contributed to increasing both exports of Korean products and towards an increasing flow of tourists to Korea (Kim & Lee, 2014). The economic value of Hallyu is estimated to be around \$18.1 billion, growing from \$6.4 billion in 2012 and expected to reach \$52.1 billion by 2020 (Lee, 2013). According to a survey of the Korean Chamber of Commerce & Industry, more than half of the 300 major Korean corporations responded that Hallyu has greatly boosted their sales (KCCI, 2012). Tourism has also been greatly impacted. According to the same survey, 85.7 per cent of companies in the tourism industry saw an increase of sales thanks to Hallyu. The Korean Tourism Organization instead estimated around 10 per cent of total yearly tourism to Korea is to be attributed to the Korean Wave effect (Lee, 2013). For example, the province where *Winter Sonata* was filmed, received a 40 per cent increase in the flow of tourists from foreign countries (mainly Japan, China and Taiwan) in the year the drama was aired (Kim, Agrusa, Lee & Chon, 2007). Sales of merchandise related to it skyrocketed too, with the Korean government estimating a \$4 billion increase in trade between Japan and Korea attributed directly to the TV drama (Lord, 2015). The number of people starting to become interested in Korean culture grew proportionately from the hype of the Korean Wave. For instance, the number of Korean language classes offered in Japanese universities increased from 143 in 1995 to 335 in 2004 (Kim, Agrusa, Lee & Chon, 2007). Worldwide interest in the Korean language increased too,

with the number of overseas students of Korean language increasing four fold from 2005 to 2012 (Lee, 2013).

### **2.3.3 Cosmetics**

Like many other industries, the cosmetics industry, was also greatly influenced by the Korean Wave. The survey by the Korean Chamber of Commerce & Industry highlighted a measurable increase in sales attributable to the phenomenon among 35.5 per cent of the companies in the cosmetics industry (KCCI, 2012). Most of the big cosmetic companies, such as AMOREPACIFIC, LG Household & Healthcare and MISSHA, all took advantage of the wave and actively used famous Hallyu stars to advertise their product. They registered an increase in exports for \$1.07 billion in 2012, an increase in 30.3 per cent from the previous year, with cosmetics exports beating imports (stable at \$978 million for two consequent years) for the first time (Shim, 2013). In 2014, exports grew again, reaching \$1.92 billion (Yeomans, 2015). This is a very high growth considering up till 2008 there was a trade deficit of \$400 million (Shim, 2013). The main importers of Korean cosmetics are Japan (23.4 per cent), China (19.6 per cent), Hong Kong (17.6 per cent), but other Asian countries and America are quickly catching up on the trend (Shim, 2013). A good example for the astonishing expansion of Korean cosmetics is represented by the brand THEFACESHOP, which in 2003 was only a single store in Seoul, but was later acquired by LG and now is the most expanded Korean cosmetics branded store all around the world from Japan to the United States (Allianz, 2014). Of course, not only the influence of the Hallyu phenomenon, but the advanced technology, innovation and diversity of ingredients are all driving cosmetics sales up and making Korea famous for its cosmetics excellence. However, Europe still doesn't import a high percentage of Korean cosmetics. The EU-Korea Free Trade Agreement implemented in 2011 has the objective of simplifying goods exchange between Korea and Europe, which has benefitted European cosmetic producers by lowering the tariff at Korean border, but EU tariffs for cosmetics were already set at 0 per cent, so it didn't have a significant impact on imports of Korean cosmetics (European Union External Action, 2015). In the next chapters, the Korean and the Italian cosmetic markets are analyzed, with the aid of a Porter's analysis, in terms of history, segments, trends and marketing.

## **3 THE COSMETICS MARKET IN SOUTH KOREA**

Korea is among the world's most innovative and successful countries in the cosmetic industry since the Hallyu phenomenon took off and quickly became a global level player for the skincare industry (Kim, 2014). Korean cosmetics are indeed widely known and appreciated, with exports to 129 countries reaching \$1.45 billion in 2014 according to the Korean Customs Service (Koreanet, 2014). This has convinced even famous international giants such as Target, Urban Outfitter and Sephora to introduce them in their stores as hit products (Shin, 2014). The growth of Korean cosmetics has been substantial in the last 15 years, with a growth of 1500 per cent (Kim, 2014). Even so, they are expected to grow further in the next years (Kim, 2014). Although the international popularity of Korean cosmetics is quite recent,



the importance of cosmetics in Korea can be found even in old history, when Korean people believed that a good outer appearance could have a positive influence on the inside too. This is why not only women, but men also cared a lot about their appearance, creating a very peculiar and flourishing culture of cosmetics (Chung, 2013). Not without reason, Korean women are becoming famous all around the world for their long and detailed skin regimen. While the average western woman uses around 3 or 4 products in their daily beauty regimen, Korean skincare involves from 10 to 17 different steps, requiring 17 minutes on average and the use of 4.2 different skincare products and 5.6 different makeup products (Reungsinpinya, 2011).

According to the Korean Statistics Office, the Korean cosmetics industry is one of the few industries, which hasn't been at all affected by the global economic and financial crisis, showing an average annual growth of 10 per cent in domestic market value from 2008 to 2013 (Swiss Business Hub Korea, 2013). While imported cosmetics consumption remained stable even during the crisis, exports even increased steadily, surpassing imports for the first time in Korean history in 2014 (Kim, 2014). Although the popularity of Korean cosmetics is indeed recent, the country's history in terms of cosmetics is wide and fascinating. While the cosmetics used then and those used today have little in common, the history of Korean cosmetics gives a precious insight in the culture of cosmetics and preferred styles in South Korea, as is thus briefly described in the next chapter.

### **3.1 History of Korean cosmetics**

The oldest historical proof of use of cosmetics in South Korea available today goes back to the period of the Three Kingdoms (57 B.C. – 688) and can be established from women's drawings on tombs where they were portrayed with red cheeks and shaped eyebrows (Gowman, 2013). The first actual information about cosmetics dates back to the Goryeo period (918-1392) and is recorded in the *Illustrated Record of the Chinese Embassy in the Goryeo Court* (1123) (Chung, 2013). The Chinese envoy in ancient Korea at the time recorded the customs and uses of cosmetics of Korean women from upper classes. Makeup for upper class women used to differ from that of commoners, so a woman's status was recognizable also by her makeup (Chung, 2013). Simple and natural looking makeup was the most popular according to the Confucian ideal of modesty and simplicity. Upper class women used powder, but no rouge or blusher, and shaped their eyebrows "*in the shape of a willow leaf*" (Gowman, 2013, para. 3). A heavy makeup was considered inappropriate, especially for upper class women, because it was a distinctive look for *gisaengs* (the Korean geishas or female entertainers), which painted their faces pale white with powder and had deep red lips and thin, distinctive eyebrows (Chung, 2013). Aristocrat women, instead, preferred natural looking peach-tinted makeup. In the Joseon period (1392-1910) women started using more ingredients to prepare their cosmetics. Upper class women started mixing flower ashes, indigo plants and gold powder to create their cosmetics. Saffron flowers, cinnabar, ground rice and millet were used for powders, while apricot seeds, peaches and peony flower oil were used to create oils for hair. Korean women even used scrubs, making them from ginseng roots, red or green

beans. Common people too extensively used makeup, but made from cheaper ingredients. For example, charcoal was used to paint eyebrows, while dried red pepper was used for painting lips (Gowman, 2013).

In 1809 Lady Bingheogak Yi, a Korean writer of the Joseon period, wrote the *Kyuhapch'ongso*, a book containing a guide for Joseon period's upper class women about daily social life, cooking, gardening, family life and of course about making and using cosmetics, perfumes and oils. The book features more than four centuries (1392-1809) of techniques for making and preserving cosmetics, with a whole section about correctly shaping and drawing eyebrows (Chung, 2013). Thanks to this book, we are able to know not only which makeup was used in Korea, but also how was it made. Considering refrigerators or preservatives were not known then, most cosmetics were made daily, usually in small quantities based on how much one needed per application, and were kept in small closed containers to prevent spoilage (Chung, 2013).

By the end of the 19<sup>th</sup> century, after the Treaty of Kanghwa in 1876 opening the country to foreign trade, many new cosmetics came from overseas. In particular, French cosmetics were becoming very popular, and Koreans began to copy the western styles and products. In this period, the first mass produced face powder was manufactured in Korea, called the “*Bakgabun*” or *Pak's powder* (Chung, 2013). But Korean cosmetics were far from being successful back then, with Japanese brands dominating the market until the Japanese colonial liberation. In these years, the biggest South Korean cosmetic companies, such as AMOREPACIFIC and LG Household & Healthcare were founded. Soon after, though, the Korean War of 1950 again destroyed any advancement in the cosmetics industry achieved up to the point. Finally, in 1961 a law prohibiting imports and sale of foreign products gave space to the Korean cosmetics industry to start growing (Chung, 2013).

To understand even more deeply what has been and is still affecting the culture of cosmetics in Korea, one must take a look at the closest “complementary” of cosmetics in beauty enhancement: plastic surgery, which is also extremely popular in South Korea.

### **3.2 Attitudes to plastic surgery**

Cosmetics and plastic surgery have a deep connection in South Korea. Although according to Confucius' teachings pursuing beauty instead of modesty is wrong, Koreans have long stopped following such beliefs, creating a new culture where trying to reach aesthetic perfection is no longer a taboo (Seoul TouchUp, 2012). Beauty has become such a fixation for Koreans, that it has been labeled as a cultural phenomenon and named the “Korean plastic surgery boom” (Seoul TouchUp, 2012). While cosmetics are just as popular in South Korea as they are elsewhere around the globalized world, plastic surgery here has reached a whole new level. It is estimated that between one-fifth and one-third of women living in Seoul have undergone some type of plastic surgery. According to the BBC, this figure goes up to a staggering fifty percent for women in their twenties (Scanlon, 2005). Men are not left out as

well, as they are estimated to make up at least fifteen percent of the Korean plastic surgery market (Scanlon, 2005).

As the industry is not strictly regulated a high number of non-licensed surgeons exist, so actual numbers could be even higher (Seoul TouchUp, 2012). If we compare this data with the measly 5 per cent of American women in their twenties, who undergo plastic surgery (International Society of Aesthetic Plastic Surgeons, 2014), the magnitude of the Korean market for plastic surgery doesn't fail to surprise. The most popular surgery is the so-called double-eyelid surgery, which increases the size and roundness of one's eyelids and eyes. Other very popular surgeries are rhino plastic, to improve the nose structure, and jaw bone reconfiguration. Compared to western culture, the objective of Korean plastic surgery is to transform the face in a way that is as natural-looking as possible, the only thing left behind from Confucianism (Marx, 2015). This, paired with the impact of the Korean wave phenomenon, has attracted the interest of many foreigners, who visit Seoul especially to get some sort of a "touchup". It is estimated that around 7.5 million tourists have visited Seoul so far with the precise intention of getting a plastic surgery (Chang & Thompson, 2014).

The obsession which the country has for plastic surgery started growing with the end of the Korean War, after the American occupational forces started providing free reconstructive surgery to war victims who were left with scars or disfigurements. That's when the double-eyelid surgery became popular (Marx, 2015). According to a U.S. Marine surgeon who worked in Korea after the war, the procedure of making Asian eyes more "western looking" became quickly a hit (Marx, 2015). As wealth increased in Korea, excess money, which could be spent on beauty increased too, making plastic surgery increasingly popular (Chang & Thompson, 2014). Gangnam, the wealthiest district of Seoul, also became the center of the plastic surgery industry in South Korea. Compared to the western world, it is also much more advertised, and it is seen as more of an investment in oneself than anything else. Many public figures, from Miss Korea 2012 to a former male President of the country, admitted to having had some sort of plastic surgery done (Marx, 2015), making it further more acceptable to the mass public.

And just as plastic surgery became more popular throughout the years, so did cosmetics. First and most important among the cosmetics is the so-called BB Cream, which is one of the essentials of Korean cosmetics, making up 13 percent of the South Korean cosmetics market (Chang, 2012). While it was invented in Germany in the 1960s by dermatologist Schrammek to protect a patient's skin after surgery (Chang, 2012), it first became really popular in South Korea in the early 2000s, where it was used to cover imperfections after plastic surgery. The world slowly followed, with USA first introducing BB creams in 2011. Nowadays any cosmetic brand has its own version of a BB cream, while Korea is running ahead with CC, DD and even EE creams (Wiseman, 2013).

Now that the history and present customs most influencing cosmetics have been described, I turn my attention to the actual cosmetic industry in South Korea, analyzing it with the aid of

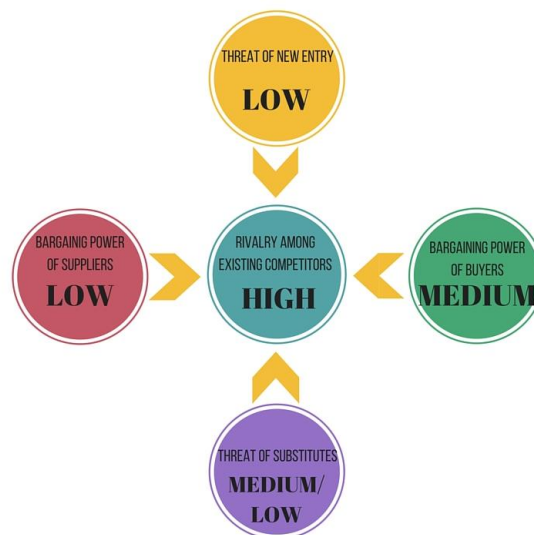
Porter's 5 forces analysis, by describing the current trends and market strategies. These methods will be also used to analyze the Italian cosmetic market, in order to facilitate comparison between the two countries and highlight the differences and common aspects of the two markets better.

### 3.3 Industry analysis with Porter's 5 forces analysis

When evaluating a possible expansion into a new country, it is very useful to have a clear understanding of not only the country environment, but also the industry. Porter's 5-forces model explains the five forces of competitiveness for a given industry in a market. These forces include: (1) competitors, (2) new possible entrants, (3) substitutes, (4) buyers and (5) suppliers. Having a clear vision of the current situation of a country's market helps in making long-term choices that will be profitable. Not only is this model employed to have a better understanding of the potential profitability of a new product or company in a certain industry and market, but gives a company the insight needed to avoid mistakes and make good use of a possible strength (Manktelow, 2008). This is why the Korean cosmetic market is analyzed in terms of competitors, new possible entrants, substitutes, buyers and suppliers.

The Porter's five forces' analysis for the South Korean cosmetics market is summarized in Figure 2, and then explained in detail in the following pages.

Figure 4. A summary of Porter's five forces assessment for South Korean cosmetics market



#### 3.3.1 Rivalry among existing competitors

The Korean cosmetics market is mostly made of a few big chaebols and a few smaller competitors, which have been slowly gaining market share from their giant competitors. AmorePacific and its rival LG Household & Healthcare have respectively 34 per cent and 10 per cent of the total industry market e, while global brands still account for 25 per cent. On

the other hand, smaller competitors are actively present as well. Some 600-700 smaller companies make up the remaining 31 per cent of the market (Cho, 2012). Although the number of smaller companies is high and the industry is growing fast, AmorePacific still accounts for one third of the market. Fixed costs (particularly in R&D) are high, as well as marketing costs, both making the competitive rivalry in the industry quite intense. Furthermore, rivalry is usually high for commodities, for which switching costs are usually low. For all these reasons I evaluate the rivalry among existing competitors as quite high, especially among the remaining players apart from the two chaebols dominating the market.

### **3.3.2 Threat of new entry**

The threat of new entry refers to the ease with which new competitors might arise in the industry. This might be influenced by multiple factors, including barriers to entry (i.e. capital intensity, registrations etc.), number of existing competitors, customer loyalty levels and customers switching costs. In the specific case of cosmetics, barriers to entry are usually quite high (Essays UK, 2013). This is mainly due to the high initial investment required to set up a company, both for the research and development of new products and the manufacturing process. A high level of expertise and know-how is also required when setting up a new firm in the cosmetics sector. (Essays UK, 2013). In the cosmetic sector, economies of scale are usually required to achieve profitability, as fixed costs are high. Brand names are also quite known in Korea and each brand is somewhat differentiated from other brands (pricing, packaging, ingredients, etc). This makes it more difficult for new firms to enter the market. Accessing distribution channels too is quite difficult, as firms, especially the biggest ones like AmorePacific and LG, sell through their own mono-brand stores and department stores (New Zealand Trade & Enterprise, 2012). Korea also has a tariff for imported cosmetics of 8 per cent, which might discourage foreign companies from entering the market. With this in mind, I evaluate the threat of new entry as relatively low.

### **3.3.3 Threat of substitutes**

The threat of substitutes, i.e. the availability of products outside the industry that a consumer can purchase instead of the industry's products, is very low in the cosmetic industry (Reijntjes & Wagijo, 2012). This is due to the fact that a real substitute to cosmetics does not exist, if we assume one uses cosmetics. There are some alternatives available, such as home-made cosmetics, which are made by natural ingredients. They are an especially popular alternative for skin care and hair care. They are though not completely substituting industrial cosmetics for most women, but instead complementing them. This is especially true in Korea, where cosmetics are considered as a real necessity for women, who use from 10 to 17 different cosmetics every day (Reungsinpinya, 2011). For this reason, I evaluate this force as moderate to low.

### **3.3.4 Bargaining power of buyers**

The bargaining power of buyers refers to the power customers can exercise over companies in the industry, mainly in terms of prices and payment terms. It is usually based on the ratio between the number of buyers and companies in an industry. If the competition is high, customers have a strong power over producers, while if there are only a few companies in the market and the customer base is very high, the opposite is true. Again, this factor is also influenced by switching costs consumers incur when switching from one brand to another, or from one producer to the other (Manktelow, 2008). When the bargaining power of customers is high, companies in an industry might have a hard time predicting future demand and thus have difficulties setting up the best strategy for a long term profitability (Essays UK, 2013).

In the case of Korean cosmetic companies, which are strongly vertically integrated and usually own their own distribution channels, buyers mostly refer to final consumers. Consumers are indeed less concentrated than the cosmetic companies, which means that the buyer power is limited. Furthermore, while consumers are indeed price sensitive, their loyalty to brands is also quite high (Reungsinpinya, 2011). There is also no risk of backward integration, as cosmetic companies in Korea are usually selling directly to end consumers, who only buy a very small portion of total sales. On the other hand, many substitutes are available in the market, and consumers are usually well-educated on the cosmetic products they purchase. Considering all this, I assess the bargaining power of buyers to be medium high.

### **3.3.5 Bargaining power of suppliers**

The bargaining power of suppliers refers to the amount of power the industry suppliers can exert on their clients in terms of increasing prices of supplies. This is usually determined by the ratio between suppliers and client companies in an industry, and by the level of specificity of the product and the level of supplier expertise and involvement. When a product is very simple and easily produced, the supplier power is low, while for a product that requires a strong know-how or specific machinery, or for raw materials with limited availability, the supplier power is high (Manktelow, 2008). In general, the cosmetic industry shows low power of suppliers, because of the high availability of raw materials and a high presence of suppliers available (Reijntjes & Wagijo, 2012). The number of available cosmetic manufacturers in South Korea is around 1,500 (Yeomans, 2015), which makes the power of suppliers quite low. Furthermore, many of these are exclusive suppliers of big cosmetic companies, making their power even lower. Lastly, there is very little risk for forward integration, so I assess the power of suppliers to be quite low.

## **3.4 Cosmetic market trends**

After being an imitator and importer for many years, Korea eventually started innovating and setting trends with the success of the BB cream, opening the eyes of international consumers to Korean cosmetics (Wiseman, 2013). But while trends take a while to reach Western

markets, in Korea they are changing constantly to satisfy the sophisticated needs of Korean consumers and their high level of consumer innovativeness related to cosmetics. Products that offer whitening functions, sun protection and wrinkle care are the most popular among Koreans (New Zealand Trade and Enterprise, 2012). Natural and organic ingredients too are more and more important to local consumers (Jung, 2010). The biggest segment within the Korean cosmetics market is the general skincare segment, which holds some 50 per cent of total sales in the cosmetics market. The sales for this segment rose exponentially in recent years, with a growth rate of 58 per cent. In particular, facial care products represent the largest part of the segment (Swiss Business Hub Korea, 2013). Other important segments include: color cosmetics, hair care, hygiene, sun care, fragrances and bathing products. While it still holds a very small percentage of market share the hand cream segment has shown a very fast growth in recent years, gaining popularity quickly (Cho, 2012). Anti-cellulite and firming products too are slowly becoming more popular (Cho, 2012).

After the astonishing success of BB creams, the product type which has become the next big hit seem to be the so-called cushion products. Cushion products are makeup compacts with a foam that “*contains and preserves the makeup liquid (usually foundation) and to be applied with a sponge*” (AMOREPACIFIC, 2015, p. 3). The innovator of this new product, AMOREPACIFIC, started working on cushion technology already in 2007, registering 13 related patents since then. The company has sold more than 26 million cushion products only in 2014, with one cushion product sold every 1.2 seconds (AMOREPACIFIC, 2015). According to a survey, 75 per cent of Korean women use cushion products in their skincare routine (AMOREPACIFIC, 2015). The cushion technology is growing in popularity even outside of Korea. While big Korean companies like AMOREPACIFIC are first in line in exporting cushion products overseas, foreign companies are slowly catching up. L’Oréal’s brand Lancôme started launching Miracle Cushion, their take on Korean cushion products (Chu, 2015).

Another product that is incredibly popular in Korea, but just slowly catching up in the West are face masks. While they did arrive in North America more than ten years ago, after years of slow or even negative growth, in 2013 they eventually started growing in popularity, with sales increasing 41 per cent in 2013 and 30 per cent in 2014 (Chu, 2015). In Korea, instead, they have always benefitted from a steady growth, with alternatives such as eye-masks, lip-masks and even nail-masks showing up in popular stores (Chu, 2015).

Trends in distribution are changing as well. Retailing of cosmetics in Korea has always been characterized by department stores. These big and luxurious department stores are usually owned by big corporations (*chaebols*) and mostly carry high-end expensive brands (New Zealand Trade & Enterprise, 2012). Cheaper cosmetics are usually found in street shops. Specialized cosmetic multi-brand shops like *Aritaum* for AMOREPACIFIC and *Beautiplex* for LG are gaining popularity and quickly becoming one of the primary distribution channels for cosmetics in Korea. Door-to-door sales, which were introduced in the 1960s when they represented AMOREPACIFIC’s sole distribution channel, are still popular and growing. Last

but not least, e-commerce and TV shopping are growing in popularity as distance selling becomes a popular purchasing method for the working and studying population that has no time to visit shops (New Zealand Trade & Enterprise, 2012).

Given the abundance of available alternatives, both in terms of products or distribution, companies are striving to find a way to differentiate themselves from other competitors and gaining new customers. In the next sub-chapter, the marketing segments, positioning and mix adopted by cosmetic companies, defining product types, pricing strategies, distribution channels and promotion techniques will be described.

## **3.5 Marketing strategies**

### **3.5.1 Market segmentation**

To be able to develop and implement the best possible strategy, companies need to segment the heterogeneous market into smaller segments. This is a company's first step in developing a marketing strategy, and is followed by targeting, positioning and coming up with the right marketing mix for each segment. This is especially true for cosmetic companies, where targeting based on demographics or specific needs (such as luxury products or natural ones) is very common. Korea is no exception, and while smaller companies such as The Face Shop and Missha only target a specific, although broad, market segment, big conglomerates such as AmorePacific and LG Household & Healthcare each own multiple brands to cover all possible market segments. AmorePacific, for instance, divides the market into luxury (40.8 per cent of sales), premium (24.2 per cent) and mass market (11.5 per cent) segments. The luxury segment has its own brand Sulwhasoo, Hera and Primera, distinctive distribution channels (only door-to-door and department store sales) and, of course, its own strategy. The premium segment too has a dedicated distribution channel, the Aritaum multi-brand shops. It only distributes the premium segment brands, such as IOPE, Laneige and Mamonde. Finally the mass market segment is home to the lower priced brands that comprises Etude House, Innisfree and other minor brands. Market segmentation is also made based on location, as the domestic market segments are separated from foreign market segments, which comprises growth markets (19.7 per cent) and developed markets (3.8 per cent). Finally, male consumers present a special segment, and are served both with dedicated brands and with special product lines in existing female brands (AmorePacific 2015 Earnings Report).

### **3.5.2 Positioning**

As already mentioned, it is very easy for big conglomerates in the Korean cosmetic industry to capture multiple segments by having multiple brands under a single umbrella. Small competitors must choose wisely which position will they try to occupy. The biggest majority of them, of course, position themselves in the mass market, by differentiating in products offers or/and by offering lower prices than competitors. It is more difficult to compete in the luxury and premium segments where consumers are even more brand loyal. Big corporations,



with numerous brands, have an easier job. Each one of their brands is targeting a specific segment with precise characteristics, from older women to very young ones, from rich women to very price sensitive ones, and even men (AmorePacific 2015 Earnings Report).

### **3.5.3 Marketing mix**

The marketing mix is “*the set of marketing tools the firm uses to pursue its marketing objectives in the target market*” (Kotler, 2001, p. 9). They were classified by McCarthy into four groups: price, place, product and promotion, called the 4P of marketing (Kotler, 2001).

There are multiple factors that determine a marketing mix for any kind of industry, but while all of them are important to be a successful business, some of them seem to be particularly important for Korean cosmetic companies. Price, place and product vary greatly from one brand to another, but don’t present many differences with other cosmetics companies around the world. That’s why I will only briefly analyze them and concentrate more on promotions, which instead seem to be carried out quite differently in Korea compared to the rest of the world. This is especially true for advertising and sampling/free gifts.

#### **3.5.3.1 Price**

Price is a very important indicator, as it is usually considered as an indicator of quality. This is especially true in Asian countries, where consumers are very skeptical about product quality, and tend to rely on price to infer a product’s quality (Paliwoda, Andrews & Chen, 2013). As in any industry, pricing in the cosmetics industry in South Korea varies greatly based on the brand. The luxury segment of course has the highest pricing. The luxury brand Sulwhasoo, for example, has some products that go as low as \$40, but the majority of its products are well over \$100, with their most expensive product Sulwhasoo Timeline costing \$900. Its direct competitor, LG’s Whoo, displays similar prices, again going from as low as \$30 to over \$1000, with \$100 being an average cost. The premium segment has middle-priced products. IOPE, Laneige and other brands in this segment have prices going from \$20 to \$100. Finally, the mass market segment has prices from as low as \$1 to not higher than \$40 (AmorePacific Online Shop, 2015).

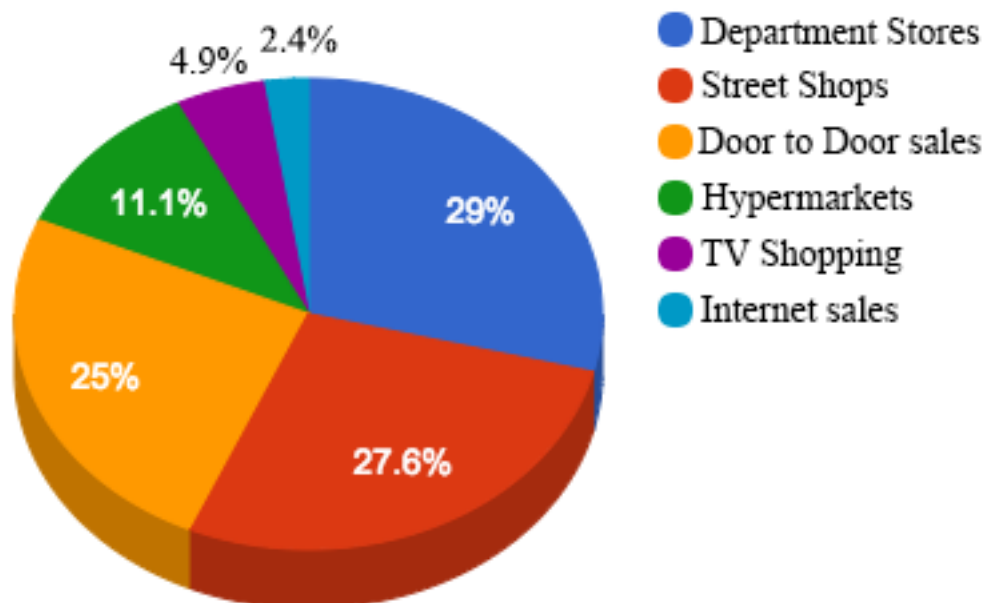
As seems to be the norm in the cosmetics industry, Korean cosmetics companies tend to not use skimming pricing techniques very often, mostly keeping the same prices for a singular product over time. As the product gets less and less popular, they simply change it with a newer version, without lowering prices. Most frequently, a new innovative type of product is first offered in the higher-end brands and, after a while, starts being sold in the lower priced brands of the same company (Reungsinpinya, 2011). One example of this is the new cushion compacts, that were first sold as an exclusive for the premium IOPE brand, but is now offered in various alternatives even for the cheapest brands (AmorePacific, 2015).

#### **3.5.3.2 Place**

Distribution channels for cosmetics in South Korea again vary greatly from one brand to

another. While the most luxurious brands rely heavily on door-to-door sales and department store selling (New Zealand Trade & Enterprise, 2012), low-end brands usually sell in mono-brand street stores. These mono-brand stores are very highly distributed and are usually present in any big subway station or shopping area, close to one another. They usually rely on salespeople and high volume music for catching the customers' attention and inviting them in. While cosmetics keep being a very profitable industry in Korea, the presence of more and more different brands and stores makes it very competitive (New Zealand Trade & Enterprise, 2012). Furthermore, each big corporation has its own multi-brand store, which sells from higher-end to lower-end brands from the same company (New Zealand Trade & Enterprise, 2012). Finally, television and Internet are increasingly popular choices for sale of cosmetics.

Figure 3. Structure of sales of cosmetics by distribution channels in South Korea in (%)



Source: Based on data from New Zealand Trade & Enterprise, Cosmetics, skincare and toiletries market in South Korea, 2012

As Figure 3 shows, the distribution channel through which most sales are made in the cosmetic market in South Korea are the department stores (29 per cent), followed by street shops (27.6 per cent), either mono-brand or multi-brand ones. Door-to-door sales are still very popular in South Korea (25 per cent). Finally, hypermarkets (11,1 per cent), which sell multiple mass brands, hold a small percentage of the market, followed by TV Home shopping (4.9 per cent) and Internet sales (2,4 per cent), which, although marginal, are increasing their popularity. (New Zealand Trade & Enterprise, 2012).

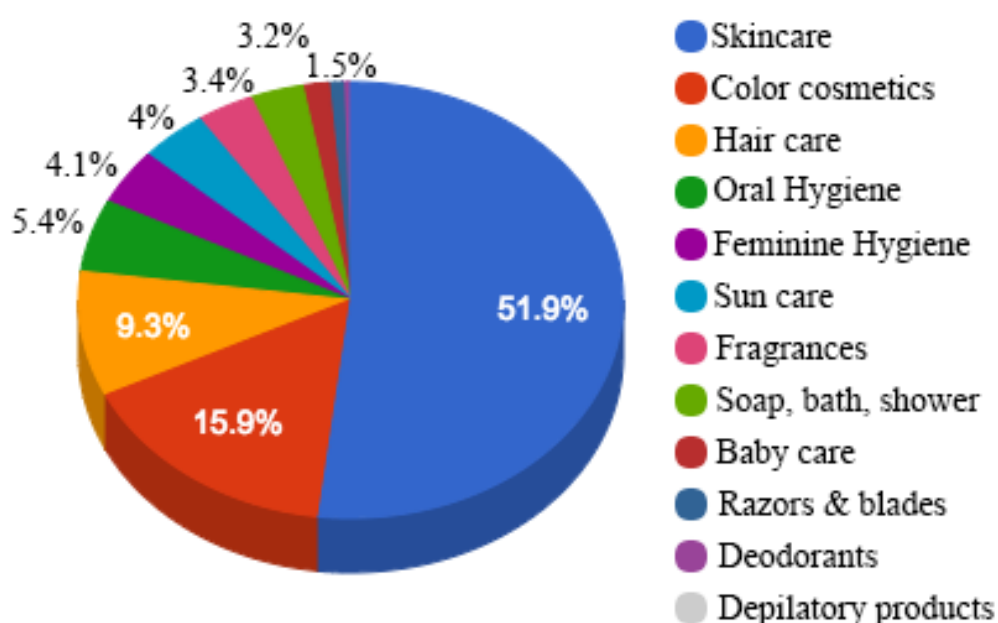
### 3.5.3.3 Product

Kotler (2001) has defined products as anything in the market that can satisfy a need or a desire. He theorized five levels of product that create a “customer value hierarchy” (Kotler, 2001, p. 183): (1) core benefit, (2) basic product, (3) expected product, (4) augmented product

and (5) potential product. Each level adds customer value, and although people usually look for the core benefit when making a purchasing decision, because of the quantity of possible alternatives, they eventually chose the product based on the value added by the other levels. Firms thus have to work hard to provide additional value to consumers, in order to differentiate their products among the many available competitors.

Korean cosmetic companies have always been very innovative. AmorePacific, the largest player in the market, has been known for investing large sums into R&D; investing 22.6 per cent of its profits into R&D (AmorePacific, 2014). But this kind of investment is to be expected. Korean cosmetic companies have to work hard to be able to compete with international giants such as L'oréal, which has invested 28 per cent of its profits into R&D. AmorePacific alone registered 68 patents in 2010, while international giant L'oréal registered 612 (Kang, 2012). The cosmetics industry is quickly shifting from a high-fashion industry, where market uncertainty is high, to a high-tech industry where technology uncertainty too is high (Kang, 2012). In such an industry, where most product life-cycles are very short and products keep changing, companies feel the need to invest in R&D and continue to innovate more and more. When product such as BB Creams, face masks and cushion compacts make their way in the Western market, Koreans are already expecting newer and more technologically advanced products to be available in Korea. Most of product innovation verges around aging skin, as skincare, especially facial care products, is the biggest segment in the cosmetics industry, having well over 50 per cent of all sales (New Zealand Trade & Enterprise, 2012). The distribution of sales according to product segment is represented in Figure 4.

Figure 4. Product segmentation of the cosmetic industry in South Korea



Source: Based on data from New Zealand Trade & Enterprise, Cosmetics, skincare and toiletries market in South Korea, 2012

While product keep rolling in and out, with cushion foundations taking the place of older successes as BB, CC and even DD and EE creams and new lipsticks becoming popular and dying out in just a month's time, the underlying concept remains the same. Koreans want younger looking skin, pale appearance and a very natural look (New Zealand Trade & Enterprise, 2012). This is the direction all products are taking, from masks to hydrating creams and foundations.

In the Korean market, the skincare segment has the biggest share of sales, taking up almost half of the total market sales. It is followed by color cosmetics and hair care, summing up to more than 25 per cent of the market sales.

#### 3.5.3.4 Promotion

The promotional part of the marketing mix includes all activities that aim at communicating the product and its features to the customer (Ketler, 2001). Although Korean company giants make use of most if not all types of marketing communication tools, including branding, direct marketing, sponsorship, public relations and sales promotions, there are some tools that are more specific to the Korean market than other. With this in mind, this chapter mainly focuses on advertising, sampling and packaging, which present specific characteristics that are exclusive to the Korean market.

#### Advertising

Higher incomes and improvements in the general living conditions as Korea was growing to become one of the most advanced and rich countries in today's world have made it also extremely conscious about trends and fashion. Furthermore, people tend to look up to their favorite idols and TV stars much more than in the Western world. A clear example is the case of a Yves Saint Laurent's lipstick that was sold out globally after the protagonist of a Korean drama wore it in one episode (Whitelocks, 2014). Along with the lipstick, the TV show boosted the sales of fashion items, accessories, smartphones and even food that was featured in the drama. Furthermore, people rush out to buy anything that is endorsed by the main actors in dramas, from shoes to fried chicken and beer (Chao, 2014). This trend has been going on since the Hallyu phenomenon hit, and cosmetic companies have been quick to catch the trend: as soon as an actress or singer becomes popular, cosmetic companies will fight to have her endorse their newest products. From big corporations to small players, cosmetics are nowadays endorses solely by famous idols and singers. This has helped not only in increasing sales at home, but also in making Korean cosmetics brands known overseas (Chao, 2014). People from neighbor China and Japan started buying Korean cosmetics to emulate the looks of their favorite stars that they got to know and admire thanks to Hallyu (Whitelocks, 2014).

However, as celebrity endorsement grew in popularity and increasing number of popular singers and actresses, it became difficult for companies to have their products stand out. Therefore, companies came up with a new advertising technique, which is known in Korea as *kkot minam* advertising (Kim, Han, Kim & Paramita, 2013). *Kkot minam* refers to the use of

male celebrities as their advertisement models. Usually, male actors and singers with clear skin, long and slender legs and killer smiles are chosen to advertise cosmetics (Kim, Han, Kim & Paramita, 2013). Although since men cosmetics too are becoming more and more popular one would expect male stars to advertise cosmetics for men, the idea behind *kkot minam* advertising is that women buy the products they advertise with the desire of becoming their ideal women (Maliangkay, 2013).

### Sampling

Sampling is defined as a type of sales promotion technique that encourages trial by giving consumers a small portion of a product for free (McGuinness et al., 1995, in Amor & Guilbert, 2009). It is indeed one of the most popular types of sales promotion in the cosmetics industry, as it is a no risk no obligation promotion, where customers can try a one-application sample of a product and judge it before buying the actual product. Samples are very popular in Korea too, as any cosmetic brand gives away free samples of their newest products in an attempt to reach new customers. A peculiarity of Korean cosmetic stores, though, is that, due to the very high density and competition of cosmetics stores, they give out samples not only to attract new customers but also to invite them to check out their shops. It is very popular to see shop clerks standing outside of stores inviting customers in in Korean, Japanese, Chinese and even English, by handing out samples or even whole-sized free products to those that enter the shop (Reungsinpinya, 2011). This technique, although costly, is used to attract customers into the stores, where other store clerks are waiting to convince you to try out their newest hits and not go home empty-handed.

### Packaging

Packaging refers to the external case of a product, which has both the role of protecting the product from external contamination and damage and attracting customer by catching their attention and presenting the product (Kotler & Armstrong, 2010). It is a very important aspect in Asian countries. Consumers there place a very high importance on quality packaging and expect it to be flawless, be it in terms of design, materials or colors (Yeomans, 2014). Even with the economic crisis dragging most companies down, packaging companies all around Asia have been growing quickly (Kalkowski, 2012). It is an interesting marketing aspect in Korean cosmetics as well. South Korean consumers care about appearance a lot. This holds true for consumer goods as well. They require their products to have fancy and fun packaging, even when purchasing cosmetics (New Zealand Trade & Enterprise, 2012). In fact, a survey carried out by the International Cosmetics Packaging Seminar in Korea found out that 92 per cent of Korean consumers stated that they are highly affected by packaging when making a purchasing decision (Yoon, 2015). So it comes with no surprise the amount of resource and time dedication cosmetics companies spend in packaging their products. From the luxurious products that display an elegant and sleek packaging to teenager targeted cosmetics that feature princess-like, pink or animal shaped packaging, cosmetics companies try to satisfy all tastes. Etude House, one of the main brands of AMOREPACIFIC, for example, is especially

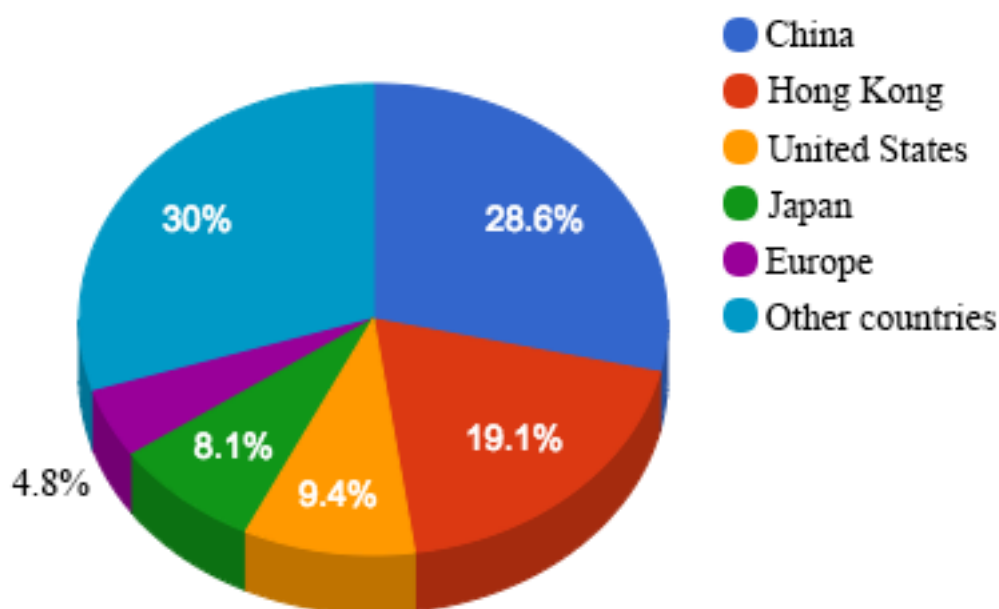
known and appreciated for the very unique packaging of its products, which is said to be one of the main attractive points of the brand (Reungsinpinya, 2011). Tony-moly, a smaller independent company is also known for featuring cute animals and shapes on most of its products packages (Walter, 2015).

While the situation in the local market has been described, it is also important to understand how Korean cosmetic companies are doing business abroad, in which countries are they already present and where are they most successful. The following subchapter briefly analyzes the exports of Korean cosmetic companies.

### 3.6 Exports

Exports of Korean skincare cosmetics in 2004 were stable at \$65.4 million. Jumping ten years ahead to 2014, they showed an increase of 780 per cent compared to 2004, reaching an astonishing \$513 million. Exports of cosmetics (as a whole) surpassed imports for the first time in 2014, recording \$1.45 billion sales. Such an astonishing result was connected with the increasing popularity of Hallyu around the world, the increase of popularity of Korea as a whole and lately the 2011 free trade agreement (FTA) with Europe and the 2012 FTA with the United States (Koreanet, 2014).

Figure 5. Structure of exports of South Korean cosmetics by destination country



Source: Based on data from Hong, H., Korean Cosmetic Exports Surge 34%, led by demand in US and EU, 2015

Figure 5 summarizes the main countries South Korea exports cosmetics to. As it can be seen from the figure, although China, Japan, Hong Kong and Southeast Asia remain the key export destinations of Korean cosmetics, USA and Europe are slowly catching up. In fact, while

China still is the number one importer of Korean cosmetics, with the average spending of each Chinese visitor to Korea doubled in the last three years (Chao, 2014), its share of the total exports fell from 40 per cent to 28.6 per cent in recent years. On the contrary, exports to Europe grew 72.5 per cent in the first six months of 2014 from \$20.3 million to \$35.1 million, while exports to Canada and the US grew 44.4 per cent in the same period (Koreanet, 2014). According to HSBC Holdings, South Korea's cosmetics exports are experiencing a stunning 60 per cent average annual growing rate, and there is no sign that the growth will stop anytime soon (Chao, 2014).

Having completed the review of the cosmetic market of South Korea, I now turn my attention to the destination country, Italy. It is extremely important to have a clear and detailed view of the current market situation in the country that we wish to penetrate, so as to understand the best way to move into the country's market.

## **4 COSMETICS IN ITALY**

### **4.1 Market size and product trends**

Italy is one of the strongest European countries in cosmetics production. In fact, more than 60 per cent of the world's cosmetics are actually produced in Italy by tertiary suppliers, and then sold to big international cosmetic companies (Gervasio, 2015). While the crisis did hit the cosmetics market, reducing sales by -1.4 per cent in 2014 and -1.2 per cent in 2013, the production of cosmetic goods in Italy has nevertheless increased from \$9.3 billion in 2013 to \$9.4 billion in 2014 (Federchimica, 2015). This small, but encouraging increase is to be attributed to exports, which have been growing constantly in Italy and reaching a growth rate of 5.5 per cent by the end of 2014. Exports to the United States had an especially strong growth, with a 16 per cent increase in 2014 (Paura, 2015). This is mainly an attributed consequence of the never-fading interest of foreign consumers for the "Made in Italy" origin, considered a proof of quality and excellence in cosmetics, as well as in many other sectors (Gervasio, 2015). Italian consumers, instead, have been induced by the crisis to switch to cheaper products and distribution channels. While luxury cosmetic sales remain stable, the ones to suffer the most have been the mid-level priced brands, which also represent the biggest share of the market (Cosmetica Italia, 2014).

The strongest features of the Italian cosmetic industry are the so-called tertiary suppliers, or so-called companies producing cosmetics for bigger brands. Especially referring to the makeup sector, Italian tertiary cosmetic companies, such as Intercos, Chromavis and Regi, which are usually unknown to the general public, produce over 60 per cent of the world's makeup products sold by famous brands such as Dior, Chanel, Guerlain, Shiseido and Estée Lauder. Time to market (i.e. the ability so quickly satisfy clients' needs and even modify on-going orders efficiently) is their strongest feature. Furthermore, they have strong operational flexibility, the capacity to carry on a big multitude of commissions and orders simultaneously, which not only lowers production times but decreases costs greatly (Colli, 2007). Experts say

that this strong specialization of Italian makeup producers is to be attributed to the close proximity to the fashion industry centers, which usually dictate trends in terms of colors, a very important aspect of makeup (Gervasio, 2015). Others attribute this success to the strong innovation in the Italian cosmetic industry. According to a study by the Center of Studies of Italy Cosmetics (Centro di Studi di Cosmetica Italia), Italy is in the sixth place in terms of cosmetic innovation in 2014, following Great Britain, France, Germany, United States and Japan. Italy, in fact, has been reinvesting between 7 and 8 per cent of its profits in innovation, doubling the country's average of 4 per cent (Gervasio, 2015).

The year 2014 has been in general a year for re-discovery of organic food and environmental safety, which have become visible also in the cosmetic industry. The words “botanic” and “herbs” have been repeatedly utilized in 34.5 per cent of marketing campaigns for cosmetics. People are starting to prefer locally-produced products which contain natural, local ingredients. This has produced also a shift in purchasing habits, with a shift from perfumeries to herbalist shops and pharmacies (Euromonitor, 2015). This trend has an influence not only on ingredients and production processes, but on packaging too. Italian consumers are paying more and more attention to recyclable packaging, so cosmetics producers had to adapt in that aspect too. In fact, products with a “refill” option are growing in popularity, not only for liquid products like soaps or shampoos, but also for foundations and makeup (Centro di Studi di Cosmetica Italia, 2014). According to a survey by Mintel, more than 50 per cent of the interviewed Italian consumers stated that they believe organic cosmetics to be healthier than traditional ones, although around 40 per cent also stated that they believe them to be less effective than the non-organic counterparts (Rubino, 2012). Other trends include hydration, illuminating, long-lasting and vitamin and mineral rich products (Gervasio, 2015). Another trend that is quickly progressing is the increasing presence of fashion designers in the beauty industry. Apart from the ever-present fragrances, designers are strengthening their positions in the skin care and makeup sectors. Gucci, for example, launched its own makeup line, and Dolce & Gabbana invested in a new line of skin care products (Euromonitor, 2015).

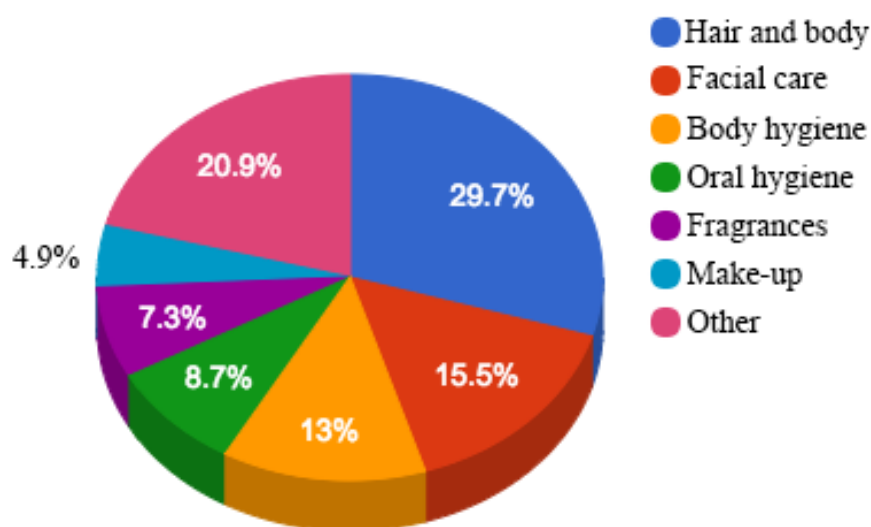
## **4.2 Market breakdown and segmentation**

Different from many other European countries, the Italian cosmetic industry's biggest and most profitable segment is the hair and body segment with a cumulative 29.7 per cent market share. This is unlike makeup, which is the dominant product category in most other European countries, although makeup and facial care remain the most exported categories also in Italy (Federchimica, 2015). Facial care comes next with a 15.5 per cent share, followed by body and oral hygiene (13 per cent and 8.7 per cent), fragrances (7.3 per cent) and finally makeup (4.9 per cent). The remaining is made up of smaller categories (Cosmetica Italia, 2015). In 2014, the biggest growth was seen in the makeup segment, with *eye makeup* growing 5.7 per cent, *makeup palettes* showing a 4 per cent increase and *lips makeup* growing too, at 2.2 per cent. Foundations and concealers have shown a negative growth, although this could be attributed to the increasing popularity of *polyvalent creams* like BB Cream, that have registered a 0.5 per cent increase in sales. Anti-aging creams, solar protections and tonifying



lotions instead have shown the worst results in 2014, with respectively -1 per cent, -2.1 per cent and -3.8 per cent in sales (Cosmetica Italia, 2015). The division of the market according to product segments is displayed in Figure 6. In terms of customer segmentation, Italy has the classic cosmetic consumer segmentation that is also common to other European countries.

Figure 6. Product segmentation of the Italian cosmetic market



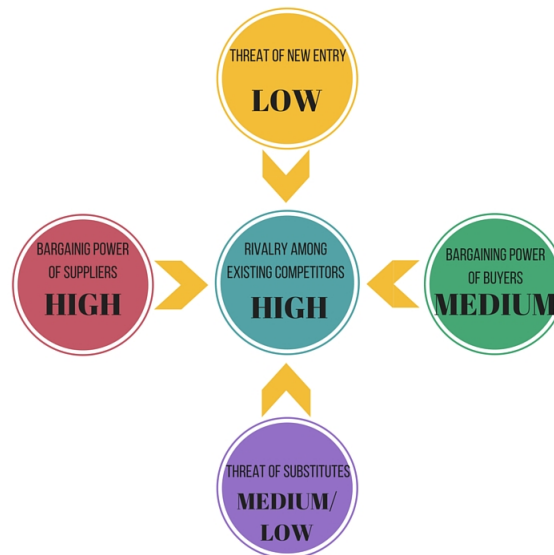
Source: Based on data from Cosmetica Italia, Beauty Report 2015

The strongest players in the market are Euroitalia (Versace, Moschino), the Mirato group (Malizia, Intesa, Clinians, etc), Deborah and Paglieri. The Llg Leading Luxury group, with the two brands Limoni and La Gardenia, dominates in the cosmetics distribution industry with 53 per cent market share in the perfumery sector, and 20 per cent in the total distribution (Gervasio, 2015). The strongest distribution channels remain hypermarkets and herbalist shops, followed by perfumeries, pharmacies, hairdressers, direct sales and beauty salons (Cosmetica Italia, 2014). The distribution channels that have been hit the most by the crisis are the perfumeries, with a -2.5 per cent negative growth, beauty salons with a -3.6 per cent drop and hairdressers with a -3.5 per cent growth. Direct sales, especially through direct home sales, have shown the biggest growth at 2.8 per cent. Internet sales too are becoming less and less of a marginal distribution channel, especially for brands that only offer direct sales. Other positive growth has been registered by herbalist stores (2.4 per cent) and pharmacies (1.1 per cent). In the last few years, consumers have shown a high interest in brand-owned stores, with an increase from 2013 to 2014 of 40 per cent (Pharma Retail, 2014). The main reasons are the lower prices of such brands, the availability of a wide range of complementary products and the presence of client assistance services. According to 49.7 per cent of consumers interviewed in a Pharma Retail survey, the presence of knowledgeable personnel that can give suggestions and insight on products is fundamental when choosing which brands to buy (Pharma Retail, 2014).

### 4.3 Porter's 5 forces analysis

To have a clear vision of the Italian cosmetic market, it is also useful to apply the Porter's five forces analysis scheme to analyze competitors, substitutes, power of suppliers and customers, and finally the threat of possible new entrants to the market. The strength of all Porter's five forces are summarized in Figure 7 and then analyzed separately, in order to provide a clearer vision of the whole cosmetics market in Italy.

Figure 7. Summary of Porter's 5 forces for Italian cosmetics market



#### 4.3.1 Rivalry among existing competitors

A first thing to note is the composition of existing competitors in the Italian cosmetic market. Along with a few very big companies (11, according to Federchimica, 2014), and big branches of foreign brands, the Italian market is made of a large multitude of medium-sized, small and very small players. Around 500 companies produce and distribute cosmetics in Italy (Federchimica, 2014). Most operate on a national scale, but a lot of very small companies sell across defined geographic markets or to a very specific niche of customers (Colli, 2007). Companies differentiate their business according to their distribution too, with some companies specifically tending only to pharmacies or herbalists, while others opt for a more varied distribution pattern (Colli, 2007). All in all, there is a very high concentration of both national and foreign firms, which make competition very intense. The current situation is also characterized by very low customer loyalty, with consumers switching brands easily, mostly going from middle priced solutions to cheaper ones (Colli, 2007). This is also enforced by the very low switching costs and very high rate of repeated purchases in the cosmetic sector. With all this in mind, I evaluate the level of rivalry among existing competitors as quite high.

### **4.3.2 Threat of new entry**

As already said, setting up a cosmetic company requires a very high initial R&D investment (Essays UK, 2013). This, though, might be different in the Italian market, where a high concentration of tertiary suppliers makes it possible for a brand to avoid both the R&D and the manufacturing investment and just buy custom-made products from suppliers. The initial costs in this case might be lower, but the variable costs would certainly be much higher than with an internal production (Colli, 2007). The very high concentration of both smaller and larger companies in the Italian cosmetic market is a deterrent for new entrants. On the other hand, customer loyalty is quite low and decreasing recently, and switching costs are almost non-existent for consumers. Furthermore, the single EU market means no import tariffs for cosmetics, which might incentivize the entry of other foreign European companies (European Union External Action, 2015). Nevertheless, there are a big multitude of very famous brands, and while loyalty to a specific brand is quite low, uncertainty towards new and non-established brands is quite high (Cosmetica Italiana, 2014). All in all, although the specific case of the Italian market might present lower barriers to entry than in other countries, I assess the threat of possible new entrants to be still quite low.

### **4.3.3 Threat of substitutes**

As already mentioned for Korea, there are few substitutes for industry-made cosmetics, mainly home-made cosmetics, which are though not predominant enough to pose a real threat to cosmetic companies. This might though change in the future, as there are already signs of home-made cosmetics' growing popularity: at the 2015 EXPO, a new concept, *agrobeauty*, was also presented. This refers to the local farm production of cosmetics with the use of snail serum, champagne and other totally natural ingredients (Adnkronos, 2015). While 71 per cent of consumers stated that they prefer this type of natural cosmetic to mass-produced ones, it is only a recently emerged trend, and for the moment poses no imminent threats to big scale cosmetic production. So, while the very low switching costs do pose a risk between competitors in the cosmetic industry, they are not a risk when thinking about buying outside the industry. Because of this, I evaluate the threat of substitutes as medium to low.

### **4.3.4 Bargaining power of buyers**

The switching costs in the cosmetic sector are very low, as people finish and repurchase cosmetics quite frequently, the possibility to switch to a different product is quite high. Paired with the high concentration of competitors (as said, around 500 companies) and available alternatives, the bargaining power of the final consumers in the cosmetics industry is therefore quite high. Furthermore, in Italy, both local and foreign firms compete on prices to conquer consumers. The price wars are further enhanced by the current crisis, making consumers more and more price sensitive and demand quite price elastic, further requiring companies to continuously lower prices to stay competitive (Cosmetica Italiana, 2014). Nevertheless, as cosmetics are a commodity, and final consumers usually don't purchase more than a very

small volume of companies' sales, their individual power over the companies is still relatively low. Considering all this, I assess the power of buyers as medium.

#### **4.3.5 Bargaining power of suppliers**

As already mentioned, the cosmetic industry usually displays low power of suppliers (Reijntjes & Wagijo, 2012). The situation in Italy might be somewhat different due to the presence of a small amount of tertiary suppliers producing cosmetics for their client cosmetic companies. Although a recent compilation of all tertiary producers in Italy doesn't exist, a cosmetic producer association named Polo della Cosmesi gathers around 130 companies, which make up 41 per cent of the total cosmetic production in Italy. Out of these, a few like Intercos, Chromavis, Regi and Ancorotti, hold the biggest market share. In this case, a few firms create the vast majority of products, and while some companies do (still) produce by themselves, most cosmetic companies are bound to these few tertiary suppliers for production. They do not possess the machinery, the know-how nor the expertise to start producing by themselves, as well as the cost advantages from economies of scale, scope and skill. Thus, they would have little to no alternative, if tertiary suppliers decided to increase prices. Considering this, I assess the bargaining power of suppliers as quite high.

### **4.4 Marketing**

#### **4.4.1 Product**

The products offered in the Italian market are very uniform. Instead of offering very diverse and differentiated products, most of the available brands have quite similar products, from luxury brands to the cheapest ones. Be it creams or moisturizers, makeup or fragrances, the differentiation is mostly visible only when a company uses natural or extravagant ingredients. While some more expensive brands bring new innovations to the market, cheaper brands are quick to follow. Furthermore, while each brand advertises some kind of innovative products, most of these products are also available by other brands (Galli, 2005). While most brands don't differentiate with packaging, there are some brands that have made packaging their most distinctive feature. The very famous Italian cosmetic company Pupa, for example, sells its products in very colorful and fun packaging (Sanderson, 2015). Kiko, another famous Italian cosmetic brand, instead, sells very minimal black packaging inspired by the international giant MAC, which, although simple, has become a distinctive and recognizable feature of its cosmetics (Kiko Milano website). The variety is not as large in the male sector, since the brands offering male products are quite limited compared to the female ones. Furthermore, while men perfumes have always been available and creams are growing in popularity, male makeup is still almost non-existent in the Italian cosmetic market (Cosmetica Italia, 2014).

#### **4.4.2 Price**

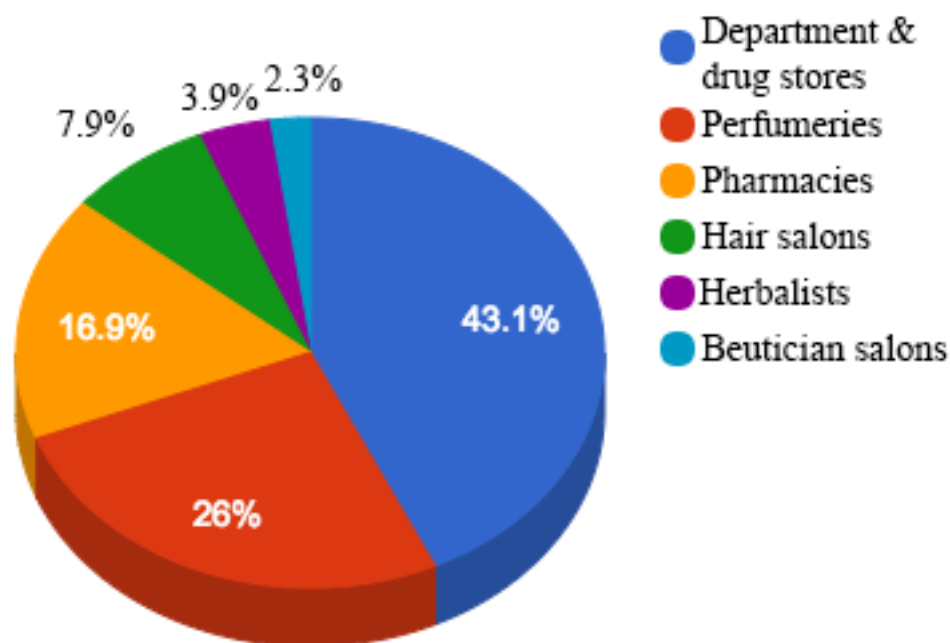
There is no defined price in the Italian cosmetic industry. Each single product can go from a

very low price to a high one based on the brand, ingredients and novelty of the product. Companies usually segment the market and base their prices on the premise that younger consumers prefer lower prices, while older consumers are willing to pay more for a premium product with more service (Cosmetica Italia, 2014). The price elasticity in the cosmetic sector is very high for low and middle priced products, where a very small variation in price could have a big impact on demand. Prices are inelastic for high-priced cosmetics, where quality matters more than price and a small difference in price would not bring changes to demand (Pini, 2013). The most commonly used technique is the *market skimming pricing*, in which prices are initially set very high to re-absorb costs of investment (R&D, marketing), and lowered later when competitors start selling similar versions of the same product.

#### 4.4.3 Place

Distribution channels vary by brands and offerings, depending on what consumers are looking for. Organic and natural cosmetics and other products without chemicals are usually available in pharmacies, herbalist shops or in branded stores for those brands that only sell natural products. Cheaper cosmetics are distributed in supermarkets and drug stores, while more expensive products are sold in perfumeries and cosmetic stores. Single brand companies sell both in their stores and online. There are also a few companies left that sell directly, via magazines and through independent agents (Cosmetica Italia, 2014). The division of sales by distribution channel in the Italian market is summarized in Figure 8.

Figure 8. Sales structure of cosmetics by distribution channel in the Italian market



Source: Based on data by Bonfanti, P., Dossier: l'industria cosmetica italiana, *Rassegna dell'imballaggio*, 8, 2010

Department stores and drug stores make up 43.1 per cent of the total sales, followed by perfumeries (26 per cent) and pharmacies (16.9 per cent). Herbalist shops are growing in popularity, although they still represent only 3.9 per cent of the total distribution. Professional channels like hair salons (7.9 per cent) and beautician salons (2.3) make up a smaller part of the market distribution (Bonfanti, 2010). Figure 6 present an overview of total market sales by distribution channel.

#### 4.4.4 Promotion

The share of revenues that each company dedicates to marketing communications varies greatly from one company to the other. While the general average is around 25 per cent, some companies spend as low as 10 per cent, while others, especially in the first years, can spend up to 100 per cent of total revenues (Cerizza, 2008). To be able to differentiate themselves from other brands, cosmetic companies in Italy make use of many different types of marketing communication. While luxury brands still heavily rely on magazines and newspapers for advertising, cheaper brands directed at younger generations rely more on *on-line* and *digital marketing*. Following the successful stories of MAC on Twitter (Angelici, 2013) and Benefit Cosmetics on Instagram (Gillett, 2014), companies advertise their products through websites, blogs and with the help of *influencer marketing*, i.e. relying on popular people like YouTube or TV stars to advertise their products. With the increasing popularity of YouTube and with the fact that consumers nowadays trust peers more than advertisement, many companies started relying on *word-of-mouth* and other techniques like *sponsorships* and *consumer generated advertising* to achieve better marketing results (Riley-Adams, 2014; McDougall, 2012). According to a survey by the marketing research company Trnd, 45 per cent of interviewed consumers between 22 and 50 years old talk about cosmetics and beauty at least once every day with family and friends, while 77 per cent does at least once a week. Most consumers are very active in researching about cosmetics before acquiring them (Trnd, 2015). Word-of-mouth (WOM) has thus become a very important tool for cosmetic companies, although it can become dangerous too. The increased advertising effects produced by word-of-mouth vs. traditional marketing techniques has also been confirmed by multiple research studies (Trusov, Bucklin & Pauwels, 2009; Villanueva, Yoo & Hanssens, 2008)

Furthermore, Italian antitrust authorities have recently started sanctioning companies and implementing stricter regulations regarding deceptive and misleading advertising in cosmetics (Gianna, 2014). Companies have thus been forced to pay more attention to the promises made in advertisement regarding the results achievable with their products.

*Limited edition marketing* is a big hit for most cosmetic companies too, especially the ones popular with younger generations. Sometime companies launch a temporary product as a form of collaboration with a brand in another industry, and other times they feature famous movies or characters. Experts say that limited editions work well, because not only they induce customers to purchase on a whim due to the short availability of the product, but also because they are a form of reward for loyal customers and they are associated with exclusivity

(Carter, 2013). Another promotion technique that has always been present in the cosmetic industry is *freebie marketing*. Giving away free samples to customers, usually enough for one application or trial is a successful way of achieving consumer trial (McGuinness et al., 1995, in Amor & Guilbert, 2009). Unfortunately, detailed spending on advertising by Italian cosmetic companies couldn't be obtained.

In chapter 6, the history, trends and popularity both in South Korea and in Italy of male cosmetics are presented. While cosmetics are usually seen as a woman-only commodity, male cosmetics have started gaining increasing popularity in recent years. Unfortunately, nearly as much studies and reviews have been made on male cosmetics as on female ones, thus making the literature on this particular segment very lacking. Nevertheless, as it is a relatively unsaturated market, especially in Italy, it could present a good possibility of breakthrough for AmorePacif. The company has, in fact, a relevant experience in selling male cosmetics, as Korea is one of the countries with the highest amount of male cosmetic usage.

## 5 MALE COSMETICS

It's been 21 years since the term *metrosexual* was first used by The Independent journalist Mark Simpson in 1994. The term, mixing the two words *metropolitan* and *sexual*, referred to a new type of city men, who cared for their skin and body, visited the gym frequently and spent a lot of money on grooming themselves. Jump 20 years, and caring for one's appearance and body is not an exclusive of a certain category of men anymore, as more and more male consumers use cosmetics.

Although not as popular as female cosmetics, male cosmetics as a market segment is growing quickly. In fact, it is one of the fastest growing segments in the beauty industry. Sales of men's cosmetics in the United States alone reached \$6.3 billion in 2014, a 31 per cent increase since 2009 and a 262 per cent increase since 1997 (Euromonitor, 2015). The fastest growing segment is skin care, with cleansers, moisturizers and exfoliants topping sales. The strongest player in the male cosmetics market in the western countries is Procter & Gamble, with a 40 per cent share. Other countries in the top 10 markets for male cosmetics include South Korea, Germany, the U.K, Brazil, India and China (Euromonitor, 2015). Asian countries alone make up an astonishing 64 per cent of global skincare sales (Song, 2014). Jan Paul Gautier is known for first launching a line of male makeup back in 2008, although it did not reach the desired success. Nowadays, though, many more brands like Yves Saint Laurent and Lab Series all have special lines dedicated to male consumers (Carreon, 2012). According to a 2012 research from NPD Group, 1 in 4 men use some kind of skin-care product, and they are in general more brand loyal than female cosmetic consumers (Li, 2012).

The most important aspects, according to the company Menaji, a luxury male cosmetic brand, is the packaging and the name. A very masculine package, with no gold and pink colors, is very important. Secondly, the word "makeup" is forbidden, as men don't want to

acknowledge they're using makeup. Words such as "serum", "concealer" and "camouflage" work much better in attracting male consumers (Li, 2012).

In the global male cosmetics market, South Korean men are driving the craze. Although there are only about 19 million men in South Korea, they became the largest market for male cosmetics in 2014 after spending more than \$635 million just on skincare products, accounting for 25 per cent of total global sales of male cosmetics (Song, 2014). Sales of the cosmetic giant AMOREPACIFIC are constantly increasing, but the growth in male cosmetics is especially fast. The company, offering 17 men's brands and hundreds of products, leads in the men's grooming sales with 20 per cent market share (Euromonitor, 2015). The vice-president of product strategy at AMOREPACIFIC, Kim Nan-Hee, estimated that at least one in five young men use foundation frequently. According to her, although men's cosmetics still represent only about 15 per cent of the total South Korean skincare market, they are the fastest growing sector, so AMOREPACIFIC is strongly investing in them (Song, 2014). Again face creams, anti-aging treatments and sunblock are the most popular products. Roald Maliangkay, head of the Korean studies at the Australian National University, points out that, compared to other countries a feminine appearance is much more accepted in South Korea, where it represents a "*social success*" and is very appreciated by both the male and female young population (Maliangkay, 2010, p. 2).

Italy is not staying far behind this trend, as well. Italian men spent more than \$2.5 billion for cosmetics in 2012, 28 per cent of the total sales in cosmetics in Italy (Gervasio, 2012). The most popular sales remain perfumes and lotions, followed by soaps, shower and shaving gels, but also anti-aging creams, detergents, hair treatments, scrubs and solar creams. According to a survey carried out by Vichy, 80 per cent of interviewed men believe a skin treatment cream is essential for taking care of one's skin and should not be missing in any man's bathroom (Gervasio, 2012). According to the same survey, the most important thing for men is taking care of the skin after shaving, with creams that make the skin softer, less swollen or less irritated. The second most important item is an anti-aging cream for the eyes. According to another survey carried out by the DIRECTA institute, the highest level of the use of cosmetics is among men between the ages of 25 and 44, and concerns mostly men with medium-/high-level careers (Marchetti, 2010). Another trend that is quickly changing is how men use cosmetics. Instead of delegating the purchase of cosmetics, they prefer to visit the stores themselves, and are much more interested in an expert's advice than women.

As both the female and male cosmetic markets of the two countries have been analyzed in general, I now continue with comparing a few brands of the two countries, by dividing them in three segments: low priced, middle priced and high priced. By adding an actual brand comparison to the general industry overview, it is easier to spot the differences between the two countries and understand where could AmorePacific, or any other Korean company, find its sweet spot in the Italian cosmetics market.



## 6 BRAND COMPARISONS

Given the high variability in marketing strategies and consumer segments for different priced goods, the Korean cosmetics industry studied within this master thesis will be divided into three segments, namely: (1) low-priced products, (2) middle-priced products and (3) high-end, luxury products. I decided to analyze only the company AmorePacific in this thesis, as it is the biggest player in the Korean cosmetic market and it has a high variety of owned brands, which makes it a very interesting company to analyze. While considering which of the 35 AmorePacific brands could be most suitable for the Italian market, I considered what the best way would be to choose one brand for each price range and then compare it with cosmetic companies already existing in the Italian market that present similar price ranges and characteristics to the AmorePacific brands. Finally, I have arrived to the conclusion that the best choices would be *Etude House* for the low-priced segment, *Innisfree* for the middle-priced segment and *Sulwhasoo* for the luxury segment. In the following chapter, I will be comparing the three brands to brands present in the Italian cosmetic market in terms of their marketing mix (mainly pricing, products, marketing, packaging and distribution). Furthermore, I will assess their possible demand in the Italian market. Strengths and weaknesses will also be analyzed with the help of a primary consumer survey which I carried out myself and whose results are presented in the next chapter.

### 6.1 The Amorepacific company

#### 6.1.1 Company background

The year 2015 marks the 70<sup>th</sup> anniversary of the birth of AmorePacific, Korea's biggest cosmetics company. The history of AmorePacific is quite unique, but typically Korean. It all started with camellia seed oil. The company unofficially started when the mother of Suh Sung-Hwhan (who later became the founder of AmorePacific) sold ointment for hair, made with camellia seed. Her son took over the family business in 1945 and named it "Taepyungyang" (Pacific Ocean) (Park, 2015). The company started its success with two bestsellers: Melody cream for women and ABC Pomade for men, already setting a trend about trying to reach not only women, but also men. Compared to competitors, AmorePacific (then still Taepyungayang) put a lot of care to the choice of ingredients and R&D (Park, 2015). The company was a pioneer in scientific research of beauty products, investing in R&D much more than its competitors. Its ABC Ginseng Cream was the first cream in the country to utilize ginseng, and together with their green-tea based skin care line, started the trend of using typical Asian medicinal herbs in cosmetics (Park, 2015).

The first distribution channel for AmorePacific (common to other international cosmetics brand in the fifties) was door-to-door selling. *Amore ladies*, the salespeople of AmorePacific, were known to be very aggressive. AmorePacific gained its world-famous name in 2002. After that, it has kept growing till today, when, seventy years later, it is the 14<sup>th</sup> biggest cosmetics company in the world (Koppisch, 2015), the 17<sup>th</sup> biggest cosmetic company in

terms of sales (Park, 2015) and the 11<sup>th</sup> largest skin-care company by market share (Bloomberg, 2015). It produced 4.7 trillion KRW (4 billion USD) in 2014, with total sales rising 21 percent, and of which 18 percent came from exporting outside of Korea (Bloomberg, 2015). Today it has a high variety of distribution channels. While some brands have their own mono-brand stores, others are only available in department stores. AmorePacific also retained its door-to-door sales, which are only limited to luxury brands. It has furthermore created Aritaum, its first multi-brand shop.

AmorePacific is always striving for innovation. It has created a Mizium R&D Center in 2010, investing 50 billion KRW (43 million USD), while in 2014 it opened a Beauty Campus in Shanghai, a research facility in China. Its popularity and highly innovative products attract the envy and imitation from even global companies. Lancome (L'oréal), has copied AmorePacific's cushion BB Cream creating a similar product named "Miracle Cushion", for which the latter company is considering filling a patent lawsuit (Suk, 2015).

AmorePacific owns 35 cosmetic and beauty brands, and has over 140 global patents. Its 5 top brands are: *Etude House*, *Innisfree*, *Laneige*, *Sulwhasoo* and *Mamonde*. These 5 brands now have more than 4,200 stores all around the world (Dermatology Review, 2015). Most sales came from the Asia Pacific region with an increase of 40.3 percent in the last year, and with China's sales increasing for 37.9 percent. Sales in China have been so successful in recent years that consumer product analysts from Nomura Securities in Seoul estimate AmorePacific could become the second most successful cosmetic brand in China by 2016, following closely L'Oréal. China is also expected to make up to 30 percent of the company's total sales by 2020, according to the Chief Strategy Officer Kim Seung-Hwan (Bloomberg, 2015). Alongside China, the company is also striving to increase sales in other neighbor countries and even overseas, as it expects more than 50 percent of total sales to be driven by exports.

In the United States, where Amore Pacific sells mainly high-end products (*Sulwhasoo*), available in 62 upmarket department stores, it started finally showing profits in recent years after entering the market in 2003. Its growing success is attributable to the rising interest for Korean cosmetics by American consumers, who are increasingly fascinated by the natural ingredients used by AmorePacific. Exports to US grew 35 per cent in 2014, reaching 6 per cent of Korea's total cosmetics exports (Song, 2015).

AmorePacific extended its business to Europe, as well; more specifically in France, in 1990, with a skincare product named *Lirikos*. The product turned out to be unsuccessful due to the high negative COO effect towards South Korea, which, thanks to the "Made in Korea" signs, made customers skeptical and unwilling to try the product. South Korea was still considered an underdeveloped country then and was certainly not believed to be able to compare with luxurious French cosmetics. AmorePacific then understood the importance of changing its strategy, and in 1997 created a perfume named *Lolita Lempicka*, with a French named brand, a French background, marketed by French marketing experts and produced in France (Ernst & Young, n.d.). This strategy was a great success. The *Lolita Lempicka* perfume is still the 5th

most sold perfume in France and is now sold in over 90 countries around the world. France has since then become the base of the European AmorePacific subsidiary, and accounts for around 50 percent of the total sales in Europe (AmorePacific website, 2015).

### **6.1.2 Popular brands**

**Sulwhasoo:** is Amore Pacific's premium brand. It's very popular among rich women aged 30 to 50 years. It contains both modern ingredients and natural herb medicine, like ginseng. Sulwhasoo is present in nine countries with 84 stores, 46 in China since it opened in 2011. Sulwhasoo is also very popular in Thailand and Hong Kong, and is growing in popularity also in America (AmorePacific website, 2015).

**Laneige:** is considered to be more mass-market and is mainly targeted at overseas markets, which shows in the data: more than half of Laneige's sales come from overseas, with 1,306 stores in 9 countries. From 2002, when it first arrived in China, Laneige has started selling in 345 department stores all around China. It is also sold in Targets all across U.S., with satisfactory results (AmorePacific website, 2015).

**Innisfree:** was first launched in 2000 in Korea and went global 2012 through online channels. It is yet another very popular brand among Chinese consumers. It is a totally organic brand with plant-based products from the famous Korean island of Jeju. Its green tea seed serum and black head masks are their top-seller products (AmorePacific website, 2015).

**Etude House:** is the brand that is targeted to the youngest consumers (mostly 15 to 30 years old). It has the lowest price level among Amore Pacific's brands and is defined as pink, sweet, dreamy and princess-like. It is the most popular brand in Thailand and Hong Kong. It is mostly sold in stand-alone stores that mimic a princess room. The packaging is also typically dreamy and pink. It is also the most popular brand among Kpop fans all over the world, although its sales are mostly limited to Asia Pacific countries (AmorePacific website, 2015).

**Mamonde,** which is a floral-based skin care line, is targeted at young adults (25 to 35 years). It doesn't have stand-alone stores and is mostly sold online. It is quite popular in China, where 270 stores carry its products (AmorePacific website, 2015).

## **6.2 Brand comparison**

As already mentioned, I will be comparing three AmorePacific brands with other successful brands already present in the Italian market. The low, middle and high price segments each have a summarizing table, with a general comparison of the brands and a brief description of the similarities and differences between them. A more detailed description of each brand is present in the Appendix D.

### 6.2.1 Low price segment

Etude House, which is the low price segment brand of AmorePacific, is compared with Kiko and Pupa. Both are very successful Italian brands, with similar pricing to Etude House. Table 2 summarizes characteristics for the three brands.

Table 2. Low-priced brand comparison of Korean and Italian brands

	<b>Etude House</b>	<b>KIKO</b>	<b>PUPA</b>
<b>Pricing</b>	Low (5\$-15\$)	Low (5\$-20\$)	Low (10\$-20\$)
<b>Target segment</b>	Young women, 18-30 years old	No specific age segment	Young women, 15-30 years old
<b>Distribution</b>	Owned stores	Owned stores	Department stores and perfumeries
<b>Products</b>	Make-up, skincare, body&shower	Mostly make-up, some skincare	Make-up kits, skincare
<b>Image</b>	Fairy-tale, princesses	Glamorous, professional cosmetics	Cute, extravagant
<b>Packaging</b>	Colorful, lovely	Elegant, sleek, minimal	Colorful for make-up kits, minimal for skincare
<b>Advertising</b>	Famous local testimonials	No advertising	Famous local testimonials
<b>Samples</b>	Yes	No	No

Source: Based on Etude House website (2015), Kiko website (2015), Pupa website (2015)

When comparing Etude House to PUPA and KIKO, which are both very successful and beloved cosmetics in the Italian market, it is clear that Etude House has a potential market in the country. Thanks to such similarities as the Italian cosmetics, it is clear that there is a demand for cosmetics with these characteristics in Italy. Although both KIKO and PUPA are similar, they both are slightly different than Etude House. Its distinctive look and qualitative cosmetics could potentially capture a part of the competitors market, if marketed in the right way. PUPA is comparable to Etude House not only because of its affordable pricing, but also because of a similar target customer segment (both are mainly directed at teenage girls and young adults) and its peculiar and distinctive packaging. Interestingly, neither KIKO nor PUPA make use of sampling, which is instead a common practice for Etude House. Furthermore, while in Europe it is not compulsory yet, parabens and other silicones are forbidden in South Korea, which, if advertised right, would make Etude House cosmetics look healthier and more appealing to Italian consumers.

### 6.2.2 Middle price segment

The brand chosen for the middle price segment is Innisfree, a brand that has its organic and natural ingredients as its strong point. For the Italian market, it is being compared with Lush, that, although not Italian, is a very strong player in Italy and also markets itself as a brand with natural ingredients. Table 3 summarizes the main characteristics of the two brands.

Table 3. Middle-priced brand comparison of Korean and Italian brands

	<b>Innisfree</b>	<b>Lush</b>
<b>Price</b>	Middle (10\$-40\$)	Middle (5\$-65\$)
<b>Target segment</b>	Those most interested in natural products, no age target	Young, 18-30 years old, and interested in natural ingredients
<b>Distribution</b>	Owned stores	Owned stores
<b>Products</b>	Make-up, creams, moisturizers, skincare	Bath&shower, creams, toners, body lotions, some make-up
<b>Image</b>	Organic, natural, healthy	Lively, healthy
<b>Ingredients</b>	70 per cent natural, no paraben and silicones	100 per cent vegetarian, 83 per cent vegan and 60 per cent no paraben and silicones
<b>Packaging</b>	100 per cent recyclable, simple	90 per cent recyclable, all-black
<b>Advertising</b>	Local stars, natural beauty	No advertising, other marketing campaigns
<b>Samples</b>	Yes	Yes

Source: Based on Innisfree website (2015), Lush website (2015)

As it can be easily seen from the table, the two brands have a lot in common. First of all, both are working towards healthy, natural and sustainable cosmetics. While Innisfree is more focused towards creating cosmetics whose ingredients are natural and organic, Lush is more focused on vegan, healthy and cruelty-free cosmetics. Innisfree doesn't use parabens and silicones, but has no guarantee of vegetarian or even vegan products. The opposite is true for Lush. Both are also working hard in promoting ethical buying and are actively founding no profit organizations. Both are middle-priced and not too focused neither on advertising nor on fancy packaging. Considering the fact that, although both use natural products like fruits and plants, Lush still makes use of parabens and silicones, there definitely exists a market for Innisfree in Italy. Consumers in Italy are starting to get more and more interested in organic and natural cosmetics, so they would view Innisfree positively. In fact, according to the Organic Monitor, Italy has one of the largest markets in Europe for natural and organic cosmetics (Organic Monitor, 2009). Furthermore, while a lot of companies in Italy advertise and produce natural skincare products and creams, only a few produce natural make-up. Lush also doesn't highlight its make-up line much. Innisfree instead works hard to advertise not only its creams and toners but also its cosmetic line, for which it would have little competition in Italy.

### 6.2.3 High price segment

The high price segment is represented by the brand Sulwhasoo, perhaps the most famous brand of the AmorePacific group. Its luxurious ingredients, packaging and presentation are comparable to the world's most renewed luxury cosmetics. For this reason it is being compared with L'Oréal's premium brand, Lancôme, and the Japanese giant Shiseido. Main characteristics of the three brands are summarized in Table 4.

Table 4. High-priced brand comparison of Korean and Italian brands

	<b>Sulwhasoo</b>	<b>Lancôme</b>	<b>Shiseido</b>
<b>Price</b>	40\$-900\$	25\$-360\$	15\$-300\$
<b>Target segment</b>	Women over 30 years old	Mostly over 30, expanding to younger consumers	Mostly over 30, expanding to younger consumers
<b>Distribution</b>	Department stores, door-to-door, duty-free	Owned stores, department stores, duty-free and travel retailing, online	Department stores, pharmacies, door-to-door
<b>Products</b>	Skincare, male products, little make-up	Skincare, male products, make-up	Skincare, male products, make-up
<b>Packaging</b>	Luxurious, elegant, traditional	Luxurious, elegant	Luxurious, artistic
<b>Ingredients</b>	Natural luxurious ingredients, few chemicals	No highlight on ingredients	No highlight on ingredients
<b>Advertising</b>	Few testimonials	Strong, successful women	Both Asian and Western actresses and models

Source: Based on Sulwhasoo website (2015), Lancôme website (2015), Shiseido website (2015)

Although there are many successful luxurious brand present in Italy, comparing Sulwhasoo to Lancôme and Shiseido made the most sense. On one side, we have the world's largest luxury cosmetic brand, growing under the colossal L'Oréal umbrella, which was the main reason for the comparison. On the other hand, Shiseido is the only Asian cosmetic brand that is firmly established and popular in Italy, which is an interesting comparable point in terms of the COO effect. All three brands are similarly priced and offer a wide range of cosmetics, although Sulwhasoo offers less make-up products than the other two. All three companies also have a men line, though marginal compared to the women product line. While targeting is similar, both Shiseido and Lancôme are expanding in younger and younger markets, while Sulwhasoo has not shown signs of interest in targeting younger women yet. Distribution channels are also similar, although both Sulwhasoo and Shiseido make also use of door-to-door selling, while Lancôme doesn't. Although all three brands make use of luxurious products, only Sulwhasoo strongly advertises the contents of its products, which could be a winning point in today's very informed and conscious society. Each company has its own style of advertising, but it is interesting to note that Shiseido makes use of both Western and Asian testimonials, which could benefit AmorePacific too. Considering both the similarities between the three brands, the fact that Shiseido, another Asian brand, is highly successful, and the possible advantage of Sulwhasoo in using luxurious natural ingredients, it is not to exclude that a market for Sulwhasoo exists in Italy.

Although I have only mentioned a few, Italy is indeed already saturated with competitive brands. By comparing these Korean brands with their most direct competitors, it is clear that each of them has a competitive advantage or peculiarity that would make them perhaps fill a gap in the current Italian cosmetic market offer. Before blindly throwing one selves in a new market base solely on that it is important to understand whether there is actually a need gap

that needs to be filled. With this in mind, I proceed in the next section with analyzing the consumer opinion with the aid of a questionnaire.

## **7 EMPIRICAL STUDY**

The main research issue of my master thesis is to analyze the Korea cosmetics industry from the perspective of its export potential to the Italian market and possible marketing strategies supporting such exports across difference price segments of Korean cosmetic products.

### **7.1 Data and methodology**

#### **7.1.1 Data collection and sampling**

Primary data has been collected by means of a survey. A survey is the best resource for collecting responses from a large sample in an efficient way (Saunders, Lewis & Thornhill, 2003). Because of the ability to reach a higher portion of the population and its low cost, an Internet questionnaire was used as a mean of testing the population instead of a paper survey. The Internet penetration in Italy stands at 58 per cent (Foggetti, 2014). Because of a lack of resources distribution of a paper survey in the whole country was not feasible, thus making an online questionnaire the most appropriate method. The online questionnaire was designed on EnKlikAnketa, or shorter 1ka ([www.1ka.si](http://www.1ka.si)), and was distributed among the researcher's network of coworkers and friends. The questionnaire can be seen in Appendix J.

A non-probability sampling method was selected, due to the scarcity of time and resources. Starting from the researcher's network, a snowball sampling (also called network sampling) method, in which an initial group of respondents is asked to pass the survey on to their network peers (Goodman, 1961). Furthermore, the survey was shared on popular Italian cosmetics forums (Al Femminile, ClioMakeUp forum) and Facebook pages (Cosmetici Italia, Cosmetici Coreani, Passione Make-Up) to attract diverse respondents. The websites are mostly dedicated to both cosmetics and women. The desire to attract consumers that are actively interested in cosmetics is to give an appropriate measure of the possible marketability of Korean cosmetics. Targeting women, instead, is due to the fact that they still represent the majority of the cosmetic customers, thus they are targeted to be able to correctly represent the cosmetic industry customer base.

#### **7.1.2 Pre-test of the questionnaire**

Before actual data collection, testing of the questionnaire was conducted with 10 volunteers. The participants were asked to complete the questionnaire and note any question they didn't fully understand and any other comment they had. The survey was also tested for average response time, to assure the survey completion doesn't take more than 15 minutes and stays in the parameters of an averagely long survey. A longer survey would allow for the collection of a higher amount of information, but it would inevitably decrease the completion rate of the

survey. The average completion time for the 10 testers was 12 minutes and 8 seconds, which was considered acceptable.

Some changes to the survey were made according to the testers' suggestions. First of all, although the majority of questions in the survey were designed with a 7-point Likert-type ordinal scale, testers were not able to clearly understand differences between 7 different options, so they were changed to a 5-point scale. Some questions were also re-phrased or their grammatical structure and wording changed according to testers' suggestions to achieve a user-friendlier questionnaire.

### **7.1.3 Data analysis**

The data was collected in the time frame of one month, starting from August 28<sup>th</sup> 2015 and ending on September 28<sup>th</sup> 2015. Data was collected only electronically. Out of 450 clicks on the questionnaire link, only 175 correctly completed the survey. The response rate for the survey is thus 39 per cent. The response rate is slightly higher than in other online non-paid questionnaires, where the mean response rate stands at 33 per cent (Nulty, 2008), and it was thus considered as acceptable.

#### **7.1.3.1 Sample characteristics**

The average results of the sample characteristics are summarized in Table 5. Male consumers make up 28 per cent of the total cosmetics sales in Italy (Gervasio, 2012), but they only represent 14 per cent of the survey respondents. The average age of the respondents in the study is between 26 and 35 years old (SD. 1.4), while the average for the Italian population is 44.4 years (Istituto di Statistica, 2014). Although there is a difference in the average age, the scarcity of older people that have access to an Internet connection, plus the specificity of the distribution platforms (Facebook, online forums) have to be accounted for. The total age distribution results of the questionnaire are presented in Figure 4 in the Appendix. The average number of household members in the study is 3.8 adults (SD 1.12) and 1.3 children (standard deviation 0.55). According to the most recent data, the number of children per household is equal to 1.31 (Istat, 2011), while the number of members in a household on the national level stands at 2.4 (Ministro dell'Interno, 2011). Figure 5 in the Appendix illustrates the distribution of answers in regards to household composition in the questionnaire. The mean monthly household income after tax for the survey respondents is between 3,000€ and 3,999€, substantially higher than the country's average of 2,500€ (Di Pillo, 2014), which indicates that survey respondents on average have a high purchasing power. To avoid dropout due to sensitive questions, the possibility to avoid answering was given to respondents, with the choice "I don't know/ I'd rather not answer". 29 per cent of respondents chose this option. The summary of questionnaire results for income is shown in Figure 6 in the Appendix. The question regarding respondents' average monthly expenditure for cosmetics resulted in an average of 11-30€ spent. According to a survey performed by the Italian national cosmetic



companies association, Italians spend on average around 27€ a month for their cosmetics (Belardinelli, 2015).

Table 5. Sample characteristics overview

CHARACTERISTIC	SAMPLE RESULT (n=175)
Gender	14% Male, 86% Female
Age	Average 26 - 35
Household members	Average 3.8 Adults & 1.3 Children
Personal Monthly Net Income	Average 3000-3999€
Expenditure on cosmetics	Average 11-30€

Other demographic questions, such as occupation, highest degree and region of living were avoided due to the desire to keep the survey as anonymous and discrete as possible. Although an analysis of influence of such factors on cosmetics consumption and ethnocentricity would be interesting, they are presently not considered as relevant in evaluating cosmetic purchases, so they were intentionally left out of the survey.

## 7.2 Identification of key research questions

The main purpose of my empirical study was to understand the purchasing patterns and desires of Italian consumers. Furthermore, my objective is to test whether the three Korean brands described in the previous chapter raise an interest in the Italian cosmetic consumers. The final objective is to understand the feasibility of entry for Korean cosmetics in Italy

The purpose of the questionnaire was to answer the following questions:

- Are Korean cosmetics known at all by the Italian consumer population?
- Are Korean cosmetics viewed negatively or positively in terms of country of origin?
- Could Korean cosmetics be successful in Italy and in which price/quality segment?
- Which marketing strategies would be most effective in promoting Korean cosmetics in Italy?

Based on the analyzed results of the questionnaire, a possible marketing strategy for the successful importing of Korean cosmetic products will be proposed later on.

## 7.3 Formulation of research hypotheses

The research hypotheses are based on the theoretical background reviewed in the first two chapters and on the information acquired about the Italian and Korean cosmetic industries summarized in the third and fourth chapters. The design of  $H_1$  is based on the theory of Consumer Innovativeness Theory (Goldsmith & Hofacker, 1991), which states that willingness to try new products decreases with age. It will also analyze the theory of Balabanis (2001), Han & Terpstra (1988) and Sharma, Shrimp & Shin (1995) that consumer

ethnocentrism is stronger in older consumers. Both theories point toward the same result: older consumers are less likely to be interested and willing to try Korean cosmetics.

*H<sub>1</sub>: There is a negative correlation between respondent's age and willingness to try Korean cosmetics.*

The H<sub>2</sub> hypothesis is based on findings by Maheswaran (1994) regarding the influence of trial on the level of negative COO effect. In short, consumers who have tried a country's product will be less susceptible to a negative COO effect than those that have never tried a country's product.

*H<sub>2</sub>: There is a positive correlation between product trial and COO effect towards South Korea.*

The H<sub>3</sub> hypothesis is concerned with the influence income has on willingness to try and purchase foreign products. It relies on Sharma, Shrimp & Shin's (1995), as well as Bruning's (1997) theory richer consumers are less ethnocentric and more willing to try foreign products.

*H<sub>3</sub>: There is a positive correlation between consumer income and their interest in Korean cosmetics.*

Hypothesis H<sub>4</sub> is concerned with the cosmetics market in general. It questions the correlation between age and negativity towards male cosmetics. This hypothesis is directed towards finding whether the society is growing more and more accepting of male cosmetics. No distinction is made between genders.

*H<sub>4</sub>: There is a positive correlation between age and negative attitudes (negativity) towards male cosmetics.*

The final three hypotheses, H<sub>5</sub>, H<sub>6</sub> and H<sub>7</sub> are all concerned with the three AmorePacific brands selected for the purpose of the survey. Each hypothesis is divided in two subsections: correlation with age and income, as well as the correlation with a specific decision-making factor related to each specific brand (price for the inexpensive Etude House, ingredients for the organic-based Innisfree and quality for the luxurious Sulwhasoo).

*H<sub>5A</sub>: There is a negative correlation between consumers' interest in Etude House and their age.*

*H<sub>5B</sub>: There is a negative correlation between consumers' interest in Etude House and their income.*

*H<sub>5C</sub>: There is a positive correlation between consumers' interest in Etude House and the importance they attribute to price when making cosmetic purchases.*

*H<sub>6A</sub>: There is a positive correlation between consumers' interest in Sulwhasoo and their age.*

*H<sub>6B</sub>: There is a positive correlation between consumers' interest in Sulwhasoo and their income.*

*H<sub>6C</sub>: There is a positive correlation between consumers' interest in Sulwhasoo and the importance they attribute to quality when making cosmetic purchases.*

*H<sub>7A</sub>: There is a negative correlation exists between consumers' interest in Innisfree and their age.*

*H<sub>7B</sub>: There is no correlation between consumers' interest in Innisfree and their income.*

*H<sub>7C</sub>: There is a positive correlation between consumers' interest in Innisfree and the importance they attribute to ingredients when making cosmetic purchases.*

## **7.4 Hypotheses testing**

### **7.4.1 Reliability analysis and variable reduction**

Before proceeding with the hypotheses testing, I minimized the number of variables in the questionnaire. Explanatory factor analysis was performed and the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy checked to analyze how much of the variance among variables might be due to common variance (Field, 2005). A Cronbach's alpha analysis was then performed to assess the internal consistency of the new variables. A detailed explanation on each new variable creation is present in section D of the Appendix.

### **7.4.2 Testing Results**

In this section, the hypotheses introduced in section 7.2 are now tested. Correlation analysis is used to understand the statistical relationship among variables of the study. The measure of the degree of correlation is measured with a correlation coefficient. Many exist, but the most popular is the Pearson pair-wise correlation coefficient, which measures the linear relationship between two variables (Croxtton, Cowden & Klein, 1968). Table 6 summarizes the results of the testing for all the hypotheses. A more detailed explanation of the testing is available in the Appendix J.

Table 6. Hypotheses testing results

H	Content	Correlation	Significance	Result
H <sub>1</sub>	A negative correlation exists between respondent's age and willingness to try Korean cosmetics.	-.155	0.04	Confirmed
H <sub>2</sub>	A positive correlation exists between product trial and country of origin effect towards South Korea.	.530	0.00	Confirmed
H <sub>3</sub>	A positive correlation exists between consumer income and their interest towards Korean cosmetics.	.117	0.12	Rejected
H <sub>4</sub>	A positive correlation exists between age and negativity towards male cosmetics.	.005	0.95	Rejected
H <sub>5A</sub>	A negative correlation exists between consumers' interest in Etude House and their age.	-.325	0.00	Confirmed
H <sub>5B</sub>	A negative correlation exists between consumers' interest in Etude House and their income.	.047	0.54	Rejected
H <sub>5C</sub>	A positive correlation exists between consumers' interest in Etude House and the importance they attribute to price when making cosmetic purchases.	.130	0.09	Rejected
H <sub>6A</sub>	A positive correlation exists between consumers' interest in Sulwhasoo and their age.	-.085	0.27	Rejected
H <sub>6B</sub>	A positive correlation exists between consumers' interest in Sulwhasoo and their income.	.144	0.06	Rejected
H <sub>6C</sub>	A positive correlation exists between consumers' interest in Sulwhasoo and the importance they attribute to quality when making cosmetic purchases.	.051	0.50	Rejected
H <sub>7A</sub>	A negative correlation exists between consumers' interest in Innisfree and their age.	-.192	0.01	Confirmed
H <sub>7B</sub>	No correlation exists between consumers' interest in Innisfree and their income.	.133	0.08	Confirmed
H <sub>7C</sub>	A positive correlation exists between consumers' interest in Innisfree and the importance they attribute to ingredients when making cosmetic purchases.	.094	0.21	Rejected

## 7.5 Interpretation of the results

One thing that is clear from the results is that older generations are less willing to try new products and adapt to new brands. This means that perhaps it would be easier to just concentrate on products targeting younger generations, as it will be easier to have them trust and try the products. Negativity towards male cosmetics was also shown to not be related with age. In general, all consumers showed positivity towards male cosmetics.

Also, consumers that had already had experiences with Korean cosmetics had a better opinion of South Korea and Korean products. Similarly, those consumers that had a very good opinion

of South Korea are more willing to try their cosmetics. Similarly, the study was not able to prove that people with a higher income are more inclined towards foreign products. While it might be a consequence of the specificity of the product studied or of the Italian population, it might also mean that with globalization even poorer people are more and more subject to foreign products, and while richer people have the luxury of choosing if they prefer local or foreign products, those with lower income have to adapt to what's cheaper.

H<sub>5</sub> tests interest towards Etude House in correlation to age, income and importance attributed to price. While negative correlation to age was supported, no correlation was found with the other two variables. The fact that older people might not be interested in Etude House due to its image is not surprising. On the contrary, the fact that there is no correlation to income or price sensitivity means that even consumers with higher income might be interested in this low-priced brand.

H<sub>6</sub> tested correlation of age, income and importance attributed to quality against Sulwhasoo, with none of the hypotheses being supported. Perhaps a more in-depth survey would be needed to understand the reasons behind the rejection of these hypotheses, but from the survey results alone it is clear that Sulwhasoo was the least interesting among the three proposed brands.

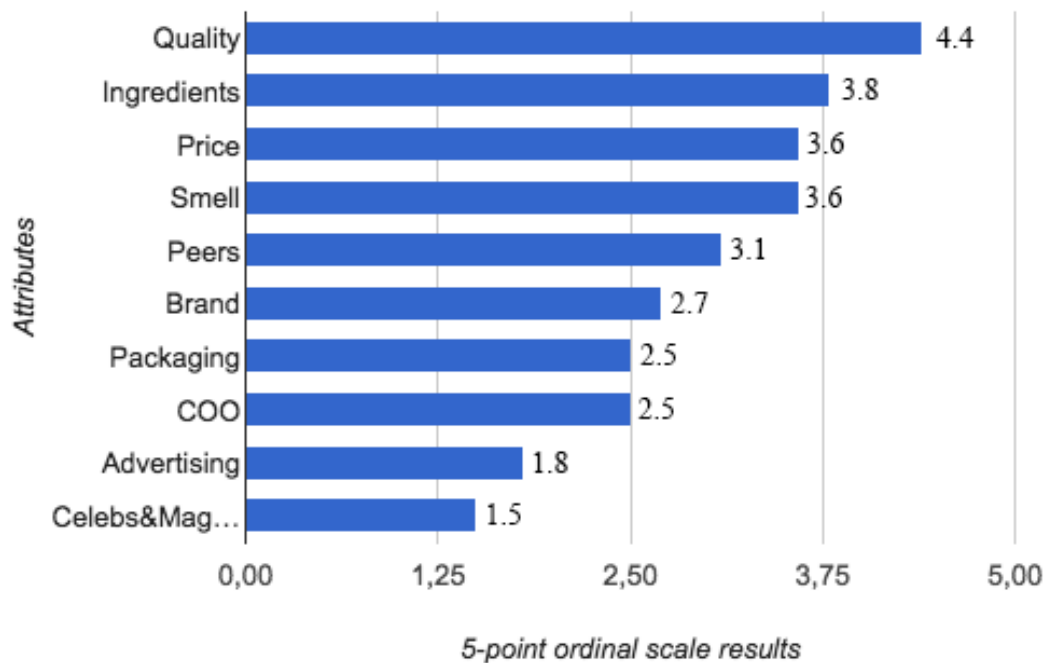
H<sub>7</sub> tested correlation between interest in Innisfree and age, income and importance attributed to ingredients. A negative correlation between age and interest in Innisfree was found. No correlation, instead, was found between income and interest in the brand. While Innisfree doesn't have a clear age target, it is perhaps more interesting to younger consumers that are more conscious about ingredients used. The average price of its products instead makes it interesting for both high and low income respondents. H<sub>11C</sub> regarding correlation between interest in ingredients and Innisfree was rejected, perhaps due to the fact that even consumers that don't usually pay any attention to ingredients would consider buying the brand if the quality and origin of the ingredients was clearly advertised to them. In fact, Innisfree ranked very high in general interest towards the brand.

According to the survey results, the most important aspects considered when purchasing cosmetics for consumers are shown in Figure 9. The insight of these results is multiple. First of all, in line with recent trends summarized in chapter 4, ingredients are becoming increasingly important for consumers, so much that they are ranking higher than price. Secondly, while peer suggestions are regarded as very important, people consider paid advertising, famous people and magazines as not very trustworthy.

General opinions on South Korea and Korean products were quite high, although Korean products ranked the highest in "needing extensive publicity", which clearly points to the fact that most consumers believe they are not known enough. Similarly, the lowest point was achieved by "they confer pride of ownership", which again shows that, although most believe Korean products to be good, they don't feel proud to own them. This might be due to their

low price (which too ranked quite high in public's opinion), or due to the fact that there is still a lot of distrust towards them.

Figure 9. Results from questionnaire on important aspects when purchasing cosmetics (5-point ordinal scale)



### 7.5.1 Limitations of the study

As snowball and acquiescence sampling was used in this survey, the limitations associated with convenience sampling must be mentioned. As the respondents are not chosen at random, they could be over or under representative of the actual population. This is, for example, the case with the male population in the study. Another example are both the youngest and oldest part of the population (65+ years) that is also not well represented in the study. Data was collected online so it should be representative of the whole country as it was not collected locally, but the absence of a specific question regarding the residence of respondents makes it impossible to be completely sure.

It must be also noted that response bias is particularly common in self-reporting researches like questionnaires (Furnham, 1986). While acquiescence bias and demand characteristics are common to all questionnaires and thus not specific to this survey, there is indeed a risk for social desirability bias and extreme responding. Non-response bias might also arise, in which a specific category of respondents do not answer the survey, which creates a difference in survey's actual responses and the potential responses. Specifically to this survey, considering the expected low open-mindedness towards male cosmetics and make-up, male respondents that do make use of cosmetics might avoid taking the survey.

It is interesting to know that among the questionnaire respondents, 33 percent already knew or had tried Korean cosmetics before, which might have influenced the results. It is difficult to assert whether Korean cosmetics are already popular in Italy or whether the survey sample is biased and not representative enough.

Another limitation of the study is that only correlation analysis was used as a statistical tool in the study. Correlation does point toward a relationship between two variables, but does not indicate either causation or direction of such relationship. Furthermore, a third variable might be influencing the relationship between the two variables. This fact too cannot be seen by just performing a correlation analysis.

Nevertheless, the survey still gives some insight regarding cosmetics consumption, especially for younger adults.

### **7.5.2 Theoretical implications and contributions**

While most theories proposed by other authors were confirmed in this study, some were in conflict with the results found with the survey. Josiassen's (2011), Lohano, Ahmed, Quareshi & Siddiqui's (2014) theory that women are more ethnocentric and less willing to try foreign products than men tested with hypothesis H<sub>4</sub> was rejected in this study. Sharma, Shrimp & Shin's (1995) and Bruning's (1997) theory that richer consumers are less ethnocentric and thus more willing to try foreign product too was not supported in this study. Perhaps it would be interesting to further test this theory in recent years, as the situation might have drastically changed with the increased availability of cheap foreign products and increasing prices of local production.

### **7.5.3 Managerial implications and future research**

Based on both the theoretical part of the thesis and the information on Italian cosmetic consumers acquired with the empirical study, I am, in this chapter, proposing a marketing strategy for the successful entry in the Italian market. The marketing strategy is tailored to AmorePacific and its two brands discussed in this thesis, but it can be easily generalized to any Korean cosmetic firm that looks at Italy as a potential market.

#### **7.5.3.1 Suggested mode of entry**

The decision of which mode of entry to adopt is based on multiple factors. It is a trade-off between the investment needed and the amount of control a company is willing to give up. A literature review on the mode of entry theory is present in section C of the Appendix.

Regarding this study, Italy is a totally new market for AmorePacific. The company does operate in France, but in a minor scale, and it doesn't sell in other European countries. For this reason, relying on locals for acquiring knowledge of the market would be a good choice. On the other hand, there are some factors to consider. AmorePacific has always wholly owned

both local and international subsidiaries. Its foreign stores are also owned by AmorePacific. Even the French subsidiary is totally owned. AmorePacific thus has no knowledge and previous experience in managing contractual modes like franchising and licensing, so relying on them only in Italy is not advisable. Exports could be a good idea for Innisfree, but that would perhaps not be the best choice for Etude House, that also needs its own mono-brand stores to maximize its competitive advantage.

AmorePacific already has a wholly owned subsidiary in France, on which it could perhaps rely initially. Managing directly its sales, distribution and marketing is though very important in order to be competitive and successful, so a wholly owned subsidiary would be the best choice.

#### 7.5.3.2 Market segmentation

Each of the brands analyzed is already marketed towards a specific market segment in South Korea. Etude House targets younger women, while Innisfree targets those that are most interested in natural and organic products, with no specific age target. According to the results of the questionnaire, Etude House is mostly interesting for younger consumers. It should thus keep younger women as its target. The survey has though pointed out that no correlation exists between consumers' price sensitivity and interest in Etude House. While it is being advertised as a cheap brand in South Korea, there is no need to only target very price sensitive consumers. It should maintain its low prices as much as possible, but not advertise it excessively. Innisfree resulted also more interesting for younger consumers than older ones. This could also be due to the increasing interest younger generations have in natural and organic cosmetics. Keeping consumers that are very sensitive to ingredients as its target is a very good idea. Innisfree would perhaps not be able to successfully compete on the general market, but becoming a niche seller of organic and natural cosmetics would make it successful.

#### 7.5.3.3 Marketing mix

##### Price

In general, for both brands, prices shouldn't be too high, as to not scare off potential customers, but they shouldn't be too low either, as people tend to associate quality with price, and the risk that Korean cosmetics would be associated with cheap quality is quite high.

As already said, since the questionnaire results didn't show a strict connection between price sensitivity and interest in Etude House, there is no reason to only work towards keeping prices low. Etude House has many things that differentiate it from competitors, such as packaging and store interiors, so it should work towards differentiation instead of competing on price. Keeping prices between 10 and 30 euros would be the best choice, in order to remain in the same price segment as Kiko and Pupa, that are low-priced, but still viewed as good quality brands.



The same goes for Innisfree. Although the prices of Innisfree are already quite high in Korea, the brand should work towards competing on the characteristics that differentiate it instead of price. It should work towards having similar prices to other high quality organic and bio cosmetics available on the Italian market.

## Product

Although skincare is the biggest market segment in South Korea, Italians are more interested in makeup than skincare. The choice is either to conform to the trend already present or to try to make skincare more popular by offering a wide variety of skincare products. While Etude House has a vast array of makeup products, Innisfree offers mostly only skincare products. It would thus be impossible for Innisfree to concentrate on makeup products.

For this reason, I suggest keeping the same product line as in Korea, and advertise the skincare products extensively.

## Place

The distribution channel is a very important aspect for AmorePacific, especially considering the two discussed brands have a very different optimal distribution channel.

Etude House's stores are one of the main characteristics of the brand, so selling the products in anything but a mono-brand shop would not be the best idea. Having its own stores would allow the company to personalize the store as it wishes. If it relied on other distribution channels, such as perfumeries or drug stores, it would not be able to achieve the same results. Although Etude House is also sold in department stores in South Korea, it is especially important to attract customers in the first phases when the brand is not known, and an owned store would certainly attract more customers.

Innisfree instead should distribute its products to maximize the sales to its target market, which are people who care about the ingredients in the cosmetics they buy. Herbalist shops and pharmacies are the best option in this case. Considering the niche market and the growing popularity of these two distribution channels for purchasing cosmetics, there is no need to invest in owned stores.

## Promotion

The first thing that is clear from the questionnaire is that if AmorePacific wants to be successful in Italy, it needs to clearly promote its brands and the Korean cosmetic excellence to Italian consumers. While a negative COO towards South Korea doesn't exist, consumers mostly have little to no knowledge of Korean cosmetics, and thus do not regard them as good quality product. A good promotion strategy, though, could mend this problem.

According to results from questions 18 and 19 it is clear that survey respondents believe Korean cosmetics require a lot of advertising. 62 per cent of survey respondents stated that

their opinion on Korean cosmetics positively improved after knowing that Korean cosmetics are already popular in Asia and in America. Similarly, 59 per cent stated that they would be more inclined to purchase them if they were advertised in local magazines or by famous stars. These two results should be interpreted both as a positive and as a negative signal: from one side, although the results of the survey are already promising, an advertising campaign with the objective of informing customers about Korean cosmetics could drastically improve the chances of consumers trying the products. On the other side though it is clear that consumers are still skeptical about Korean cosmetics and would need a confirmation by peers or local media to know whether to trust them or not. In the next few subchapters I analyze the promotion tools that emerged as being the best for a successful promotion.

### Advertising

Consumers are not enthusiastic about Asian models and stars in the adverts, so using western models would increase the trust by consumers.

Regarding using men for female products advertising, while the majority of consumers replied that they are not bothered by it, the majority also stated that they would not think the product is directed at women, and that they would probably not buy the product, even if it was advertised by their favorite actor or singer. Shortly, perhaps such advertising technique would not be popular in Italy as it is in Korea and might instead lower the company's profits.

### Use of samples

According to results from question 8 about cosmetic samples trial, only 34 per cent of consumers always try received samples. 29 per cent of respondents try them frequently. While these sum up to the majority (63 per cent), it is an indicator that a lot of consumers still don't feel like trying samples. While the survey doesn't go deeper into this, it would perhaps be interesting to understand the reasons behind it: perhaps too many samples are given out every time, or there is not enough product to be able to understand whether a product is valid or not. Interestingly though, according to results from question 17, 51 per cent of respondents stated that they would absolutely try samples of Korean cosmetics if they were to receive them, and 35 per cent answered they would probably try them. This again can be interpreted as a sign that Italian consumers are indeed curious about Korean cosmetics enough to want to try them.

### Trend Setters

While only 39 per cent of respondents actively watch videos about cosmetics on YouTube and other socials, 42 per cent of them buy based on the suggestions given in these videos. This number is high, especially considering that recent studies have found that people don't trust in advertising anymore (Ewing, 2012). While data obtained by HubSpot shows that only 25 per cent of consumers trust in advertising and purchase based on it, the results emerging from the survey are interesting. Although companies frequently sponsor them, people tend to regard YouTubers as peers more than as advertisers. Indeed, people are 71 per cent more likely to trust opinions on Social Media more than actual advertising. While a lot of research

already exists on the influence of Social Media and their use as an advertising tool, the specific influence trend setters have in the cosmetic industry should perhaps be analyzed more in depth.

## **CONCLUSION**

The objective of this research was to understand the possible interest Italian consumers hold towards Korean cosmetic products and to determine which marketing techniques would be most appropriate for their exporting to Italy. The increased globalization and new trade agreements between Europe and South Korea, paired with the rising popularity of Korean cosmetics abroad, make the entry of Korean cosmetics into the Italian market very likely.

In this study we found interesting and generalizable insight not only for the three specific brands, but also for Korean cosmetics in general. First of all, the general opinion towards South Korea and its products was found to be positive, so that a negative COO effect is quite unlikely. While AmorePacific's failure in France 1990 was to be attributed mainly to a negative perception consumers had of South Korea and its products (Ernst & Young, n.d.), both the country's financial situation and its rise as an economically strong and technologically advanced country have completely changed the effects that a "Made in Korea" product has on western customers. A high desire to try samples of Korean cosmetics, if they were to receive them, and the willingness of most respondents to try them out if they were made available in stores are also very good signs for Korean cosmetic companies.

The results obtained, both with the literature review and the primary research, show promising possibilities for AmorePacific in Italy. While three brands were analyzed, Sulwhasoo was considered only mildly interesting for respondents. First of all, no target interest group has been derived from the survey, as no connection with either age or income has been supported. A more in-depth survey on the luxury cosmetic market in Italy would be needed to have a better understanding of the situation and the possible strategies to take in the case of Sulwhasoo.

As for the other two brands, the Italian market proved to be a good potential market. While direct entry into the market is suggested for both brands, Etude House should use its peculiar store design as a competitive advantage and open mono-brand stores. Innisfree, on the other hand, should leverage on its peculiar customer segment and sell through pharmacies and herbalist stores, as to improve the positive image of the brand. Lastly, an extensive advertising of both brands would be advisable, to achieve even better results and win the trust of consumers, which showed to hold little knowledge of the Korean cosmetics excellence.

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## **APPENDIXES**



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## Appendix A: Literature review on decision-making factors

Table 1. Literature Review on decision-making factors

GENERAL DECISION-MAKING FACTORS	LITERATURE REVIEW
<b>Experience</b>	- Past decisions (Juliussen, Karlsson & Garling, 2005). - Negative experiences (Sagi & Friedland, 2007).
<b>Demographics</b>	- Age (Reed et al., 2008; Lizarraga et al., 2007). - Gender (Lizarraga et al., 2007).
<b>Innovativeness</b>	- Innovative behavior (Bartels & Reinders, 2011).
<b>Personal characteristics</b>	- Decision-making style (Harren, 1979; Leo et al., 2005). - Consumer Style Index (Leo et al., 2005).
<b>Product</b>	- Product category (Bartels & Reinders, 2011). - Product characteristics (Kawa et al., 2013). - Brand loyalty (Sproles & Kendall, 1986; Leo et al., 2005).
<b>Culture</b>	- Hofstede's cultural dimensions (Leo et al., 2005).
<b>Involvement</b>	- Product involvement level (Krugman, 1965). - Consumer involvement (Traylor, 1981; Slama et al., 1985).
<b>COSMETICS RELATED DECISION-MAKING FACTORS</b>	
<b>Demographics</b>	- Age, gender & marital status (Ramshida et al., 2014).
<b>Involvement level</b>	- Cosmetics low involvement (Tsai & Kand, n.d.).
<b>Country</b>	- Country development level (Bilkey et al., 1982; Wang et al., 2004; Frimpong, 2011).
<b>Innovativeness</b>	- Novelty over brand (Ponbamrungwong et al., 2009).
<b>Product</b>	- Packaging (Limbad, 2013; Suelin, 2010). - Quality (Desai, 2009).
<b>Brand</b>	- Brand (Phoosangthong et al., 2006; Ukpebor et al., 2008). - Trust in brand (Limbad, 2011)

## Appendix B: Summary of main consumer ethnocentrism theories

Table 2. Summary of main consumer ethnocentrism theories

<b>CONSUMER ETHNOCENTRISM</b>	“Consumer ethnocentrism”; consumer ethnocentrism scale (Shimp et al., 1987)
<b>BROADER GROUP</b>	<ul style="list-style-type: none"> <li>- Part of economic nationalism (Baughn et al., 1996).</li> <li>- Part of national identity (Keillor et al., 1999).</li> </ul>
<b>ANTECEDENTS</b>	<ul style="list-style-type: none"> <li>- 4 categories: socio-psychological, economic, political &amp; demographic factors (Shim et al., 1987; Rosenblatt, 1964; Shankarmahesh, 2006).</li> <li>- Demographics (Balabanis, 2001 ; Han et al., 1988 ; Sharma et al., 1995).</li> <li>- Product categories (Chryssochoidis et al., 2007 ; Balabanis et al., 2004).</li> </ul>
<b>EFFECTS ON PURCHASING BEHAVIOR</b>	<ul style="list-style-type: none"> <li>- Preferring local products (Kayna et al., 2002; Balabanis et al., 2004).</li> <li>- Morally wrong to buy foreign (Shimp et al., 1987).</li> <li>- Don’t buy foreign but quality not affected (Supphellen et al., 2003; Huddleston et al., 2000; Baughn et al., 1996).</li> <li>- Foreign products perceived quality (Han, 1988; Herche, 1994; Shimp et al., 1987).</li> </ul>

## Appendix C: Korea’s economic history

The history of South Korea as a separate state formally begins in 1948, in the aftermath of World War II. Up to then, Korea was occupied by the Japanese forces, which maintained control over the Korean economy and prohibited Koreans from owning any kind of business which was not strictly related to agriculture and mining (Frank, Kim & Westphal, 1975). The Japanese used the northern part of Korea (North Korea after the split) as the industrial station and left the southern part with only agriculture. When the Japanese were forced to leave, the government took control of their assets and redistributed them to individuals according to personal connections. Companies at that time related to either the agricultural sector or mining sector only, like Samsung or Hanwha, got these assets to use as a springboard for further growth. Most of the companies, which later became the top Korean *chaebols* (literally “business association”, refers to Korean family owned business groups (Chang, 2003); top 10 chaebols account for 76.5% of country’s yearly GDP in 2011 (Kim, 2012)), had been beneficiaries of many privileges from the government. Samsung, for instance, was one of the few importers of sugar, wool, paper and medicine in the early years after the war and after the government briefly prohibited import of these goods, Samsung had a monopoly on their sale. This obviously was a big advantage for them and an even bigger source of profits, which they reinvested in other business sectors (Chang, 2003).

The newly formed government of President Rhee, and subsequently the second government by Park, felt the need to show citizens a quick improvement in Korean economy. They

supported a few bigger businesses in South Korea with subsidies, allocating all resources to them and by granting them preferential rates for borrowing from banks, as well as by overlooking more than a few illegal behaviors which these firms had under a policy known as “*guided capitalism*” (Pecteu & Suci, 2013, p. 601). This of course fostered fast growth of a few large businesses, but proved to be an impediment for very small businesses to continue operating and a barrier to entry for new firms. Those, which later became what we now know as chaebols, also grew thanks to foreign direct investment (FDI). The government served as a guarantor in case these big firms were unable to pay foreign investors back. In exchange for this, the government was free to direct chaebols in whichever economic sector they preferred, resulting in the majority of chaebols dominating the industrial sector, mainly in trading, manufacturing and heavy industries (Chang, 2003).

The government serving as a guarantor meant that chaebols were free to jump into new business sectors without caring too much about the consequences, as the government was always ready to “pick up the bill”. The government chose only few companies to assign licenses in the hope of fostering economies of scale, which resulted in those firms growing beyond measure, but also in the problem of overcapacity in those firms. Chaebols tried to win government contracts by personal connections with the government and by actively participating in politics (IWB, 2014). Another thing that brought about the problem of overcapacity was the government interest in encouraging sales growth instead of profitability. This of course was not a good choice for chaebols, which had increasing overcapacity and really low margins (Chang, 2003).

One of the strong points of Korean chaebols was the fact that instead of investing resources in developing new technologies, they acquired foreign technologies, which, together with the very low cost of labor in South Korea at that time, made them very competitive exporters. The government also imposed traffic barriers on manufacturing imports, in an attempt to foster national production. They also hosted very hostile policies against labor unions, to safeguard their economic advantage in terms of cheap labor force. In the 1980s the Won, South Korea’s official currency, also lost value against the Japanese Yen and this further supported their strength in export. This advantage was though lost in the 1990s, as labor wages doubled in the period from 1985-1995. Korean exports became increasingly less competitive and South Korea was forced to change from imitation to innovation.

In the late 1980s the chaebols were able to free themselves from the government, as they were able to continue growing without its aid. Chaebols were then already so strong that the government, now no more in control of chaebols, enacted various policies, antitrust laws and regulations in the attempt to stop their growth. The most notable one was the enactment of the Monopoly Regulation and Fair Trade Act in 1980 (Lee, 2002). The purpose of this act was to encourage fair economic competition by eradicating dominant monopoly positions in any sector and by erasing the excessive concentration of economic power. This act was later amended many times, to arrive at its final modified version in 2002 (Lee, 2002). The Fair Trade Act marked out the top 30 chaebols and put limits on their debt guarantees, cross

shareholding and enormous loans. As much as this law improved the situation from the government perspective, other initiatives had the opposite effect. In 1983, the government started privatizing banks, which was of course the perfect occasion for chaebols to get control over them (Haggard, Lim & Kim, 2003). Even though the quantity of shares they could acquire was regulated and limited, it was still enough to retain a certain control over them. Another important source of power and capital for chaebols was the elimination of limits on the amount of non-banking financial institutions (insurance companies, trust funds, pension funds) they could own. They later used their control over these institutions to acquire multiple and far too big loans (Chang, 2003).

In the 1990s, another event overturned chaebols. South Korea started eliminating import tariffs to increase their imports, sometimes even importing more than what they exported, which posed a serious problem for chaebols, given that they usually used their monopolistic profits in the Korean internal market as a safety island when losing money on external markets. South Korea started also seeing intense competition from other Asian developing countries, such as Indonesia and China. All these things together brought about the crisis of 1997 (Kim, 2006).

The Asian Financial Crisis in 1997 that started in Thailand, gripped most of Eastern Asia and posed a serious threat of a worldwide financial crisis (Tang, 2000). South Korea was one of the countries most affected by this crisis (Chang, 2003). The reasons for the crisis in Korea remain uncertain, but many point at chaebols as the main culprit of the big effect the crisis had on Korea, mainly due to their excessive loans. In most cases, they were not backed up by any guarantee. They were used by chaebols to finance their aggressive growth strategies. Another reason was the fact that from the beginning of the '90s South Korean deficit had been rising, which forced the government to encourage capital inflows, thus increasing short-term foreign-currency debts of financial institutions. Most of the foreign capital accessing Korea went to chaebols, which used this liquidity to further finance their long-term investments in their capacity. This created instability between short-term foreign liabilities and long-term domestic investment (Chang, 2003). All this happened when the dollar was very weak, but as it started regaining its position in 1995, Korea found itself with a foreign-currency debt much higher than what they accounted for. This forced the government to use their already very low foreign reserve to finance chaebols' short-term obligations (Tang, 2000).

In any case, Korea was, at least from a superficial look, still doing well despite the crisis. It was still part of the fastest growing developing countries and was later able to escape the crisis, but not with zero repercussions (Kim, 2006). Its national debt-to-GDP ratio more than doubled due to the big crisis of 1997 and in that period the number of firms that went bankrupt every month more than doubled. Even eleven out of the thirty biggest chaebols declared bankruptcy (Kim, 2006). Major banks became insolvent, foreign investors left the country and the government dried out its foreign currency reserve. According to Chang

(2003) the main problem Korea had to face afterwards was the inability to adapt to the change from a state-controlled economy to a market-based economy.

Koreans escaped the crisis thanks also to the relief funds provided to them by the International Monetary Fund, which though had many demands in exchange. It pushed Korean government to reorganize chaebols by lowering their debt-to-equity ratios and enacted the “Big Deal” (Chang, 2003). Such a deal ordered chaebols to reorganize their businesses so to decrease diversification and let them focus only on a few strong business sectors, as for example forcing one big company to merge its electronic business with a rival in return for acquiring its rival’s car business (BBC, 1998). The government’s attempts to reorganize chaebols weren’t effective at first, but things started looking better for Korea already at the end of 1999. By then the government announced that it was able to repay the International Monetary Fund before the due date and that it needed no further foreign help (Kim, 2006). South Korea has continued growing ever since, when it is positioned on the 13<sup>th</sup> place on a world scale according to its GDP (IMF, 2014), but talks about the need of restructuring of chaebols are still up-to-date.

## **Appendix D: Brand comparison**

### **1.1 Low segment brands**

#### **1.1.1 Etude House**

Etude House is the most popular among AmorePacific’s brands, especially with younger people aged 15 to 30 years. Its theme, romantic fairytale, and its concept, princess-like beauty, are the basis of all of its products. According to their website, the brand mission is to create an environment “where customers can feel that they are fairytale princesses in their romantic private boudoir adored with ornate trinkets and feminine floras”. To achieve this, it created not only affordable products with a high variety of colors and a lovely design, but it also established a wholistic store experience. In an Etude House store, built and presented like a princess chamber, clients are treated and pampered like princesses (AmorePacific website, 2015).

Etude House presents all kinds of cosmetic products, from makeup lines to perfumes, from skincare to shampoos. Products are fruity or florally scented and are available in all kinds of pastel colors, with pink being the most popular. The fundamental theme for packaging is being colorful, with some packaging being elegant and princess-like and others being presented with animal shapes (AmorePacific website, 2015). The employed distribution channels are multiple. Etude House has its own mono-brand stores, but it is also sold in department stores alongside other AmorePacific brands and of course also online. It is though not one of the brands present in AmorePacific’s multi-brand stores Aritaum. For advertising, Etude House relies on famous Kpop stars and actors, both male and female. They are usually stars popular with younger consumers (AmorePacific website, 2015).

### 1.1.2 KIKO

Founded in 1997 by the Percassi group, KIKO Milano is an Italian professional cosmetics brand offering a line of make-up and skincare treatments. Its motto is “Be what you want” and its objective is to bring affordable but high quality cosmetics to women of all ages and social statuses. Its main strong point is the very competitive prices and outstanding quality of its products. It is able to offer very low prices thanks to the almost total absence of advertising, which allows the brand to cut on costs. KIKO offers around 1000 different products, with some evergreens, yearly innovations and short seasonal limited editions. Packaging is very elegant and minimal, usually in total black or silver. Its distribution channel are their own mono-brand stores. More than 500 stores are available in Europe and are in continuous expansion (KIKO Milano website, 2015). It’s market share in the Italian cosmetic market, in the color cosmetic segment, is of 11% market share (Euromonitor International, 2015).

KIKO is comparable with Etude House mainly for its low price strategy but high quality products. Furthermore, just as Etude House, KIKO sells in mono-brand stores, and is not available in perfumeries and drug stores. The most visible difference is the color range (while Etude House mostly has pastel colors, KIKO has a higher variety of shades, mostly cold and darker ones) and the packaging style.

### 1.1.3 PUPA

PUPA was founded in 1974 by the Micys Company. It is mostly famous for its very colorful make-up kits. It quickly grew to be one of the most successful Italian cosmetic companies, and although it has now expanded to other products like body and face treatments, bath products and perfumes, make-up kits are still its most representative product. The most popular color for PUPA is red, its signature color. This is followed by black, the color of fashion, and pink, the color of care (PUPA website, 2015). PUPA currently sells in 65 countries, although its presence in North America and Asia is quite limited (PUPA website, 2015). Its prices are very competitive, and it has always invested extensively in R&D to be able to stay up to date with trends and innovations in the make-up industry. PUPA has a very distinctive look also in packaging, with its make-up kits usually packaged in colorful boxes in the shapes of animals and beauty objects, although in recent years, as PUPA consumers have become adult women, PUPA has also switched to a more “mature” look. Its advertising is colorful and young, but always tries to stick to the “Made in Italy” image, by associating cosmetics to Italian characteristics and by using famous Italian actresses and models as representatives. Its distribution channels are mainly perfumeries and selected department stores (PUPA website, 2015).

## **1.2 Middle segment brands**

### **1.2.1 Innisfree**

Established in 2000 by AmorePacific, Innisfree is Korea's first all-natural brand (Innisfree website, 2015). It is the only Korean firm certified by the France's ECOCERT organization for its natural and organic ingredients. According to the Innisfree website, more than 70 per cent of its ingredients are completely natural. Most of these ingredients come from Jeju, a small island in South Korea considered a world heritage for its untainted beauty and the amount of natural products, such as Jeju tangerines, Jeju green tea, Jeju sea mustard and gulfweed, green peas, Jeju camellia, nutmeg tree and Jeju volcanic pore clay. These are all ingredients used in Innisfree cosmetics. Its motto is to pursue beauty while preserving the balance of nature (Innisfree website, 2015). After opening in South Korea in 2000, it went global in 2012, opening first in Shanghai, then expanding to Hong Kong and Singapore in 2013, and later to Japan, Malaysia and India in 2014 (Innisfree website, 2015). Innisfree is working really hard on not only selling natural products, but also promoting recycling and nature-friendly behavior from its customers.

In 2003 it opened a campaign named "Used bottle campaign", in which customers can return empty cosmetics bottles and receive points that can be used for purchasing new products. According to their website, more than 4 million bottles have been collected so far by Innisfree. Furthermore, Innisfree launched two other campaigns: the "Eko handkerchief" in 2010 and "Play green campaign" in 2014 to promote people to stop excessive waste in the beauty industry. Innisfree is also famous for donating 1 per cent of its profits to nature, in the forms of donations and by building hiking trails and forests (Innisfree website, 2015). Innisfree mostly sells skincare products and make-up, both for males and females. Prices of Innisfree products are between 15 and 40\$, and are considered as a middle-priced brand in South Korea. Packaging is simple, but makes references to nature and is 100 percent reusable. Its advertising features famous Korean actors and models, all portraying natural beauty features. Distribution is carried out both in owned mono-brand stores and in major department stores that carry AmorePacific brands, and sampling is usually distributed when visiting stores or when purchasing Innisfree products (Innisfree website, 2015).

### **1.2.2 Lush**

Lush cosmetics is a company founded in United Kingdom in 1995, after its founders, Constantine and Weir, were supplying The Body Shop for almost 20 years. Lush products include soaps, shampoos, shower gels, masks and some make-up products. Their products are 100 percent vegetarian, 83 percent vegan and 60 percent preservative-free (Lush website, 2015). Their ingredients are mostly fresh fruits and plants, like grapefruit, vanilla beans, avocado butter, coconuts. While the majority of ingredients are natural, some products still contain a small amount of silicones, which the company defines as "good and safe silicones" (Lush website, 2015). Its most distinctive characteristic is that all of its products are hand-

made by Lush employees to increase freshness. Lush has always been very engaged in ethical and ecological behavior, and has been acting against animal testing, against the use of sodium palm kernelate and they have decided to remove palm oil altogether from its ingredients in 2008. It has also created a product named “Charity Pot”, a product whose 100 percent of earnings go to charity. Lush Cosmetics is said to have donated more than \$4 million to multiple charity organizations in 2014 alone (Hovitz, 2014). Lush mostly carries shower products body care, such as soaps, bath bombs, shampoos, but also creams and masks for the face. It does carry a few make-up products, although it is not its business focus. Prices of Lush cosmetics go from 5\$ for the cheapest products to 65\$ of its most expensive face cream. Packaging is 90 percent recyclable and the company states it is working towards 100 percent recyclable packaging (Lush website, 2015). Like Innisfree, Lush too offers its customers the chance of getting a free product when bringing old packaging back, although it only applies to certain types of packaging. Lush doesn’t make extensive use of advertising. Instead, it focuses on marketing campaigns that attract customers in stores, as for example the use of bubble-filled bathtubs outside their stores. Distribution is carried out through owned mono-brand stores, available in major city centers and department stores. Sampling too is offered for most of its products on request (Lush website, 2015).

### **1.3 High segment brands**

#### **1.3.1 Sulwhasoo**

Sulwhasoo is said to be one of the oldest Korean skin-care brands still present in Korea. It is the first “science-based Korean luxury medicinal skincare system” (Sulwhasoo website, 2015, para. 2). Dedicated mostly to well-off women from 30 years onwards, it makes use of traditional Korean medicinal herbs and follows the philosophy of “Sang-Seng”. This focuses on balancing inner and outer energies of the skin (Sulwhasoo website, 2015). Although Ginseng is its most representative ingredient, Sulwhasoo makes use of a variety of very exclusive natural ingredients, like the Snow Lotus, 35-year-old Wild Ginseng, Siberian Young Antlers, Chinese Peony, East Indian Lotus and more than 60 other natural ingredients. Due to the scarcity of such ingredients, some of the most exclusive Sulwhasoo products are also limited in production, which makes them even more luxurious and desirable for its consumers. In 2004 Sulwhasoo expanded first to Hong Kong, where it quickly became one of the top three most sold high-end luxury skincare brands. In 2010 it first started selling in North America’s most exclusive department store, Bergdorf Goodman, where it was selected a “Best Pick” item and quickly became popular. Finally, in 2012 it entered the Singapore’s market, where its most popular product, the First Care Activating Serum quickly ranked first in sales (Sulwhasoo website, 2015). It also gained a lot of popularity after it was found out in 2012 that North Korea’s leader Kim Jong-un’s wife, Ri Sol-Ju, is a loyal customer of Sulwhasoo (Park, 2015). Its popularity is not only visible abroad, but also in Korea, where five in ten women over thirty make use of its products daily (Sulwhasoo website, 2015). The brand has been the best-selling cosmetic brand in Korean department stores for ten straight



years and represented 17 per cent of AmorePacific's total sales in 2014. The figure is expected to drastically increase in 2015 and make the brand the country's most sold brand, thanks to the increasing popularity both in South Korea and in other Asian countries (Park, 2015). Sulwhasoo mostly sells creams and serums, while in the makeup product category, only foundations and cushions are available. Pricing starts at 40\$ for cheaper creams, but reaches up to an astonishing 900\$ for its most luxurious Timetreasure Renovating Cream, which is especially popular among Chinese consumers.

Packaging too expresses the elegance and luxury of Sulwhasoo products. Its packaging mixes elegant calligraphy with modern curves and design, completely representing the yin and yang philosophy of the brand. They also make use of the Prunus mume flower pattern, which is inspired by the designs in the Korean royal palaces. Sulwhasoo makes use of only five colors: yellow for the Basic Line, white for the Snowise line, red for the Extra Refining Line, blue for the Hydroaid Line and black for Men products (Sulwhasoo website, 2015). Although some advertisements portray beautiful models and actresses in their thirties and forties, most Sulwhasoo adverts only display the products and its description, without making use of any kind of testimonials. Distribution is carried out both through AmorePacific multi-brand store Aritaum, major luxurious department stores and duty free shops, but also through door-to-door sales, which increased consumers' perception of the quality of their customer service (Sulwhasoo website, 2015).

### 1.3.2 Lancôme

Founded in 1935 by Armand Petitjean, a French perfumer, and part of the L'Oréal group since 1964, it is today known as one of the most successful luxury cosmetic brands in the world. Its first products were five fragrances, launched at the World's Fair in Brussels in 1935. It also launched its first skincare cream Nutrix in 1936, followed by make-up and other skincare products (Chesters, 2012). Its main beliefs are ultra-femininity, emotions, joie-de-vivre (happiness of living) and beauty (Lancôme website, 2015). After 78 years of successes, Lancôme became the world's number one luxury cosmetic company, with the L'Oréal group reaching number one position as the largest company (Park, 2015). It is now selling in 160 countries around the world (Lancôme website, 2015). Its target customers are mostly adult women, although the company is actively making an effort in reaching the younger population too. Although Lancôme became famous through word-of-mouth in its first years, which made founder Petitjean state that Lancôme will never advertise, today the company is among the top advertisers in the luxury beauty industry. Not only actresses and supermodels, but also makeup artists and designers are hired to testify and provide persuasive testimonials for the brand.

The company's desire is to portray women that are a model of "positive beauty", that's why its ambassadors are "charismatic and fully accomplished women" (Lancôme website, 2015). Prices of products go from \$25 for its cheapest lipstick to \$360 for its most expensive rejuvenating elixir, the Absolue L'extrait cream (Lancôme website, 2015). Packaging is

mostly luxurious and elegant. Lancôme is working hard to implement recyclable packaging in its lines, starting from the Aroma Blue body treatment (Nichol, 2010). It makes use of multiple channels of distribution, from selling through owned stores, department stores, duty free shops and perfumeries, to selling through L'Oréal's "Travel Retail channel", which comprises airports, airlines and ferries (L'Oréal website, 2015). Finally, Lancôme has been making an effort in expanding its online presence in recent years (Business Wire, 2012).

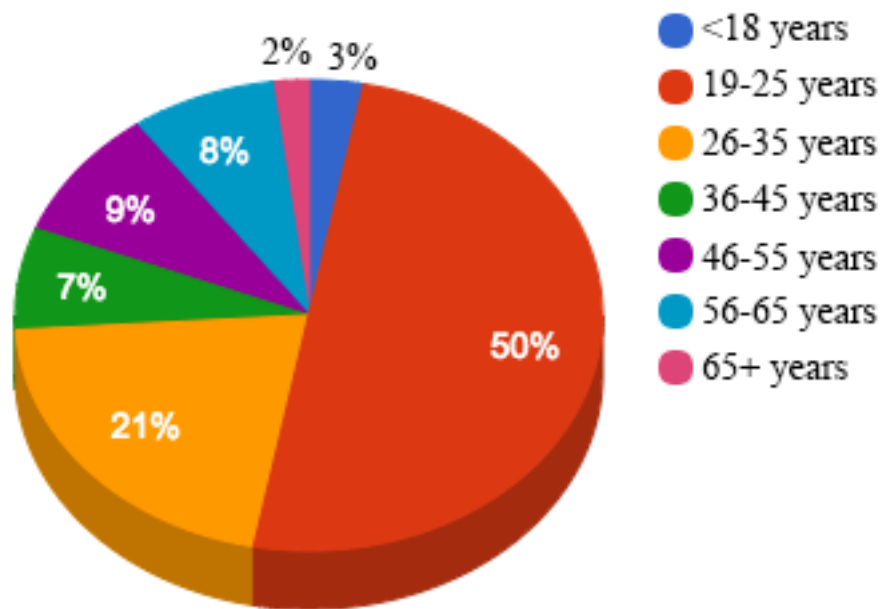
### 1.3.3 Shiseido

Shiseido, founded in 1872 in Japan is the oldest cosmetic company in the world (Shiseido website). It was first founded by Arinobu Fukuhara, a Japanese marine pharmacist and was the first company to introduce skin-colored foundations and powders in Japan, when white powders were still the only available option. From Tokyo, it extended its sales to the rest of Japan in 1923, reaching Taiwan, Singapore and Hong Kong in 1957. In 1962 it reached Hawaii, starting to conquer the American market. It reached Europe too in 1968, by starting its sales in Italy. Today, it is the largest cosmetic company in Japan, and the fourth largest cosmetic company in the world (Park, 2015) counting around 25,000 stores worldwide (Shiseido website, 2015). Its products are sold in major department stores, pharmacies and specialty Asian retailers (Shiseido website, 2015).

Just as AmorePacific, Shiseido is too famous for its beauty consultants, called "Miss Shiseido", which celebrate 80 years of history in 2014 (Shiseido website, 2015). "Miss Shiseidos" were door-to-door sellers and beauty consultants in the first half of the 20<sup>th</sup> century. They were educated in dermatology, beauty, cosmetics and makeup, and were considered as both beauty icons and models to follow for most Japanese females. Shiseido makes use of both Western and Asian models for its adverts, and has even had Orlando Bloom as its testimonial in 2007 (Sasha, 2007). Its target customers are mostly women over thirty, although the company is expanding to younger consumers (25-35 years old) with its recent Ibuki line (Cosmetic Business, 2013). Shiseido sells not only creams and makeup, but also perfumes, shampoos and a lot more, everything sold in elegant and luxurious packaging. The company has won the prestigious "Luxe Pack Art of Packaging Award" in 2012, recognition for its highly artistic packaging (Shiseido website, 2015). Prices start from around \$15 for basic make-up products to \$300 for its Future Solution regenerating cream, if we exclude the \$13,300 limited-edition face cream produced for the 140<sup>th</sup> anniversary of the company (Fujita, 2012).

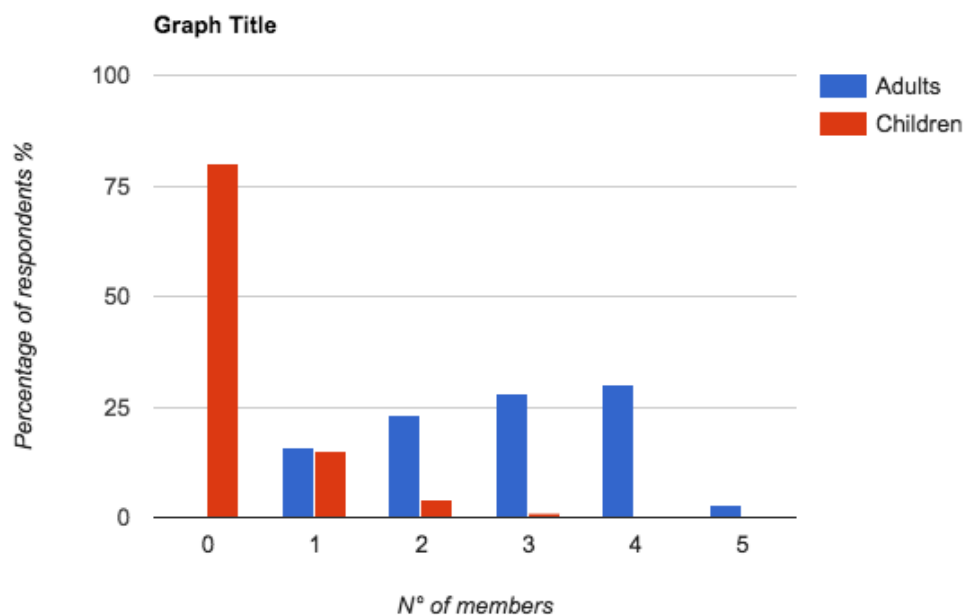
## Appendix E: Distribution of survey respondents based on age

Figure 1. Distribution of survey respondents based on age



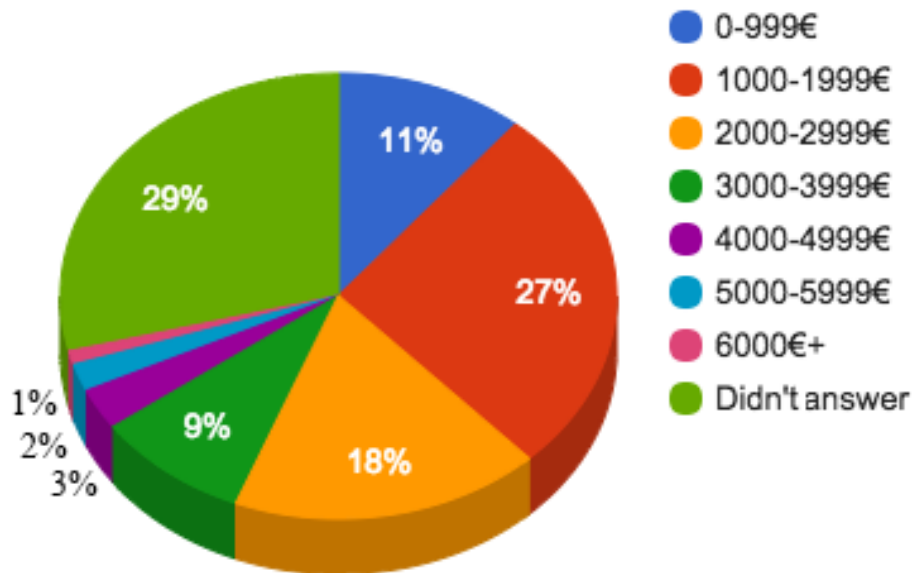
## Appendix F: Distribution of survey respondents based on household members

Figure 2. Distribution of survey respondents based on household members



## Appendix G: Distribution of survey respondents based on income

Figure 3. Distribution of survey respondents based on income



## Appendix H: Variables reduction

Question 6, regarding brand loyalty and new product purchase patterns was analyzed to minimize the number of variables. First of all, when performing the explanatory factor analysis, the KMO measure of sampling adequacy was .624, allowing me to proceed with the analysis. Factory analysis provided a two-factor solution, with Eigen values above 1.0. A parallel analysis confirmed the two extracted variables. By retaking the factor analysis with the fixed number of factors (2 factor solution), the rotated component analysis divided the subquestions into the two acquired factors, but the Cronbach's alpha test resulted in low or even negative results for both constructs. The question was thus discarded from the analysis.

Question 13 regarding respondents' opinions towards male cosmetics was also analyzed to minimize the number of variables. Exploratory factor analysis was performed, giving KMO result of .822 allowing me to proceed with the analysis. Two components had Eigenvalues higher than 1, but after performing a parallel analysis only one variable was kept, which was also the initial objective on the question group. So the new variable "male cosmetics" was extracted. Sub-questions were divided between the positive and negative related components. The first subgroup contained Q13a, Q13c, Q13f, Q13g, Q13h and Q13i, and could be labeled as "*negativity towards male cosmetics*", with Cronbach's alpha value of .777, which is high enough to be considered consistent. The second subgroup contained Q13b, Q13d and Q13e

and could be labeled as *“positivity towards male cosmetics”*. In this case the Cronbach’s alpha was only .481, which is not high enough for it to be consistent. This concludes that while consumer negativity towards male cosmetics can be analyzed, the same cannot be said for positivity towards them.

Question 14 relates to the general opinion of respondents about South Korea as a country. An explanatory factor analysis is performed, with acceptable KMO and Bartlett’s tests results and one factor extracted. The new variable, labeled *“Opinion of South Korea”*, resulted in a Cronbach’s alpha value of .841, which is quite high and indicates sufficient level of internal reliability of the construct.

Question 15, in a similar way of question 14, inquires respondents about their opinion about South Korean products. The same analysis is carried out and again yields a Cronbach’s alpha value of .813, which is adequate. The new variable is labeled *“Opinion of South Korean products”*.

The two newly acquired variables, if analyzed together, could give a rough estimate of the *“Country of Origin effect for South Korea”*. As the COO is defined as inference towards country’s products based on opinions and stereotypes on said country (Abraham & Patro, 2013). Thus, by calculating whether a correlation exists between Opinion on South Korea and Opinion on South Korean products, we can infer whether a COO exists for South Korea. Correlation between the two variables is positive and strong at .60 and significant. The two variables can be then merged to create a new factor, which is confirmed by Cronbach’s alpha result of .747.

Questions 16 and 17 were analyzed together as they are expected to merge in the same variable, *“Interest in Korean cosmetics”*. KMO and Bartlett’s sphericity tests yield acceptable results, so the exploratory factor analysis is carried out with SPSS. Only one component yields an Eigenvalue higher than 1, so one factor is extracted. Cronbach’s alpha test for the new factor results in .746, which is acceptable. The test points to the fact that if Q16a was to be excluded, the Cronbach’s alpha would result in .883, which is much higher. Q16a is thus taken out of the study.

Question 16c and question 17 can also be merged together to obtain the new variable *“Willingness to try Korean cosmetics”*. Although similar to the previous variable *“Interest in Korean cosmetics”*, it is slightly different. One might not be particularly interest in Korean cosmetics, but might be willing to try or even buy them if they were advertised or discounted. Cronbach’s alpha test is used to test internal consistency of the new variable. The obtained result of .822 is high enough for consistency.

For question 23 regarding the respondents’ view on use of male models in female cosmetics, an explanatory factor analysis was carried out to minimize the number of variables. First of

all, Kaiser measure of sampling adequacy was higher than .5 at .774. According to the explanatory factor analysis results, three factors showed Eigenvalues higher than 1. After performing a parallel analysis only two factors were kept. The sub-questions were divided between the two acquired variables according to the rotated component analysis, and a Cronbach's alpha analysis was then performed to assess the internal consistency of the two new variables. The first variable, labeled "*positivity towards male publicity*", is explained by the sub-questions Q23a, Q23c, Q23e, Q23h and Q23i (can be seen in the rotated component matrix in Table 13 in the Appendix) and obtained an internal consistency value of .762, which is higher than .7 and thus considered acceptable. The second variable, labeled "*negativity towards male publicity*", is explained by sub-questions Q23b, Q23d, Q23f and Q23g (can be seen in Table 14 in the Appendix) and resulted in internal consistency of .684, which is slightly lower than the required .7 and thus point towards the fact that the internal consistency is not high enough.

Question groups 20, 21 and 22 for the three Korean cosmetics brands Etude House, Sulwhasoo and Innisfree were also tested with Cronbach's alpha test, and all yielded positive results summarized in Table 15 in the appendix.

## Appendix I: Hypotheses testing

**H<sub>1</sub>: There is a negative correlation between respondent's age and willingness to try Korean cosmetics.**

Table 3. Hypothesis H<sub>1</sub> SPSS output

Correlations		Willingness to try Korean cosmetics	Age
Willingness to try Korean cosmetics	Pearson Correlation	1	-,155*
	Sig. (2-tailed)		,040
	N	175	175
Age	Pearson Correlation	-,155*	1
	Sig. (2-tailed)	,040	
	N	175	175

\*. Correlation is significant at the 0.05 level (2-tailed).

The pair-wise correlation between the two variables is significant ( $p=0.040$ ), negative, and very weak ( $b=-.155$ ). It is significant at the 0.05 level. Hypothesis H<sub>1</sub> is thus **confirmed**.

**H<sub>2</sub>: There is a positive correlation between product trial and COO effect towards South Korea.**

The objective is to understand whether there is any correlation between COO and product trial. According to Maheswaran (1994) product trial should decrease negative country of origin effect. Considering the Country of Origin variable used in this study refers to positive country of origin effect, the correlation is expected to be positive. Table 4 summarizes the SPSS output for this hypothesis.

Table 4. Hypothesis H<sub>2</sub> SPSS output

Correlations		Country of origin effect	Trial of Korean cosmetics
Country of Origin effect	Pearson Correlation	1	,524**
	Sig. (2-tailed)		,000
	N	175	175
Trial of Korean cosmetics	Pearson Correlation	,524**	1
	Sig. (2-tailed)	,000	
	N	175	175

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The two variables resulted in significant ( $p=0.000$ ) and positive correlation of ( $b=.53$ ). We can therefore say that the hypothesis H<sub>2</sub> is **confirmed**.

**H<sub>3</sub>: There is a positive correlation between consumer income and their interest in Korean cosmetics.**

The variables income and interest in Korean cosmetics were tested for correlation. The result of the correlation test carried out with SPSS is visible in Table 5.

Table 5. Hypothesis H<sub>3</sub> SPSS output

Correlations		Interest in Korean cosmetics	Net income
Interest in Korean cosmetics	Pearson Correlation	1	,117
	Sig. (2-tailed)		,123
	N	175	175
Net income	Pearson Correlation	,117	1
	Sig. (2-tailed)	,123	
	N	175	175

According to the result from SPSS, the test is not significant. The significance value of .12 exceeds the acceptable limit of .05, so there is no statistically significant correlation between the two variables. The hypothesis  $H_3$  is therefore **rejected**.

**$H_4$ : There is a positive correlation between age and negative attitudes (negativity) towards male cosmetics.**

According to the SPSS results, available in Table 6, almost no correlation exists between age and negativity towards male cosmetics. Furthermore, the test's significance value of .946 highly exceeds the threshold 0.05, so there is probably no statistically significant correlation among the two variables. The hypothesis  $H_4$  is therefore **rejected**.

Table 6. Hypothesis  $H_4$  SPSS output

Correlations		Age	Negativity towards male cosmetics
Age	Pearson Correlation	1	,005
	Sig. (2-tailed)		,946
	N	175	175
Negativity towards male cosmetics	Pearson Correlation	,005	1
	Sig. (2-tailed)	,946	
	N	175	175

**$H_{5A}$ : There is a negative correlation between consumers' interest in Etude House and their age.**

Table 7 presents the result of the testing in SPSS of the hypothesis  $H_{6A}$  on correlation of consumers' opinion on Etude House and their age.

Table 7. Hypothesis  $H_{5A}$  SPSS output

Correlations		Age	Etude House
Age	Pearson Correlation	1	-,325**
	Sig. (2-tailed)		,000
	N	175	175
Etude House	Pearson Correlation	-,325**	1
	Sig. (2-tailed)	,000	
	N	175	175

\*\*. Correlation is significant at the 0.01 level (2-tailed).



A negative correlation of -.33 indeed exists between age and interest in Etude House, and is highly significant at the 0.01 level. Indeed, younger consumers are more interested in Etude House than older consumers. We can therefore say that hypothesis H<sub>5A</sub> is **confirmed**.

**H<sub>5B</sub>: There is a negative correlation between consumers' interest in Etude House and their income.**

The Pearson correlation between the two variables is not significant at the 0.05 level, as it can be seen in Table 8. It cannot therefore be inferred that changes in one variable bring about changes in the other variable. We cannot generalize that consumers with higher income are more or less interested in Etude House than those with lower incomes. Hypothesis H<sub>5B</sub> is **rejected**.

Table 8. Hypothesis H<sub>5B</sub> SPSS output

Correlations		Etude House	Net_income
Etude House	Pearson Correlation	1	,047
	Sig. (2-tailed)		,539
	N	175	175
Net_income	Pearson Correlation	,047	1
	Sig. (2-tailed)	,539	
	N	175	175

**H<sub>9C</sub>: There is a positive correlation between consumers' interest in Etude House and the importance they attribute to price when making cosmetic purchases.**

Table 9 shows the results obtained with SPSS by testing the hypothesis H<sub>5C</sub>.

Table 9. Hypothesis H<sub>5C</sub> SPSS output

Correlations		Etude House	Q7_prezzo
Etude House	Pearson Correlation	1	,130
	Sig. (2-tailed)		,086
	N	175	175
Q7_prezzo	Pearson Correlation	,130	1
	Sig. (2-tailed)	,086	
	N	175	175

The Pearson correlation calculated for the two variables “interest in Etude House” and “importance of price for cosmetic purchases” is not significant enough as it exceeds the limit of 0.05. Changes in one variable do not necessarily affect changes in the other variable. Therefore it cannot be generalized that consumers that are more price sensitive are more interested in Etude House. The hypothesis H<sub>5C</sub> is **rejected**.

**H<sub>6A</sub>: There is a positive correlation between consumers' interest in Sulwhasoo and their age.**

Table 10 shows the results obtained when testing the hypothesis H<sub>6A</sub> with SPSS.

Table 10. Hypothesis H<sub>6A</sub> SPSS output

Correlations		Age	Sulwhasoo
Age	Pearson Correlation	1	-,085
	Sig. (2-tailed)		,265
	N	175	175
Sulwhasoo	Pearson Correlation	-,085	1
	Sig. (2-tailed)	,265	
	N	175	175

The Pearson correlation calculated for the two variables is not significant enough as it exceeds the limit of 0.05. This means that changes in one variable do not necessarily translate into changes in the other variable. Increases in age do not translate to higher nor lower interest in the brand Sulwhasoo. The hypothesis H<sub>6A</sub> is **rejected**.

**H<sub>6B</sub>: There is a positive correlation between consumers' interest in Sulwhasoo and their income.**

The Pearson correlation between the two variables is not significant, as it can be seen in Table 11. The value of 0.057 is higher than the limit of 0.05. It cannot therefore be said that changes in one variable bring about changes in the other variable. We cannot generalize that consumers with higher income are more or less interested in Sulwhasoo than those with lower incomes. Hypothesis H<sub>6B</sub> is **rejected**.

Table 11. Hypothesis H<sub>6B</sub> SPSS output

Correlations		Net_income	Sulwhasoo
Net_income	Pearson Correlation	1	,144
	Sig. (2-tailed)		,057
	N	175	175
Sulwhasoo	Pearson Correlation	,144	1
	Sig. (2-tailed)	,057	
	N	175	175

**H<sub>6C</sub>: There is a positive correlation between consumers' interest in Sulwhasoo and the importance they attribute to quality when making cosmetic purchases.**

The Pearson correlation calculated for the two variables is not significant enough as it highly exceeds the limit of 0.05. Changes in one variable do not necessarily affect changes in the

other variable. The results for the SPSS test can be seen in Table 12. It cannot be generalized that consumers that are more sensitive to quality in cosmetics are more interested in Sulwhasoo. The hypothesis H<sub>6C</sub> is **rejected**.

Table 12. Hypothesis H<sub>6C</sub> SPSS output

Correlations			
		Sulwhasoo	Q7_qualità
Sulwhasoo	Pearson Correlation	1	,051
	Sig. (2-tailed)		,502
	N	175	175
Q7_qualità	Pearson Correlation	,051	1
	Sig. (2-tailed)	,502	
	N	175	175

The test might have been influenced by the fact that even consumers that value other product characteristics more than quality (price, for example), usually do not respond that they don't care about quality. So, it is difficult to actually differentiate between those consumers that value quality so much they are willing to compromise on price and those that do value quality, but are more interested in other attributes.

**H<sub>7A</sub>: There is a negative correlation exists between consumers' interest in Innisfree and their age.**

The results of the testing of the hypothesis carried out with SPSS are shown in Table 13. The Pearson correlation between the two variables is statistically significant as doesn't exceed the significance limit of 0.05. With a correlation of -.19 we can say, that interest in the brand Innisfree is negatively correlated with age. The correlation is negative and weak. The hypothesis H<sub>7A</sub> is therefore **confirmed**.

Table 13. Hypothesis H<sub>7A</sub> SPSS output

Correlations			
		Age	Innisfree
Age	Pearson Correlation	1	-,192*
	Sig. (2-tailed)		,011
	N	175	175
Innisfree	Pearson Correlation	-,192*	1
	Sig. (2-tailed)	,011	
	N	175	175

\*. Correlation is significant at the 0.05 level (2-tailed).

**H<sub>7B</sub>: There is no correlation between consumers' interest in Innisfree and their income.**

Results for the testing with SPSS of hypothesis H<sub>11B</sub> are in Table 14. The test is not significant as it is higher than the threshold of 0.05. There is no statistical significant correlation between the consumers' income and their interest in the brand Innisfree. The hypothesis H<sub>7B</sub> is **confirmed**.

Table 14. Hypothesis H<sub>7B</sub> SPSS output

Correlations		Innisfree	Net_income
Innisfree	Pearson Correlation	1	,133
	Sig. (2-tailed)		,079
	N	175	175
Net_income	Pearson Correlation	,133	1
	Sig. (2-tailed)	,079	
	N	175	175

**H<sub>7C</sub>: There is a positive correlation between consumers' interest in Innisfree and the importance they attribute to ingredients when making cosmetic purchases.**

Hypothesis H<sub>7C</sub> tests whether there is a positive correlation between consumers' interest in Innisfree and the importance they attribute to ingredients. Results for the testing with SPSS are in Table 15.

Table 15. Hypothesis H<sub>7C</sub> SPSS output

Correlations		Innisfree	Importance of ingredients
Innisfree	Pearson Correlation	1	,094
	Sig. (2-tailed)		,214
	N	175	175
Importance of ingredients	Pearson Correlation	,094	1
	Sig. (2-tailed)	,214	
	N	175	175

The Pearson correlation is not significant at the 0.05 level. We cannot therefore assert that changes in one variable translate to changes in the other variable. There is no statistically significant correlation between interest in the brand Innisfree and the importance consumers attribute to ingredients in cosmetics. Hypothesis H<sub>7C</sub> is **rejected**.

## **Appendix J: Entry into foreign markets: antecedents, determinants and modes**

In today's world, where more and more companies are expanding overseas and entering new markets, a company wanting to grow and stay profitable has little choice in deciding whether to go international or not. Of course, not all companies have the resources and capabilities needed to successfully conquer new markets, but a firm should consider foreign markets as a possible source of new customers, new assets and new resources (Franco, Rentocchini & Marzetti, 2008). One major choice a company has to make when expanding abroad is to choose a *global integration strategy* by align operations across all countries, or a *national responsiveness strategy*, which refers to having different strategies and tailoring them to each specific country context (Gollnhofer & Turkina, 2015). Similarly, a company needs to choose whether the brand will be a *global brand*, or if it will have a *multi-local brand strategy* (Meyer & Tran, 2006). A company then has three big decisions to make when entering a new market: (1) it needs to decide which markets to enter (entry location), (2) when to enter (timing of entry) and (3) how to enter those markets (mode of entry) (Gaba, Pan & Ugson, 2002).

According to many scholars, the market entry mode should be consistent with the overall strategy of the firm, as well as its resources and capabilities (Meyer & Tran, 2006). There are many ways in which a company can decide to expand to foreign markets. Some require more capital investment; others require the company to renounce to a larger part of control over foreign operations. An appropriately chosen mode of market entry can enable a company to be very successful in a foreign market and minimize corresponding risks. In the same way, a wrong or inappropriate choice can be very difficult and resource demanding to modify later on, and can further bring the company to failure in that particular market (Osland, Taylor & Zou, 2001). Chen & Chang (2011, p. 439) define it as "one of the most critical decisions faced by multinational enterprises (MNEs) intending to undertake foreign direct investment". That's why deciding the appropriate market entry mode is a very important strategic decision and, thus, it has been extensively studied by international business scholars (Root, 1994, in Osland, Taylor & Zou, 2001).

Before analyzing the actual entry decision, though, it's important to understand the antecedents and determinants of such a decision. In the international business literature numerous models classifying antecedents and determinants of market entry modes have been presented. Madhok (1997) defines three main motivations for foreign market entry: a company either enters a new market to exploit a competitive advantage it already has, to strengthen it by expanding, or to create a new competitive advantage in a foreign country.

### **1. Overview of selected models of market entry modes**

Lu, Karpova & Fiore (2011) have created a more extensive model describing the determining factors influencing entry mode selection, which are:

- *Firm-specific* factors, like the amount of resources, their strategic objective and the type of business the company is in.
- *Industry-specific* factors, like the amount of competition or the possible entry barriers, defines by Pehrsson (2008, p. 169) as “sources of disadvantages relative to market incumbents form firms trying to enter a particular market” like the need for capital, the scale effects, switching costs, access to distribution channels and government policies and regulations.
- *Country-specific* factors then refer to the specific characteristics of the market chosen, from the market demand, the government policies, the risk level and the distance (both physical and cultural) from the home country.
- *Project-specific* factors, which comprise the availability of future partners, the investment commitment and the project orientation (Lu, Karpova & Fiore, 2011; Isa et al., 2012).

There are multiple modes for entry in new markets, and they can be divided according to three main factors (Osland, Taylor & Zou, 2001):

- The quantity of resources required.
- The amount of control desired.
- The level of technology risk involved.

The resources required are resources that need to be allocated to the project. They refer to both tangible resources, like monetary resources, machinery or employees, or intangible resources, like managerial skills, experience and specific capabilities. Of course, the amount of resources needed varies substantially from one entry mode to another (Osland, Taylor & Zou, 2001). The amount of control is the amount of decision-making and influence the main company has over its foreign market operations. The more control you’re willing to give up, the lower will be the resources you’ll need to deploy to enter a new market. Of course, the level of control is usually also determined by the type of industry (Brouthers & Hennart, 2007; Thomas, 2007) and the relatedness between the company’s core business unit and the foreign business unit (Pehrsson, 2008). Companies that are trying to build up networking, or that are experts in foreign market entry usually prefer high-control market entry modes (Blomstermo & Sharma, 2006). High control is also advised when the brand name is highly valuable (Klein & Leffler, 1981, in Blomstermo & Sharma, 2006). On the other hand, firms tend to prefer lower levels of control when the risk and uncertainty are high (Blomstermo & Sharma, 2006). Technology risk is defined by Osland, Taylor & Zou (2001) as the risk of unintentionally transferring your know-how to local firms. For example, when partnering with other companies, the risk is that they might acquire your know-how and become your competitors in the future. Again, the lower the resources invested in the market entry, the higher the technology risk. Resource requirements, control levels and technology risks are all highly correlated. The higher the desired control, the higher the resource commitment and the lower the technology risk (Osland, Taylor & Zou, 2011).

In a similar model of entry mode determinants Sun (1999) further mentions *socio-cultural*

*distance, research & development intensity* and the *specific conditions of the host country* (its risks and its policies for example). Socio-cultural distance refers to the differences in culture between the home country and the foreign destination. Because of risk associated with uncertainty and lack of knowledge, the higher the socio-cultural distance, the lower the level of involvement the home company should aim for. Firms selling in foreign markets strive to overcome the so called liability of foreignness (LoF), which refers to the difficulties companies have in unfamiliar environments, with different cultural, political, institutional and economic background (Zaheer, 1995). Having a partner and leaving some of the costs to someone else means that you're also getting their knowledge and connections for a country you are not familiar with (Sun, 1999). However, there is a stem of scholars arguing that the opposite is true (Lovel, 1966, in Sun, 1999; Blomstermo & Sharma, 2006; Thomas, 2007); stating that when uncertainty and knowledge about the foreign market is high, firms tend to prefer total control over foreign operations. Research and development intensity refers to the intellectual property amount the products to be sold overseas have. Similarly as with Osland, Taylor & Zou's (2001) technological risk, the higher the level of intellectual property value, the higher the level of control a firm wants to attain (Sun, 1999). Lastly, the host country conditions, risk and policies refer to the specifics of the foreign market entry country. Where risk and uncertainty are high, companies tend to limit their involvement level (Sun, 1999).

Thomas (2007) proposed a different model for classifying market entry determinants. He divided them among *psychic or cultural distance, organizational culture, international experience* and *firm size*. Psychic or cultural distance is a concept very similar to Sun's (1999) socio-cultural distance. According to this model, the higher the psychic or cultural distance, the more a company will try to stay independent in the new market. According to Thomas (2007), this is due to the difficulty firms would encounter in having to adapt both to a new market and a new organizational culture. Organizational culture also has a very important role in shaping the decision about entering a market or not. In terms of organizational culture, four different types of companies exist: (1) hierarchical culture companies emphasize rules and conformity; (2) clan culture stresses loyalty to the firm and maintenance of traditions; (3) market culture focuses on achievements and an (4) adhocracy culture involves creativity and flexibility (Thomas, 2007). While adhocracy increases the chances of exporting, a clan culture decreases them. International experience has implications regarding the entry strategy selection. As already mentioned, firms that have experience in foreign markets are more likely to invest more money and keep higher control over operations (Thomas, 2007; Blomstermo & Sharma, 2006). The size of the firm also influences the type of market entry a firm will opt for. Larger companies will more easily have the resources required for a full control market entry, while smaller firms often have to rely on partnering with local companies because of lack of resources (Thomas, 2007).

There is an extensive amount of studies about different market entry modes a firm can chose from, but there exists an agreement that all entry modes exist along a continuum which goes from low commitment and resource requirement (externalization) to high commitment and

resource requirement (internalization) (Gollnhofer & Turkina, 2015; Thomas, 2007; Brouthers & Hennart, 2007). They can most generally be divided into equity and non-equity entry modes (Pan & Tse, 2000). Along this basic distinction, they can further be divided into four bigger categories of market entry modes (Osland, Taylor & Zou, 2001; Thomas, 2007; Pan & Tse, 2000), namely: (1) *exports* and (2) *contractual modes* are non-equity based entry modes, while (3) *joint ventures* and (4) *wholly-owned subsidiaries* are equity-based entry modes. I next describe each market entry mode group in more detail.

## 2. Exports

Exports refer to products that are produced in the home country and then sold in other countries (Osland, Taylor & Zou, 2001). Exporting is considered the easiest and least risky entry mode because of its low resource requirement, but it also enables the least control over products, once they leave the home country. Market share and profits are also lower with this entry mode strategy (Thomas, 2007). It is thus different from the other types of market entry, in which the product is always produced in the target country (Taylor, Zou & Osland, 2000). Among export market entry strategies, *indirect exporting*, which uses intermediaries from the home country which ship and market the products, and *direct exporting*, in which either no middleman, or only middlemen from the target country are used (Osland, Taylor & Zou, 2001). Exporting can be done by either manufacturer's agents, who are usually resident foreign suppliers of the target market, wholesale importers or trading companies (also called export management houses), which act like a distributor for several unrelated companies, are usually popular in developing countries and who work on commission (Thomas, 2007). Other types of exporting include piggybacking, in which a product uses already existing distribution networks from an existing business in the target market, and consortia, referring to a group of usually related small and medium-sized businesses that work together in foreign markets (Friesner, 2014).

### 1.1.2 Contractual modes

Contracts can be divided in *licensing*, *franchising*, *R&D contracts* and *(strategic) alliances* (Pan & Tse, 2000). Licensing is a non-equity market entry mode that involves an agreement between the firm and a firm in the target country to let them produce and sell the firm's products. The foreign company is usually given the right to use patents, trademarks, the company name, technology and the home company's business method (Osland, Taylor & Zou, 2001). The profits are then shared by the two companies (Thomas, 2007), and although it involves higher risk and involvement than exporting, it usually also increases profits and control over foreign operations. Although many scholars do not differentiate between franchising and licensing (Thomas, 2007), generally franchising is defined as a type of licensing that "involves a common brand name, a common operating support system and the payment of an initial and/or ongoing fees" (Elgin, 2010, para. 2). When one of these requirements is not present, it is still considered a license, but not a franchise (Elgin, 2010). Other types of licensing involve contract manufacturing and turnkey contracts, in which the



home firm develops a project involving building plants and training employees and is then handed over as a complete product to a foreign company (Friesner, 2014).

R&D contracts refer to two companies', usually from different countries, common efforts to collaborate on R&D. Although R&D contracts are defined by Pan & Tse (2000) as a separate category of non-equity based market entry, in a more recent study Friesner (2014) defines them as part of a broader category of (*strategic*) *alliances*, which Pan & Tse (2000) defined as simply "alliances". They define a relationship in foreign markets by independent firms and also include shared manufacturing, distribution alliances and marketing agreements (Friesner, 2014).

### **1.1.3 Joint ventures**

Joint ventures are a type of equity market entry and involve at least two organizations, which usually share ownership and risks of the new venture (Osland, Taylor & Zou, 2001). There are various sub-categories of joint ventures based on the amount of ownership held (Sun, 1999; Pan & Tse, 2000): (1) majority joint ventures, (2) balanced (also called 50:50) joint ventures and (3) minority joint ventures. Although the risk involved and the resource requirement is lower than with a whole-owned subsidiary, it still requires more investment than non-equity market entry modes, so a very good relationship and trust with the partner companies is needed (Thomas, 2007). Friesner (2014) defines multiple reasons for choosing a joint venture for foreign operations: first of all, a firm gains not only management and technology related skills from its partner, but it also learns country-specific factors and know-how that it would need to obtain by itself otherwise; it also gains access to the other company's distribution channels and other fundamental networks, which take time, dedication and resources to build from scratch; finally, in some cases, it is necessary to partner with a local company to gain access to the market (for example, in China, where a Chinese partner is fundamental for success) (Friesner, 2014).

### **1.1.4 Wholly-owned subsidiaries**

Also known as direct investment (Thomas, 2007), this type of equity market entry involves the highest amount of investment and risk from the company, plus it also requires substantial knowledge and competencies from the home company. Of course, profitability and control are also maximized with this type of market entry. It refers to subsidiaries in foreign countries, for which the parent company is totally responsible for operations (Osland, Taylor & Zou, 2001). The option a company has is either to enter the market through acquisition of a local firm or through a new subsidiary (Thomas, 2007).

To the initial model proposed by Pan & Tse (2000), a few other types of market entry were added by other researchers. In his model of market entry, Thomas (2007) adds *facility management*. According to his studies, there is an overabundance of physical facilities like warehouses and plants in fast developing countries, which has lead to an excess supply. Companies can thus lease or rent these unused facilities, instead of having to rely on a joint

venture or building facilities themselves. This type of market entry is less risky than a joint venture or wholly-owned operations, but still provides for a good amount of control (Thomas, 2007). Friesner (2014), instead, adds Internet as a modern entry mode with a low risk involvement. For some companies Internet is only an extra distribution channel, for some others instead it represents the perfect market entry strategy that involves low risk and low resource requirement (Friesner, 2014).

There are many other less common market entry modes, which for the sake of brevity will not be analyzed in this thesis. Especially in recent years, thanks to globalization and technological progress, more and more different alternatives for entering foreign markets are starting to arise also in international business. As I have already said, there exists no perfect solution suitable for all. A company should choose a market entry mode wisely based on multiple variables, because this choice could be the reason for success (or failure) of their foreign operations. In this work, the best choice of entry mode for Korean cosmetic companies in Italy will be analyzed in detail in the following chapters. Before that, though, there are some other important concepts to be analyzed: choosing the perfect market entry strategy is an important, but not sufficient source of success. After deciding how to enter a new market, companies have to also understand what customers are looking for, and how are they making their purchase decisions. This is why, in the next chapter, theories concerning customer decision making and all possible related factors will be analyzed in detail.

## **Appendix K: Questionnaire**

Hi, I'm Maja, a master student of international business at the Faculty of Economics in Ljubljana (Slovenia) writing a thesis about the feasibility of importing Korean cosmetics in Italy. This survey is directed to Italian consumers, both men and women. Even though you might not be a frequent user of makeup and face creams, cosmetics include also hand lotions, deodorants and other products for the care of face and body. Consider all the possible products you are using when filling out the survey. It should take around 10-15 minutes. Thank you!

### **3. Gender**

- ☐ Female
- ☐ Male

### **4. Age**

- ☐ 0-18
- ☐ 19-25
- ☐ 26-35
- ☐ 36-45
- ☐ 46-55
- ☐ 56-65
- ☐ 65+

5. Including yourself, how many members does your household have?
- Adults: \_\_\_\_\_
  - Children(<18 years): \_\_\_\_\_
6. Please indicate the average monthly household Income (After tax)
- 0-999€
  - 1000-1999€
  - 2000-2999€
  - 3000-3999€
  - 4000-4999€
  - 5000-5999€
  - +6000€
  - I'd rather not answer/I don't know
7. Do you consider yourself as a frequent user of cosmetics?  
(Cosmetics refer not only to makeup and creams, but also to perfumes, waxes, deodorants, soaps and many other products for the face and body)
- Yes, I use multiple cosmetics everyday
  - Yes, I use them but not everyday
  - No, I only use the basic ones (deodorant, shampoo, soap)
  - No, I don't use cosmetics frequently
8. How much do you usually spend for cosmetics each month?
- <10€
  - 10-29€
  - 30-49€
  - 50-99€
  - +100€
9. How often do you purchase cosmetics in these stores?
- |   |       |   |   |   |   |   |        |
|---|-------|---|---|---|---|---|--------|
| ○ <b>Supermarkets</b>                         | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>Cosmetics stores / Perfumeries</b>       | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>Drug stores (Bipa, Acqua&amp;Sapone)</b> | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>Brand Stores (Kiko, Lush, WjCom)</b>     | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>Pharmacy</b>                             | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>Herbalist</b>                            | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>Online</b>                               | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>From direct sellers/magazines</b>        | Never | 1 | 2 | 3 | 4 | 5 | Always |
| ○ <b>Other:</b> _____                         | Never | 1 | 2 | 3 | 4 | 5 | Always |
10. Please rate how much you agree with the following statements

<b>I'm very loyal, I always purchase the same brand</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I like trying new things</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I just buy what's cheapest</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I just buy what is available</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I'm skeptical about new products</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I don't pay attention to the brand</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I buy new products only if they are made by brands I'm very familiar with</b>	Strongly disagree	1	2	3	4	5	Strongly agree

11. What are the most important aspects for you when choosing cosmetics?

<b>Price</b>	Not at all	1	2	3	4	5	Very Important
<b>Quality</b>	Not at all	1	2	3	4	5	Very Important
<b>Use of organic products</b>	Not at all	1	2	3	4	5	Very Important
<b>Brand</b>	Not at all	1	2	3	4	5	Very Important
<b>Packaging/Bottle</b>	Not at all	1	2	3	4	5	Very Important
<b>Smell</b>	Not at all	1	2	3	4	5	Very Important
<b>Advertising</b>	Not at all	1	2	3	4	5	Very Important
<b>Country of origin</b>	Not at all	1	2	3	4	5	Very Important
<b>Popularity with peers</b>	Not at all	1	2	3	4	5	Very Important
<b>Popularity with famous people and presence in magazines</b>	Not at all	1	2	3	4	5	Very Important

12. Do you try and evaluate samples when you receive them?

Never   Rarely   Occasionally   Frequently   Always

13. How much do you care about the country of origin of the brand you purchase? (For example, "I only buy Italian cosmetics!", "I like products made in USA" and so on)

I don't care at all 1 2 3 4 5 It's very important for me

14. How sensitive are you to what kind of ingredients are used in the cosmetics you buy?

I never pay attention to it 1 2 3 4 5 I always check and buy based on the ingredients list

15. Do you watch videos about cosmetics on YouTube?

YES NO

16. IF 13 YES

How much do these actions apply to you?

<b>Watching YT cosmetic channels</b>	Not at all	1	2	3	4	5	Very Much
<b>Commenting on them</b>	Not at all	1	2	3	4	5	Very Much
<b>Buying based on their reviews</b>	Not at all	1	2	3	4	5	Very Much
<b>Having my own channel/videos</b>	Not at all	1	2	3	4	5	Very Much

17. Please rate your agreement with the following statements about cosmetics and gender

**I think cosmetics are made for women**

Strongly disagree 1 2 3 4 5 Strongly agree

**I think a real men would never make use of cosmetics to enhance his beauty**

Strongly disagree 1 2 3 4 5 Strongly agree

**Taking care of one's appearance should have nothing to do with one's gender** Strongly disagree 1 2 3 4 5 Strongly agree

**In today's world, men use cosmetics just as much as women**

Strongly disagree 1 2 3 4 5 Strongly agree

**I think it's fine that men use just as much cosmetics as women**

Strongly disagree 1 2 3 4 5 Strongly agree

**Men should only use cosmetics that are specifically made for them**

Strongly disagree 1 2 3 4 5 Strongly agree

**It's weird to think a man uses makeup or skincare creams**

Strongly disagree 1 2 3 4 5 Strongly agree

**I would prefer cosmetics for men didn't exist**

Strongly disagree 1 2 3 4 5 Strongly agree

**I think the world is not ready for men to use cosmetics extensively**

Strongly disagree 1 2 3 4 5 Strongly agree

18. Think about South Korea. What is your general opinion about the country?

<b>It's rich</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>It's an advanced country</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>It's high-tech</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>It's innovative</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>It's clean</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>It's safe</b>	Totally disagree	1	2	3	4	5	Totally agree

19. What is your general opinion when thinking about South Korean products?

<b>High quality</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>Expensive</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>Innovative</b>	Totally disagree	1	2	3	4	5	Totally agree

<b>Reliable</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>Effective</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>International</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>Exclusive</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>Pride of ownership</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>Advertising needed</b>	Totally disagree	1	2	3	4	5	Totally agree
<b>Luxurious</b>	Totally disagree	1	2	3	4	5	Totally agree

20. Think about Korean cosmetics and please rate how much these statements are true for you?

<b>They are available in shops I visit</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I have tried them before</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>If I found them at the store I would try them</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I have some knowledge about them</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I would trust cosmetics from South Korea</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I think they would suit my skintype</b>	Strongly disagree	1	2	3	4	5	Strongly agree

21. If you were to receive free samples of products of Korean brands that are available in your country, would you try them?

Definitely no 1 2 3 4 5 Definitely yes

22. Korean cosmetics are actually top notch and are quite popular in Japan and USA, where both famous stars and internet vloggers use them. They are considered as innovative, using new and very effective ingredients. Even the BB cream that's now popular everywhere became popular in Korea first. They also have multiple brands for men cosmetics and makeup. Does your opinion change after knowing this? How much more willing would you be to try out the products?

Not at all 1 2 3 4 5 Very much

23. Do you think if your favorite YT vloggers or friends positively commented on them you would feel more inclined to buy them?

Not at all 1 2 3 4 5 Very much

## ETUDE HOUSE



(Images from Etude House website, 2015)

24. This is Etude House, a brand very popular with youngsters in South Korea and overseas. The concept of the brand is princess-like beauty. Their products range from bb creams, foundations, face packs and make-up. The products prices mostly range from 5\$ to 15\$, with mineral creams being the most expensive at 18\$. This brand offers male cosmetics such as male BB creams and waxes in stylish packaging. Would you consider buying this brand?

<b>Price</b>	Very negative 1 2 3 4 5 Very Positive
<b>Packaging</b>	Very negative 1 2 3 4 5 Very Positive
<b>Perceived quality</b>	Very negative 1 2 3 4 5 Very Positive
<b>Colors</b>	Very negative 1 2 3 4 5 Very Positive
<b>Target customers</b>	Very negative 1 2 3 4 5 Very Positive
<b>Store concept</b>	Very negative 1 2 3 4 5 Very Positive
<b>Advertising</b>	Very negative 1 2 3 4 5 Very Positive

## SULWHASOO



(Images from Sulwhasoo website, 2015)

25. This is Sulwhasoo, a premium cosmetic brand created by the cosmetic giant Amore Pacific and targeted at rich adult women. All of Sulwhasoo products are made of premium herbal ingredients typical of the Asian tradition, like Ginseng. Most products go from as low as 20\$ to as high as 900\$. One example is their basic foundation at 30\$



and their premium Timeline cream at 880\$. Sulwhasoo offers also a male line with skin treatments, fragrances and moisturizers in a black elegant packaging. Would you be interested in this brand?

<b>Price</b>	Very negative 1 2 3 4 5 Very Positive
<b>Perceived quality</b>	Very negative 1 2 3 4 5 Very Positive
<b>Packaging</b>	Very negative 1 2 3 4 5 Very Positive
<b>Ingredients</b>	Very negative 1 2 3 4 5 Very Positive
<b>Target Customers</b>	Very negative 1 2 3 4 5 Very Positive
<b>Store concept</b>	Very negative 1 2 3 4 5 Very Positive
<b>Advertising</b>	Very negative 1 2 3 4 5 Very Positive

## INNISFREE



(Images from Innisfree website, 2015)

23. This is Innisfree, a Korean middle-priced cosmetics brand. This brand is the first korean brand to only use natural ingredients, and is certified by France's ECOCERT.

Their advertisements usually feature not only female but also male stars, even for female products advertisements. The prices go from 10\$ for an eyeliner pencil to 40\$ for their best organic cream. Innisfree owns a male line called Forest for Men, with organic and natural products such as essences, mists, creams and moisturisers. What is your perception of this brand?

<b>Price</b>	Very negative 1 2 3 4 5 Very Positive
<b>Perceived quality</b>	Very negative 1 2 3 4 5 Very Positive
<b>Packaging</b>	Very negative 1 2 3 4 5 Very Positive
<b>Ingredients</b>	Very negative 1 2 3 4 5 Very Positive
<b>Store concept</b>	Very negative 1 2 3 4 5 Very Positive
<b>Advertising</b>	Very negative 1 2 3 4 5 Very Positive

24. Guy advertising: As you can see, a lot of Korean brands use male models not only for male product advertising but also for female products. The men models are usually young and feminine. They are famous idols that a lot of girls like, and they are more likely to buy the product when their favourite idols advertise it. This is perceived as a common practice in South Korea. What would your opinion be if it was common here too? For men, please consider if women advertised male cosmetics instead when answering the question.



<b>I trust products with men advertisement</b>	Strongly disagree 1 2 3 4 5 Strongly agree
<b>I think it's normal for men to use cosmetics too</b>	Strongly disagree 1 2 3 4 5 Strongly agree
<b>I would think it's cosmetics directed to men</b>	Strongly disagree 1 2 3 4 5 Strongly agree
<b>I feel like trying a product advertised by a man</b>	Strongly disagree 1 2 3 4 5 Strongly agree
<b>My perception of the product doesn't change</b>	Strongly disagree 1 2 3 4 5 Strongly agree
<b>I would surely buy cosmetics advertised by men</b>	Strongly disagree 1 2 3 4 5 Strongly agree

<b>I would think they're made for women to wear</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I trust girl advertisement more</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>I find it strange and unsettling</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>It must be cosmetics that these guys</b>							
<b>like their girls to wear</b>	Strongly disagree	1	2	3	4	5	Strongly agree
<b>If a famous male star I like advertises it, I'll buy it</b>	Strongly disagree	1	2	3	4	5	Strongly agree

Thank you very much for your time. Your information is precious both for my thesis and all cosmetics companies trying to enter the Italian market. Thanks to your answers, more and more products will be developed to answer your needs. Thanks!