Asian Cosmetics in Global Market: A Comparative Study of Internationalization of Japanese, Korean, and Chinese Companies

Asian Cosmetics in Global Market:

A Comparative Study of Internationalization of Japanese, Korean, and Chinese Companies

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Abstract

Asian cosmetics play an increasingly significant role in the global cosmetics industry, exemplified by the worldwide Korean Wave and China's emergence as the world's second largest cosmetics market. From the Japanese Shiseido to the numerous emerging brands in China, Asian cosmetics companies have gone through various internationalization paths over the past half century. The Japanese, Korean, and Chinese companies, at various points of time, have explored the Western and the neighboring Asian markets and encountered similar and different challenges. This thesis analyzes the driving forces of the successes and failures along the way and sheds some light on the future outlook of Asian cosmetics in the global context.

Dedication

Dedicated to Aishun and Shawn

Acknowledgements

This work would not have been possible without the help of Professor Geoffrey Jones, whose guidance and insights were instrumental to my research. His constructive feedback challenged me to critically examine sources, reassess assumptions, and deepen my analysis. I am thankful for all his support throughout the thesis writing process.

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I

Introduction

Asian cosmetics have become a major emerging trend in the global cosmetics market. From legacy Japanese brands like Shiseido that has been in the global market for over a half century to emerging K-beauty brands that have swept the Western market over the past decade, cosmetics brands in Japan and Korea have been playing a particularly important role in promoting Asian beauty products in the international market. China, as a large, emerging economy, has also seen a number of nascent cosmetics companies grow their domestic market shares and begin to internationalize themselves.

This thesis focuses on comparing the early history of select cosmetics companies in Japan, Korea, and China from the international expansion perspective during their respective eras. Given that the initial internationalization of companies from these three countries took place at different points of time, namely Japan the first, Korea the second, and China the last, the eras of focus will generally be the 1960s to the 90s for the Japanese companies, the 1990s to the mid-2000s for the Korean companies, and the 2000s to nowadays for the Chinese companies. Two companies from each country are selected for the purpose of comparison – one is a mature, public cosmetics company while the other is a relatively nascent, entrepreneurial company. An exception is made in the China-related analysis, where a collection of companies is selected to represent the emerging trend, as very few Chinese companies have yet made significant foray into the global market. Based on such criteria, the following companies are selected to represent the cosmetics industry of the three Asian countries.

- Japan: Shiseido, Shu Uemura

- Korea: AmorePacific, Able C&C
- China: Shanghai Jahwa, a collection of companies including Jala, Chicmax, Yujiahui, and Pehchaolin

A pre-defined framework is applied on each of the companies to ensure the consistency of the comparative method. The framework examines each company's internationalization process from the following four perspectives.

- Market Entrance: Which foreign countries or regions were the products first marketed in? What was the market entry strategy and the main distribution channel?
- Products: What types of products were initially introduced to the target foreign market? How, if at all, did the pricing and target customers differ from those for the domestic market?
- Localization: Did the company adopt any localization strategies to accommodate the target foreign market, in terms of branding, product, marketing, etc.?
- Level of Success: How successful was the attempt in terms of sales and brand recognition?

To the extent relevant, other factors, such as the political environment, domestic and global economic conditions, and trade policies, will also be discussed to further contextualize the subjects being analyzed. Through the comparative history of these companies, the study aims to analyze the differences and similarities among the Japanese, Korean, and Chinese cosmetics companies as they initially grew outside their domestic territories and shed light on the outlook of Asian cosmetics in the global market going forward.

II

Company Studies

Japan – Shiseido

Founded in 1872, Shiseido is one the oldest cosmetics companies in the world. In 2018, the company generated net sales of close to $10 billion across Japan, China, non-China Asia Pacific, the U.S., Europe and the rest of the world, leading as one of the largest players in the global cosmetics industry.[1] The company was initially founded as a pharmacy by Arinobu Fukuhara, the former head pharmacist of the Japanese navy.[2] The name Shiseido meant "all things come from Mother Earth," a Chinese expression derived from Confucius' *Book of Changes*.[3] Shinzo Fukuhara, son of Arinobu Fukuhara, took over the business in 1915 and put increasing focus on cosmetics, with a belief that cosmetics "should be produced with the same level of stringency and quality as pharmaceuticals."[4]

Shiseido incorporated both the Eastern philosophy and the Western pharmacology into cosmetics manufacturing, which to a large extent defined its brand throughout the company's series of international expansion endeavors. The company exported products to Taiwan (a then Japanese colony) and the U.S. in as early as 1929 and 1936, respectively.[5] Beginning in the 60s, Shiseido began to meaningfully grow its international business, marked by its entrance into the

[1] Shiseido Company, Limited. *Annual Report 2018, December 31, 2018*. https://www.shiseidogroup.com/report/pdf/anu_digest.pdf. Accessed 30 Nov. 2019.
[2] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. *Making China Beautiful: Shiseido and the China Market*. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.
[3] Ibid.
[4] Ibid.
[5] Ibid.

Continental U.S. in 1965, France in 1980, and China in 1991. China, the U.S., and Europe currently represent Shiseido's top three international markets in terms of net sales.

Market Entrance

Shiseido's entrance into the U.S. was progressive. The company had been distributing its products in Hawaii, a U.S. state with high Japanese population, for two years before it set up an office "to study the market" in the continental U.S. in 1964.[6] It was one year after setting up the office that Shiseido officially began to market itself in the U.S. through its U.S. entity. By that point, Shiseido had already become a world's top cosmetics company generating over $100 million of annual sales.[7] The company targeted specifically the high-end market in the U.S., distributing over 400 products "exclusively to prestige department stores and beauty salons."[8] Over the subsequent half decade, Shiseido limited its distribution in selected luxury department stores, such as Filene's in Boston, Bamberger's in Newark, and Abraham & Straus in New York.[9]

Through three and a half years of testing in these department stores, Shiseido accumulated insights into American customers and market opportunities. For instance, as compared to its domestic business, where 60% of sales came from treatment, American women spent about 40% of their Shiseido beauty dollars on cosmetics, 30% on fragrance, and only 30% on treatment.[10]

[6] "The Jewelry: Nippon Cosmetic Giant may Enter U.S. Market." Women's Wear Daily, vol. 108, no. 107, Jun 01, 1964, pp. 58. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1862443208?accountid=14707.
[7] Ibid.
[8] Ibid.
[9] Kosover, Toni. "The Accessories: Japanese Style." Women's Wear Daily, vol. 121, no. 92, Nov 06, 1970, pp. 20. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1523641707?accountid=14707.
[10] Ibid.

With such market knowledge, Shiseido adjusted its positioning to target the middle and upper category and began to scale up its American business. As reported in news in 1970, the company planned to introduce close to 350 items from its extensive treatment and cosmetics collections in department stores in 20 different cities throughout the U.S. by the end of the year.[11] It was also at that point that the company brought thirty of its well-trained beauty consultants from Japan to promote sales in American department stores.[12]

In Europe, Shiseido did not gain meaningful traction until its entrance into France in 1980, although the company had been selling products in Italy since 1968. In 1980, Shiseido established a joint venture with Laboratoires Pierre Farbre, a French pharmaceutical company, to market its cosmetics products in France.[13] Through collaborating with the well-known French fashion designer Serge Lutens, Shiseido achieved increasing brand recognition in the European market. In 1986, the company acquired Carita SA, a French cosmetics and beauty salon company, for $5 million from Beatrice Cos., Inc.[14] It was possible that Shiseido hoped to extend its distribution network and strengthen the hair and skincare segments through this small-size company, of which 75% of the sales volume came from hair and skincare.[15] In 1988, Shiseido further expanded to the U.K., first at Harrods in Knightsbridge and then in Kendalls in Manchester, Rackhams in Birmingham, as well as Selfridges.[16] In the European market, Shiseido

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[11] Ibid.

[12] Ibid.

[13] "Shiseido of Japan Planning Venture with French Firm." Wall Street Journal (1923 - Current file), Oct 17, 1979, pp. 10. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/134419257?accountid=14707.

[14] "Beauty Bulletin: Carita Bought for $5 Million by Shiseido." WWD, vol. 151, no. 45, Mar 06, 1986, pp. 2. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1445607389?accountid=14707.

[15] Ibid.

[16] "Fashion: When the face fits ...wear it - The Japanese cosmetics giant Shiseido is about to project itself on the British scene, and soon the English rose will be finding herself on screen." Times [London, England], 23 Feb. 1988. Gale OneFile: News,

put more stress on its advanced beauty techniques and less on its Japanese-ness, a strategy different than that for the U.S. market dating back in the 60s.

Asia was a central theme of Shiseido's global expansion plan, and China in particular was a high priority given its massive market potential.[17] The Chinese market did not open for foreign companies until the late 70s as the Mao regime ended.[18] Fashion in China was non-existent at the time.[19] Shiseido's initial entrance into China dates back to 1981, when it sold government-approved products in ultra-luxury department stores and hotels.[20] In 1983, Shiseido finalized the First Technology Cooperation Agreement with the Beijing government and began to produce hair products through Beijing Liyuan Daily Chemical Factory.[21] The brand sold such products under the brand name "Hua Zi."[22] In 1991, upon a request by the Beijing government, Shiseido formed a joint venture named Shiseido Liyuan Cosmetics Co., Ltd. (SLC) with Beijing Liyuan Co., Ltd., a state-owned enterprise.[23] Targeting the high end market, the company created the brand name "Aupres" with an European connotation and sold domestically manufactured cosmetics in China.[24] In 1998, Shiseido created another joint venture named Shanghai Zotos

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https://link.gale.com/apps/doc/A117495781/STND?u=upenn_main&sid=STND&xid=5f2aa615. Accessed 29 Nov. 2019.

[17] Motohashi, Kazuyuki. "Shiseido Marketing in China." *Global Business Strategy: Multinational Corporations Venturing into Emerging Markets*, SPRINGER Verlag, Japan, 2016, pp. 162.

[18] Umemura, Maki and Slater, Stephanie (2017). *Reaching for global in the Japanese cosmetics industry, 1951 to 2015: the case of Shiseido*, Business History, 59:6, 877-903, DOI: 10.1080/00076791.2016.1274735

[19] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. *Making China Beautiful: Shiseido and the China Market.* Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.

[20] Motohashi, Kazuyuki. "Shiseido Marketing in China." *Global Business Strategy: Multinational Corporations Venturing into Emerging Markets*, SPRINGER Verlag, Japan, 2016, pp. 162.

[21] "Hair care demand rises in China." Cosmetics International, 10 May 1989, p. 8. Gale General OneFile, https://link.gale.com/apps/doc/A7702233/ITOF?u=upenn_main&sid=ITOF&xid=4c0e771f. Accessed 2 Nov. 2019.

[22] Motohashi, Kazuyuki. "Shiseido Marketing in China.*" Global Business Strategy: Multinational Corporations Venturing into Emerging Markets*, SPRINGER Verlag, Japan, 2016, pp. 162.

[23] Ibid.

[24] Aktar, Alev. "Shiseido's Patience Pays Off in Europe; U.S. is Next Target: Shiseido's Patient Push." WWD, vol. 170, no. 61, Sep 29, 1995, pp. 1-1, 6. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1445632974?accountid=14707.

Citic Cosmetics Co., Ltd. (SZC) with Shanghai's CITIC, beginning to market products under the brand name "Za" that targeted middle-class customers.[25]

Shiseido distributed its cosmetics through three main channels: department stores, specialty stores, and drugstores.[26] The most high-end brand, Clé de Peau Beauté, as well as the high-end brands, Aupres, Supreme Aupres and Shiseido, were distributed in department stores, whereas the less prestigious brands, such as Elixir, Haku, Pure&Mild and Za, were distributed in specialty shops and drugstores to target a wider range of middle-class customers.[27] As one of the earliest entrants into the Chinese market, Shiseido took the first-mover advantage to develop trusting relationships with the government and penetrate the market that was little explored by Western competitors.

Products

Shiseido marketed hundreds of skincare and cosmetics products in both the U.S. and the European markets. The company very much stressed on its exotic, oriental origin, particularly through perfume products, to the non-Asian customers. As it first entered the U.S. market in 1965, Shiseido focused on promoting its Zen perfume. For example, Bamberger's advertised the Zen perfume as the most intriguing product "of all the precious beauty secrets of the East."[28] The scent was exotic, adventurous, and created "out of a rare inspiration – to express the purity of traditional Japanese beauty which flows from the Zen mystique."[29] In a 1970 fashion article

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[25] Motohashi, Kazuyuki. "Shiseido Marketing in China." *Global Business Strategy: Multinational Corporations Venturing into Emerging Markets*, SPRINGER Verlag, Japan, 2016, pp. 162-163.

[26] Ibid, pp. 165.

[27] Ibid.

[28] "December 1, 1965 (Page 15 of 64)." The Courier-News (1961-2010), Dec 01, 1965, pp. 15. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/2156127111?accountid=14707.

[29] Ibid.

introducing Eastern beauty from the Pacific, the Zen perfume once again demonstrated the exotic Eastern aesthetics. “Such beauty blossoms naturally in the East, and its subtle power is having new repercussions here,” the article describes, and Genevieve Turner, an Eastern beauty, “stresses the almond eye and the arched brow and wears the exotic Zen perfume by Shiseido.”[30] For another example, Shiseido launched Nombre Noir, a women’s fragrance created by French fashion icon Serge Lutens, in France in 1982. This “light, sweet floral” scent was Shiseido’s “most highly priced and tightly distributed fragrance and its first with Lutens’ creative signature.”[31] The product was distributed exclusively at “fewer than 100 of Shiseido’s 250 doors in France, with an initial shipment of $340,000 worth of merchandise.”[32] Unlike Shu Uemura, who highlighted its Oriental exoticism through makeup, Shiseido did so through perfume, a product less visible and therefore potentially less risky for Western customers to explore.

From the store experience perspective, Shiseido maintained a consistent brand image through its Orientalism. Unlike Shu Uemura’s avant-garde-style stores, Shiseido brought its well-trained beauty consultants, dressed in kimonos, from Japan into its American department stores. In Japan, the company hired about 9,000 beauty consultants, trained them for over three and half years, assisted them with housing projects, and treated them with mountain and seaside resorts for their vacations.[33] Such program successfully trained an army of sales staff who were more knowledgeable, professional and loyal than their American counterparts. As the company’s vice president and general manager in New York in 1970 stated, “all you have to do is see 10 of these

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[30] Ibid.
[31] Petkanas, Christopher. "Nombre Noir: Top of the Line at Shiseido." WWD, vol. 143, no. 118, Jun 18, 1982, pp. 1. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1445519931?accountid=14707.
[32] Ibid.
[33] Kosover, Toni. "The Accessories: Japanese Style." Women’s Wear Daily, vol. 121, no. 92, Nov 06, 1970, pp. 20. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1523641707?accountid=14707.

Japanese beauties in kimonos in a department store and watch the crowds gather. Even without an ad."[34] In many ways, the "quiet elegance" and "soft, ultra-feminine quality" of these beauty consultants conveyed a differentiating brand image even more effectively than advertisement.[35]

In the Chinese market, the most noteworthy products were the Aupres line, which was designed specifically for Chinese customers. The brand focused on marketing skincare products to high-income-earning females in their 20s and 30s.[36] During a time when domestically branded products were sold by weight at CNY 10-20 and high-end, imported cosmetics were sold at CNY 200 on average, Shiseido managed to control costs by manufacturing in China (vs. Japan) and capture the high-end segment with a competitive price level of CNY 80-100.[37] Although customers were aware that the products were manufactured in China, they perceived Aupres as high quality regardless as it was manufactured by Shiseido, which allowed the brand to overcome the prejudice against locally manufactured cosmetics.[38]

Localization

From the branding perspective, Shiseido's localization efforts in the U.S., as counterintuitive as it might sound, involved setting itself apart from domestic competitors through its un-localness. From the exotic scent of Zen perfume to the Japanese sales ladies in kimonos, Shiseido presented itself to American customers as a premium brand rooted in the far East. The brand and its products were associated with adventure, mystique, nature, and femininity. While such brand

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[34] Ibid.
[35] Ibid.
[36] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. *Making China Beautiful: Shiseido and the China Market*. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.
[37] Motohashi, Kazuyuki. "Shiseido Marketing in China." *Global Business Strategy: Multinational Corporations Venturing into Emerging Markets*, SPRINGER Verlag, Japan, 2016, pp. 162.
[38] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. *Making China Beautiful: Shiseido and the China Market*. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.

image appeared to be unique and captivating, Shiseido's ultra-feminine identity might not be as appealing to American customers, particularly in the peak of the women's liberation movement in the U.S. in the 60s and 70s.

From the operational perspective, Shiseido generally maintained its model from Japan, focusing on key factors including high product quality and fashion-oriented design. Additionally, the company introduced the consumer purchase plan implemented in Japan to its American customers, encouraging recurring purchases through the reward program.[39] During times when most cosmetics executives "put the bulk of their efforts behind product promotion and advertising," Shiseido continued to stress on their store service and invested in a 1,500-square-foot regional training center in California to improve its recruiting, motivation and compensation programs.[40] On the product quality side, Shiseido invested $85 million in a joint venture with Harvard Medical School to further the scientific research on skin ageing process.[41] In circumstances where there was significant cultural differences between the U.S. and Japan, Shiseido strived to understand and accommodate the differences. For example, Shiseido focused more on the cosmetics and perfume sides of the business in the U.S. given American customers' stronger emphasis on makeups than their Japanese counterpart. American customer favored an enormous diversity of colors of makeup products.[42] The company understood that the lower percentage of cosmetics sales in Japan than the U.S. was due to cultural differences, where heavy

[39] Ibid.

[40] Zimmerman, Peter C. "Shiseido stressing store service." WWD, 14 Mar. 1986, p. S14. Gale General OneFile, https://link.gale.com/apps/doc/A4170376/ITOF?u=upenn_main&sid=ITOF&xid=07ba7892. Accessed 2 Nov. 2019.

[41] "Shiseido teams up with Harvard for cosmetic research." Cosmetics International, 25 Sept. 1989, p. 6. Gale General OneFile, https://link.gale.com/apps/doc/A7995547/ITOF?u=upenn_main&sid=ITOF&xid=82c087b7. Accessed 2 Nov. 2019.

[42] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. *Making China Beautiful: Shiseido and the China Market*. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.

makeup in Japan was "identified with the Geisha girl and the Cabaret hostess," which made women wearing extensive makeup unattractive to men.[43]

As compared to its strategy for the U.S. market, Shiseido, upon entering Europe two decades after, addressed the European market with a significantly higher awareness of the importance of localization. The most notable effort was the partnership with Serge Lutens, a prominent French fashion designer and photographer who was hired from Dior, to act as the "international image creator" for Shiseido.[44] Serge Lutens in 1982 helped Shiseido launch the women's fragrance Nombre Noir, tailored for the French customers. It was considered as Serge Lutens' "one-man show."[45] His avant-garde style mitigated the Japanese identity of the Shiseido brand, but rather shaped the brand to accommodate the mainstream aesthetics of the French audience. Additionally, Shiseido created in 1990 "Beauté Prestige International", a subsidiary for a fragrance brand in France, in response to the uniqueness of the French market.[46]

Shiseido made the most localization efforts in China compared to the U.S. and the European markets. The Aupres brand was created for Chinese consumers and distributed only in China. From the advertising perspective, Shiseido emphasized that the Aupres products were developed specifically for Chinese women.[47] For example, the Aupres advertisements featured Chinese models, while Shiseido's other import brands used Western models exclusively.[48] Through

[43] Ibid.

[44] Petkanas, Christopher. "Closeup: Shiseido Image Maker: Focusing on Shiseido's Look." WWD, vol. 145, no. 118, Jun 17, 1983, pp. 2-GP12, GP14. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1445589765?accountid=14707.

[45] Petkanas, Christopher. "Nombre Noir: Top of the Line at Shiseido." WWD, vol. 143, no. 118, Jun 18, 1982, pp. 1. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1445519931?accountid=14707.

[46] Motohashi, Kazuyuki. "Shiseido Marketing in China." *Global Business Strategy: Multinational Corporations Venturing into Emerging Markets*, SPRINGER Verlag, Japan, 2016, pp. 161.

[47] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. *Making China Beautiful: Shiseido and the China Market*. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.

[48] Ibid.

combining the high quality of Japanese products and the customization for Chinese women, Shiseido established a reputable brand image that differentiated itself from both the low-end domestic and the luxurious Western brands.

Level of Success

Shiseido's success in the U.S. remained underwhelming through the early 90s. As of 1970, Shiseido's exports accounted only for 1% of total sales, and the 1% of overseas sales were primarily in Okinawa, a Japanese prefecture that was under American control until 1973.[49] That is to say, throughout Shiseido's nearly decade-long presence in Hawaii and the continental U.S. beginning in 1962, sales remained negligible. By the mid-70s, Shiseido had nearly 800 outlets in the U.S., but the number fell to 180 by 1980 as the company's image as an exotic Oriental brand faded.[50] Sales of Zen perfume fell following the conclusion of a "Far East Festival" held at Macy's in New York, and a subsequent attempt to take the brand into more stores further tarnished its reputation.[51]

In the European market, Shiseido achieved moderately better success than in the U.S. The brand gained certain traction in France, evident in the participation of seven French designers in fashion shows in Japan in 1977.[52] Such events not only helped "elevate Japan as a fashion destination," but associated the Shiseido brand with "the world of high fashion."[53] However,

[49] Shiseido,Yūka Shōken Hōkokusho [Annual Securities Report], 1971, p. 891.
[50] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. *Making China Beautiful: Shiseido and the China Market*. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.
[51] Jones, Geoffrey. "Global Ambitions Meet Local Markets." *Beauty Imagined: A History of the Global Beauty Industry*. Oxford: Oxford University Press, 2010. p. 207. Print.
[52] "The Beauty Part," Women's Wear Daily, January 7, 1977, 17.
[53] Umemura, Maki and Slater, Stephanie (2017) *Reaching for global in the Japanese cosmetics industry, 1951 to 2015: the case of Shiseido*, Business History, 59:6, 877-903, DOI: 10.1080/00076791.2016.1274735

although Shiseido's overseas sales increased relatively rapidly in the 1980s, sales in the U.S. and Europe still each counted for only 3% of the total sales in 1989.[54]

Several factors could have contributed to such outcome. First, Japan was not perceived by the West as a country with advanced technologies and strong economic power until the early 70s, which negatively impacted its products particularly in an aspirational industry like cosmetics.[55] The stereotype of Japanese products was "cheap and shoddy."[56] While the West was becoming increasingly curious about Japan, Shiseido had to take additional steps to explain to the Western audience about Japan's latest economic and technological development in order to validate the legitimacy of its own cosmetics products. For example, as Shiseido first entered the U.K. in 1988, the article published by The Times that introduced the brand added an entire paragraph describing the newly developed Japan – "Their cities are scrupulously clean. In Tokyo, ashtrays for cigarette butts stand in the streets. Taxi-drivers wear white gloves and white linen antimacassars protect cab seats."[57] Such narrative seemed irrelevant to the Shiseido brand, but it was at the time necessary to demonstrate Japan to be an industrialized economy before one could demonstrate the products made in Japan were of premium quality. As such, Shiseido might have suffered from the stereotype of Japan and Japanese products when it pioneered the Western market.

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[54] Shiseido, Yūka Shōken Hōkokusho [Company Security Filings], 1971, 466, 2012, 162; Euromonitor, 1992, 186–187.

[55] Umemura, Maki and Slater, Stephanie (2017) *Reaching for global in the Japanese cosmetics industry, 1951 to 2015: the case of Shiseido*, Business History, 59:6, 877-903, DOI: 10.1080/00076791.2016.1274735

[56] Ibid.

[57] "Fashion: When the face fits ...wear it - The Japanese cosmetics giant Shiseido is about to project itself on the British scene, and soon the English rose will be finding herself on screen." Times [London, England], 23 Feb. 1988. Gale OneFile: News, https://link.gale.com/apps/doc/A117495781/STND?u=upenn_main&sid=STND&xid=5f2aa615. Accessed 29 Nov. 2019.

Additionally, Shiseido had trouble acquiring attractive businesses in the target markets, likely due to the lack of a defined strategy, coupled with the weakened Japanese Yen in the late 80s. While the company strived to expand internationally through acquiring established, local brands, it only managed to acquire several small hair salon-focused businesses during the 80s and the 90s, including Carita in France, Zotos in the U.S., and Helene Curtis' North American Professional Division.[58] The company hired mergers-and-acquisitions experts in the 90s and created a dedicated corporate development group, but struggled to acquire cutting-edge designer brands due to the fierce competition against its Western counterparts, such as Estée Lauder, L'Oréal, and LVMH.[59] Shiseido seemed to have struggled learning from its peers about strategizing its corporate development and therefore had to grow its overseas business organically through its own capabilities, which was a factor that slowed down the speed of its internationalization.

Furthermore, the cosmetics markets across different European countries varied widely. For instance, Hisako Nagashima, a principal of the Shiseido Beauty School in 2004, observed that "Latin countries such as Italy, France, Spain, and Belgium like colors and perfumes, while people in countries like Germany, Austria and the Netherlands look for beautiful skin," and "England was very unique in a sense, because people did not seem to have a particular taste."[60] Such variation made it increasingly difficult for Shiseido to capture customers with different aesthetics and shopping habits.

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[58] Motohashi, Kazuyuki. "Shiseido Marketing in China." *Global Business Strategy: Multinational Corporations Venturing into Emerging Markets*, SPRINGER Verlag, Japan, 2016, pp. 157.

[59] Ono, Yumiko. "Shiseido Finds Tough Competition Blocking Global Acquisition Plans." The Wall Street Journal, Dow Jones & Company, 16 Sept. 1999, www.wsj.com/articles/SB937439579451070231.

[60] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. Making China Beautiful: Shiseido and the China Market. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.

In contrast, Shiseido achieved tremendous success in China and other Asian countries. By 1974, Shiseido occupied 40% market share in Taiwan, followed by Max Factor. [61] By 2006, the Aupres brand was distributed across 614 department stores in China.[62] In 2009, Asia/Oceania surpassed Europe to become Shiseido's largest overseas market.[63] In 2018, China alone contributed 190.8 billion Yen of net sales, representing 17.4% of Shiseido's total sales, while the Americas and EMEA contributed 12.0% and 10.3%, respectively.[64]

Apart from the localization that Shiseido made for the Chinese market, a significant factor that contributed to Shiseido's success in China was the lack of domestic competition. In the wake of Cultural Revolution, wearing make-up or perfume was not highly regarded by the society even until the early 1980s, as "beauty had been considered almost synonymous with capitalist life during the Cultural Revolution."[65] As such, when Shiseido entered China in the early 90s, there was virtually no domestic brands in the market. It was a drastically different competitive landscape than the U.S. and Europe, where existing fashion beauty brands like Estée Lauder and L'Oréal had long dominated the market.

In addition, Shiseido did not have to overcome the stereotype of Japan being a developing economy as it appeared in China. Despite the hostility against Japan in the immediate post war era, Chinese people generally perceived Japan as "an advanced, technologically sophisticated

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[61] Furukawa, "Treatment: Taiwan's Appetite is Growing for Cosmetics, Fragrances: Faces of the Far East," Women's Wear Daily, October 11, 1974, 10.

[62] Jones, Geoffrey, Kanno, Akiko and Egawa, Masako. Making China Beautiful: Shiseido and the China Market. Business Case. Boston. Harvard Business Publishing. 14 Oct. 2004. Print.

[63] Shiseido Company, Limited. *Annual Report 2010, December 31, 2010*. https://www.marketscreener.com/SHISEIDO-COMPANY-LIMITED-6492328/pdf/190884/Shiseido%20Company,%20Limited_Annual-Report.pdf. Accessed 30 Nov. 2019.

[64] Shiseido Company, Limited. *Annual Report 2018, December 31, 2018*. https://www.shiseidogroup.com/report/pdf/anu_digest.pdf. Accessed 30 Nov. 2019.

[65] Umemura, Maki and Slater, Stephanie (2017) Reaching for global in the Japanese Cosmetics Industry, 1951 to 2015: the case of Shiseido, Business History, 59:6, 877-903, DOI: 10.1080/00076791.2016.1274735

country with high quality products," whereas the West still "associated Japan with traditional stereotypes such as karate, judo, and samurai."[66] The Sino-Japanese relation was also mostly on good terms during the early 80s and the popular image of Japan was more favorable than that of any Western country.[67] Hence, Shiseido was favorably positioned relative to its Western competitors, and its Asian origin and customized products further enhanced Chinese customers' affinity with the brand.

[66] Ibid.
[67] Ibid.

Japan – Shu Uemura

Shu Uemura is a Tokyo-based cosmetics brand founded by Shu Uemura, who began his career in professional makeup in Hollywood and known as a creative makeup artist on par with Max Factor[68]. In the late 1960s, Shu Uemura opened in Tokyo his first boutique store, stocked with makeup left over from his film jobs.[69] The boutique was initially named Japan Makeup and later changed to Shu Uemura Cosmetics in 1983.[70] The brand made a series of efforts to expand globally, including neighboring regions in Asia, Europe and the United States. However, the global expansion achieved a mix of success and failure. Most of its overseas business remained in Taiwan and Hong Kong, while the Western market, despite over a decade long exploration, experienced significantly less success than expected. Shu Uemura was eventually acquired in 2003 by L'Oréal, one of the world’s largest cosmetics giants. Prior to the 35% stake takeout by L’Oréal in 2000, Shu Uemura remained an entrepreneurial brand with annual sales of $125 million, of which 20% was generated outside Asia.[71] The history of Shu Uemura illustrates the unique globalization path of a standalone, entrepreneurial brand with limited resources and capabilities, which is drastically different than that of a cosmetics giant like Shiseido during the same period of time.

Market Entrance

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[68] Jones, Geoffrey. “Conclusion: The Dream Machine.” *Beauty Imagined: A History of the Global Beauty Industry*. Oxford: Oxford University Press, 2010, p. 354. Print.

[69] Brown, Sarah. "Beauty Health & Fitness: Zen Palette." Vogue, vol. 192, no. 10, Oct 01, 2002, pp. 260. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/879311208?accountid=14707.

[70] Masters, Coco. “Shu Uemura, Makeup Pioneer, Dies.” Time, Time Inc., 8 Jan. 2008. content.time.com/time/business/article/0,8599,1701376,00.html.

[71] Hirano, Koji. "L'Oréal Gets Stake in Shu Uemura." WWD, vol. 180, no. 99, Nov 27, 2000, pp. 22. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434223362?accountid=14707.

Since the opening of the original store in Tokyo in 1983, Shu Uemura expanded quickly in Japan and operated over 50 stores by the time it began exploring overseas. The brand opened its first international store in Hong Kong in 1985, first U.S. store in Los Angeles and European store in Paris in 1986, and also expanded to Singapore, London, Milan, Amsterdam and other major cities globally.[72] Shu Uemura grew its number of stores from over 50 domestically in 1985, to approximately 60 internationally in 1986, and then to over 100 internationally in 1995.[73] However, among the 125 boutiques worldwide in 1995, about half were in Japan.[74] The international sales were heavily concentrated in other Asian regions, particularly Taiwan, a former Japanese colony with natural affinity to Japanese culture and brands, and Hong Kong, one of the most economically developed Asian regions at the time with strong consumer spending power and within close proximity to Japan.

The brand's presence in the U.S., on the contrary, remained limited to the boutiques and freestanding counters in the Century City shopping mall in California, the Stanley Korshak mall in Dallas, Barney's in New York, and Nordstrom in San Francisco as of 1995.[75] The company held optimistic expectations in the beginning. For example, from the counter at Bloomingdale's New York flagship, the brand's representative expected to generate half a million dollars of sales in the very first year, with $1,000 a day as a "minimum target" and $2,000 a day as a goal."[76]

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[72] Everett, Patty. "Shu Uemura lays out expansion plans." WWD, 5 Sept. 1986, p. 9. Gale General OneFile, https://link.gale.com/apps/doc/A4392352/ITOF?u=upenn_main&sid=ITOF&xid=5257d562. Accessed 2 Nov. 2019.
[73] Chan, Candy K. H. "Shu Uemura Brings Together Cosmetics and Art." Asianweek, Mar 31, 1995, pp. 10. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/367258192?accountid=14707.
[74] Sargisson, Susan. "The New Cosmetic Entrepreneur." Drug & Cosmetic Industry, vol. 156, no. 6, 1995, pp. 46. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/196449025?accountid=14707.
[75] Ibid.
[76] Everett, Patty. "Shu Uemura lays out expansion plans." WWD, 5 Sept. 1986, p. 9. Gale General OneFile, https://link.gale.com/apps/doc/A4392352/ITOF?u=upenn_main&sid=ITOF&xid=5257d562. Accessed 2 Nov. 2019.

The company expected the sales to grow by 100-150% in both the New York counter and the free-standing Los Angeles boutique.[77] While the actual sales data were not disclosed, they likely fell under expectation. In New York, for example, the brand achieved little momentum as it first opened a flagship boutique at 241 Columbus Avenue on the Upper West Side in Manhattan. Shu Uemura originally acquired the retail space on the Upper West Side, but the "uptown venture never quite lived up to hopes," according to the *Interior Design* magazine in 1998.[78] Shu Uemura finally concluded that "the product was right but the location was wrong," so he relocated the boutique from the Upper West Side to SoHo.[79] It can be inferred that Shu Uemura was not as familiar to the shopping habits of local customers in New York as it should be entering the market. The rather imprudent move of opening a boutique in a wrong location, along with the general lack of local market expertise, might have resulted in the slower than expected sales growth in the U.S.

To the European market, Shu Uemura took a slightly more methodical approach. Following the opening of its first boutique in Paris in 1986, Shu Uemura established in 1992 a cosmetics manufacturing and marketing company in France named Utowa France, through a joint venture between Shu Uemura (51% stake), Toyo Menka Kaisha Ltd (34% stake) and Kyowa Hakko Kogyo Co. Ltd (15% stake).[80] The purpose of the joint venture was a combination of marketing Shu Uemura across Europe and manufacturing products to export from France to Japan and other

[77] Ibid.
[78] Geran, Monica. "Face value." Interior Design, Apr. 1998, p. 192+. Gale General OneFile, https://link.gale.com/apps/doc/A20526370/ITOF?u=upenn_main&sid=ITOF&xid=73b44267. Accessed 2 Nov. 2019.
[79] Ibid.
[80] "Shu Uemura sets up in France." Cosmetics International, 10 Jan. 1992, p. 3. Gale General OneFile, https://link.gale.com/apps/doc/A11819954/ITOF?u=upenn_main&sid=ITOF&xid=157ae187. Accessed 2 Nov. 2019.

Asian markets, such as Korea and Southeast Asia.[81] As compared to its elementary promotion strategy in the U.S. in the late 80s, Shu Uemura was more conscious of brand-building in Europe in the early 90s. It is unclear, however, as to the impact of setting up such entity on Shu Uemura's expansion efforts in Europe. Neither of the other two stakeholders of the joint venture, Toyo Menka Kaisha and Kyowa Hakko Kogyo, were interested in promoting Shu Uemura in Europe. Toyo Menka Kaisha focused on the trading aspect of the business, which entailed importing the France-made cosmetics back to Asia, whereas Kyowa Hakko Kogyo was primarily interested in product development.[82] Although the manufacturing center in France would likely improve Shu Uemura's supply chain in Europe and potentially drive its sales in Japan and other Asian countries, Shu Uemura remained to be the only party among the three that was motivated to promote the brand in the European market. "By developing its cosmetics business in France," as indicated by a news article at the time, Shu Uemura aimed to "enhance its brand image and at the same time develop a greater knowledge and understanding of the industry."[83] The set-up of the French entity appears to be more of an exploratory effort to help Shu Uemura understand the European market than a sophisticated, strategic move to grow its business in Europe.

In addition to the offline, direct-to-consumer sales channel, Shu Uemura also explored the franchise model in Europe. For instance, the owners of an alternative perfumery in Milan purchased the Shu Uemura franchise in 1990 to become the exclusive Shu Uemura franchisee.[84] The brand attracted an amount of local interest through its creative products like Ethpital, a special leg treatment line formulated with natural ingredients like chamomile and calendula, to

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[81] Ibid.
[82] Ibid.
[83] Ibid.
[84] Barone, Amy B. "What's Selling at Alternative Perfumeries?" Drug & Cosmetic Industry, vol. 159, no. 2, 1996, pp. 16. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/196453652?accountid=14707.

reduce swelling and improve circulation.[85] However, given that the same article mentions that the owners pondered opening a second Shu Uemura door in Italy, it can be inferred that Shu Uemura's presence in Italy was limited to one or two boutiques, with little scalability.

Products

Shu Uemura, with its over 1,000 SKUs of skincare, makeup and perfume products and an extensive collection of brushes and accessories, sold across approximately 6,000 of beauty salons, boutiques and department stores in Japan.[86] In the European and U.S. markets, however, the brand typically offered only a portion of its collection due to space constraints and inventory management challenges. The product aspect of Shu Uemura's international expansion can be analyzed from three perspectives – product offerings, branding, and in-store experience.

The products first introduced to the U.S. market were primarily makeup and accessory products. As Shu Uemura opened its first U.S. store, only the JM, Ovelan and Beauty Clinic lines of makeup and skincare were provided.[87] The Beauty Clinic lines offered at the Bloomingdale's space, for instance, included 57 eye shadows at $9 each, 63 lipsticks at $10 each and 23 blushes at $10 each.[88] In addition to the makeup products, Shu Uemura also introduced makeup-centric accessories, such as eye-shadow applicators for 50 cents each and professional makeup cases made of cowhide for $2,000.[89] Through its relatively extensive offering of makeup products, packaged in "clear, unadorned plastic packaging," Shu Uemura positioned itself to be a brand

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[85] Ibid.
[86] Everett, Patty. "Shu Uemura lays out expansion plans." WWD, 5 Sept. 1986, p. 9. Gale General OneFile, https://link.gale.com/apps/doc/A4392352/ITOF?u=upenn_main&sid=ITOF&xid=5257d562. Accessed 2 Nov. 2019.
[87] Ibid.
[88] Ibid.
[89] Ibid.

that "aimed at all races, genders and ages."[90] In addition to makeup products, Shu Uemura also experimentally launched a variety of fragrances, including 50 women's fragrances and 24 men's, first in Japan and subsequently in the U.S.[91] The company, fully aware that the customers had not yet developed the taste for fragrances, introduced such fragrance collection regardless with the goal of experimenting.[92]

The products first introduced to the European market, unlike the U.S., were more skincare focused. When Shu Uemura set up its manufacturing and marketing entity in France in 1992, it focused on promoting premium products for women only. The company planned on selling facial cleansers and oils in the first year, expecting sales of French franc 12 million, and selling fragrances and other skincare products and expanding sales routes to other European countries in the next three years, expecting sales of French franc 40 million.[93] Shu Uemura's signature cleansing oil, a best-seller in Japan and other Asian regions, received a greater success in Europe than in the U.S.

From the branding perspective, Shu Uemura presented itself as an innovative, professional and artistic brand in the Western markets, primarily through the founder's professional makeup artist background. His early-year experience working in Hollywood for celebrities like Shirley MacLaine in the mid-50s, to certain extent, drew a natural connection between the exotic

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[90] Sargisson, Susan. "The New Cosmetic Entrepreneur." Drug & Cosmetic Industry, vol. 156, no. 6, 1995, pp. 46. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/196449025?accountid=14707.
[91] Inaba, Minoru. "Shu Uemura's Taste for Variety." WWD, vol. 158, no. 48, Sep 09, 1988, pp. 1. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1445696501?accountid=14707.
[92] Ibid.
[93] "Shu Uemura sets up in France." Cosmetics International, 10 Jan. 1992, p. 3. Gale General OneFile, https://link.gale.com/apps/doc/A11819954/ITOF?u=upenn_main&sid=ITOF&xid=157ae187. Accessed 2 Nov. 2019.

Japanese brand and the Western pop culture. Additionally, with his “avant-garde and adventurous spirit,” Shu Uemura emphasized his pursuit of perfection.[94] Just like a painter creating his own colors, Shu Uemura was meticulous about creating the right color for his modern makeup. “The two most important elements of foundation,” as Shu Uemura explained during an interview, were “texture and color;” one had to address the skin first, then how color reacted to the light, so that he would not end up with an unnatural finish.[95] He created his own “grayish-blue” to reduce the artificial feeling of the eyeshadow, and his products were consistently defined with its clear coloring, low fragrance and use of natural ingredients.[96] To perfect the coloring, Shu Uemura’s specially designed makeup brushes came in different shapes and sizes to enhance the makeup process.[97] He began to explore eye shadow, cheek color, and everything in between “long before Bobbi Brown or Trish McEvoy wielded her first lipstick.”[98] Shu Uemura was often times deemed second only to the American legend Max Factor and was perceived as an artist more than a businessman. The unique character of Shu Uemura’s branding was so invaluable that its subsequent acquiror, L’Oréal, considered it critical to maintain its independence, so that L’Oréal could “add value to the brand without putting into jeopardy all the elements that made it so special.”[99]

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[94] Chan, Candy K. H. "Shu Uemura Brings Together Cosmetics and Art." Asianweek, Mar 31, 1995, pp. 10. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/367258192?accountid=14707.

[95] Naughton, Julie. "The Beauty Report: A Talk with Shu Uemura." WWD, vol. 186, no. 60, Sep 19, 2003, pp. 18. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434264927?accountid=14707.

[96] Chan, Candy K. H. "Shu Uemura Brings Together Cosmetics and Art." Asianweek, Mar 31, 1995, pp. 10. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/367258192?accountid=14707.

[97] Ibid.

[98] Brown, Sarah. "Beauty Health & Fitness: Zen Palette." Vogue, vol. 192, no. 10, Oct 01, 2002, pp. 260. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/879311208?accountid=14707.

[99] Labous, Jane. "Japanese, if you please: the strategic alliance between L’Oréal’s Luxury Products Division and Japanese make-up artist Shu Uemura signaled the beginning of a global future for the popular Asian cosmetics

Shu Uemura also introduced a differentiating in-store experience to customers. The store was designed to be “a playhouse of color for ladies” without pressure from the sales staff.[100] Customers were encouraged to experiment on their own. The sales staff did not push, although being trained to be well versed and helpful when asked.[101] Additionally, the “open atelier” concept not only removed the barrier between salesclerks and customers, but also displayed numerous products as well as large tester counters to maximize the interaction between customers and products.[102] At its Bloomingdale’s store, for example, “clear plastic ‘no-frills’ containers” were displayed in “candy-counter fashion in rows of clear glass jars and plastic trays.”[103] Customers could spend long hours in front of mirrors, “looking at and entertaining themselves by touching and enjoying the extensive arrangements of color” offered in Shu Uemura’s collections.[104] Similar to its peers at the time, such as The Body Shop and Kiehl’s, Shu Uemura featured its extensive product offerings all “under one roof” to bring the maximum convenience to its female customers who had increasingly limited time to search for beauty

brand. Jane Labous talks to Philippe Larrieu, manager of the developing brands division at Scental--L’Oréal’s Asia/Pacific travel-retail arm. (Beauty Review)." Duty-Free News International, 15 May 2002, p. 90+. Gale General OneFile, https://link.gale.com/apps/doc/A87704908/ITOF?u=upenn_main&sid=ITOF&xid=08daad53. Accessed 2 Nov. 2019.

[100] Everett, Patty. "Shu Uemura lays out expansion plans." WWD, 5 Sept. 1986, p. 9. Gale General OneFile, https://link.gale.com/apps/doc/A4392352/ITOF?u=upenn_main&sid=ITOF&xid=5257d562. Accessed 2 Nov. 2019.

[101] Bonn, Kathryn. "Images: One-Stop Shopping." Vogue, vol. 179, no. 1, 1989, pp. 50. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/879298404?accountid=14707.

[102] Sargisson, Susan. "The New Cosmetic Entrepreneur." Drug & Cosmetic Industry, vol. 156, no. 6, 1995, pp. 46. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/196449025?accountid=14707.

[103] Everett, Patty. "Shu Uemura lays out expansion plans." WWD, 5 Sept. 1986, p. 9. Gale General OneFile, https://link.gale.com/apps/doc/A4392352/ITOF?u=upenn_main&sid=ITOF&xid=5257d562. Accessed 2 Nov. 2019.

[104] Chan, Candy K. H. "Shu Uemura Brings Together Cosmetics and Art." Asianweek, Mar 31, 1995, pp. 10. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/367258192?accountid=14707.

products beginning in the 1980s.[105] Furthermore, stores were artistically decorated in a minimalist fashion – "black, sleek, streamlined" – to make products easy for customers to pick and choose.[106] The boutique in St. Germain-des-Pres in Paris was given "the most beautiful shop in Paris' sixth ward" award.[107] The in-store experience that Shu Uemura created appeared to be highly consistent with its innovative brand image as well as comprehensive product lines.

Through the combination of professional, extensive product offerings, innovative, artistic brand image and the customer-centric, "open-atelier" store concept, Shu Uemura was perceived as one of the emerging "professional makeup artist lines" that created the "hottest new trend in color cosmetics" in New York.[108] According to the *Drug & Cosmetic Industry* magazine published in 1995, Shu Uemura was among those that "undoubtedly" would be "future industry leaders" while most of the other lines were "just nipping at the heels of industry giants."[109] Shu Uemura's value proposition was appreciated by its subsequent acquiror L'Oréal as well. L'Oréal recognized that Shu Uemura appealed to a broad audience, not only textures and colors for the Japanese.[110] It was also a full cosmetics brand, unlike MAC of Bobbi Brown which specialized

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[105] Bonn, Kathryn. "Images: One-Stop Shopping." Vogue, vol. 179, no. 1, 1989, pp. 50. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/879298404?accountid=14707.

[106] Ibid.

[107] Chan, Candy K. H. "Shu Uemura Brings Together Cosmetics and Art." Asianweek, Mar 31, 1995, pp. 10. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/367258192?accountid=14707.

[108] Sargisson, Susan. "The New Cosmetic Entrepreneur." Drug & Cosmetic Industry, vol. 156, no. 6, 1995, pp. 46. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/196449025?accountid=14707.

[109] Ibid.

[110] Labous, Jane. "Japanese, if you please: the strategic alliance between L'Oréal's Luxury Products Division and Japanese make-up artist Shu Uemura signaled the beginning of a global future for the popular Asian cosmetics brand. Jane Labous talks to Philippe Larrieu, manager of the developing brands division at Scental--L'Oréal's Asia/Pacific travel-retail arm. (Beauty Review)." Duty-Free News International, 15 May 2002, p. 90+. Gale General OneFile, https://link.gale.com/apps/doc/A87704908/ITOF?u=upenn_main&sid=ITOF&xid=08daad53. Accessed 2 Nov. 2019.

in makeup only, and was extraordinarily rich on the makeup side with 100 or so different shades as well as products that others did not offer, such as accessories, brushes and fake eyelashes.[111]

Localization

Shu Uemura made several adaptive tactics to accommodate the preferences of customers in the estern markets, but overall maintained its brand image and sales strategies to be largely consistent with those in its domestic market.

From the product offering perspective, the company focused more on makeup than skincare in the U.S., whereas the two categories were generally equally emphasized in the non-U.S. markets.

Although Shu Uemura himself hoped "to be praised for his cleansing oil and color," as he indicated in an interview in 2003, the brand remained to be best known in the U.S. for its "top-of-the-line brushes and color."[112] Known as a worldly prominent makeup artist who had his roots in Hollywood, Shu Uemura was more easily accepted as the man behind a professional makeup brand as opposed to skincare. In most of news and promotional articles, Shu Uemura was heavily advertised for his pursuit of perfection in makeup and creation of natural, sophisticated colors. It was quoted in an article published in San Francisco in 1995 that "Chanel brought together cosmetic and fashion. And now, Shu Uemura has brought together cosmetic and art."[113] In addition to Shu Uemura's connection between his makeup career and Hollywood, makeup in general was more widely adopted than skincare in the American cosmetics culture. These two

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[111] Ibid.

[112] Naughton, Julie. "The Beauty Report: A Talk with Shu Uemura." WWD, vol. 186, no. 60, Sep 19, 2003, pp. 18. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434264927?accountid=14707.

[113] Chan, Candy K. H. "Shu Uemura Brings Together Cosmetics and Art." Asianweek, Mar 31, 1995, pp. 10. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/367258192?accountid=14707.

reasons likely explain why Shu Uemura's sales in the U.S. were driven more by makeup products than skincare, a pattern different than that of its domestic market.

From the product promotion perspective, Shu Uemura did not implement any large-scale marketing campaign upon its entrance into the U.S. market. The company very much expected its American business to replicate the rapid success in Japan without any purposeful marketing efforts. When asked how Shu Uemura planned on promoting the brand in the U.S., the company's representative indicated that the brand had "never advertised in Japan" and attributed the company's success in Japan to "word of mouth."[114] The company conducted limited regional advertising, hoping that the American customers satisfied with its products would "spread the word."[115]

Level of Success

Despite its domestic popularity and success in neighboring Asian regions like Taiwan and Hong Kong, Shu Uemura's expansion into the U.S. and Europe was moderately successful at the most. The company's total sales in 1999 was $125 million, only about twice of the sales 14 years ago.[116] Of the $125 million of sales, only about 20% were generated outside Asia.[117] The U.S. and European businesses remained relatively insignificant to the company in terms of sales. Although Shu Uemura hoped to "be everywhere, every market, every country, every region,"[118]

[114] Everett, Patty. "Shu Uemura lays out expansion plans." WWD, 5 Sept. 1986, p. 9. Gale General OneFile, https://link.gale.com/apps/doc/A4392352/ITOF?u=upenn_main&sid=ITOF&xid=5257d562. Accessed 2 Nov. 2019.

[115] Ibid.

[116] Hirano, Koji. "L'Oréal Gets Stake in Shu Uemura." WWD, vol. 180, no. 99, Nov 27, 2000, pp. 22. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434223362?accountid=14707.

[117] Ibid.

[118] Brown, Sarah. "Beauty Health & Fitness: Zen Palette." Vogue, vol. 192, no. 10, Oct 01, 2002, pp. 260. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/879311208?accountid=14707.

the limited distribution infrastructure, marketing capabilities and local market expertise continued to restrain Shu Uemura from growing in the Western markets. The company had been mostly self-reliant throughout the process, selling products through direct-to-consumer boutiques, department stores and franchisees. After more than a decade of trying, Shu Uemura found that "the international business was rarely profitable."[119]

Given the discrepancy between Shu Uemura's ambition to be global and the unsatisfying outcome of the expansion, Shu Uemura began an alliance with L'Oréal in 2000. L'Oréal acquired 35% stake in Shu Uemura through L'Oréal's Japanese subsidiary, Nihon L'Oréal K.K. in 2000, taking control of Shu Uemura's international business, including the rights to the brand outside of Japan.[120] In 2003, L'Oréal increased its stake to 52.9% at an estimated price of $59.5 to $71.5 million, officially becoming the majority owner and obtaining management control of the company.[121]

One of the main rationales of the stake acquisitions for L'Oréal was to strengthen the cosmetics giant's position in Japan and Asia.[122] Following its acquisition of Kiehl's in 2001, L'Oréal further commented that the goal of bringing Shu Uemura and Kiehl's in-house was to enhance the L'Oréal Group's "cultural diversity and its position in the U.S. and Japan" and "reinforce L'Oréal's position in the high end segment of the business."[123] Given Shu Uemura's success in

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[119] Jones, Geoffrey. "Globalization and Tribalization." *Beauty Imagined: A History of the Global Beauty Industry*. Oxford: Oxford University Press, 2010, p. 315. Print.

[120] Hirano, Koji. "L'Oréal Gets Stake in Shu Uemura." WWD, vol. 180, no. 99, Nov 27, 2000, pp. 22. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434223362?accountid=14707.

[121] Weil, Jennifer. "L'OREAL TO UP UEMURA STAKE." WWD, 20 Nov. 2003, p. 17. Gale General OneFile, https://link.gale.com/apps/doc/A110447884/ITOF?u=upenn_main&sid=ITOF&xid=cd1fe8e9. Accessed 2 Nov. 2019.

[122] Hirano, Koji. "L'Oréal Gets Stake in Shu Uemura." WWD, vol. 180, no. 99, Nov 27, 2000, pp. 22. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434223362?accountid=14707.

[123] Ibid.

its domestic market, L'Oréal viewed it an opportunity to leverage Shu Uemura's existing brand equity, customer base and distribution network in Japan and Asia to expand L'Oréal's footprint in Asia.

The other, and potentially more important reason that brought together the nascent Japanese brand and the French cosmetics giant was Shu Uemura's ambition for globalization and L'Oréal's interest in introducing emerging disruptors to the Western market. Following the acquisitions of Stila, Benefit, Fresh and Urban Decay by L'Oréal's competitors Estée Lauder and LVMH, L'Oréal's acquisition of Shu Uemura was deemed as "a sensible move given the recent influx of smaller, idiosyncratic brands into the market – brands whose unusual, often kitsch designs" were "luring bored consumers away from traditional products."[124] From Shu Uemura's perspective, the ultimate goal was to increase the brand's global presence, which could be much more effectively achieved through L'Oréal's research and development resources and worldwide distribution network.[125] Following the formation of the alliance, Shu Uemura cancelled its Initial Public Offering plan that scheduled the firm to be listed on the Tokyo Stock Exchange in Fall 2001.[126] As the founder Shu Uemura stated, "I realized that to keep up with the business times and to continue achieving good results, I might have to consider going public with my family-run business. I want the brand to become global, and the strategic alliance presented a good way

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[124] Labous, Jane. "Japanese, if you please: the strategic alliance between L'Oréal's Luxury Products Division and Japanese make-up artist Shu Uemura signaled the beginning of a global future for the popular Asian cosmetics brand. Jane Labous talks to Philippe Larrieu, manager of the developing brands division at Scental--L'Oréal's Asia/Pacific travel-retail arm. (Beauty Review)." Duty-Free News International, 15 May 2002, p. 90+. Gale General OneFile, https://link.gale.com/apps/doc/A87704908/ITOF?u=upenn_main&sid=ITOF&xid=08daad53. Accessed 2 Nov. 2019.

[125] Hirano, Koji. "L'Oréal Gets Stake in Shu Uemura." WWD, vol. 180, no. 99, Nov 27, 2000, pp. 22. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434223362?accountid=14707.

[126] Ibid.

forward."[127] Given the situation that Shu Uemura was in as an independent founder-owned business, it was a reasonable move to ally the business with a global player with extensive financial and operational resources.

Shu Uemura's self-reliant globalization plan achieved moderate to little success and was concluded by the acquisition by a larger player. However, the brand's global presence, both in Asia and the Western market, was taken to a different level following L'Oréal's takeout. For example, in September 2002, Galeries Lafayette, one of the most prominent department stores in Paris, inaugurated a 445-square-foot Shu Uemura stand together with a 215-square-foot L'Oréal Paris stand.[128] L'Oréal also increased Shu Uemura's presence globally to more than 15 countries since the 35% stake takeout.[129] As of 2002, of the $136.7 million total sales of Shu Uemura, 54% and 46% were from Japan and the international market, respectively.[130] By 2008, nearly 75% of Shu Uemura's sales were generated outside Japan.[131] Additionally, L'Oréal expanded Shu Uemura's travel retail business, including opening an airport store in Hong Kong, where potential business opportunities in mainland China was identified.[132] However, as much as it was

[127] Labous, Jane. "Japanese, if you please: the strategic alliance between L'Oréal's Luxury Products Division and Japanese make-up artist Shu Uemura signaled the beginning of a global future for the popular Asian cosmetics brand. Jane Labous talks to Philippe Larrieu, manager of the developing brands division at Scental--L'Oréal's Asia/Pacific travel-retail arm. (Beauty Review)." Duty-Free News International, 15 May 2002, p. 90+. Gale General OneFile, https://link.gale.com/apps/doc/A87704908/ITOF?u=upenn_main&sid=ITOF&xid=08daad53. Accessed 2 Nov. 2019.

[128] Weil, Jennifer, and Brid, Costello. "More in Store: Paris Retailing." WWD, 22 Nov. 2002, p. 7. Gale Academic Onefile, https://link.gale.com/apps/doc/A95474520/AONE?u=upenn_main&sid=AONE&xid=5f39e04b. Accessed 2 Nov. 2019.

[129] Naughton, Julie. "The Beauty Report: A Talk with Shu Uemura." WWD, vol. 186, no. 60, Sep 19, 2003, pp. 18. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1434264927?accountid=14707.

[130] Weil, Jennifer. "L'OREAL TO UP UEMURA STAKE." WWD, 20 Nov. 2003, p. 17. Gale General OneFile, https://link.gale.com/apps/doc/A110447884/ITOF?u=upenn_main&sid=ITOF&xid=cd1fe8e9. Accessed 2 Nov. 2019.

[131] Jones, Geoffrey. "Globalization and Tribalization." *Beauty Imagined: A History of the Global Beauty Industry*. Oxford: Oxford University Press, 2010, p. 315. Print.

[132] Labous, Jane. "Japanese, if you please: the strategic alliance between L'Oréal's Luxury Products Division and Japanese make-up artist Shu Uemura signaled the beginning of a global future for the popular Asian cosmetics brand. Jane Labous talks to Philippe Larrieu, manager of the developing brands division at Scental--L'Oréal's

L'Oréal's goal to make Tokyo its third center of creativity after Paris and New York,[133] Shu Uemura failed to capture the U.S. market despite the backing of L'Oréal. In 2010, L'Oréal announced it would phase out retail operations for Shu Uemura in the U.S. due to the brand's relatively low stateside sales.[134] While enjoying the tremendous capabilities L'Oréal had to provide, Shu Uemura as a very small part of the parent's business also faced internal competition against L'Oréal's other portfolio brands, such as Lancôme, Yves Saint Laurent, and Giorgio Armani, for resources and strategic priority.[135] Although the combination with L'Oréal largely helped Shu Uemura expand globally, it did not bring Shu Uemura success in the U.S., which shed light on the challenges Shu Uemura had to conquer due to its inherited nature of being a Japan-originated brand in the U.S. market.

Asia/Pacific travel-retail arm. (Beauty Review)." Duty-Free News International, 15 May 2002, p. 90+. Gale General OneFile, https://link.gale.com/apps/doc/A87704908/ITOF?u=upenn_main&sid=ITOF&xid=08daad53. Accessed 2 Nov. 2019.

133 Weil, Jennifer. "L'OREAL TO UP UEMURA STAKE." WWD, 20 Nov. 2003, p. 17. Gale General OneFile, https://link.gale.com/apps/doc/A110447884/ITOF?u=upenn_main&sid=ITOF&xid=cd1fe8e9. Accessed 2 Nov. 2019.

134 "L'Oréal USA Pulls Shu Uemura from U.S. Stores - Make-Up Artist Magazine." Make-Up Artist Magazine, 1 Apr. 2010, makeupmag.com/loreal-usa-pulls-shu-uemura-from-u-s-stores-2/.

135 Nichol, Katie. "L'Oréal to Close Shu Uemura Operations in US." Cosmetics Design, William Reed Business Media Ltd., 30 Mar. 2010, www.cosmeticsdesign-asia.com/Article/2010/03/30/L-Oreal-to-close-Shu-Uemura-operations-in-US.

Korea – AmorePacific

AmorePacific is a South Korea-based cosmetics company founded in 1945. It grew from a family kitchen to a global cosmetics giant, leading the global, particularly Asian, cosmetics industry along with companies like Shiseido and LG Household & Healthcare. As of 2018, the company generated over 5,200 billion Korean Won ($4.5 billion) of revenue across its domestic and overseas subsidiaries.[136]

AmorePacific began its exploration in the overseas market as early as in 1959, when the company produced the premium Coty Airspun Loose Face Powder to Coty in France, thanks to the air spun machine it imported from Germany that could churn out extremely fine powder to make silky, smooth face powers.[137] In 1964, AmorePacific exported about twenty types of cosmetics under the “Oscar” brand, opening doors to the global market.[138] The company’s overseas business, however, did not materialize until the 1990s, following South Korean government’s removal of its historical ban on the imports of luxury goods. Such ban had protected AmorePacific and its domestic peers from competing against Western cosmetics makers, such as L’Oréal and P&G, which provided a key basis for a domestic beauty industry to grow.[139] Suffering from the flood of numerous European and American brands into the Korean domestic market, AmorePacific had to shift its focus on expanding globally.[140]

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136 AmorePacific Corporations and Subsidiaries Annual Report, December 31, 2018.

137 “The Beginning.” *The Straits Times*, 24 Sept. 2015, www.straitstimes.com/lifestyle/fashion/the-beginning.

138 “Our History: Amorepacific.” *Our History*, Amorepacific, www.apgroup.com/int/en/about-us/amorepacific/our-history/our-history.html.

139 Jones, Geoffrey. *Beauty Imagined: A History of the Global Beauty Industry*. Oxford: Oxford University Press, 2010, pp. 202. Print.

140 최진아 “Latecomer Strategies in a Transnational Industry: the Case of Amorepacific Corp.” 국제경영리뷰, vol. 10, no. 1, 2006, pp. 95–128.

The company made significant investments in establishing businesses in three main foreign countries, first in France, second in China, and then in the U.S.[141] However, among the three countries, China is the only market that continues to contribute a significant amount of revenue (i.e., over 12% of 2016 revenue) with increasing sales year over year in the recent years.[142] Sales in the U.S. remained less than 1% of AmorePacific's total revenue in the past decade. France and the European market, interestingly, was once regarded an unprecedented success of Asian cosmetics entering the Western market after certain momentum in the 1990s. However, sales continued to decline afterwards. This analysis focuses on AmorePacific's expansion attempts in France and China, given the historical and current significance of these two markets to AmorePacific's international expansion.

Market Entrance

AmorePacific established Pacific Europe S.A. and opened a local office in Chartres, France in 1990.[143] However, exported from Korea, the "Soon" brand encountered Gallic chauvinism as the French consumers turned up their noses at cosmetics originating from a newly industrialized country.[144] In an industry where the brand image is the utmost factor in purchase decision-making, AmorePacific's initial attempt to enter the French market failed.

However, the company's former Chairman Suh insisted that "a company has to face its foreign competitors in the opponent's home market and acquire knowledge in the most advanced country

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[141] Ibid.
[142] AmorePacific Corporations and Subsidiaries Annual Report, December 31, 2016.
[143] "Our History: Amorepacific." *Our History*, Amorepacific, www.apgroup.com/int/en/about-us/amorepacific/our-history/our-history.html.
[144] Min, Kim Jung. "*Sweet Smell of Success*." Far Eastern Economic Review., vol. 167, no. 11, Review Pub Co etc., Jan. 2004.

in cosmetics industry."[145] Following several attempts to acquire local French brands, AmorePacific decided to set up its own production and recruit top executives locally.[146] Chartres, France was chosen to be the production center, as a number of renowned cosmetics companies were located around, forming a cluster of cosmetics companies.[147] Shiseido, AmorePacific's Japan-based competitor, entered into licensing contracts with designer brands such as Jean-Paul Gaultier and Issey Miyake perfumes, both of which achieved a huge hit in the 1990s.[148] Learning from Shiseido's success, AmorePacific signed a twenty-year licensing contract with French designer Lolita Lempicka and launched a perfume product named Lolita Lempicka.[149] Through marketing at high-end department stores, specialty stores and perfumeries, such as Printemps Paris, Lolita Lempicka achieved impressive success, once ranked as the fifth-most popular perfume in France.[150] The products manufactured in Chartres were also distributed to more than ten countries, most of which were European.[151]

In Asia, although AmorePacific began to tap into countries like Indonesia as early as in the 1980s,[152] the Asian market outside of Korea did not become a strategic priority of the company until the mid 2000s. It was a time when Korea's domestic demand remained weak, sales in France began to stagnate, and the "Korean Wave" became widespread across Asia, particularly

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145 최진아 "Latecomer Strategies in a Transnational Industry: the Case of Amorepacific Corp." 국제경영리뷰, vol. 10, no. 1, 2006, pp. 95–128.

146 Min, Kim Jung. "Sweet Smell of Success." Far Eastern Economic Review., vol. 167, no. 11, Review Pub Co etc., Jan. 2004.

147 최진아 "Latecomer Strategies in a Transnational Industry: the Case of Amorepacific Corp." 국제경영리뷰, vol. 10, no. 1, 2006, pp. 95–128.

148 Ibid.

149 Min, Kim Jung. "Sweet Smell of Success." Far Eastern Economic Review., vol. 167, no. 11, Review Pub Co etc., Jan. 2004.

150 Ibid.

151 최진아 "Latecomer Strategies in a Transnational Industry: the Case of Amorepacific Corp." 국제경영리뷰, vol. 10, no. 1, 2006, pp. 95–128.

152 Ibid.

in China. As of 2004, AmorePacific's overseas sales accounted for between 5% and 10% of its total sales, but it anticipated the sales in Asia to more than double the $20 million revenue in 2003.[153] As the beauty products gained increasing popularity in China and Vietnam, the company put its strategic focus on China, where it expected the overall beauty product market to grow from 52 billion Chinese Yuan ($6 billion) in 2002 to 300 billion Chinese Yuan ($40 billion) in 2010.[154]

Given the tremendous market opportunity, AmorePacific built factories in Shenyang and Shanghai to specifically supply the Chinese market.[155] The company also took advantage of the widespread "Korean Wave," an infatuation of Korean movies, TV programs, and musicians in China.[156] For example, it used Jeon Ji-Hyun, the actress from the popular movie "My Sassy Girl" as its main advertising spokesperson in China, attracting new consumers leveraging Jeon's fan base.[157] From the distribution perspective, AmorePacific primarily focused on direct sales through retail shops and department store counters in China, along with other Asian regions, such as Singapore, Taiwan, Indonesia, Thailand, and Malaysia.[158] The company planned to have 100 stores across these regions by the end of 2004 and add an additional 54 by the end of 2005.[159]

Products

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153 Jin-Young, Yook. "AmorePacific Growth Strategy Rides on Asia's 'Korean Wave'." Wall Street Journal, Nov 18, 2004. ProQuest, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/308580654?accountid=11311.
154 Ibid.
155 Ibid.
156 Ghemawat, Pankaj. *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*. Harvard Business School Press, 2007.
157 Chang, Dae. "Korea's Path to Brand Creation." Far Eastern Economic Review, vol. 170, no. 6, 2007, pp. 59–61,3.
158 Jin-Young, Yook. "AmorePacific Growth Strategy Rides on Asia's 'Korean Wave'." Wall Street Journal, Nov 18, 2004. ProQuest, http://search.proquest.com.ezp-prod1.hul.harvard.edu/docview/308580654?accountid=11311.
159 Ibid.

Between 1990 and 1994, the products that AmorePacific primarily sold in France were skincare under the "Soon" brand. Apart from the lack of local expertise and the weak brand image as a Korean brand, the company's failure could also be attributed to its wrong choice of product. First, customers tended to have high loyalty for skincare products, which added an additional difficulty for AmorePacific to attract local customers who were accustomed to the various existing skincare brands.[160] Furthermore, unlike Korean customers, most French women were light users of skincare, using only a cleanser and a moisturizer. They were unwilling to switch to unknown brands, particularly with labels that read "Made in Korea."[161]

The second major attempt, however, was much more well-thought from the product perspective. Similar to Shiseido, perfume was chosen by AmorePacific to be the product of focus, as the company learned that consumers showed less brand loyalty to fragrances than other cosmetics products.[162] The perfume Lolita Lempicka was named after French fashion designer Lolita Lempicka, a prominent female figure in a French fashion world dominated by male designers, bringing the brand a unique sense of "femininity and rebellion against unisex uniformity."[163] The scent echoed the brand image through its "floral, voluptuous, oriental" aroma.[164] The package was also designed in a feminine fashion, which was a purple-tinted glass topped with gold-enameled leaves.[165] Additionally, the retail price of Lolita Lempicka was 57 Euros for a 50ml eau de parfum spray, on par with perfumes marketed by legacy luxury brands.[166] From product

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[160] 최진아 "Latecomer Strategies in a Transnational Industry: the Case of Amorepacific Corp." 국제경영리뷰, vol. 10, no. 1, 2006, pp. 95–128.
[161] Ibid.
[162] Min, Kim Jung. "Sweet Smell of Success." Far Eastern Economic Review., vol. 167, no. 11, Review Pub Co etc., Jan. 2004.
[163] Ibid.
[164] Ibid.
[165] Ibid.
[166] Ibid.

categorization and design to product positioning and pricing, AmorePacific learned from its previous failure and meticulously refined its market entrance approach through Lolita Lempicka.

AmorePacific's product strategy in China was focusing on mid-priced lotions and face creams, likely based on the fact that these products were the most popular ones as Asian tourists flocked into Seoul to purchase.[167] The products were primarily marketed under the brand names Laneige and Mamonde.[168] The company also highlighted the herbal components in its products, drawing cultural connections with Chinese medicine. Korea had historically been a transshipment point for herbal medicine from China to Japan.[169] AmorePacific marketed ginseng, green tea, and bamboo sap as its proprietary ingredients, which easily resonated with Chinese consumers.[170] Furthermore, similar to Missha as it entered China, the products were priced between the luxury Western brands and the value-oriented domestic brands. The perceived oriental origin, brand image represented by Korean pop stars, and the affordability helped AmorePacific establish a nationwide brand awareness during its initial presence in China. As of 2007, China alone contributed 36.1% of AmorePacific's overseas sales, with both the Laneige and the Mamonde brands growing continuously.[171] Building on the brand image developed by the mid-priced products, AmorePacific further stimulated sales growth by introducing Sulwhasso, a premium brand based on ginseng in 2011.[172]

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[167] Oliver, C. & Jung-a, S. 2011, "AmorePacific on the scent in China", FT.com.
[168] Ibid.
[169] Ghemawat, Pankaj. *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*. Harvard Business School Press, 2007.
[170] Ibid.
[171] AmorePacific Investor Relations Presentation, December 2007. AmorePacific Company Website: https://www.apgroup.com/sg/en/investors/amorepacific-corporation/ir-reports/quarterly-results/quarterly-results.html.
[172] Oliver, C. & Jung-a, S. 2011, "AmorePacific on the scent in China", FT.com.

Localization

AmorePacific's entrance into France with the Lolita Lempicka perfume was highly accommodating to the local market. Such high level of localization was rarely seen among other Asian cosmetics brands as they looked to enter the Western market. Behind the purely French product design was the underlying strategy of camouflaging the Korean identity in its entirety. AmorePacific intentionally disassociated the products sold in France from their Asian origin. "We didn't want people to associate Korea with our brand," said Catherine Dauphin, director-general of AmorePacific's European operations.[173] Not only was the Lolita Lempicka perfume products conspicuously stamped "Made in France," but the operational aspect of AmorePacific's European business was also mostly French.[174] Dauphin, former international marketing director of Parfums Christian Dior, was recruited to be the CEO of AmorePacific's European operations.[175] Only four of the fifty employees were Koreans, who were responsible for handling finance, while the rest of the employees were all hired locally and tasked with marketing and other client-facing responsibilities.[176] The decision-making process was also independent from the headquarter in Seoul; rather, Dauphin and her team in France were granted with autonomy to implement decisions that they believe were most suitable to the European market, in a timely manner.

Besides the localization efforts directly related to Lolita Lempicka, AmorePacific also attempted to further its learning about the local market by a series of initiatives, including establishing The

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[173] Min, Kim Jung. "Sweet Smell of Success." Far Eastern Economic Review., vol. 167, no. 11, Review Pub Co etc., Jan. 2004.

[174] Ibid.

[175] 최진아 "Latecomer Strategies in a Transnational Industry: the Case of Amorepacific Corp." 국제경영리뷰, vol. 10, no. 1, 2006, pp. 95–128.

[176] Ibid.

Euro Techno center, a design research institute in Paris to acquire information about the latest fashion trends.[177]

AmorePacific's localization in China, as compared to France, was much less noteworthy. To a large extent the company approached China "as a larger version of its domestic market."[178] The company was aware of slightly different mindsets of Korean and Chinese consumers in a sense that Korean consumers were emotional, whereas Chinese consumers were "more practical, prioritizing scientific and dermatological testing."[179] Yet, the go-to-market strategy in China was very much similar to that in the domestic market. Unlike Shiseido, which created a brand (i.e., Aupres) specifically for the Chinese market, AmorePacific marketed in China only its existing brands with proven success domestically. AmorePacific maintained the "Korean-ness" of its brand, leveraging Chinese consumers' positive perception of Korean beauty products developed through the Korean Wave.

From the distribution standpoint, unlike in the domestic market, where 30% of revenue was generated through door-to-door sales, AmorePacific first approached the Chinese market through the traditional retail channel. However, consistent with its strategy of approaching China as a larger version of its domestic market, AmorePacific implemented its door-to-door sales channel in 2011, about a half decade after the company's strategic shift to China.[180] The company obtained the permission for door-to-door sales in Shanghai, planning to grow sales through office visits as most of their targeted Chinese customers tended to work in the office.[181]

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[177] Ibid.
[178] Oliver, C. & Jung-a, S. 2011, "AmorePacific on the scent in China", FT.com.
[179] Ibid.
[180] Ibid.
[181] Ibid.

Level of Success

The Lolita Lempicka perfume attained a great success in France, thanks to AmorePacific's strategic focus on the fragrance market segment, localization strategies including the delegation of decision making to local management, and consistent branding and marketing efforts through department stores.[182] For years the perfume continued to obtain new market shares, which increased from 1.0% in 1998 to 2.7% in 2003.[183] It was one of the top sellers, outselling even Chanel's Allure and Yves Saint Laurent's Opium.[184] Such success was viewed unprecedented among Asian cosmetics companies. AmorePacific was so deeply inspired that it increased the manufacturing capacity fivefold in Chartres, adding new production lines and brands with the hope of replicating Lolita Lempicka's success.[185]

However, Lolita Lempicka turned out to be a one-time success. AmorePacific's sales in France and the rest of Europe stagnated following the peak years of Lolita Lempicka. In 2011, sales rose only 0.4% to 95.7 billion Korean Won ($86.2 million) in France, accounting for only 5% of AmorePacific's total sales.[186] AmorePacific attempted to expand its brand portfolio through acquisition. In 2011, the company acquired Annick Goutal, a Paris-based fragrance brand, from Starwood Capital, hoping to reinforce its overseas business capabilities, strengthen the luxury brand image, and improve production efficiency through shared resources.[187] However, Annick Goutal did not revive AmorePacific's European business. Neither did AmorePacific manage to

[182] 김주현, and Kim, Joo H.. "태평양의 글로벌 전략 - 프랑스 진출 전략을 중심으로." 국제경영연구, vol. 14, no. 2, 2003, pp. 55-82.
[183] Min, Kim Jung. "Sweet Smell of Success." Far Eastern Economic Review., vol. 167, no. 11, Review Pub Co etc, Jan. 2004.
[184] Ibid.
[185] Ibid.
[186] Oliver, C. & Jung-a, S. 2011, "AmorePacific on the scent in China", FT.com.
[187] Weil, Jennifer. "AmorePacific Buys Annick Goutal." WWD, vol. 202, no. 25, 2011, pp. 8.

make any additional significant acquisitions of local brands in the subsequent years. Sales in Europe continued to decline, decreasing from 78.8 billion Korean Won in 2010 to 53.9 billion Korean Won in 2016 although the company's total global sales continued to grow year over year.[188] As of 2016, sales in Europe accounted for less than 1% of AmorePacific's total sales.[189] In February 2019, the company sold off its perfume plant in France, which produced perfumes including the Goutal Paris (previously Annick Goutal) brand, to Christian Dior as its licensing contract with Lolita Lempicka ended in 2017.[190] The sale marked the official closure of AmorePacific's only production site in Europe, leaving the plant in Shanghai, China the company's only overseas production base.[191]

The disappointing conclusion of AmorePacific's adventure in Europe after exhilarating momentum was driven largely by the company's failure to create a sustainable pipeline of Lolita Lempicka-level brands. It was possibly due to a variety of factors, such as the lack of a coherent brand-building strategy, limited financial resources and local connections to initiate additional licensing contracts, and unsophisticated management and operations given the size of the European operations. The business suffered as Lolita Lempicka, the key revenue driver, faded out while no pipeline products were in place to sustain the sales.

AmorePacific's performance in China, on the contrary, remained impressive since the mid-2000s. As of 2014, about half of the company's overseas sales came from China, where the company operated 3,500 shops across the nation.[192] Sales in China grew from 141 billion Korean

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[188] AmorePacific Corporations and Subsidiaries Annual Reports, December 31, 2011 to 2016.
[189] AmorePacific Corporations and Subsidiaries Annual Report, December 31, 2016.
[190] Moon-hee, Choi. "AmorePacific Sells Off Perfume Plant in France to Dior." Business Korea, 21 Feb. 2019, www.businesskorea.co.kr/news/articleView.html?idxno=29330.
[191] Ibid.
[192] Song, J. 2014, "AmorePacific rides high on China beauty demand", FT.com.

Won in 2010 to 1,091 billion Korean Won in 2016, seven times over six years.[193] The success was primarily driven by mid-priced skincare brands, such as Laneige, Mamonde, and Innisfree, but was also supplemented by the increasing popularity of the luxury brand Sulwhasoo.[194]

While it was challenging to compete head-to-head against luxury brands, such as L'Oréal, Estée Lauder, and Shiseido, which invested heavily in marketing, AmorePacific created its own set of differentiators in using oriental medicine-based ingredients.[195] On one hand, Korean brands like AmorePacific had a natural advantage to Western brands in China thanks to the geographic proximity and an array of historical links between the two countries, including ethnic commonalities, the influence of Confucianism and Buddhism, the ancient kingdom of Kogoryo, and Korea's use of Chinese scrip for a millennium.[196] The already widespread Korean Wave also helped remove any local skeptics about the brand legitimacy of AmorePacific. On the other hand, AmorePacific had a mature, diversified brand portfolio already existing prior to its large-scale marketing in China. Unlike its peer competitor Able C&C, AmorePacific did not heavily rely on a single, superstar product, but rather maintained a well-diversified revenue streams through the brands Laneige, Mamonde, Innisfree, and Sulwhasoo. The mid-pricing approach also suitably filled the vacant space between the high-end sector dominated by Western brands and the low-end sector dominated by domestic products.

193 AmorePacific Corporations and Subsidiaries Annual Reports, December 31, 2011 to 2016.
194 Song, J. 2014, "AmorePacific rides high on China beauty demand", FT.com.
195 Oliver, C. & Jung-a, S. 2011, "AmorePacific on the scent in China", FT.com.
196 Ghemawat, Pankaj. *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter*. Harvard Business School Press, 2007.

Korea – Able C&C

Able C&C Co., Ltd. ("Able C&C") is a South Korean cosmetics company. The most prominent brand owned by the company is Missha, which comprises the vast majority of the company's revenue and stores. Although often considered as the third largest cosmetics company in Korea following LG Household & Health Care and AmorePacific, Able C&C was founded only in 2000, decades later than the other two giants, and its revenue is also fractional comparatively. In 2017, Able C&C generated close to 400 billion Korean Won (KRW) of sales, whereas LG and AmorePacific had six trillion KRW and five trillion KRW of sales, respectively.[197][198][199] Throughout its short history, however, Able C&C made a series of global expansion moves primarily through its Missha brand. As compared to the cosmetics giants, Missha's international growth story represents that of an entrepreneurial company, which attempted to be globally recognized with less than a half decade of history in its domestic market.

The analysis focuses primarily on the Missha skincare and cosmetics brand, Able C&C's only brand in its early days and the main revenue driver through today. Missha was initially launched on the online portal service platform Beautynet in 2000, the same year when Able C&C was established.[200] In 2002, the first Missha one-brand retail store was opened near Korea's top female university, Ehwa Women's University, in Seoul.[201] The retail model gained tremendous success overnight – in 2004, the company opened the 200th Missha store in Korea.[202] The brand,

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[197] Able C&C Investor Relations Presentation, December 2017, p. 17. Able C&C Company Website: http://www.able-cnc.com/bbs/board.php?bo_table=ir.
[198] Summary Financial Statements, December 31, 2017. LG Household & Health Care Company Website: http://www.lghnh.com/global/ir/statements.jsp.
[199] AmorePacific Corporations and Subsidiaries Annual Report, December 31, 2017.
[200] Able C&C Annual Report, December 31, 2015.
[201] Ibid.
[202] Ibid.

according to the company, represents a "rational, yet bold and simply beauty with a daring approach to original colors," "challenging customers to think about what is the true essence of a cosmetic product."[203] Targeting the mass market of Korean females aged from 20s to 50s, Missha is considered "a pioneer in the low-price cosmetics market," striving to lower the retail price by reducing packaging and advertising costs.[204]

Since the company formed Able C&C USA Corp in 2004, the company has entered over 30 countries across five continents but achieved a mixed success. Its presence in the West was limited through the ten stores in the U.S., five stores in Spain, and six stores in Australia, falling vastly short of its initial plan.[205] As of 2015, Able C&C operated 720 stores domestically and 2,256 internationally, of which about 1,300 were in China and about 700 were in Taiwan and Hong Kong.[206] In 2016, China, the company's largest overseas market, contributed over 50 billion KRW of sales, representing over 15% of Able C&C's total sales.[207] However, the company's total global sales continued to decline in recent years. Although sales in China continued to grow year over year at least through 2016, its operating profit decreased from 64bn KRW in 2013 to 56bn KRW in 2014, and then to 46bn KRW in 2015.[208] The high, and likely increasing, percentage of overseas sales driven by China does not necessarily indicate the company's success, but rather the opposite.

Market Entrance

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[203] Able C&C Investor Relations Presentation, December 31, 2018, p. 2.
[204] KAIST: MISSHA: The Cosmetic Revolution, 2005 [online]. KAIST Graduate School of Management [cit. 20.10.2015]. Dostupné z: http://s3.amazonaws.com/zanran_storage/www.business.kaist.ac.kr/ContentPages/2468238297.pdf
[205] Ibid.
[206] Able C&C Annual Report, December 31, 2015.
[207] "에이블씨엔씨." ABLE C&C, www.able-cnc.com/en/history.
[208] Able C&C Annual Report, December 31, 2015.

Beginning in 2004, Able C&C entered various international markets, including the U.S., Japan, China, the Middle East, Southeast Asia, Russia, and East and West Europe. The number of overseas stores grew exponentially from 65 in 2005 to 890 in 2010, then to 1,505 in 2014, and 2,256 in 2015.[209] However, based on the geographic footprint over time, it is unclear as to which region(s) the company was mainly focusing on.

Missha opened its first U.S. Flagship in May 2005, a 3,000-square-foot space located at the corner of Fifth Avenue and the 43rd Street in Manhattan, New York.[210] The brand aimed to be "the H&M of beauty retailing," offering reasonably priced beauty products to "avid beauty shoppers between 18 and 30 years old" through its one-brand stores in New York and New Jersey.[211] Missha slightly lowered the target age group in the U.S. and was seen to join the competition with existing value-oriented shops, such as The Body Shop and Bath & Body Works.[212] However, the company saw "no true competition" and believed that "the specialty beauty market in the U.S." lacked "a value player," according to Steve Hwan Kim, president of Missha USA.[213] The company set ambitious goals of rolling out 1,000 stores in the U.S. over the next five years, turning the store profitable a couple of months following the opening, and generating $300,000 of sales at each store at the size between 2,000 and 3,000 square-foot.[214]

From the marketing standpoint, the company made no plan for traditional advertising, but rather counted on the foot traffic in bustling business centers like Time Square. "We want to show customers what the original price of cosmetics is," said Kim, as Able C&C adhered to the

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[209] Able C&C Annual Report, December 31, 2015.
[210] "Missha Opens U.S. Flagship." WWD 27 May 2005: 8. Business Insights: Global. Web. 13 Dec. 2019.
[211] Prior, Molly. "Missha Bound for Manhattan." WWD 18 Mar. 2005: 12. Business Insights: Global. Web. 13 Dec. 2019.
[212] Ibid.
[213] "Missha Opens U.S. Flagship." WWD 27 May 2005: 8. Business Insights: Global. Web. 13 Dec. 2019.
[214] Ibid.

principle of keeping retail prices low by "ditching outer packaging, using plastic, not glass, and replying on grassroots marketing" in order to return all the profit to their customers.[215] Its grassroot marketing tactics included dispatching multiple teams of two or three people – toting Missha backpacks – to dole out free samples, as well as plastering posters in key areas of Manhattan and using chalk to scrawl directions to the new store on nearby sidewalks.[216] Similar to Shu Uemura and Shiseido when they first entered the U.S. market, Missha put virtually no stress on mass advertising but focused on the real estate, store appearance, and quality and value of the products. Such strategy had led to success in these brands' respective domestic markets, but, as evident empirically, might not necessarily work well in a heavily advertising focused market like the U.S.

Missha's entrance into China took place in 2006, when the company opened the first one-brand store in Dalian and established a subsidiary in Beijing. The brand struggled to accommodate to the local market during first several years from both the distribution and the customer engagement perspectives.[217] Beginning in 2009, Missha adjusted its distribution strategy by transitioning from the one-brand store model to a diverse set of distribution channels, including shopping malls, A.S. Watson stores (Hong Kong-based health and beauty retailer), and convenience stores.[218] Traditional marketing like TV advertising remained light.[219]

Besides the U.S. and China, Missha entered the Middle East market by partnering with Al Tayer Group, a Dubai-based company specializing in perfume and fashion. In 2006, Al Tayer acquired

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[215] Ibid.
[216] Prior, Molly. "Missha Bound for Manhattan." WWD, 18 Mar. 2005: 12. Business Insights: Global. Web. 13 Dec. 2019.
[217] 进入中国 9 年 甚少打广告的谜尚如何做到年销 4.8 亿-品观网, 13 Dec. 2014, www.pinguan.com/article/content/1143.
[218] Ibid.
[219] Ibid.

the franchise right of Missha in the Gulf Cooperation Council countries (i.e., Saudi Arabia, Kuwait, Bahrain, Qatar, the United Arab Emirates, the Sultanate of Oman, and the Republic of Yemen).[220] Through Al Tayer's retail outlet network, Missha, again, focused on distributing through stand-alone retail stores that bore the signature red and white Missha branding.[221] Furthermore, Missha marched to Europe in 2013, opening a store in Czech Republic with the hope of establishing a foothold for growth in Europe.[222] In 2015, it opened stores in West Europe, one in Germany and three in Spain.[223]

Products

Missha introduced a full, extensive collection of beauty lines as it first entered the U.S. The Missha stores in the U.S. had "a stark white interior offset with red paneling and bins of colorful cosmetics," housing over 1,000 Missha-branded items across five categories, namely cosmetics, skincare, bath and body, hair care and accessories.[224] Although the president of Missha USA claimed that, comparing to Sephora, the only difference between the two beauty bazaars was Sephora's black interior versus Missha's white, price drove a wedge between their business models.[225] Missha's prices ranged from $1.49 for a nail polish to $12 for the Oriental Nourishing

[220] "Missha Stores Set for GCC." ArabianBusiness.com, ArabianBusiness.com, 2 Oct. 2010, www.arabianbusiness.com/missha-stores-set-for-gcc-62480.html.
[221] "Diversified Group Al Tayer Acquires Cosmetic Brand MISSHA." Fibre2Fashion, www.fibre2fashion.com/news/fashion-company-news/diversified-group-al-tayer-acquires-cosmetic-brand-missha-22364-newsdetails.htm.
[222] "Missha targets Europe." Cosmetics International 19 July 2013: 7. Business Insights: Global. Web. 13 Dec. 2019.
[223] "Missha opens stores in Spain." Korea Times News [Seoul, Korea], 20 Oct. 2015. Gale OneFile: News, https://link.gale.com/apps/doc/A432206887/STND?u=upenn_main&sid=STND&xid=16b99321. Accessed 13 Dec. 2019.
[224] "Missha Opens U.S. Flagship." WWD, 27 May 2005: 8. Business Insights: Global. Web. 13 Dec. 2019.
[225] Ibid.

Cream, with half of the items falling under \$5.[226] Except for the gift sets, nothing in the store cost more than \$15.[227]

Due to Missha's minimal marketing efforts outside the retail stores in China, it is unclear whether the brand introduced the majority of its SKU's upfront when entering the market. However, given the product strategies Missha took in other global markets, such as the U.S. and the Middle East, as well as the geographic proximity between Korea and China, it is likely that an extensive collection of over 600 products spanning various categories were launched during Missha's early days in China. In addition, the brand continued its low-price, high-value positioning strategy, but it was considered among the lowest priced brands due to the overall spending level in the cosmetics industry in China at the time. As of 2014, the most popular Missha products in China included the Missha Signature Real Complete BB Cream, the Super Aqua Ultra Waterfull Cream, the All-around Safe Black Sun Milk, the Time Revolution Immortal Youth Cream, and the Near Visible Deep Wrinkle Filler.[228]

Localization

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[226] Ibid.

[227] "South Korean beauty emporium makes US move." Cosmetics International 8 July 2005: 3. Business Insights: Global. Web. 13 Dec. 2019.

[228] "Missha 红色 BB 霜掀起化妆品韩流旋风" Visit Seoul, chinese.visitseoul.net/shopping/Missha%E7%BA%A2%E8%89%B2BB%E9%9C%9C%E6%8E%80%E8%B5%B7%E5%8C%96%E5%A6%86%E5%93%81%E9%9F%A9%E6%B5%81%E6%97%8B%E9%A3%8E_/10006?curPage=5.

It appeared that Missha made limited localization efforts in most of its global markets. The brand marched abroad with a strategy similar to that in the domestic market, emphasizing low price, high quality, cost reduction, and retail stores.[229]

In China, however, Missha became increasingly aware of the distinctiveness of the market and customer needs and responded with accommodative strategies after several years of exploration. The expansion of distribution channels from one-brand stores to multi-channel platforms was a significant adjustment to the Chinese market. Additionally, the brand introduced around 2014 a variety of initiatives to enhance customer engagement and store experience, including increasing sample offerings, opening nail spa trial areas in its stores, building a small-size beauty academy in Beijing to share with select member customers make-up tips, and hosting monthly "Missha Day" exclusive to its member customers.[230] By focusing on improving the shopping experience particularly for member customers, Missha hoped to gain first-hand knowledge about customer needs while educating the customers with its brand culture.[231]

However, from the marketing perspective, Missha stuck to its low-advertising strategy, even though it had realized the Chinese customers' preference for brands conducting TV advertisements, which was perceived as trustworthy.[232] According to the head of Missha's Chinese operations, cosmetics advertising was much less prominent in Korea than in China, as Korean customers learned about brands through the internet, magazines and words of mouths

[229] KAIST: MISSHA: The Cosmetic Revolution, 2005 [online]. KAIST Graduate School of Management [cit. 20.10.2015]. Dostupné z: http://s3.amazonaws.com/zanran_storage/www.business.kaist.ac.kr/ContentPages/2468238297.pdf

[230] "进入中国 9 年 甚少打广告的谜尚如何做到年销 4.8 亿", 品观网, 13 Dec. 2014, www.pinguan.com/article/content/1143.

[231] Ibid.

[232] Ibid.

and were generally less influenced by TV advertising.[233] Overall, Missha was more proactive in adapting to the Chinese market than elsewhere, possibly due to the facts that the brand had had an abundance of international experience by 2014 and that the Chinese market was perceived as one with great potential.

Level of Success

Based on Missha's current number of stores and sales in each of its foreign markets, the brand has achieved drastically less success in the Western market than it expected. Missha had ten stores in the U.S. as of 2015, only one hundredth of the 1,000 stores the company planned on rolling out when it opened its first store in New York in 2005.

A marketing consultant criticized Missha's U.S. strategy soon after its New York debut, arguing that the strategy was developed without a thorough understanding of the American market.[234] According to the critique, Missha made three key mistakes. First, foot traffic in bustling commercial areas would not necessarily translate into shopping traffic.[235] Locating the flagship store on Fifth Avenue and the 43rd Street did not guarantee such powerful shopping traffic and advertising effect to justify the enormous rent. Second, Missha's prices were set unnecessarily low, which left the company with no cushion for the expensive rent and other operating costs.[236] The company forecast monthly sales of $300,000 from each store, but with half the items selling below the $5.00 price point, it required 2,000 daily transactions, a difficult task in any market.[237] Furthermore, the omnichannel distribution model was more developed in the U.S. than Korea,

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[233] Ibid.
[234] Grayson, Bob, and Suzanne Grayson. "Missha makes a mistake in its New York debut." Household & Personal Products Industry Sept. 2005: 40+. Business Insights: Global. Web. 13 Dec. 2019.
[235] Ibid.
[236] Ibid.
[237] Ibid.

which challenged Missha to broaden its distribution through channels it was unfamiliar with. Missha attained rapid, massive success in Korea through the one-brand retail model, but in the U.S., low-priced cosmetics were also widely distributed through chain drug stores, discount stores, and supermarkets like Wal-Mart.[238] Focusing solely on one-brand retail stores limited Missha's access to the most price-sensitive customers.

On the contrary, Missha had several impressive momentums in the Chinese market and experienced rapid growth particularly between 2012 and 2015, where its sales grew from 180 billion KRW to 491 billion KRW.[239] Such growth resulted mainly from the increasing popular "Korean Wave" in China and the white space between high-end Western and low-end domestic cosmetics brands. The mid to high end of China's beauty market had been dominated by Western beauty giants, such as L'Oréal, P&G and Estée Lauder, as well as the Japanese powerhouse Shiseido, whereas the lower end had been dominated by domestic brands.[240] Korean beauty brands like Missha entered the market at price points between the two ends. Additionally, Korean products were generally perceived to be "more suitable for Asian skin" than their Western counterparts.[241] The upward trajectory was further empowered by the rising popularity of Korean pop music, films and TV shows, particularly among China's young generation, who sought to emulate their favorite Korean celebrities by adopting the apparel and beauty brands

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[238] Ibid.

[239] Able C&C Annual Report, December 31, 2015.

[240] Hall, Casey. "The Coming of Korea: As South Korean Brands Establish A Dominant Presence in China, the Global Beauty Industry has Taken Notice." WWD, vol. 207, no. 58, Mar 22, 2014, pp. 22-27. ProQuest, https://proxy.library.upenn.edu/login?url=https://search-proquest-com.proxy.library.upenn.edu/docview/1540421888?accountid=14707.

[241] Ibid.

they used.[242] As compared to the U.S., Missha benefited from the cultural affinity and lack of substitutes while it marketed in China.

However, Missha's growth story in China was not all so smooth and began to struggle around 2014 and 2015. Missha ended its partnership with A.S. Watson in 2013 due to liquidity issues resulting from A.S. Watson's long payable cycle, sales staff training challenges resulting from the different sales approaches, and Missha's unattractive price level comparing to the other brands carried by A.S. Watson, such as Maybelline.[243] Beginning in 2014, Missha's operating profits began to decline in spite of the sales growth, a pattern similar to what the brand experienced with the Japanese market, where profits became zero in 2013 and remained negative since then.[244] Furthermore, the brand abruptly exited the Hong Kong market by closing all of its outlets overnight in 2015, likely due to the pressure from increasingly fierce competition as "a new wave of South Korean brands, such as Etude House and Nature Republic, opened in the city in the past two years."[245]

Several reasons may attribute to the fading success of Missha in China and Asia in general. First, Missha's sales had been primarily driven by several best-seller products like its signature BB cream, which sold over three million units in 2009. On the opening day of Missha's first store in Tokyo, the store ran out of supplies of Missha Super Aqua Cell Renew Snail Cream, the best-

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[242] Ibid.
[243] "进入中国 9 年 甚少打广告的谜尚如何做到年销 4.8 亿", 品观网, 13 Dec. 2014, www.pinguan.com/article/content/1143.
[244] Able C&C Annual Report, December 31, 2015.
[245] "Korean cosmetics firm Missha suddenly closes Hong Kong outlets - Analysts say Missha may be a victim of fierce competition as all 20 HK outlets remain closed." South China Morning Post (Hong Kong), 2 ed., sec. City, 3 Jan. 2015, p. C1. NewsBank: Access World News, infoweb.newsbank.com/apps/news/document-view?p=AWNB&docref=news/1529CEC134083C78. Accessed 15 Dec. 2019.

known product among the Japanese customers.[246] However, such hype could fade quickly, particularly in a dynamic, rapidly evolving market with existing competitors and constant new entrants. As a retail analyst in Hong Kong commented, the newcomers offered a greater variety of products for younger shoppers at more prime locations, which had fueled the competition; as such, Korean cosmetics brands could become popular easily, but also fade fast.[247]

Additionally, the one-brand store retail model encountered obstacles in China just like in the other foreign markets that Missha entered. As indicated by the head of Missha's China operations in 2014, the one-brand store model increased the difficulty of inventory management, SKU prediction, hiring and training, and the establishment of brand recognition.[248] Although Missha adjusted the strategy by expanding its distribution in 2009, the process took several years, which to some extent mitigated the brand's first-mover advantage in the market. Through the end of 2017, the heavy reliance on the one-brand store model remained a key issue that the company leadership hoped to solve. As pointed out in the company's investor presentation, the traditional offline shops generated about 90% of total sales while the retail play was in fact "high-cost."[249] The over-emphasis on the offline channel had likely delayed Missha's progress in developing an omni-channel network as the retail industry rapidly evolved.

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[246] "South Korea's Missha opens store in Tokyo." Cosmetics International 23 Mar. 2012: 6. Business Insights: Global. Web. 13 Dec. 2019.

[247] "Korean cosmetics firm Missha suddenly closes Hong Kong outlets - Analysts say Missha may be a victim of fierce competition as all 20 HK outlets remain closed." South China Morning Post (Hong Kong), 2 ed., sec. City, 3 Jan. 2015, p. C1. NewsBank: Access World News, infoweb.newsbank.com/apps/news/document-view?p=AWNB&docref=news/1529CEC134083C78. Accessed 15 Dec. 2019.

[248] "进入中国 9 年 甚少打广告的谜尚如何做到年销 4.8 亿", 品观网, 13 Dec. 2014, www.pinguan.com/article/content/1143.

[249] Able C&C Investor Relations Presentation, December 31, 2018, p. 6.

China – Shanghai Jahwa

First founded in 1898 as Hong Kong Kwong Sang Hong, Shanghai Jahwa United Co., Ltd. ("Shanghai Jahwa" or "Jahwa") is one of the oldest Chinese daily chemical companies.[250] Shanghai Jahwa specializes in skincare, personal care, and childcare products under an assortment of brands, including VIVE, maxam, Liushen, gf, Herborist, HomeAegis, Dr. Yu, Giving, Fresh Herb, and Tommee Tippee.[251] Shanghai Jahwa is one of the leading domestic players in China's cosmetics industry, generating over 7 billion RMB (approximately $1 billion) of annual sales.[252] In 2018, the Liushen and Herborist brands collectively contributed over 40% of Jahwa's total sales.[253]

This analysis focuses on Herborist and its journey in overseas markets, primarily Europe. Founded in 1998, Herborist was positioned to be a mid- to high-end brand under Jahwa.[254] The name Herborist carries the literal meaning of "a collection of the elixirs of hundreds of herbs."[255] Consistent with the name, Herborist distinguishes itself through its incorporation of modern biotechnology into traditional Chinese medicine, bringing a natural, effective personal care solution to customers.[256]

Herborist's initial foray into the overseas market was largely driven by the intense competition in the domestic market that was dominated by Western brands. Jahwa was one of the largest

[250] "Company Profile of Shanghai Jahwa." *Plus Company Updates* 18 Nov. 2017. Business Insights: Global. Web.
[251] Shanghai Jahwa United Co., Ltd. Annual Report, December 31, 2018.
[252] Shanghai Jahwa United Co., Ltd. Annual Report, December 31, 2017.
[253] Lv, Jinyu. "上海家化营收净利双丰收，六神、佰草集贡献显著." 第 1 财经, 12 Mar. 2019, www.yicai.com/news/100137215.html.
[254] Liu, Biaowen, and Yu, Kefa. "世界级品牌塑造过程中'民族文化驾驭'研究——基于'佰草集'案例的经验分析." Contemporary Finance & Economics, No. 10, 2015, Serial No. 371.
[255] Ibid.
[256] Ibid.

Chinese cosmetics companies; however, its 1.3% of market share in the mid-2000s appeared to be negligible comparing to P&G (20%), L'Oréal (6.5%), and Unilever (5.2%).[257] Facing fierce competition in China, Jahwa sought to explore the international market to potentially fuel the company's long-term growth. While most of the China-born cosmetics brands have had little exposure to the overseas market, Herborist has established a noteworthy presence in not only Asian regions like Hong Kong and Taiwan, but also Western markets like Europe.

Market Entrance

Herborist first made its foray into the Hong Kong market in July 2001, when the brand opened two boutiques in Mong Kok and Causeway, two central commercial districts in Hong Kong.[258] The Shanghai headquarter maintained a strong control over the Hong Kong operations. Not only did the headquarter send management personnel directly from Shanghai, but it also centralized the marketing and promotion initiatives, leaving the Hong Kong operations little room for creating experience tailored to Hong Kong customers.[259] More fundamentally, from the branding perspective, as the company perceived Hong Kong to be highly westernized, it strived to brand Herborist as another Western luxury cosmetics brand by presenting only English on its package and removing most of the Chinese medicine elements that were essential to defining its brand identity.[260] The lack of brand differentiation, coupled with limited sales channel outside the two

[257] Zhou, Kevin. "Herborist: A Chinese Personal Care Brand Goes Abroad." Asia Case Research Centre, The University of Hong Kong, 2011.
[258] Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.
[259] Ibid.
[260] Liu, Biaowen, and Yu, Kefa. "世界级品牌塑造过程中'民族文化驾驭'研究——基于'佰草集'案例的经验分析." Contemporary Finance & Economics, No. 10, 2015, Serial No. 371.

boutiques, led to a disappointing outcome of Jahwa's first overseas journey. In 2003, Herborist withdrew from the Hong Kong market.

The company nevertheless re-entered Hong Kong four years later with an entry strategy modified based on lessons learned from the previous failure. Herborist abandoned the "self-representative" strategy and entered a partnership with Mannings, a major Hong Kong store chain, to distribute its products.[261] Herborist began by testing the products at five to ten Mannings stores before rolling out to the rest of the hundreds.[262] Furthermore, the brand no longer attempted to mimic Western brands, but instead focused on differentiating itself through its Chinese herbal philosophy. Unlike the first time, Herborist was no longer perceived as a lower-tier Western brand, but rather a unique Chinese brand that operated in its own niche market with very few substitutes. Herborist increased its sales in Hong Kong tenfold within a half year period and entered the Taiwan market in 2010 through its Hong Kong subsidiary.[263]

Jahwa's experience in Hong Kong laid a foundation for its subsequent expansion to the European market, particularly from the branding and the distribution perspectives. However, the launch in France, its primary market in Europe, was a much more prolonged process than that for Hong Kong. It was made possible through multiple years of negotiation with Sephora, the LVMH-backed cosmetics chain operating 558 stores across the globe as of 2005, when the two companies first encountered each other.[264]

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[261] Qian, Lina. "佰草集：十年海外市场征战笔记." China Academic Journal Electronic Publishing House, May 2012.
[262] Ibid.
[263] Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.
[264] LVMH Annual Report, December 31, 2005.

Jahwa first identified the opportunity as it entered a joint venture with Sephora to support the latter's sales and distribution in China, when Sephora entered the Chinese market in 2005.[265] Jahwa hoped to leverage such relationship to promote its in-house brands, Herborist and Chinfie, on the Sephora platform. However, even though Jahwa owned close to 20% of the joint venture Sephora (Shanghai) Cosmetics Co Ltd,[266] Sephora declined Jahwa's request primarily due to the weak brand awareness of these brands.[267] Jahwa's persistently pushed and eventually received a year later Sephora's approval to sell Herborist in Sephora's stores in China.[268]

Despite Herborist's proven success in Sephora's Chinese stores, the beauty retailer remained unconvinced when Jahwa first proposed to market Herborist in Sephora France. It was not until Jahwa presented a concrete roadmap demonstrating the complementarity between Sephora and Herborist that Sephora finally budged. The "complementary" nature of Herborist, according to Jahwa, was based upon three aspects – product functionality, Sephora's position as an innovator, and future growth outlook.[269] As a world-class beauty pioneer, Sephora boasted in its comprehensive product offerings and constant innovation, both of which would be reinforced through the herbal medicine-based Herborist brand, which was different from all the other brands Sephora was then carrying. Additionally, seeing the global trend of increasing curiosity about Chinese culture as China emerged as a leading economy and was set to host the 2008 Summer

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265 Ibid.

266 Chen, Qide. "Beauty Firm Blossoming." *China Daily*, 22 Mar. 2005, www.chinadaily.com.cn/english/doc/2005-03/22/content_427162.htm.

267 Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.

268 Ibid.

269 Ding, Lin. "佰草集品牌国际化策略研究." Lanzhou University of Finance and Economics, 10 June, 2015.

Olympics, Sephora was convinced that introducing a Chinese brand at that point of time could be a promising initiative.[270]

Once Sephora committed to launching Herborist in France, the company played a crucial role in both expediting the regulatory approval process and strategizing Herborist's public relation management in the local market. While the certification procedures for foreign brands to enter France were normally complex and lengthy, through Sephora's local expertise, Herborist managed to pass all the quality tests and receive an approval from the regulatory agency within the course of six months, setting the quickest record among foreign cosmetics brands.[271] When Herborist first arrived in France, the brand adopted Sephora's advice of not advertising itself on French media, but rather debuting at Sephora's quarterly new product release event.[272] At the event, Herborist was introduced to and memorized by over 200 journalists across France, who later promoted the brand on mainstream media like the ELLE magazine.[273]

Through this partnership, Herborist benefited tremendously from Sephora's vast distribution network, massive customer base, local expertise, and established media relationships. One can imagine the significant amount of grunt work and capital investment required for infrastructure development if such partnership was nonexistent. While Jahwa did apply its learnings from the Hong Kong market, Herborist would not have broken into the European market without Sephora, a unique, powerful supporter that Herborist's precedents (e.g., Shu Uemura, Missha) did not have the luxury to have.

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[270] Ibid.

[271] "China: Shanghai Jahwa Cosmetics Self-Owned Brand Herborist Entered France." IPR Strategic Business Information Database, 11 Aug. 2008. *Business Insights: Global*. Web.

[272] Xiang, Jingbei. "Shanghai Jahwa: From Distance to Herborist." Enterprise, Shanghai Economy, June 2009.

[273] Ibid.

Products

Sephora initially approved Jahwa to market five hand and foot care products in its stores in France. Jahwa, however, insisted on focusing on facial skincare, the core product segment that the company believed defined a brand's quality and positioning.[274] To Jahwa, it would become difficult to incorporate the facial skincare products subsequent to the launch of hand and foot care products.[275] As such, following rounds of negotiations, Jahwa was eventually approved to launch about 17 products in France in 2008.[276]

From the pricing perspective, Herborist added 20% to 40% of premium on products sold in France, positioning the brand to be in the mid- to high-end segment in the French market.[277] The price level was set to be higher than Biotherm, a mid-end brand owned by L'Oréal, and similar to Clarins, one of the best-seller brands in Europe.[278] The Tai Chi mud mask, the best-seller product, was sold at €49, a price point compatible with most of the mainstream facial mask products in the mid- to high-end segment in Europe.[279]

Localization

Based on its experience in the Hong Kong market, Jahwa adopted the strategy of maintaining its Chinese brand identity while adjusting the products, packaging, and marketing approach to

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[274] Qian, Lina. "佰草集：十年海外市场征战笔记." China Academic Journal Electronic Publishing House, May 2012.
[275] Ibid.
[276] Liu, Yesha. "中国化妆品品牌国际化模式及影响因素研究——以上海家化为例." East China Normal University, May 2017.
[277] Qian, Lina. "佰草集：十年海外市场征战笔记." China Academic Journal Electronic Publishing House, May 2012.
[278] Ding, Lin. "佰草集品牌国际化策略研究." Lanzhou University of Finance and Economics, 10 June, 2015.
[279] Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.

accommodate the local customers in France. The company hired a consulting firm with both Eastern and Western backgrounds to systematically study the differences between Chinese and European female consumers. The goal was to avoid challenging European customers to comprehend the complex, foreign Chinese medical culture, but rather to market Herborist in an easily comprehensible fashion to European customers.[280] Given that European women's skin tended to suffer from wrinkles about 10 years earlier than their Chinese counterpart on average and that other skin problems like dryness and coarse pore were more prevalent among European women, the R&D staff of Herborist therefore adjusted the formulas by adding more ingredients that would enhance the hydrating, brightening, and anti-aging functions of the products.[281]

From the marketing standpoint, the company hired specialists with expertise in Chinese medicine and decent foreign language skills to craft the messaging to European customers, aiming to create a brand image that incorporated both the Western science and the Oriental culture, which, if presented properly, was deemed classy in the West.[282] Furthermore, the study found certain commonalities between European and Chinese customers. For example, over 95% of the target customers were females, most of whom enjoyed traveling and 60-70% had been to Asia.[283]

Given the research results, Herborist sought to develop a brand with unique, Oriental identity that would also be easily comprehensible to the Western customers. The company engaged Centdegres, a French design company with experience designing packages for Hermes, Givenchy, and Burberry, to create packages of Herborist products to be sold in France.[284] The

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[280] Qian, Lina. "佰草集：十年海外市场征战笔记." China Academic Journal Electronic Publishing House, May 2012.
[281] Ibid.
[282] Ibid.
[283] Ibid.
[284] Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.

subtle balance of Eastern culture and Western ideology was thoughtfully reflected by various components of the package. For one, the bamboo pattern was adopted as it was a symbol relatively familiar to the Western audience through existing Chinese cultural products, like the worldly-famous movie *Crouching Tiger, Hidden Dragon*.[285] All texts were in French except the brand name Herborist, written in Chinese characters "佰草集," and the phrase "The Chinese Beauty Remedy," written in English.[286] The use of the three languages was meant to accommodate the French customers, maintain the Chinese herb-based brand identify, and showcase the internationality of the brand beyond France and China. Recognizing the green, environmentally friendly trend in Western consumerism, Herborist also highlighted the sustainable aspect of its packaging and used the highly efficient 3D printing technology in the packages of the subsequent Wu Xing collection.[287]

Herborist not only tailored its package design, but also attempted to extend customers multi-dimensional experience in the sales process. As customers visited the stores, the Herborist sales staff would teach them a set of Tai Chi-inspired massage techniques to help customers attain the best outcome of applying the best-seller Tai Chi mud mask.[288] The experiential sales strategy corresponded well with the natural, Oriental theme of the product, immersing the customers into the brand culture and reinforcing the uniqueness of the brand as compared to the Western brands

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[285] Liu, Biaowen, and Yu, Kefa. "世界级品牌塑造过程中'民族文化驾驭'研究——基于'佰草集'案例的经验分析." Contemporary Finance & Economics, No. 10, 2015, Serial No. 371.

[286] Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.

[287] Ibid.

[288] Qian, Lina. "佰草集：十年海外市场征战笔记." China Academic Journal Electronic Publishing House, May 2012.

in the market. Such customizing efforts on a collective basis formed a brand profile that was consistent with Western ideology and aesthetics and Oriental culture and philosophy.

Level of Success

Just like Korean brands AmorePacific and Missha when they first entered the Western market, Herborist, as a brand originated in a newly emerged economy, was challenged to overcome negative stereotypes that Western customers held about Chinese products. According to Xie Wenjian, then-CEO of Jahwa, such challenges might be tackled through local OEM manufacturing in France and the effective use of social media and customer words of mouths to enhance the brand equity.[289] In addition to these tactics, it was essential to communicate with the local customers through symbols familiar to them while maintaining the core brand identity.[290] Retrospectively speaking, Herborist was successful in its entrance to the European market, primarily thanks to the extensive distribution channel brought through its partnership with Sephora, as well as the culturally conscious, well-customized sales and marketing approach.

In 2009, Herborist reached total sales of over 10 million RMB (approximately €1.1 million) in France, distributing its products in hundreds of Sephora stores.[291] Through Sephora's network, it further expanded to Italy, Poland, and Spain, among other European countries.[292] Herborist's sales in Europe grew from approximately half million dollars in 2008 to close to three million dollars in 2010, representing a growth rate of approximately 200% in 2009 and 100% in 2010.

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[289] Liu, Jing. "上海家化谢文坚：将逆袭欧洲主流市场." 第一财经日报, 21 April, 2015.
[290] Ibid.
[291] Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.
[292] "Herborist to be a global beauty player." Cosmetics International, 15 Nov. 2013, p. 4. Gale General OneFile, https://link-gale-com.proxy.library.upenn.edu/apps/doc/A353320269/ITOF?u=upenn_main&sid=ITOF&xid=ba41c85d.

The brand also sought to diversify its distribution channels through additional local partnerships and opening its own boutiques. In 2013, Herborist formed a partnership with Douglas, a German perfume and cosmetics retailer, to enter the German market.[293] In 2015, Herborist was selling through 1,500 retail stores across China and Europe and opened its first overseas flagship store in Paris.[294] The flagship store, located in the 2nd arrondissement of Paris, featured three floors composed of sales space, tearoom, and spa areas.[295] The company also developed a partnership with French pharmacy chain Parashop, entered e-commerce stores, and launched its own global online website.

Currently, Herborist operates through a variety of offline and online channels across Europe. It remains a regular brand at Sephora in France, selling skincare products from its Wu Xing and Tai Chi collections, along with several hand and body creams, at a price level on par with the rest of mid- to high-end skincare brands carried by Sephora.[296] In addition to Sephora, Herborist distributes through Monoprix, another major French cosmetics retailer. The flagship store in Paris continues to operate and has received positive feedback from customers particularly on the spa and massage services and the relaxing experience the store offers.[297] While the sales of the flagship store were not disclosed, it can be inferred that the store plays a more symbolic role than revenue-generating. Based on the social media and customer feedback, the store is mostly known and visited for its spa services, which is a non-core business of Herborist. The Herborist global website sells 29 products from various collections, available for shipping to 14 European

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[293] Du, Zhiqin. "佰草集开拓国际市场的成功经验及启示." Practice in Foreign Economic Relations and Trade, 12 October, 2017.

[294] Efstathiou, Zoe. "Chinese Skincare Brand Herborist Expands to UK." Global Cosmetics News, 22 Apr. 2015, www.globalcosmeticsnews.com/chinese-skincare-brand-herborist-expands-to-uk/.

[295] Ahssen, Sarah. "Herborist: First European Store in Paris." FashionNetwork.com, 13 Mar. 2015, ww.fashionnetwork.com/news/herborist-first-european-store-in-paris,472067.html.

[296] Sephora France Official Website, www.sephora.fr.

[297] Google Reviews on Herborist at 38 Avenue de l'Opéra, 75002 Paris, France.

countries.[298] Its products can also be found on Amazon in the UK, France, and Germany.[299] To summarize, Herborist's current offline stores are concentrated in Sephora and Monoprix stores in France and Sephora stores in Italy, while the online sales are generated through the brand's global website and the e-commerce retailers spanning various countries in Europe. As compared to the initial stage, Herborist has both exited channels and opened new ones; yet overall, the brand seems to have developed a more focused, logical overseas strategy with an established offline channel focusing on France and Italy and a collection of online channels widely spread across Europe. On the branding side, Herborist continues to highlight the Chinese medicine concept and the scientific innovation of the products, a strategy consistent with that in the initial market entering stage.

Furthermore, Jahwa has explored international expansion through acquisitions. In June 2017, Jahwa announced its acquisition of Mayborn Group Limited ("Mayborn"), the owner of the UK's leading childcare and nursing product brand Tommee Tippee, with $293 million of cash.[300] Tommee Tippee occupied 40% of market share in the UK and had distribution channels across Europe, the U.S., Australia, the Middle East, Africa, and Asia.[301] A major rationale of the acquisition, according to Jahwa, was to prepare for the company's future international expansion in the mid to long run.[302] In 2017, Mayborn's like-for-like sales grew by 10.1% to £165.7 million

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[298] Herborist Global Official Website, www.herborist-global.com.
[299] Ibid.
[300] "Jahwa Plans to Acquire Tommee Tippee." *Company News*, Shanghai Jahwa, 9 June 2017, www.jahwa.com.cn/en/news/detail?code=5a0c423146.
[301] Jiaoyue. "拟 2.93 亿美元全资收购 Tommee Tippee 上海家化布局海外市场." *公司视角*, 证券日报, 16 June, 2017.
[302] "Jahwa Plans to Acquire Tommee Tippee." *Company News,* Shanghai Jahwa, 9 June 2017, www.jahwa.com.cn/en/news/detail?code=5a0c423146.

with operating profits soared to £13.9 million.[303] The acquisition brought a significant overseas sales to Jahwa in addition to the customer base and distribution network Mayborn had in place.

While recent quantitative evidence like sales data is not disclosed to the public, the fact that Herborist remains a stable, diverse, and relatively sizable distribution network indicates the brand's overall success in the European market. Through the acquisition of Tommee Tippee, one can also infer that Jahwa is continuing its goal of international expansion and has developed a thoughtful, step-by-step strategy to achieve such goal in the long term.

[303] Ford, Coreena. "Tommee Tippee Cheers Success after Breaking into China - and Moving to New Headquarters." Chronicle Live, 16 Oct. 2018, www.chroniclelive.co.uk/business/business-news/tommee-timmee-cheers-success-after-15282829.

China – Jala, Chicmax, Yujiahui, and Pehchaolin

A group of China-originated cosmetics companies have gained increasing market shares in China, such as Jala (Group) Co Ltd ("Jala"), Shanghai Chicmax Cosmetics Co., Ltd ("Chicmax"), Yujiahui Co ("Yujiahui"), and Shanghai Pehchaolin Daily Chemical Co Ltd ("Pehchaolin"). Some of these national companies have expressed interest in or begun exploring the oversea market. These companies share a number of commonalities despite their differences. First, they represent the few leading Chinese cosmetics companies in a domestic market that is heavily dominated by foreign brands. Additionally, unlike Shanghai Jahwa, most of these companies perceive the greatest potential in the domestic market and continue to keep China as their strategic priority. Thirdly, the majority of these brands target the mid-end market in China, with the exceptions of Maysu and Chando targeting the mid- to high-end market. The high-end market continues to be dominated by international brands, including brands owned by L'Oréal, P&G, and Estée Lauder. Finally, none of these companies have developed meaningful offline presence overseas or achieved the same level of success as Herborist in terms of brand recognition, sales, and distribution network overseas. This analysis focuses on analyzing the recent development of Jala, Chicmax, Yujiahui, and Pehchaolin as related to their international expansion.

Jala, founded in 2001, currently sells at 40,000 stores and sales outlets across shopping malls, key account stores, supermarkets, and pharmacies.[304] The major brands under Jala are Maysu and Chando, targeting the mid- to high-end market in China. As of 2018, Jala was one of the top 10

[304] Jala Company Website. *伽蓝集团_科技美妆国货_科技美妆创新研发公司*, www.jala.com.cn/about.html.

largest cosmetics companies in China based on sales, occupying 2.3% of total market share.[305] Its Chando brand was the fifth most popular cosmetics brand across the nation.[306]

Chicmax, founded in 2002, is the largest Chinese cosmetics company in terms of market share in China as of 2018.[307] The company sells primarily under KanS, one of the most recognized national brands in China that primarily targets the mid-end market. According to the company, Chicmax entered a new era of R&D and production beginning in 2018, marked by the stable operations of the R&D centers and manufacturing plants in Shanghai and Japan.[308]

Yujiahui, founded in 2006, achieved rapid growth since its formation and went public in 2018.[309] Compared to the other discussed companies, Yujiahui's brand and product portfolios are less diverse. The company's sales are mainly driven by the mid-priced Unifun brand, the market share of which increased year over year to 0.7% in 2018.[310] Unifun is best known for its mask products, while the rest of its products are less recognized.

Pehchaolin, unlike the other three companies, has a long history in China. It was founded in 1931. Pechoin, Pehchaolin's main brand, used to be a must-have luxury product among young women for decades.[311] Following the Chinese Civil War and the empowerment of the Mao

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305 Euromonitor International (n.d.). Beauty and Personal Care Market Shares in China by Company. Retrieved from https://www.portal.euromonitor.com/

306 Euromonitor International (n.d.). Beauty and Personal Care Market Shares in China by Brand. Retrieved from https://www.portal.euromonitor.com/

307 Euromonitor International (n.d.). Beauty and Personal Care Market Shares in China by Company. Retrieved from https://www.portal.euromonitor.com/

308 "集团介绍." 上美集团, www.chicmaxgroup.com/page/8.htm.

309 "企业简介." 御家汇, www.yujiahui.com/about/profile.

310 Euromonitor International (n.d.). Beauty and Personal Care Market Shares in China by Brand. Retrieved from https://www.portal.euromonitor.com/

311 Xu, Jinqian. "Skin Care Cream Pehchaolin Is Making a Comeback in China." Bamboo Innovator, 12 Apr. 2013, bambooinnovator.com/2013/04/13/skin-care-cream-pehchaolin-is-making-a-comeback-in-china-after-peng-liyuan-chinas-first-lady-presented-an-assortment-of-products-from-the-previously-out-of-fashion-brand-as-state-gifts-during-her/.

regime, Pechoin along with other cosmetics brands were deemed “luxurious” and thus suppressed by the government. It was sold to a Hong Kong businessman in the 60s during the Chinese Cultural Revolution. In 2008, the Shanghai government purchased the Pechoin trademark back and re-established the Pehchaolin enterprise in Shanghai.[312] In recent years, the company achieved a significant comeback in China’s mid-end market through a series of strategic rebranding initiatives. Leveraging its deep roots in Chinese history and nationwide brand awareness, the company launched marketing campaigns that triggered strong emotional resonance among consumers.[313] As of 2018, Pechoin occupied 2.4% of market share in China, second only to L’Oréal Paris.[314]

All of the above-mentioned brands under the four companies, along with other national brands, such as Dabao and Proya, are widely recognized among the Chinese consumers despite the short history of some of them. To date, these companies have been primarily focusing on the domestic market, but to different degrees have experimented on internationalizing their brands.

Market Entrance

Companies generally make their foray into the international market through exports, strategic alliances, outbound acquisitions, or overseas investments.[315] For the Chinese cosmetics industry, the majority of international trading has been driven by original equipment manufacturing, where Chinese cosmetics manufacturers manufactured products on behalf of foreign brands and

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312 Liu, Dongsi. “除了神广告，去年零售额 138 亿的百雀羚还有秘密.” 中国企业家网, 18 May 2017, www.iceo.com.cn/com2013/2017/0518/302678.shtml.

313 Corbin, Marie-Hélène. “China: Pechoin or the Resounding Return of a Sleeping Beauty.” Premium Beauty News, 27 Sept. 2019, www.premiumbeautynews.com/en/china-pechoin-or-the-resounding,15632.

314 Euromonitor International (n.d.). Beauty and Personal Care Market Shares in China by Brand. Retrieved from https://www.portal.euromonitor.com/

315 Liu, Yesha. “中国化妆品品牌国际化模式及影响因素研究——以上海家化为例.” East China Normal University, May 2017.

exported the branded products to international markets, mainly in Europe, the U.S. and Asia.[316] The national brands originated in China, on the contrary, have had little exposure abroad.

Jala is on the initial, exploratory phase of its internationalization process, while keeping its strategic priority on the domestic market. Zheng Chunying, CEO of Jala, believed that the Chinese market was the most competitive market with the greatest potential in the world, and thus the company would remain its focus on the Chinese market in the foreseeable future.[317] The company have hired over forty employees overseas and hopes to begin building a world-class supply chain, manufacturing, distribution, and R&D management system by learning from successful global brands and familiarizing the company with various global regulatory standards.[318] In addition, the company has also marketed its Maysu and Chando brands on international events like the Rio Olympics[319] and the New York Fashion.[320] On one hand, these activities increased the exposure of Maysu and Chando to the global market. On the other hand, the publicity of such activities appeared to gear more towards the Chinese audience with the goal of enhancing the brand equity, as global brands are generally more highly regarded by consumers for their prestige and high quality. Furthermore, given the leading position of Jala, particularly its Chando brand, in the domestic market, it is unclear how soon Jala will make meaningful efforts into expanding globally if at all.

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316 Liao, Chen. “中国化妆品进军海外市场的问题及应对之策.” Practice in Foreign Economic Relations and Trade, 13 June 2017.
317 Hu, Weijia. “伽蓝集团董事长郑春影: 未来中国化妆品公司将逆袭国际品牌.” China Economic Weekly, 7 April 2014.
318 Gong, Xiaofei. “伽蓝出海, 有何不同.” Topic Spotlight, 2 August 2018.
319 Liu, Chaohui. “最美阅兵妆背后的中国领军企业.” 东方美谷, 2016.
320 Hu, Weijia. “伽蓝集团董事长郑春影: 未来中国化妆品公司将逆袭国际品牌.” China Economic Weekly, 7 April 2014.

Chicmax's leadership indicated their ambition to take the products abroad around 2015, when the company established a subsidiary in Korea named Hondo. The primary purposes of the subsidiary, according to Chicmax, included first, creating a Korean beauty brand, second, acquiring or investing in local brands with great potential, third, supporting the existing Chicmax brands to enter the Korean market, and fourth, developing an R&D center in Korea that would integrate both Chinese and Korean products made by Chicmax.[321] The Cosmetea brand was subsequently created to target the Korean market. In 2017, Lv Yixiong, Chicmax CEO, transitioned from his role as CEO of Chicmax China to CEO of Chicmax International, drawing a blue print of Chicmax entering into the Japanese and Korean markets, as well as the European and U.S. markets in the future.[322] To supplement the effort, Chicmax also acquired the majority ownership of Korean company HiFace, aiming to strengthen the company's make-up lines, diversify offerings in the Chinese market, and deepen the company's expertise and network in the Korean market.[323] Chicmax implemented a similar strategy towards the Japanese market by setting up a subsidiary named Hondo Japan and creating a local brand named Ms.Su.[324] Chicmax adopted a globalization path that began with the closest neighboring countries where the company had existing bases (i.e., R&D center and employees). Such path allowed the company to achieve synergistic effects that not only supported the initial market entrance into the foreign markets, but also benefited its core Chinese market from the product development standpoint.

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[321] "韩束成立韩国 HONDO 公司，开启海外发展之旅."聚美丽, 7 Sept. 2015, wx.jumeili.cn/news/show-16927.html.

[322] Gong, Xiaofei. "伽蓝出海, 有何不同." Topic Spotlight, 2 August 2018.

[323] Xuan, Xinyuan. "韩粉世家获韩束亿元注资, 大部分钱将用于完善产品线." CBO,化妆品财经在线, 4 July 2015, www.cbo.cn/article/id/31917.html.

[324] Meijin. "原資生堂矢作剛任日本紅道 CEO 上美的亞洲市場版圖由此擴張." 每日头条, 9 March 2017, https://kknews.cc/finance/5m6vkx2.html

Compared to Jala and Chicmax, other Chinese national brands, such as Unifun, Pechoin, and Dabao, had less defined strategies regarding globalization. Yujiahui indicated its interest in the overseas market around 2013 and planned to expand through a combination of outbound acquisitions and distribution channels through e-commerce retailers like Amazon and Taobao-backed TMall. However, Yujiahui's performance in its core Chinese market has been underwhelming in the recent two years since its IPO, with net income attributable to parent company shareholders decreasing drastically year over year.[325] Potentially due to such underperformance, no significant progress has been made on the globalization plan that Yujiahui initially drew. Unifun, the company's core brand, is currently sold at e-commerce marketplaces like Qoo10 and Lazada based in Singapore, where its products are heavily discounted.

Dabao and Pechoin, with their decades-long history in China, have been focusing mostly on rebranding themselves to restore their positions in the increasingly competitive domestic market. For example, following the acquisition by Johnson & Johnson in 2008, Dabao and Johnson & Johnson engaged consulting specialists to create a contemporary branding and portfolio expansion strategy to fuel future growth.[326] However, Dabao's market share in China continued to decline, and as a portfolio brand under Johnson & Johnson, it is uncertain whether Dabao would have the autonomy to define its future trajectory, either domestically or internationally. On the contrary, Pechoin continued to gain market share and claimed its position as the top national brand in China. The brand will likely continue to focus on the domestic market where it

[325] Shen, Haoqing. "中外日化巨头财报析：市值、营收、利润…差距在哪儿？" Tencent News, https://new.qq.com/omn/20190624/20190624A0R2UW.html

[326] "Refreshing China's Iconic Skincare Brand." CBi China Bridge, 15 Jan. 2019, cbichinabridge.com/refreshing-chinas-iconic-skincare-brand.

has the greatest brand recognition, as the company has no yet announced any concrete globalization initiative.

Products

Although not all of the discussed companies are currently selling overseas, they very much focus, or at least claim to focus, on improving the product quality to be on par with the established global companies. For one, Jala consistently invested about 3% of total revenue in R&D, [327] a significant amount given its annual sales of over 4 billion RMB (~$650 million).[328] Jala also engaged French company LabSkin Creations to develop 3D skin bio-print technologies that could create human skin tissues and collaborated with the Chinese Academy of Sciences to develop DZ-49, an enzyme with supreme, soothing effects on the skin, in the space lab created as a part of the voyage of China's Shenzhou-10 spacecraft in 2013.[329] For Chicmax, the company is currently developing R&D centers in Europe and the U.S. in addition to the three existing R&D centers in Shanghai and Japan.[330] While Chando, Maysu and KanS among other brands consistently highlight the natural ingredients in Chinese medicine like Ginseng, they also take great pride in incorporating modern sciences into their products, a hybrid branding strategy that was proven to be successful in Herborist's case.

Skincare has been the main focus in terms of product type. Traditional Asian ingredients like ginseng and tea have been the key differentiating factor as they compete against Western brands.

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[327] Rui, Yifang. "伽蓝行记: 当现代东方美学遇上国际尖端科技." BMR Crossover, June 2017.
[328] "上海家化和伽蓝集团荣膺 2019 上海民营企业 100 强 百雀羚、上美集团、TST 不见踪迹." 雪球, 21 Aug. 2019, xueqiu.com/4410154833/131468222.
[329] Liu, Chaohui. "最美阅兵妆背后的中国领军企业." 东方美谷, 2016.
[330] "集团介绍." 上美集团, www.chicmaxgroup.com/page/8.htm.

Among Unifun, Cosmetea, and Ms.Su, the products were mostly priced to target the low-to-middle-end or the middle-end market.

Localization

The most noteworthy localization efforts were made by Chicmax as it set up foreign subsidiaries in Korea and Japan under the name Hondo. The company developed brands Cosmetea and Ms.Su in Korea and Japan, respectively, with no association with the parent company Chicmax. Similar to AmorePacific's approach to creating French brand Lolita Lempicka nearly two decades ago, Chicmax and its Chinese origin were seen nowhere in these two brands. Cosmetea and Ms.Su were each developed in Chicmax's overseas R&D centers and marketed to the local market as a local brand. Apart from leveraging the R&D capabilities of the subsidiaries to support its Chinese brands, Chicmax implemented a rather de-centralized management strategy by delegating the overseas operations to local executives and employees. For instance, Hondo Japan hired Yahagi Go, a former Shiseido senior executive, to serve as CEO of the Japan operations in 2017.[331]

Level of Success

To conclude, none of the discussed Chinese cosmetics companies have achieved a large-scale success in the overseas market, voluntarily or involuntarily. Those with overseas presence mostly sell their products on such e-commerce websites as Amazon, TMall, and eBay. Neither have the

[331] Meijin. "原資生堂矢作剛任日本紅道 CEO 上美的亞洲市場版圖由此擴張." 每日头条, 9 March 2017, https://kknews.cc/finance/5m6vkx2.html

Korean and Japanese brands created by Chicmax obtained significant market share in their respective local market. Several factors may have contributed to the situation.

First, it is to these Chinese companies most advantage to prioritize the Chinese cosmetics market where they have the greatest brand equity in place. In 2018, China's beauty and personal care market reached 410 billion RMB (~$60 billion) and is expected to surge to 621 billion RMB (~$88 billion) in 2023, based on Euromonitor estimation.[332] This new wave of national brands have emerged to compete head to head with the foreign brands in China, following a series of acquisition of national brands by foreign companies in the 2000s, including L'Oréal's acquisitions of Mininurse, Magic Moment, Yuesai, Coty's acquisition of TJoy, S. C. Johnson & Son's acquisition of Maxam, and Johnson & Johnson's acquisition of Dabao. These new or newly rebranded national brands, led by Pechoin, Chando, and KanS, have been eroding market shares of Western brands like L'Oréal and P&G. In 2009, the top 10 cosmetics companies with largest market shares in China were all foreign, whereas in 2018, four Chinese companies (i.e., Chicmax, Pehchaolin, Jala, and Jahwa) were on the top 10 list.[333] Given their existing positions and the future outlook of the domestic market, few companies perceived the necessity to prioritize globalization.

Additionally, the Chinese companies well understood the remaining discrepancy between themselves and the leading global brands in terms of quality and brand recognition, which explains the tremendous emphasis those Chinese companies put on R&D. Although some of the companies have indicated their interest in expanding overseas, they are mostly in the "catch-up"

[332] Euromonitor International (n.d.). Sales of Beauty and Personal Care in China. Retrieved from https://www.portal.euromonitor.com/

[333] Euromonitor International (n.d.). Beauty and Personal Care Market Shares in China by Company. Retrieved from https://www.portal.euromonitor.com/

phase in product development, a process that takes years if not decades. While investing in R&D centers in neighboring countries like Korea and Japan may be costly, the capital requirement for a full-scale entrance into a foreign market would be significantly higher, factoring in marketing, distribution, and regulatory compliance. Without a powerful partner like Sephora in Herborist's case, it is challenging for these Chinese companies to allocate such a significant budget to building all the infrastructure from the ground.

However, going forward, these Chinese companies may progressively scale their business overseas as their R&D and financial capabilities grow over time. The government also aspires to promote national brands and their internationalization, evident in, for instance, the establishment of China's first trademark office that focuses on helping domestic businesses protect their intellectual property overseas.[334]

[334] Fu, Danni. "China Founds Trademark Office to Protect Domestic Brands." Sixth Tone, 21 Oct. 2018, www.sixthtone.com/news/1003088/china-founds-trademark-office-to-protect-domestic-brands.

III

Conclusion

The group of companies analyzed in this thesis illustrates the initial internationalization process of representative Japanese, Korean, and Chinese cosmetics companies. Through comparing their company histories, a number of similarities and differences are observed, which can be summarized under several themes as follows.

Ideological clashes and synergies

Most of the companies attempted to expand both in Asia and in the West, namely Europe and the U.S. Unlike their Western counterparts, whose interest in Asia was mainly driven by the massive population and spending power of the market, these Asian companies made their forays into the West for not only the market opportunity, but also the prestige proven by the world's leading fashion capitals, namely Paris and New York, if they succeeded. To a large extent, the Western fashion and cosmetics industry had established a global set of quality and ideological standards that the Asian companies benchmarked themselves to. As such, while Western brands like L'Oréal and Estée Lauder received almost immediate popularity in Asia thanks to the perception of premium-ness associated with their brands, Asian companies were challenged to justify their legitimacy as a brand originating in a newly developed or emerging economy. Such self-proofing requirement was one of the most crucial obstacles the Asian companies had to overcome as they attempted to globalize in a reversed way, from the East to the West. The cultural elements of Asia were perceived to be exotic and nature-oriented but were so different from the mainstream Western brands that Western customers often saw them as an occasional adventure as opposed to day-to-day necessity. Such ideological difference was more pronounced in early years, when

Shiseido, AmorePacific, and Shu Uemura entered the Western market in the 1980s through the early 2000s, than the recent years.

The global market in Asia, on the contrary, presented significant cultural synergies that these companies could leverage. The cultural affinity allowed the companies to create brand resonance among customers in the target market, which was evident in Shiseido entrance into China as a luxury brand and AmorePacific and Missha's popularity in China thanks to the Korean Wave. The cultural inheritance in traditional Chinese medicine partially offset customers' emphasis on modern science, a component that very much defined the Western customers' perception of product quality. Furthermore, the geographic proximity, in addition to cultural commonality, provided convenience for the development of manufacturing plants and R&D centers. This can be demonstrated by Shiseido's highly customized China operations and Chinese companies' increasing infrastructure investments in Japan and Korea. Regarding the Chinese market, Korean companies generally saw it as a larger version of their domestic market and implemented less localization strategies than Japanese companies did, but nonetheless, companies from both countries benefited tremendously from the cultural similarities and premium brand image, which set them apart from the Western competitors in the Chinese market.

Evolving strategic priority

The internationalization paths of Japanese companies, Korean companies, and Herborist from China resembled each other in various ways, such as targeting Europe, the U.S., and neighboring Asian countries, collaborating with Western influencers, and selling through department stores. Yet, an evolution of strategic priority is also seen throughout this process. In the Western market, Asian companies began to focus on a variety of segments outside the luxury segment that

Shiseido and Shu Uemura attempted to break in. AmorePacific, through its diverse portfolio, looked to capture mainly the mid- to high-end market. So did the Chinese Herborist. In the Chinese market, both the Shiseido-backed Aupres brand and the numerous Korean brands targeted primarily the mid- to high-end market that filled the void between the luxury segment dominated by Western brands and the fragmented low-end market. Additionally, for voluntary and involuntary reasons, Asian companies have gradually shifted their focus back to the domestic or Asian market. While Paris and New York remain to be the top two fashion capitals setting the ultimate standards for their peers in the rest of the world, Asian companies have found their core competencies most valuable in Asia and shifted their strategic priority to the domestic and neighboring markets. For large Asian companies with established global operations, such as Shiseido and AmorePacific, the majority of their revenues come from the Asia market. For the emerging Chinese companies, most of their leadership do not have a concrete plan to meaningfully scale in the overseas market, particularly in the West.

Localizing through alliances

Alliances appeared to be a key strategy deployed by the Asian companies as they expanded abroad. As compared to the entrepreneurial companies (e.g., Shu Uemura, Able C&C), the large, mature companies had better capabilities to form alliances and partnerships with local players in the target market. Examples include Shiseido's collaboration with Serge Lutens and joint venture with CITIC China, AmorePacific's ten-year licensing contract with Lolita Lempicka, Shanghai Jahwa's partnership with Sephora, and so on. Such alliances provided the Asian entrants insights into the local market, customers, and branding strategies, as well as invaluable distribution network in some cases. In Jahwa's case, Jahwa would not have the opportunity to sell in France through Sephora's network had the company not played such an indispensable role in the

Sephora-Jahwa joint venture in China, and such relationship was only initiated because of Jahwa's leading size and capabilities as a cosmetics giant in China. The large companies also sought to acquire in the target market to help fuel the overseas sales growth.

The smaller-scale companies, in comparison, operated more independently and relied mostly on organic growth, likely due to the limited resources they were able to pull. While these brands sometimes benefited from their innovative, niche brand identities, they generally faced more distribution challenges comparing to the large companies. The scaling process of both Shu Uemura and Missha was greatly hindered by distribution constraints, among other issues. It was after the acquisition by L'Oréal that Shu Uemura managed to sell in over a dozen of countries, and in Missha's case, the brand suffered greatly from the exit from chain retailer A.S. Watson.

However, such discrepancy may become less prevalent going forward, given the increasing diversification of sales channels and the increasing popularity of niche, boutique brands. On one hand, as omni-channel sales continue to grow, cosmetics brands become less dependent upon physical stores, which require massive amounts of capital that used to prohibit smaller companies from expanding. These entrepreneurial companies may grow their international shares by selling through e-commerce retailers, a strategy already adopted by many Chinese companies being analyzed.

On the other hand, as opposed to the widespread trend of megabrands owned by a select of large Western companies, such as P&G, L'Oréal, and LVMH, the global consumer packaged goods industry has seen a new wave of boutique brands that capture various niche segments through their innovative, highly personalized offerings. Unlike in Shu Uemura's days, the luxury identify that used to set traditional Western cosmetics apart has less influence on consumers' purchase decisions, which creates opportunities for Asian boutique brands to capture overseas markets through their nicheness. These niche brands may still be perceived of premium quality, evident in the popularity of Korea-originated start-up brands Dr. Jart+, belief, and Sulwhasoo along with others in the U.S. Asian cosmetics giants are not necessarily at advantage as compared to Asian entrepreneurial companies in terms of global expansion, as the barrier to entry set by physical store investment is now fading. At the same time, large Western companies are also challenged to either innovate in-house or acquire emerging brands, the latter of which provides additional opportunities for entrepreneurial companies to form alliances.

Issues for further research

This thesis may have raised more questions than it has answered or analyzed. For example, how does the initial internationalization of Asian cosmetics companies compare to that of their Western counterparts, which seemed to have a set of much more clear strategies as they entered foreign markets (e.g., L'Oréal's serial acquisitions of American brands in the 1990s)? While it does not appear to be so, was there any systematic learning done by the Asian companies? Looking forward, as China plays an increasingly significant part in the global cosmetics market, will the Chinese companies eventually seek to scale its operations in the Western market like its Japanese and Korean precedents? How do cultures and ideologies impact customers' perception of foreign cosmetics brands in the midst of evolving global political, economic, and social dynamics, such as the U.S.-China trade war, aging population, and emerging powerhouses like India and Latin America? More broadly speaking, will the internationalization of cosmetics brands continue to be a trend, or will the global cosmetics market divide into separate regional markets, each dominated by locally originated brands? Such questions may be worth further investigation and may entail additional or alternative explanations on the topics explored in this thesis.

IV

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