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Amorepacific Hong kong: Marketing korean beauty products

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The Hong Kong market is really competitive. It is a showcase market. If you do well in Hong Kong, there is a great halo effect on the Southeast Asia and the Greater China market. We bear a key mission: to bring AMOREPACIFIC Group’s products one at a time into Hong Kong and to build up our reputation and consumer base.

Fion Ipp, managing director, AmorePacific Hong Kong Co. Ltd.

Towards the end of 2016, Fion Ipp, managing director of AmorePacific Hong Kong Co. Ltd. (APHK), wondered what marketing strategies she should implement to continue the achievement of APHK’s mission. Having identified her customers’ behavioural patterns, she had to consider the marketing tools in the consumer decision journey; the competitive positioning of her brands; and the distribution of the budget between traditional and digital channels for each of her four brands in the upcoming bi-monthly campaigns. She needed to strike an appropriate balance within APHK’s overall strategy between recruiting new customers and retaining existing customers.

Chinese consumers’ demand for cosmetics and skin care products (hereafter called beauty products) was booming. China had overtaken Japan to become, after the United States, the second-largest market of beauty products in the world, with estimated annual sales of US$30 billion[[1]](#footnote-1) and an annual growth rate exceeding 40 per cent (see Exhibit 1). Ipp estimated that over half of her Hong Kong consumer base consisted of mainland[[2]](#footnote-2) tourists visiting the number one offshore shopping destination for mainland Chinese tourists—Hong Kong. However, the number of tourists to Hong Kong from mainland China declined by 2.5 per cent from 2014 to 2015, and by 7.4 per cent from the first half of 2015 to the first half of 2016 (see Exhibit 2). According to the government of Hong Kong’s Census and Statistics Department, luxury spending in Hong Kong shrank by 13.7 per cent and 15.6 per cent in 2014 and 2015, respectively. Spending in the cosmetics sector had gone from 9.3 per cent growth in 2014 to a −1.9 per cent decline in 2015.[[3]](#footnote-3) As the pessimistic outlook escalated, APHK’s Korean competitor, Missha (part of Able C&C Co. Ltd.), abruptly halted its business in Hong Kong when its local partner collapsed. As a Hong Kong property company executive commented upon hearing the news, “South Korean cosmetics brands can become popular rapidly and easily, but that popularity can fade fast, too.”[[4]](#footnote-4)

However, even faced with these challenges, Ipp remained optimistic because APHK had sustained an annual sales growth rate of 30 per cent in 2015. As she turned her attention to formulating the next year’s marketing strategy, she reflected on how she and her team had built APHK to achieve its strong market position in Hong Kong. Looking forward, she resolved to allocate her marketing resources to increasing APHK’s competitiveness.

**FROM KOREA TO GREATER CHINA: company background**

Although AmorePacific Group (AP) was established in 1945, its origins went back to the 1930s, when Yun Dok Jeong, the grandmother of AP’s chairman, Suh Kyung Bae, started a business extracting camellia seed oil for beauty products. Her son and then her grandson developed the mission of “Beautifying the World” to build AP into the largest cosmetics company in Korea, and a company named by *Forbes* as one of the most innovative in the world.[[5]](#footnote-5) AP developed concepts of traditional beauty with a rich Asian heritage, aiming to help women achieve a healthy and beautiful lifestyle from the inside out. Its brands and products catered to a variety of needs and to consumers of different ages. Each of its brands had products ranging from skin care (for example, moisturizing, anti-aging, brightening, and other products) to colour cosmetics (see Exhibit 3). For the composition of market shares of companies and brands in Hong Kong for makeup (also called colour cosmetics) and for skin care, see Exhibits 4 and 5, respectively.

By 2015, AP had become associated with *Korean beauty* (K-beauty)—innovative products and high-quality ingredients helping women to explore their beauty potential, with good value for money. In *The* *Wall Street Journal*, Dana Wood noted, “K-Beauty—the umbrella term for all South Korean imports in the skin care, makeup and bath-and-body categories—has been attracting fans . . . it’s cultivated a certain gentle, nature-meets-technology ethos.”[[6]](#footnote-6)

The phenomenon was explained in fashion magazine *Elle*: “First there was cute fashion blushers, *then* alphabetized bb, cc and dd [skin care] creams came along,” and now there was K-beauty. In answer to the question, “Why has Korea spurred such a worldwide beauty phenomenon?” the Beauty Team at the magazine said, “Because their [Koreans’] beauty aesthetic is so different to ours—so focused on health, hydration . . . the products that come out of Asia have high specific standards to enable those things, and our skin can only benefit.”[[7]](#footnote-7)

AP chose Hong Kong as a strategic bridgehead for its expansion into the Greater China Region and the rest of the world starting in 1990, but it was not until 2001 that its efforts began to bear fruit. In that year, Ipp joined the company to found APHK and in subsequent years chose four brands from AP’s 26‑brand portfolio for Hong Kong. She started with LANEIGE because of its appeal to Hong Kong women in their 20s and 30s who perceived that Korean women had good skin and sophistication, and who were open to new beauty products that gave good value for money. LANEIGE portrayed itself as expert in hydration, with five series of products focusing mainly on moisturizing and whitening, among which the hydrating Water Bank series was the most popular in Hong Kong.

Two years later, in 2004, APHK launched Sulwhasoo, a beauty brand that began with a strong belief in the stimulative and restorative benefits of ginseng and a passion for Korean herbal medicine. Unlike LANEIGE, Sulwhasoo had a more luxurious image, and it was positioned at the upper end of the luxury segment to stand out from the competition in the mid-class segment. Continuing upmarket, APHK launched the eponymous brand AMOREPACIFIC in 2014, which was the most luxurious brand of the group and used nothing less than the best Asian botanical ingredients and the latest technology. AMOREPACIFIC and Sulwhasoo targeted consumers in their 40s and 50s with mature skin and concerns about aging. These consumers seldom switched brands under the influence of advertising and promotions; rather, they often relied on positive word-of-mouth and sought to understand the stories behind the brands. At the same time, Ipp and her team introduced beauty services including facial treatments and spas to strengthen the perception of exclusiveness.

In 2014 and 2015, AP consolidated its business in Hong Kong, acquiring shares of APHK and transferring to APHK the Hong Kong operation of ETUDE HOUSE. ETUDE HOUSE targeted young consumers who had almost no experience using beauty products but who were highly curious about them. ETUDE HOUSE not only emphasized product quality; it also targeted consumers with eye-catching designs and fancy brand stories. ETUDE HOUSE was a playful brand with two distinctive features―a vast variety of choices (offering over 500 new items annually) and trendy sweetness (using K-Pop and K-trends in its communication).

With AMOREPACIFIC, ETUDE HOUSE, LANEIGE, and Sulwhasoo, APHK had four AP brands covering segments that ranged from entry-level through premium and luxury.[[8]](#footnote-8) In addition, APHK offered advice to AP on its Hong Kong launch of a medical beauty-specific brand, Aestura, which offered its products exclusively to clinics and hospitals, and on its expansion strategy in mainland China, Singapore, Malaysia, Vietnam, and Thailand.

Within mainland China, Korean brands had become increasingly competitive. In the first half of 2015, although France remained the largest supplier of imported beauty products to China, holding a share of 30.6 per cent, and the United States was the second-largest supplier, Korea was the third-largest supplier, with its beauty products accounting for nearly a quarter of the imports of beauty products to China (see Exhibit 1). For the background and performance of major brands in China, see Exhibit 6. Moreover, the retail sales of Korean beauty products in China had grown from 2010 to 2015 at a compound annual growth rate of over 10 per cent. AP was confident that its products in Greater China had a bright future.

**HOW APHK RECRUITED AND RETAINED CONSUMERS**

**Brand Philosophy**

Ipp believed that the front-line staff—and not the management—of a service company were the determinants of healthy growth. However, the management was responsible for setting up systems to foster that employee-led growth. Through centralizing duty reporting and orientation programs, embedding action-based key performance indicators in appraisal, and complementing appraisal with a bi-annual reward scheme, Ipp sought to internalize AP’s vision to be “the Asian Beauty Creator.”

APHK was a customer service business with over 500 sales staff in over 50 shops serving hundreds of thousands of consumers annually. In the service business, Ipp believed “you have no second chance to create a first impression.” She hoped to cultivate within her organization a caring and supportive culture. On the first day on the job, every new member of APHK’s staff was sent to perform community work, such as serving the elderly in one of Hong Kong’s poorer neighborhoods. Thereafter, regular community service was built into the work life of all staff members. As the company song expressed it:

Let me make the world a prettier place,

In my own unique ways,

This belief, you can see it in my eyes,

I vow to try, for the beauty I see in you.

Let me make the world a prettier place,

Promise to love others more than myself,

Soaring high with your hands in mine, partners forever.

And as Ipp said,

A successful brand walks with two legs—marketing communication and service. AP provides us with the best products in the category. But then, it relies on our team, and particularly our front-line sales, to advocate a message that AP products bring good value for money to consumers. It’s critical for us to make consumers feel that we truly care about them from the heart. By doing so, we can see from our experience that consumers develop relationships with us, spread positive stories about us, and even defend us when we make mistakes.

APHK aligned its marketing strategies and budget with its values. Ipp believed that value for money could be delivered only when corporate values were put into action, explaining,

A business is like a tree. As long as its roots are strong enough, the tree will not wilt due to bad weather. Similarly, APHK is built on four competences—customer engagement, brand aspiration, team loyalty, and operational efficiency. We engage customers with our passion and services (customer engagement). Our products exceed customers’ expectations of quality and functionality (brand aspiration). With a caring and supportive culture, we have a heightened sense of belonging and clear goals in striving for common good (team loyalty). Under the bottom-up structure, we keep improving operational efficiency with inspiration from our front-line colleagues (operational efficiency). As our competence is rooted in aligned values, APHK can consistently deliver value for money to consumers and overcome the ups and downs in the external environment.

**Integrated Marketing Communication**

The digital age increased the touch points connecting consumers with brands. For example, a McKinsey study found that more than 60 per cent of consumers of facial skin care products would conduct online research about the products after purchase.[[9]](#footnote-9) Social media shifted one-way communication to two-way conversations between marketers and consumers, fundamentally changing how consumers engaged with brands.

APHK used paid, owned, and earned media.[[10]](#footnote-10) It alternated between traditional and digital media to recruit and retain consumers—raising awareness, enhancing brand comprehension, shaping preferences, prompting purchase action, and building the habit of loyalty (see Exhibit 7). Each objective targeted a particular stage in the decision journey.[[11]](#footnote-11)

**Awareness:** APHK extensively used traditional media channels such as television commercials, print advertisements, and outdoor billboards to create a visual impact and raise consumer awareness. In 2001, when APHK launched LANEIGE Hong Kong, consumers possessed little awareness and knowledge about Korean brands. Most of them did not even know how to pronounce the French “LANEIGE.” Although only the fast-moving consumer good category used TV commercials at that time, Ipp broke from the norm and launched a campaign for APHK of highly successful TV commercials to promote LANEIGE. Ipp believed that traditional media forms were irreplaceable in reaching a broad array of consumers and creating brand awareness. APHK relied on traditional media, especially for luxury brands like Sulwhasoo, even as its use of digital media increased.

**Comprehension:** Excluding the Internet, print ads continued to be one of the most effective media forms for building brand knowledge. Ipp noted with pride that APHK had once pooled its entire budget to publish a 10-page ad in a Hong Kong beauty magazine to educate consumers about K-beauty and its brands. No beauty product competitor before or since had campaigned this way in Hong Kong. Ipp heralded the campaign as a success in enhancing consumers’ brand knowledge, breaking new ground, and catching the imagination of consumers.

APHK used press releases and other company-controlled media, including its websites, to transmit information about its brands to consumers, but Ipp placed more weight on consumer-created earned media—communities of brand enthusiasts. Taking advantage of the viral nature of digital content, APHK used online social platforms to update consumers about its brands and products as well as trends in beauty and fashion. Digital media was critical in maintaining awareness of the brands and products; and through interactions with consumers, it deepened their brand knowledge.

**Liking:** Content and buzz marketing—the marketing technique of creating and distributing valuable, relevant, and consistent content to attract and acquire a clearly defined audience, and of getting more people to see a product being used in public and hear about it from people they knew and trusted—helped consumers evaluate different brands throughout the decision journey. [[12]](#footnote-12) Ipp noted that these marketing techniques were at least as critical as building awareness and driving the initial purchase. With advances in technology, it became possible to track online activities (e.g., which type of content attracted consumers to read it and the type of information they searched for) and to match consumers with relevant content in later encounters. Since content was increasingly relevant to consumers lives, they were more likely to share it both online and offline, creating brand buzz and giving AP earned media exposure.

Ipp and her team employed these marketing techniques to build brand aspirations. A team in content marketing at APHK was responsible for analyzing which types of content best fit with the targeted segments of a campaign. It also paid social networking sites such as Facebook to show relevant brand ads to the consumers who had searched or navigated its social networking site pages.

**Action:** Consumers often put off a purchase decision until they were actually in the store. Point-of-purchase marketing could either persuade or dissuade consumers. Ipp recognized that consumer interactions with sales staff provided the most direct channel to increase consumers’ product knowledge, so she emphasized showing genuine care to consumers to give them a satisfying in-store experience. She believed that caring service could engage even those consumers who entered a store without planning to buy.

APHK also employed mobile technology to keep track of potential consumers. Within specific geographic locations in shopping malls and on certain occasions, the system would automatically send mobile alerts via SMS(short message service) to the targeted consumer, providing tailored messages that included discount coupons; contest opportunities; special event invitations; and other unique, brand-specific content. In this way, APHK could get in touch with consumers at the right time, in the right place, and further engage them with distinctive point-of-purchase features.

**Habit:** Ipp was excited about the potential of digital media to revamp customer relationship management, integrating art with science. Although APHK had long provided extensive on-the-spot and after-sale services in order to manage customer relationships, detailed analysis of its large, diverse customer base for customizing responses and offers had been difficult and costly. Digital marketing, however, facilitated customer relationship management, allowing for the analysis of customer behaviour throughout the entire relationship with APHK. Based on an analysis of transaction history, for example, APHK differentiated local, mainland, and foreign customers. It identified those who had not made a purchase for three months, six months, or one year, allowing it to approach a specific customer with a tailored post-purchase email at a specific time to re-engage her with appropriate incentives.

APHK based its consumer analyses on various online and offline sources of big data, [[13]](#footnote-13) which the company gathered at different encounters with consumers to inform its marketing strategy. APHK’s database contained records of customer demographics, past purchases, and responses to marketing communications, all assembled with the customer’s consent. These records allowed APHK to perform precise market segmentation. Ipp pointed out,

Today is an era with challenges and excitement for marketers. Based on our experience, we play around with various technologies and tactics. No one really knows how to strike a balance between traditional and digital marketing. Neither would one know if digital marketing communications will replace the traditional ones one day. We are still learning and should keep learning.

Different forms of digital marketing communications were used for the five AP brands marketed in Hong Kong (see Exhibit 8) with respect to different stages of the consumer decision journey.

**Budget Allocation**

Keeping the consumer decision journey in mind, Ipp turned her attention to the marketing budget allocation (see Exhibit 9). She recognized the importance of targeting the right consumers, whether in recruiting new consumers or retaining existing consumers, and of reaching the target consumer at the moment when marketing most influenced the consumer decision. Given APHK’s brand portfolio and marketing mix, Ipp considered the strategies she should follow in the coming year.

APHK’s annual marketing budget was allocated on a campaign basis. Each year, the company ran about six advertising campaigns spread roughly two months apart. Each campaign had a primary focus and a secondary focus. A primary focus could be used to launch a new product within a brand, while a secondary focus could be used to re-push a product within a brand—or to relaunch or reposition an existing product. It could strive to retain specific existing consumers or recruit new consumers. It could focus on traditional or new media. The introduction of an entirely new brand, augmenting the four brands AP currently offered, could involve several campaigns.

Rather than spreading the budget thinly across all lines, products, consumers, and media, a campaign focused on specific products at one time and employed the media that could optimize marketing effectiveness. Ipp explained, “For example, a winter campaign’s primary focus could be moisturizing whereas a secondary focus could be foundation—because once your skin is better, you will look more attractive when using foundation.”

She commented on the differences between cosmetics and skin care campaigns as follows:

Usually, when it comes to makeup products, the marketing materials are more dynamic, more attractive, more colourful, and maybe more storytelling. And so with makeup campaigns we are more able to utilize digital channels, because we can express [our message] better and it really attracts people. But comparatively, with skin care, marketing materials are relatively static. Whether it’s the colour or the storytelling, it’s more fact-based. Although there are many profound technologies in marketing, it’s not like makeup, where we have a lot of demonstrations with different colours and active illustrations. So relatively speaking, skin care uses more traditional marketing.

Yet the boundaries between traditional and digital marketing were blurring, as Ipp explained,

The media environment is changing so quickly . . . so there is no magical guideline. We set a year’s budget but then have a semi-annual or quarterly media review, looking at the changes in the media environment and our consumers changes in their media consumption, so we have to always check through which channels our consumers are getting their information.

She added,

In the past, we used to allocate the budget by department. It makes sense, right? We had a brand marketing department and they had their budget for TV, print, and outdoor on a product basis. Then we had our digital marketing department, and the digital marketing department had its own budget. But two years ago we decided that was not the right way to go, because every campaign’s character was different. And if we are so rigid dividing the budget by department, it does not necessarily lead to the most effective results. So now we encourage these two departments’ employees to work together. The objective is to maximize the business impact of the campaign. . . . Today, marketers should possess knowledge and skills on both traditional and digital marketing communication and use them flexibly. In the long run, digital is not a separate function.

Past campaigns for high-end brands like AMOREPACIFIC and Sulwhasoo had tended to rely on traditional marketing channels such as print ads because APHK considered them effective for enhancing the luxury image for the target consumers. LANEIGE campaigns had also used traditional channels to maintain top-of-mind awareness for young women from diverse backgrounds in their 20s and 30s, yet LANEIGE had relied more on TV commercials than print ads. For all three brands, digital marketing had played a supplementary role, mainly in cultivating the brands’ depth with references to their stories or heritage.

Rather differently, ETUDE HOUSE relied more on digital channels because its target consumers were high school and university students. These digital savants spent most of their waking hours online, and many did not even watch TV broadcasts. ETUDE HOUSE relied on a combination of digital media presence and service in its storefronts to build the high customer engagement, so it had placed almost no emphasis on traditional marketing.

Ipp reflected on how the changing economy and consumer base affected her sales:

When the economy is good, there is the good economy challenge. When the economy is bad, there is the bad economy challenge. I still can’t figure out whether the challenge is worse when the economy is bad. When the economy is doing well, it is so difficult to expand, and operating costs are increasing so much. And competitors may want your staff to work for them. . . . Competition is so serious. . . . It’s really a question of how your team faces the challenges. Once your team spirit is good and your objectives are clear, even if we are in a trough, we will find a way to succeed.

As Ipp turned to the marketing strategy of her four brands for the coming year, she reviewed APHK’s sustainable competitive advantages. The question before her, given the changing environment, was what balance to strike between retaining and expanding her clientele, between Hong Kong residents and tourists, and between traditional and digital media. She also had to determine how APHK’s marketing strategy could meet APHK’s Hong Kong objectives while also contributing to AP’s overall mission in China, Asia, and the rest of the world.

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**EXHIBIT 1: GLOBAL BEAUTY PRODUCT MARKETS**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | United States | Brazil | United Kingdom | France | Russia | United Arab Emirates | Japan | Korea | China | Hong Kong |
| Total Sales in 2012 (in US$ billions) | 55.3 | 21.1 | 3.5 | 19.8 | 13.9 | 4.9 | 27.3 | 8.4 | 25.9 | 1.1\* |
| Sales per Capita\*\* (in US$) | 176.1 | 103.4 | 54.9 | 300.5 | 97.2 | 544.4 | 215.0 | 167.3 | 19.1 | 150.0 |
| GDP per Capita\*\*\* (in US$) | 56,300 | 15,800 | 41,200 | 41,400 | 23,700 | 67,000 | 38,200 | 36,700 | 14,300 | 57,000 |
| Value of Domestically Produced Cosmetics Exported to China (in US$ millions)\*\*\*\* | 194 | – | – | 513 | – | – | 265 | 371 | – | – |
| Percentage of Domestically Produced Cosmetics Exported to China\*\*\*\* | 11.8% | – | – | 30.6% | – | – | 15.8% | 22.1% | – | – |

Note: GDP = gross domestic product; \*Authors’ estimate; \*\*Sales per capita were estimated by dividing total sales of beauty products by population as of December 2012; \*\*\*GDP per capita compares GDP on a purchasing power parity basis divided by population as of July 1, 2015; \*\*\*\*Value and percentage of cosmetics exports were based on statistics from January to July 2015.

Source: China-Britain Business Council, Targeting Chinese Consumers: A Guide for UK Businesses 2014, 2014, accessed May 17, 2016, [www.cbbc.org/NetC.CBBC/cbbc/f4/f472d9d5-34d9-447d-a464-186be3deff07.pdf](http://www.cbbc.org/NetC.CBBC/cbbc/f4/f472d9d5-34d9-447d-a464-186be3deff07.pdf); “Population, Total,” The World Bank, accessed May 17, 2016, http://data.worldbank.org/indicator/SP.POP.TOTL; “The World Factbook: Country Comparison: GDP – Per Capita,” Central Intelligence Agency, accessed May 17, 2016, https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html; Lee Hyo-sik, “Cosmetics Exports to China Surge 250%,” Korean International Trade Association, July 9, 2015, accessed January 20, 2018, www.kita.org/global/ecoView.do?seq=15189&searchWrd=cosmetic&pageIndex=1.

**EXHIBIT 2: TOURIST COMPOSITION IN HONG KONG**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | Jan—Dec 2014 | Jan—Dec 2015 | % Change  versus  One Year Ago | Jan—Jun 2015 | Jan—Jun 2016 | % Change  versus  One Year Ago |
| Total | 60,838,836 | 59,307,596 | −2.5 | 29,327,240 | 27,160,274 | −7.4 |
| Mainland China | 47,247,675 | 45,842,360 | −3.0 | 22,846,524 | 20,415,710 | −10.6 |
| Other Short-Haul Markets\* | 8,407,120 | 8,298,122 | −1.3 | 3,934,699 | 4,159,782 | +5.7 |
| Long-Haul Markets\*\* | 4,268,856 | 4,284,287 | +0.4 | 2,097,848 | 2,158,986 | +2.9 |
| New Markets\*\*\* | 915,185 | 882,827 | −3.5 | 448,169 | 425,796 | −5.0 |

Note: \*Arrivals from Taiwan, Japan, South Korea, Indonesia, Malaysia, Philippines, Singapore, Thailand, and others; \*\*Arrivals from the United States, Canada, the United Kingdom, France, Germany, Australia, and others; \*\*\*Arrivals from India, Russia, the Netherlands, Vietnam, and Gulf Cooperation Council markets (including Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and The United Arab Emirates).

Source: Hong Kong Tourism Board, Monthly Report – Visitor Arrival Statistics: Dec 2015 and Jun 2016, 2016, accessed January and August, 2016, https://partnernet.hktb.com/en/research\_statistics/latest\_statistics/index.html?gvHelperp=1.

**EXHIBIT 3: AMOREPACIFIC FLAGSHIP BRANDS—EXPANSION HISTORY, TARGET, PRODUCTS, AND PRICING**

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Year of Entry (Hong Kong) | Year of Entry (China) | Number of  Overseas Markets | Targeted Segments by Age | Brand Motto | Key Products (Skin Care) | Key Products (Colour Cosmetics) | Pricing | |
| LANEIGE | 2002  (Under APHK) | 2003 | 13 | 25–40 | A trendy brand offering a total solution for sparkling beauty | * Water Sleeping Mask * Water Bank Essence * Water Bank Cream | * BB Cushion * Two Tone Lip Bar * Water Supreme Primer Base | | Premium |
| Sulwhasoo | 2004  (Under APHK) | 2011 | 9 | 40+ | Holistic beauty from Asian wisdom | * First Care Activating  Serum * Essential Balancing Water * Concentrated Ginseng Renewing Cream | * Perfecting Cushion | Upper Luxury | |
| ETUDE HOUSE | 2012  (Under APHK since 2014) | 2013 | 12 | 15–25 | Girlish and playful make-up brand to realize a life-is-sweet experience | * Moistfull Collagen Cream * Wonder Pore Freshner * AC Clean Up Acne Care Series | * Precious Mineral Any Cushion * Lips Talk * Play 101 Stick | Mass | |
| AMORE-PACIFIC | 2014  (Under APHK) | n/a | 1 | 40+ | High performance anti-aging skin care powered by Asian botanicals | * Time Response Series * Skin Renewal Ampoule * Skin Renewal Creme * Eye Renewal Creme | * Anti-Aging Colour Control Cushion | Upper Luxury | |
| Mamonde | n/a | 2005 | 2 | 25–40 | A brand that inspires feminine beauty with flowers | * Flower Essential Masks * Rose Honey Sleeping Mask * 7 Days Project Nutrition Sheet Mask | * Powder Pact Blooming * Stamping Edge Lip Tint * Natural Cake Eyebrow Kit | Mass | |
| Innisfree\* | 2013  (Under another AP subsidiary) | 2012 | 6 | 25–40 | Natural benefits from Jeju | * The Green Tea Seed Serum * Jeju Perfumed Hand Cream * It’s Real Squeeze Masks | * Auto Eyebrow Pencil * No Sebum Blur Powder * Mineral Makeup Base | Masstige | |

Note: APHK = AmorePacific Hong Kong; n/a = not available; \*Innisfree operated under a “fast cosmetics retail model” under a separate subsidiary company in Korea, Hong Kong, and worldwide.

Source: 2014 AmorePacific Group Sustainability Report, 2014, accessed February 20, 2018, <https://www.apgroup.com/int/en/dam/misc/2014_AMOREPACIFIC_SR_English.pdf>; company records.

**EXHIBIT 4: COMPOSITION OF MARKET SHARE FOR COMPANIES AND BRANDS**

**IN HONG KONG—MAKEUP**

Composition of Market Share by Company

**Composition of Market Share by Brand**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Company and Origin | Brand | 2012 | 2013 | 2014 | 2015 |
| AMOREPACIFIC (Korea) | LANEIGE | 6.4 | 6.2 | 6.2 | 7.3 |
| Sulwhasoo | 0.6 | 0.8 | 0.9 | 1.8 |
| ETUDE HOUSE | n/a | | | |
| Innisfree | n/a | | | |
| L’Oréal (France) | Lancôme | 6.3 | 6.2 | 6.1 | 5.8 |
| L’Oréal Paris | 1.6 | 1.6 | 1.6 | 1.3 |
| Shu Uemura | 1.2 | 1.2 | 1.2 | 1.3 |
| Estee Lauder (United States) | Estée Lauder | 8.2 | 9.0 | 8.2 | 7.2 |
| Bobbi Brown | 4.2 | 4.4 | 4.6 | 4.5 |
| Mac | 3.5 | 3.5 | 3.5 | 3.6 |
| Clinique | 1.8 | 1.8 | 1.8 | 1.7 |
| Proctor & Gamble (United States) | Maybelline | 3.4 | 3.3 | 3.3 | 3.1 |
| Max Factor | 2.2 | 2.1 | 2.1 | 2.1 |
| SK-II | 1.9 | 1.9 | 1.9 | 2.0 |
| Shiseido (Japan) | Shiseido | 10.2 | 10.2 | 10.1 | 10.4 |
| ÍPSA | 1.9 | 1.9 | 1.9 | 1.9 |

Note: Figures in percentage of total makeup sales in the Hong Kong market; n/a = not available.

Source: Colour Cosmetics in Hong Kong, China, Euromonitor International, May 2016, accessed April 23, 2018, www.euromonitor.com/colour-cosmetics-in-hong-kong-china/report.

**EXHIBIT 5: COMPOSITION OF MARKET SHARE FOR COMPANIES AND BRANDS IN HONG KONG—SKIN CARE**

**Composition of Market Share by Company:**

**Composition of Market Share by Brand:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Company and Origin | Brand | 2012 | 2013 | 2014 | 2015 |
| AMOREPACIFIC (Korea) | LANEIGE | 4.1 | 4.1 | 4.3 | 4.5 |
| Sulwhasoo | 1.7 | 2.2 | 2.6 | 5.1 |
| ETUDE HOUSE | n/a | | | |
| Innisfree | n/a | | | |
| L’Oréal (France) | Lancôme | 4.3 | 4.4 | 4.5 | 4.2 |
| Biotherm | 1.9 | 1.9 | 1.9 | 1.8 |
| L’Oréal Dermo-Expertise | 1.4 | 1.4 | 1.4 | 1.3 |
| Estee Lauder (United States) | Estée Lauder | 6.6 | 6.7 | 6.8 | 6.4 |
| Clinique | 3.9 | 3.9 | 4.0 | 3.8 |
| Origins | 2.2 | 2.2 | 2.5 | 2.9 |
| P&G (United States) | SK-II | 7.1 | 7.4 | 7.5 | 7.4 |
| Olay | 2.7 | 2.7 | 2.7 | 2.7 |
| Shiseido (Japan) | Shiseido | 5.9 | 5.8 | 5.9 | 5.7 |
| ÍPSA | 2.6 | 2.6 | 2.7 | 2.6 |

Note: Figures in percentage of total skin care sales in the Hong Kong market; P&G = Proctor & Gamble; n/a = not available.

Source: Skin Care in Hong Kong, China, Euromonitor International, May 2016, accessed August 1 2016, www.euromonitor.com/skin-care-in-hong-kong-china/report.

**EXHIBIT 6: BACKGROUND AND PERFORMANCE OF MAJOR BRANDS IN CHINA**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Brand | Company and Origin | Positioning | Growth Rate by Company (2012) | Market Share by Company (2012) | Digital IQ\* (2015) | Top 50 Baidu\*\* Search (2015) |
| Lancôme | L’Oréal (France) | Luxury | 12% | 19.7% | 159 (#1) | 46,118,566 (#1) |
| Shu Uemura | L’Oréal (France) | Premium | 97 (#30) | n/a |
| L’Oréal Paris | L’Oréal (France) | Mass | 158 (#2) | 34,721,638 (#4) |
| La Mer | Estee Lauder (United States) | Upper Luxury | 22% | 4.1% | 103 (#27) | n/a |
| Estée Lauder | Estee Lauder (United States) | Luxury | 150 (#3) | 39,364,771 (#2) |
| Clinique | Estee Lauder (United States) | Premium | 125 (#10) | 23,076,947 (#12) |
| SK-II | P&G (United States) | Luxury | 5% | 7.9% | 134 (#6) | n/a |
| Olay | P&G (United States) | Mass | 140 (#4) | 16,679,337 (#17) |
| Maybelline New York | P&G (United States) | Mass | 137 (#5) | 15,768,135 (#20) |
| Clé de Peau Beauté | Shiseido (Japan) | Upper Luxury | 12% | 9.7% | n/a | n/a |
| Aupres | Shiseido (Japan) | Luxury | 118 (#14) | n/a |
| Shiseido | Shiseido (Japan) | Premium | 105 (#25) | 17,362,236 (#15) |
| Sulwhasoo | AmorePacific (Korea) | Upper Luxury | 31% | 2.3% | 67 (#74) | 25,713,865 (#11) |
| LANEIGE | AmorePacific (Korea) | Premium | 129 (#9) | 28,306,390 (#10) |
| ETUDE HOUSE | AmorePacific (Korea) | Mass | 92 (#38) | n/a |
| Mamonde | AmorePacific (Korea) | Mass | 99 (#29) | n/a |
| Innisfree | AmorePacific (Korea) | Masstige | 131 (#7) | 31,417,565 (#6) |
| Herborist | Shanghai Jahwa (China) | Premium | 17% | 2.2% | 118 (#14) | 3,240,599 (#19) |

Note: \*Digital IQ was a benchmark for a brand’s digital performance relative to peers, measuring more than 1,250 data points across the four dimensions of digital; \*\*Baidu was China’s number one search engine, providing indexes for the ranking of brand searches to help understand user behaviour in the Chinese market and indicate which brands in China were in high demand; the reported index and rankings were extracted from the statistics for Quarter 1, 2016. Herborist was not ranked in the top 20 in Baidu’s 2015 index.

Source: Kim Seung-hwan, “Korean Cosmetics Become Global Standard,” The Korea Times, January 12, 2014, accessed May 17, 2016, [www.koreatimes.co.kr/www/news/biz/2015/12/330\_149605.html](http://www.koreatimes.co.kr/www/news/biz/2015/12/330_149605.html); “Beauty China 2015,” L2 Digital IQ Index, December 15, 2015, accessed February 20, 2018, <https://www.l2inc.com/research/beauty-china-2015>; “Cosmetic Industry Brand List (2015),” Baidu, accessed February 20, 2018, http://index.baidu.com/Helper/?tpl=brand&word=&show=1.

**EXHIBIT 7: MARKETING TOOLS IN THE CONSUMER DECISION JOURNEY**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Basic Infrastructure | Traditional Marketing | Digital Marketing | | | | |
|  |  | Social | Mobile | Analytics | Relationship | Technology |
| Awareness | * Store Design | * Print Advertisements (Ads) * Radio/Television Commercials * Product Placement * Events and Sponsorship * Outdoor Billboards | * Keyword Search * Banner Ads * Pop-up Ads (Facebook) | * Mobile Search * Mobile Ad | * Keyword Optimization | * E-newsletters | * QR Code |
| Comprehension | * Official Website | * Print Ads * Press Releases * Product Reviews * Brochures | * Online Videos (YouTube) * SNS pages (Facebook) * Blogs and Forums |  |  | * Instant Messaging |  |
| Liking | * Store Location | * Print Ads * Radio/Television Commercials * Celebrity Endorsement | * Content Marketing * Buzz Marketing |  | * Content Analysis |  | * Interactive User Interface |
| Action | * Payment Methods * Ecommerce Platforms | * Point-of-Purchase Displays * Free Sampling * Personal Selling * Pop-up Stores * Print Coupons | * Online Promotion Campaigns | * M-commerce * Mobile App Promotion * SMS Coupon | * Customized Promotion | * Customized Greetings | * GPS Locating Service/   iBeacon   * WiFi Sensors (RFID) * Internet-of-Things |
| Habit | * Customer Hotline * Membership Program | * Mail-in Rebates * Direct Mailings * Member Gatherings | * Virtual/Online Community * Comment Marketing | * Platforms for Virtual/Online Community * SMS Campaigns |  | * Email Campaigns |  |

Note: SNS = social networking site; QR = Quick Response; GPS = global positioning system; RFID = radio-frequency identification.

Source: Created by the case authors.

**EXHIBIT 8: OVERVIEW OF AMOREPACIFIC’S USE OF DIGITAL MEDIA IN CHINA, BY BRAND**

exhibit 8 (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Technology and Content | On-Site Ecommerce | Tmall | Baidu Search | Digital Marketing Advertising | Brand Buzz | Sina Weibo | WeChat | Video | Mobile Site | Mobile Search | Mobile Advertising |
| Average | 3.3 | 3.0 | 2.2 | 1.9 | 2.9 | 2.9 | 3.0 | 2.8 | 2.2 | 2.9 | 1.8 | 2.0 |
| LANEIGE | 4.0 | 4.8 | 3.7 | 4.2 | 3.5 | 3.6 | 4.7 | 3.5 | 5.4 | 3.6 | 2.5 | 3.4 |
| Sulwhasoo | 3.2 | 0.0 | 0.0 | 1.4 | 2.3 | 4.6 | 4.9 | 2.5 | 1.0 | 0.8 | 1.6 | 2.7 |
| ETUDE HOUSE | 4.8 | 4.5 | 1.7 | 1.0 | 2.1 | 4.5 | 4.1 | 3.2 | 2.6 | 3.4 | 1.6 | 1.9 |
| Innisfree | 4.0 | 4.5 | 3.5 | 1.4 | 4.0 | 5.4 | 4.4 | 4.0 | 5.5 | 6.0 | 2.0 | 4.1 |
| Mamonde | 3.6 | 4.8 | 2.9 | 1.2 | 2.7 | 3.4 | 4.1 | 3.1 | 4.5 | 3.0 | 2.1 | 2.5 |

Note: This chart presents a breakdown of the analysis of L2’s Digital IQ score by dimension, which constitutes more than 1,250 data points across the four dimensions of digital performance (site and ecommerce, digital marketing, mobile, and social media); the “Average” reported is an average score reported by L2 of the leading cosmetics and skin care product lines sold in China. The digital IQ score was developed by L2 as a brand-specific benchmark for a company’s digital performance relative to its peers (see “L2 Membership Product: L2Digital IQ Index,” accessed December 15, 2015, https://www.l2inc.com/about/digital-iq).

Source: *Beauty China 2015,* L2 Digital IQ Index, December 15, 2015, accessed February 20, 2018, https://www.l2inc.com/research/beauty-china-2015.

**EXHIBIT 9: IMPORTANCE OF BRANDS AND MEDIA IN APHK’S BUDGET ALLOCATION**

|  |  |  |
| --- | --- | --- |
|  | Traditional | Digital |
| LANEIGE | 79% | 21% |
| Sulwhasoo | 68% | 32% |
| ETUDE HOUSE | 23% | 77% |
| AMOREPACIFIC | 88% | 12% |

Source: Company records.

1. This estimate was based on the total sales of beauty products for China and Japan in 2012 (see Exhibit 1) and projected using World Bank statistics as a function of the rate of the annual gross domestic product growth in China (5.1 per cent versus 6.9 per cent versus 7.4 per cent in 2012, 2013, and 2014, respectively) and Japan (1.8 per cent versus 1.6 per cent versus −0.1 per cent, respectively). [↑](#footnote-ref-1)
2. The terms “mainland China” and “mainland” refer to the People’s Republic of China, excluding Taiwan, and the special administrative regions of Hong Kong and Macau. [↑](#footnote-ref-2)
3. “Report on Monthly Survey of Retail Sales,” Census and Statistics Department of Hong Kong, January 2018, accessed April 6, 2018, www.censtatd.gov.hk/hkstat/sub/sp320.jsp?productCode=B1080003. [↑](#footnote-ref-3)
4. Thomas Chan and Denise Tsang, “Korean Cosmetics Firm Missha Suddenly Closes Hong Kong Outlets,” South China Morning Post, January 3, 2015, accessed October 5, 2017, www.scmp.com/news/hong-kong/article/1673101/korean-cosmetics-firm-missha-suddenly-closes-hong-kong-outlets; After a six-month absence, Missha re-entered Hong Kong in June 2015, partnering with a new Swiss-owned company, DKSH (DiethelmKellerSiberHegner); “Missha Hong Kong Makes Return,” Inside Retail Hong Kong, July 15, 2015, accessed October 5, 2017, https://insideretail.hk/2015/07/15/missha-hong-kong-makes-return. [↑](#footnote-ref-4)
5. Grace Chung, “How South Korea's AmorePacific Became One of the World’s Most Innovative Companies,” Forbes, August 19, 2015, accessed May 3, 2016, www.forbes.com/sites/gracechung/2015/08/19/how-south-koreas-amorepacific-became-one-of-the-worlds-most-innovative-companies/#75d0d92689cf. [↑](#footnote-ref-5)
6. Dana Wood, “K-Beauty: The Exhausting Skin-Care Regimen That May Be Worth the Effort,” Wall Street Journal, April 6, 2016, accessed February 15, 2018, https://www.wsj.com/articles/k-beauty-the-exhausting-skin-care-regimen-that-may-be-worth-the-effort-1459970031. [↑](#footnote-ref-6)
7. The Beauty Team, “What Is K-Beauty? Everything You Need to Know about Korean Skincare,” Elle UK, November 28, 2017, accessed February 15, 2018, www.elleuk.com/beauty/k-beauty-what-is-it-korean-beauty-10-step-beauty-cleansing-skincare. [↑](#footnote-ref-7)
8. Although Innisfree (a mid-class AP brand) was available in Hong Kong, it was distributed through a subsidiary of AP separate from APHK. Mamonde, a mass AP brand, was distributed in China but not in Hong Kong (see Exhibit 3). [↑](#footnote-ref-8)
9. David Court, Dave Elzinga, Susan Mulder, and Ole Jørgen Vetvik, “The Consumer Decision Journey,” *McKinsey Quarterly*, June 2009, accessed May 9, 2016, www.mckinsey.com/business-functions/marketing-and-sales/our-insights/the-consumer-decision-journey. [↑](#footnote-ref-9)
10. David Edelman and Brian Salsberg, “Beyond Paid Media: Marketing’s New Vocabulary,” McKinsey Quarterly, November 2010, accessed February 22, 2017, [www.mckinsey.com/business-functions/marketing-and-sales/our-insights/beyond-paid-media-marketings-new-vocabulary](http://www.mckinsey.com/business-functions/marketing-and-sales/our-insights/beyond-paid-media-marketings-new-vocabulary); Mitchell J. Lovett and Richard Staelin, “The Role of Paid, Earned, and Owned Media in Building Entertainment Brands: Reminding, Informing, and Enhancing Enjoyment,” Marketing Science 35, no. 1 (2016): 142–157; see also Nick Burcher, Paid, Owned, Earned: Maximizing Marketing Returns in a Socially Connected World (London, UK: Kogan Page Publishers, 2012). [↑](#footnote-ref-10)
11. Jeffrey Hui and Howard Pong Yuen Lam, “Chapter 3: Five Steps to Understand Consumer Buying Behaviours,” Brand Hyperlinks – Successful Learning From Ten Top Marketers, (Hong Kong: ET Press, 2016): 64–77; see also David C. Edelman, “Branding in the Digital Age: You’re Spending Your Money in All the Wrong Places,” Harvard Business Review 88, no. 12 (2012): 62–69. Available from Ivey Publishing, product no. R1012C. [↑](#footnote-ref-11)
12. Josh Steimle, “What Is Content Marketing?,” Forbes, September 19, 2014, accessed May 9, 2016, www.forbes.com/sites/joshsteimle/2014/09/19/what-is-content-marketing/#71a83a5a1d70.; “What’s the Buzz about Buzz Marketing?,” Knowledge@Wharton, January 12, 2005, accessed May 9, 2006, http://knowledge.wharton.upenn.edu/article/whats-the-buzz-about-buzz-marketing. [↑](#footnote-ref-12)
13. SAS, a software suite, defined big data as “a term that describes the large volume of data—both structured and unstructured—that inundates a business on a day-to-day basis. But it’s not the amount of data that’s important. It’s what organizations do with the data that matters. Big data can be analyzed for insights that lead to better decisions and strategic business moves.”; “Big Data: What It Is and Why It Matters,” SAS, accessed January 18, 2018, https://www.sas.com/en\_ca/insights/big-data/what-is-big-data.html. [↑](#footnote-ref-13)