

## ***KOREAN BOX: POPULARIZING KOREAN COSMETICS IN CHILE***

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In February 2018, Jorge Morales reviewed his business strategy. He owned Makeup Box, a store that sold beauty products from global suppliers in Chile. Morales was planning to set up a new store called Korean Box. Unlike Makeup Box, Korean Box would only deal in high-end functional cosmetics sourced from suppliers in South Korea. Functional cosmetics were proven to be more effective than general cosmetics. Hence, they were more expensive.

Functional cosmetics from South Korea were in high demand in Europe and North America but were not as popular in Chile. Morales was excited about introducing trendy Korean cosmetics to the beauty conscious Chilean population. At the same time he was anxious that the people would not purchase unrecognized but expensive Korean brands.

What could Morales do to portray the effectiveness of Korean functional cosmetics and make his business successful?

## A New Business Idea

Morales had studied business in the USA. After graduation, he established Health Foods in 2014 - a store that sold healthy food products in Chile. Happy with the success of Health Foods and having gained expertise in managing retail operations, Morales established Makeup Box in Iquique in April 2017.

While on a vacation in Spain, Morales noticed that the Korean wave (*hallyu*) had accounted for the global popularity of South Korea's culture, entertainment and music in Europe and other parts of the world. Even he was fond of Korean movies, songs and dance moves like the *Gangnam* style. Morales observed that these movies portrayed the beauty of the contemporary lives of people in South Korea, which thereby increased the popularity of Korean cosmetics in Europe and America.

Korean functional cosmetics were not widely seen in Chile. Having knowledge of the cosmetic industry, Morales felt that it was an opportunity that he could explore further. He conducted a feasibility study to determine if he could sell Korean cosmetics in Chile.

## Korean Functional Cosmetics

Korean beauty rituals and traditions were influenced by practices of the past. Korean women gave skincare and grooming a lot of importance since the earliest recorded times. Self-care manuals, makeup tools and other artefacts were present even during the 13<sup>th</sup> century in the ancient times of the Joseon dynasty (Arthur 2016). Ingredients such as yuja, bamboo and snail gel were used to manufacture Korean cosmetics. These materials were integral to the culture of South Korea, hence not found in traditional American or European cosmetics.

During his research, Morales noticed that cosmetics in South Korea were divided into two categories: general cosmetics and functional cosmetics. Functional cosmetics aided in the brightening of the skin or removing wrinkles. The focus was on making the skin or body beautiful naturally. In contrast, a general cosmetic product like lipstick would make the skin look beautiful only as long as the product was applied.

As per the South Korean Cosmetics Act, for functional cosmetics, both manufacturers and importers were required to undergo an evaluation on the safety and efficacy of cosmetics. Manufacturers of general cosmetics were subject to lesser sanctions (Reach 24H Consulting Group).

Due to the high costs associated with research and other regulations, functional cosmetics were more expensive (Shin & Park 2018). But the claims regarding the anti-aging properties of functional cosmetics guaranteed results making it a highly valued item.

### Social Trends Related to Beauty in Latin America

While setting up Makeup Box, Morales knew that the average Chilean citizen spent about USD \$168 annually on health and beauty products. According to *El Mercurio* (a Chilean newspaper), this was about 30% higher than that spent by the average Latin American consumer. Additional research revealed that the annual spending on health and beauty products by each person in Chile was expected to continue to grow by 2020 (Euromonitor).

Brazil was the fourth biggest market for beauty products in the world, after the United States, China, and Japan (Euromonitor). Although Americans and Europeans spent more on beauty products, the Latin American nations of Brazil, Argentina and Chile stood out among emerging markets as spenders on beauty.

South American nations regularly featured in the leading list of popular plastic surgery procedures. People were known to equate beauty with wealth. It was a cultural norm that physical beauty would reap social and economic rewards in the form of jobs or partners that valued appearance (Shilling 2003).

Latinos were very conscious of their physical appearance – which provided a great opportunity for cosmetic companies (de Casanova 2018). Morales thought that a cosmetic product with anti-aging properties had the ability to thrive in the Chilean market. He was excited and he started conducting research on how the cosmetics would be imported from South Korea.

### Selling Korean Beauty Products in Chile

In addition to obtaining approvals from the Korean government to import cosmetics, Morales also had to register the cosmetic products with the government of Chile. It cost USD \$1,000 to register a single product and required extensive paperwork. It was both a cumbersome and an expensive process. Morales was aware that many beauty stores in Chile were selling products illegally, without registering. By doing so, the distributors made high profits. Nonetheless, he felt that it was necessary to register the products he imported in order to minimize business risk. He would also be able to market the Korean cosmetics openly, reaching more people and encouraging them to make purchases. If the right marketing strategies were deployed, then Morales could generate more profits in the long run. This would be appropriate for the growth of his company.

Morales traveled to South Korea to attend trade shows and develop contracts. He noticed that most of the Korean suppliers had an agreement with a distributor, whereby the distributor would agree to a given sales target. If the sales target was not achieved, the distributor could lose sole distributorship rights or business with the supplier. On the other hand, some suppliers

preferred to work with several distributors. This helped the suppliers in selling products via more channels.

### The Chilean Economy

President-elect Sebastian Piñera took office in March 2018. It was perceived as unlikely that the President's policies would negatively affect the economy of Chile. Most expected a business-friendly environment for foreign imports and the continuation of a longstanding trade agreement between Chile and South Korea.

Chile and South Korea had a free trade agreement since 2004 and an additional supplementary trade agreement was signed in 2014. Tariffs on product imports were low. Morales was hopeful that the Chilean government would not impose additional tariffs on foreign imports to boost domestic businesses.

At the end of 2017, the unemployment rate in Chile stood at 6.8% and Consumer Confidence has reached its highest level since 2014 (Trading Economics 2018). Furthermore, Chileans saw their disposable income increase in 2016. The Consumer Purchasing Index had been increasing steadily since 2014. Since the increases in disposable income would be able to keep pace with the rising prices of commodities, Morales inferred that spending on cosmetics would only increase further.

### Perception of Korean Cosmetics

Morales continued his research. He observed that when products manufactured in developed countries were compared with similar products from emerging economies, consumers rated products manufactured in economically developed countries to be of higher quality. This demonstrated that the country of origin directly influenced a consumer's perception of product quality and purchase intention (Adina, Gabriela & Roxana-Denisa 2014). Following the Korean War in 1953, South Korea remained one of the poorest nations in the world. But, as of 2016, it had met the developed country criteria (Santacreu & Zhu 2018). The export-oriented policies of the country had contributed to its success.

Morales observed that South Korea had very recently become a developed country and the demand for K-beauty products was still growing in Chile. Hence, he was afraid that South Korean products would be perceived to be of inferior quality like those from other Asian countries. Morales wondered what product positioning strategies could be used to engage customers.

### Growth in the Popularity of K-beauty

As per Korean Customs, Korean cosmetics exports to China had reached USD \$151 million in January 2018. This number was up by USD \$81 million as compared to January 2017. This showed that despite the geopolitical tensions between China and South Korea, Korean cosmetics were a huge hit in China. The Chinese believed that Korean beauty products offered value for money.

KOTRA (Korea Trade-Investment Promotion Agency) reported that Korean cosmetic sales in South America rose to USD\$8.35 million in 2016 from USD\$997,000 in 2008. Morales noticed

that despite the overall sluggish demand in South America, an opportunity existed to sell functional cosmetics that could reap benefits for his company. He wondered what factors made Korean cosmetics popular amongst other nations.

Morales referred to a study of repurchase intentions of Korean beauty products among Taiwanese consumers. He saw that when the Korean cosmetic product was perceived of as good value for money it became popular. Consumers tended to share their opinions amongst their friends and this was more effective than commercial advertising (Moslehpour, Wong, Pham & Aulia 2017).

Morales reviewed another study that examined the brand loyalty of Korean cosmetics among Thai consumers (Taghipour & Loh 2017). As per this study, product packaging influenced buying intentions. While brand equity and customer satisfaction increased customer loyalty.

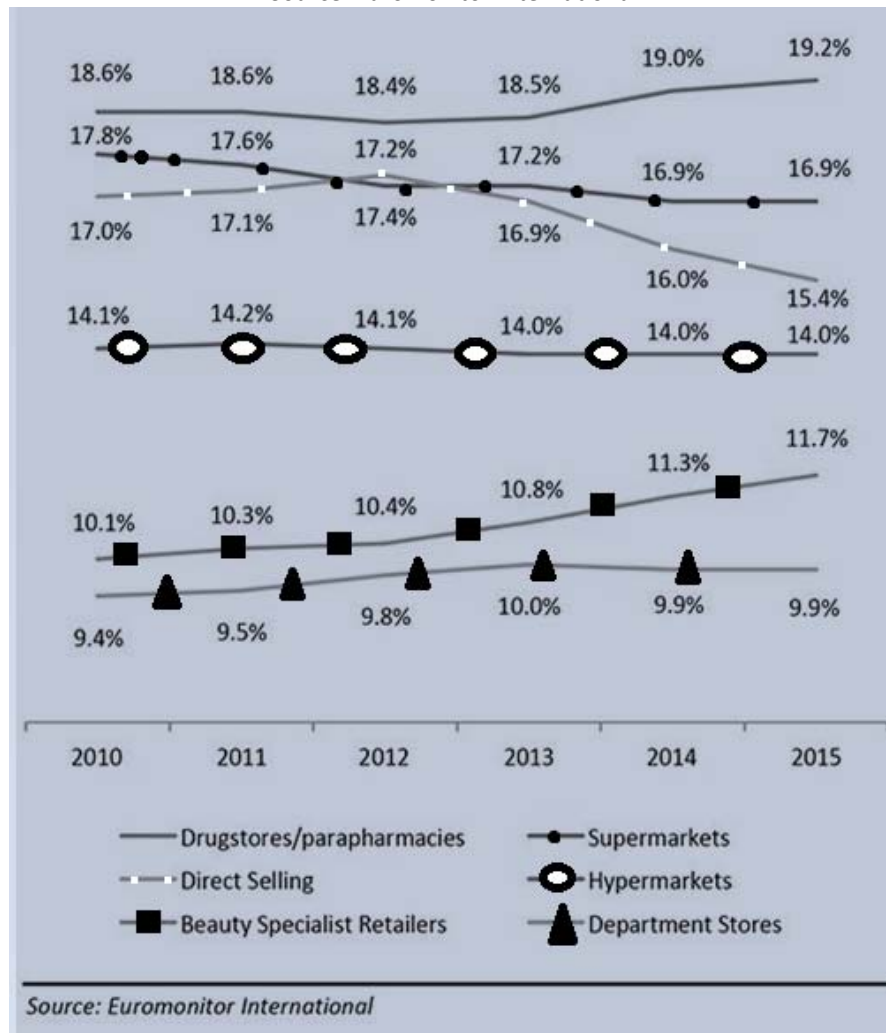
In Europe, Morales had observed that the retailers would demonstrate ways to use the functional cosmetics. A 10-step beauty routine was used to portray the effectiveness of different products. The retailers encouraged the customers to follow the beauty routine to make recurring purchases. But this approach was time consuming and expensive. Morales would not be able to build a customer base instantly by deploying this tactic.

### **The Cosmetic Industry in Chile**

A majority of Chileans made their beauty purchases at drugstores and pharmacies (Euromonitor). However, the trend was slowly changing and Morales noticed that specialized cosmetic stores were gaining popularity. In Chile, the cosmetics industry that was in the late stages of growth and competition was imminent. The distribution of products is shown in Exhibit 1.

**Exhibit 1. Distribution of Beauty and Personal Care Products as a Percentage of Market Share, 2010 – 2015**

Source: Euromonitor International



Morales observed that there were other stores that sold functional Korean cosmetics in Chile, like Republic of Beauty, Arumi Korean Cosmetics, Skin79 and Facerie. These businesses had many physical stores and ecommerce websites. Some of them had also formed alliances with spas and beauty clinics. The products sold by each of these companies were either substitutes or were in direct competition with Korean Box. See Exhibit 2 to view a summary about competition. Morales know that he had to develop a plan to reach potential customers. Ecommerce in the Chilean cosmetic industry was still developing. The younger generations (below 35 years of age) were more open to online shopping.



**Exhibit 2: Industry Competitors Table**

Source: Data compiled by authors

Competitor Name	Republic of Beauty	Arumi Korean	Facerie	Skin79	Korean Box	Pharmacies
<b>What They Offer</b>	<ul style="list-style-type: none"> <li>- Wide variety of cosmetic products</li> <li>- Includes makeup and skin care items</li> <li>- Also sells Korean cosmetics.</li> </ul>	<ul style="list-style-type: none"> <li>- Korean cosmetics and skin care.</li> </ul>	<ul style="list-style-type: none"> <li>- Korean cosmetics and skin care products</li> </ul>	<ul style="list-style-type: none"> <li>- Korean skincare products</li> </ul>	<ul style="list-style-type: none"> <li>- Korean cosmetics, skin care products and make-up</li> </ul>	<ul style="list-style-type: none"> <li>- Inferior quality skincare and makeup products</li> </ul>
<b>Target Market</b>	<ul style="list-style-type: none"> <li>- Young adult men and women.</li> <li>- Middle to higher income.</li> <li>- Mainly targets Chileans.</li> </ul>	<ul style="list-style-type: none"> <li>- Adult women</li> <li>- High income</li> </ul>	<ul style="list-style-type: none"> <li>- Adult women</li> <li>- High income</li> </ul>	<ul style="list-style-type: none"> <li>- Mostly sells directly to clinics</li> <li>- Higher income individuals that might buy from them online</li> </ul>	<ul style="list-style-type: none"> <li>- All women and men</li> <li>- Middle to higher income</li> </ul>	<ul style="list-style-type: none"> <li>- Adult men and women</li> <li>- Middle income</li> </ul>
<b>Competitive Advantage</b>	<ul style="list-style-type: none"> <li>- Developed e-commerce site</li> <li>- Largest share of the market with 25 stores in Chile.</li> </ul>	<ul style="list-style-type: none"> <li>- A Korean company with established presence in the Korean market.</li> <li>- Majority sales from ecommerce website.</li> </ul>	<ul style="list-style-type: none"> <li>- Only an e-commerce site.</li> <li>- Benefits from less overhead than those with brick and mortar stores.</li> </ul>	<ul style="list-style-type: none"> <li>- Has direct and exclusive relationships with the clinics</li> <li>- Ecommerce site.</li> </ul>	<ul style="list-style-type: none"> <li>- Has e-commerce as well as a store.</li> <li>- Has exclusivity with few brands</li> </ul>	<ul style="list-style-type: none"> <li>- Customers prefer to make purchases at drug stores and pharmacies.</li> </ul>
<b>Average Price Comparison of a Facial Cleanser</b>	USD\$ 20	USD\$ 20	USD\$ 20	USD\$ 40 - 100	USD\$ 20	USD\$ 5

### Strategy for Korean Box

Morales wondered what he could do to make Korean Box successful. How could he portray the effectiveness functional cosmetics and engage new customers? What could Morales do to remain competitive in business?

Several possibilities crossed his mind. The product was a success in other countries. But Morales knew he had to draft a thoughtful strategy to make Korean Box successful with the specifics of the Chilean market. Both financial and human resources were involved. What could Morales do to build an effective marketing strategy?

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