

Becoming a Global Player by Creating a New Market Category: The Case of AMOREPACIFIC

HYUNJEE HANNAH KIM, Seoul National University

JEEHYE JENNIFER RHO and SEONJOO LEE, AMOREPACIFIC

JAERYONG SONG, Seoul National University

Innovation has long been viewed as a source of sustainable competitive advantage for a firm.¹ However, innovation has become a core challenge for many organizations because they face ever-increasing levels of competition and rapid changes in technology.² In most technological sectors, firms in developed countries such as the United States of America (USA), Japan, and some countries in Europe have accumulated technological capabilities for many years and are now recognized as global technology leaders. Firms in emerging economies are behind these incumbent leaders. However, recently a few leading firms in emerging economies have rapidly developed their own technological capabilities and transformed themselves into innovators so that they could catch up with incumbent leaders in developed countries and globalize successfully.³

AMOREPACIFIC, which has been the number 1 beauty company in the Republic of Korea (Korea) for more than 70 years, provides an excellent case study of an organization that has globalized through innovation (see Chapter 7 about another organization—MasterCard—involved in radical innovation). Because AMOREPACIFIC's market originated in Korea, which comprises only 3% of the global beauty market, this remarkable growth could not have been achieved without the successful implementation of a series

of innovations. AMOREPACIFIC, recently making the quantum leap from a regional to a global player in the cosmetics industry, built its business and brand both in domestic and in overseas markets by continuously creating new product categories. The most important of these, and the one that has propelled AMOREPACIFIC into the global arena, is the cushion compact.

The cushion compact is a new type of face makeup product that integrates coverage, UV (ultraviolet) sun protection, cooling and sweat-proof properties, and moisturizing benefits in a special sponge that is soaked with liquid foundation and stored in a double-sided airtight container. This product is more than a simple upgrade of previously existing face makeup products: it is an example of a breakthrough innovation that created a whole new category. By meeting customers' unmet need for convenient, quickly applied, and flawless face makeup, AMOREPACIFIC created a new market category in face makeup that, in turn, allowed it to gain a prominent position as an innovator in the global cosmetics market. Its success has led other global industry leaders to launch their own cushion compact products at a later point in time, following AMOREPACIFIC's lead.

In most studies, innovation is considered to be a generic concept rather than a process consisting of two

distinct stages: the creativity stage, which generates new ideas; and the implementation stage, which successfully implements those creative ideas.⁴ This chapter will consider the example of AMOREPACIFIC's successful transformation into a global player by investigating the company's breakthrough innovation and analysing it in terms of these two stages. It will also examine the new challenges the company is facing as it grows its presence in the global cosmetics market.

Creating a new market category and new customer value proposition

Christensen's concept of 'disruptive innovation' considers that success starts not by thinking about new business models but rather by thinking about the opportunity to satisfy 'a real customer who needs a job done'.⁵ In order to be successful, a company must determine how to create value for customers—that is, how to solve a problem faced by a particular group of customers. Once a company understands the scope of the 'job' (the problem faced by the customer) and the process for solving it, it can then design a new product to meet those needs. In general, the larger the problem and the lower the level of customer satisfaction with current options for solving it, the better the company's new solution will appear compared to existing products. Without creating

a new customer value proposition, sustainable innovation could not be achieved.

AMOREPACIFIC was able to create a new customer value proposition by understanding the lifestyles of their customers and discovering their unmet needs instead of focusing solely on customers' patterns of using existing cosmetic products. The company is known for its vertically integrated channels and its variety of sub-brands. Together these allow the company to cover all points of contact with customers in the domestic market. These include places where customers and AMOREPACIFIC interact, from department stores to home shopping and e-commerce; they also include different customer segments, from luxury to mass market buyers. AMOREPACIFIC has built and operates a Customer Strategy Team that collects and analyses quantitative data and a Beauty Research Team that studies qualitative data through these multiple avenues.

The findings of these teams included data on the number of beauty products regularly used by most Korean women and the time they spent in applying those products. The teams also found that the majority of women customers have become aware of the need for convenient and frequent applications of face makeup products with UV protection.

Based on the data it collected, AMOREPACIFIC was able to engineer a new product that addressed the unmet needs of its customers and changed the way they regard beauty products. The cushion compact itself is a face makeup product that serves several functions, sold in a unique container that makes carrying and applying makeup easy. The cushion compact not only dramatically reduced the time needed

to apply cosmetics (shortened, on average, from 13 minutes to 7) and the number of base makeup products needed (on average, from 2.2 products down to 1.7), but it also addressed customers' desire for convenience while providing sufficient coverage. Moreover, the greater convenience encouraged those who did not typically use face makeup to try it, resulting in an expansion of AMOREPACIFIC's customer base. By solving an important problem for busy working women in modern society, the cushion innovation created a new market category, both replacing and expanding an existing face makeup category in the beauty products market.

Supporting systems for idea generation and implementation

Based on earlier work by Christensen and his colleagues, Johnson et al. argue that once a customer value proposition is clearly identified, it is important to align it with key resources and processes to generate a successful business model.⁶ Innovation in organizations may progress through stages,⁷ and scholars have shown how different organizational systems are required for two stages of the innovative process: idea generation and implementation.⁸ AMOREPACIFIC was able to maintain success by supporting the innovation of their new products by implementing appropriate organizational cultures and processes at the proper times during the innovative process.

Psychological safety in the idea generation phase

Recent literature reviews on innovation support the concept that team climate has significant influence on the generation of creative ideas.⁹ This is because innovative ideas are

generated when individual thinkers within the organization exchange risky and novel ideas.¹⁰ A supportive team climate is critical for individuals to feel comfortable sharing and developing their ideas. Edmondson (1999) defines this team climate as one of 'psychological safety': a shared belief that a person is safe to take (interpersonal) risks. Furthermore, psychological safety is closely related to innovation in various work environments: it leads to the belief that mistakes and errors are tolerated and accepted, which in turn enhances an individual's cognitive capacity and perceived instrumentality. Tolerance and the acceptance of mistakes reduce cognitive load and enhance relative cognitive capacity.¹¹ When psychological safety is elevated, uncertainty and anxiety about performance are assuaged and thinking can shift to enable the search for innovative ideas. In addition, tolerance and the acceptance of mistakes encourage perceived instrumentality, which Malka and Covington (2005) define as an individual's recognition that his or her current behaviour is instrumental to achieving a valued future goal. In short, individuals are more likely to be motivated to engage in generating and implementing innovative ideas when perceived instrumentality is high and they are in a psychologically safe environment.

In the case of AMOREPACIFIC, after the company determined the unmet need for convenient, flawless face makeup that includes UV protection, it still had to find the right solution. The idea of the cushion compact was first developed by a research and development (R&D) staff member. Motivated by noticing how the ink in stamp pads does not flow, thus allowing it to be evenly stamped, he suggested that the company develop a technology

to control liquidity as ink stamp pads do. Without a psychologically safe company culture, this somewhat wild idea from a lower-level R&D researcher would not even have been put forward. However, the organization encouraged him and his team to develop this idea, so they tested different types of sponges made from a wide range of materials. After over 1,000 hours of brainstorming sessions and more than 3,600 tests, he and his team were able to develop AMOREPACIFIC's current cushion product, which features a new type of cell-trap technology. The cushion has an airtight container that utilizes specialized expandable urethane foam and provides newly developed UV protection, low viscosity, and many traditional benefits of face makeup.

Less hierarchy and more cross-function

Having articulated a value proposition for the customer and generated a business model, companies must next consider the key processes needed to deliver that value.¹² Developing a new product with a new technology requires sharing detailed processes between various departments within the company. Hulsheger et al. (2009) emphasize that meta-analysis of the factors impacting innovation and process-relevant variables, such as task orientation and communication, are more important in generating innovative performance than key resources such as team composition.

The case of AMOREPACIFIC is unusual because it defies its cultural norms. Traditionally, large Korean companies tend to rely on hierarchical, isolated working processes in which everybody has a place and these processes need no justification to manage organizations efficiently. Most organizations in Korea are structured with a hierarchy of six

to ten levels. AMOREPACIFIC, however, successfully supported the innovation process by creating a working process structured for a flatter hierarchy and increased cross-functionality. It structured its corporate culture with only four hierarchical levels: executives, leaders (team or project leaders), professionals, and associates. Additionally, all employees refer to one another by name only, as opposed to the name-and-status designation used in most other Korean companies.

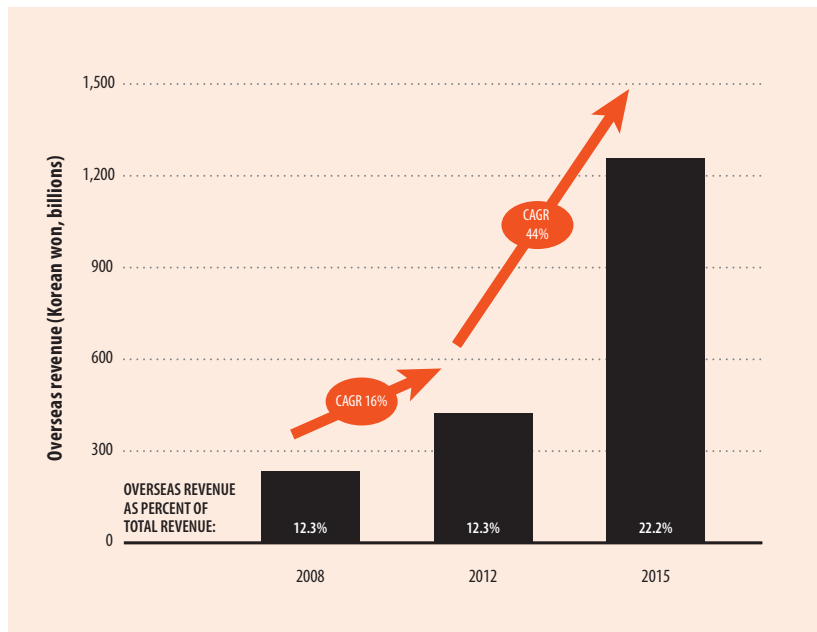
This less hierarchical structure has enabled the organization to be more fluid and flexible to foster cross-functional collaboration. Product ideas are often shared freely between members in different departments—such as marketing, R&D, and supply chain management (SCM), which covers materials procurement and package development. When the cushion idea was first developed by R&D department staff members, a collaboration network was established consisting of members of the R&D, marketing, design, and SCM departments. All aspects of cushion product development—including testing more than 200 types of sponges and conducting more than 3,600 tests with employees and customers—were made possible through this collaborative network. Collaboration among departments made it possible for AMOREPACIFIC to understand customers' needs and receive customer feedback, as well as to implement those findings into high-level technological development.

Culture of endurance

Christensen and his colleagues show how difficult it is for large companies, which have secured sustainable or strong profitability with their current business, to adopt disruptive innovation strategies because

disruptive innovation may dilute current profitability and usually results in lower profit margins.¹³ Discovering new customers, manufacturing products with new and different technology, and creating new channels to better access new types or segments of customers all contribute to low profit margins before a critical mass is achieved. Hence corporate support in the beginning of the process is essential to endure these low margins.

Interestingly, AMOREPACIFIC first developed the cushion compact in 2008 but it did not become a success in the Korean beauty market until 2011. Because it was very different from other existing face makeup products, customers needed to be educated about its benefits; furthermore, the cost of its materials was much higher than the cost involved in producing conventional products. Continuing to invest resources and effort in this product for three years, before it caught on, involved a high level of risk. However, even in the first three years after its launch, AMOREPACIFIC did not pressure the cushion team but instead encouraged them to try different channels to promote the new concept to the right customers. Because the cushion was an innovative product with a brand new concept, AMOREPACIFIC focused on explaining the concept and demonstrating its use. To increase product trials, the company explored various existing sales channels to interact with customers. It finally found success in television home-shopping channels. This medium turned out to be more effective than television advertisements, which are far-reaching but very brief (only 15 seconds). Despite the cushion's lack of profit during its initial three years, AMOREPACIFIC's culture of endurance allowed the new product

Figure 1: Revenue growth from the overseas market

Source: AMOREPACIFIC internal data.

to be nurtured through different trials until it achieved success.

Opportunities and challenges of globalization

Because disruption can take time, incumbents frequently overlook disrupters. Hence it is important to expand beyond the usual customer base before the product can become commoditized by the established global players.¹⁴ AMOREPACIFIC is in the process of bringing the cushion compact to global markets, and is successfully expanding its presence in other Asian countries and North America. Its sales from the overseas market increased sharply at a 44% compound annual growth rate (CAGR) between 2012 and 2015, compared to 16% CAGR from 2008 to 2012 (Figure 1). The Bloomberg Billionaires Index has named the company the biggest

market value mover over the past 12 months (Figure 2).

‘K-Beauty’—an umbrella term for all Korean cosmetics—has been attracting fans in global markets;¹⁵ with global interest in K-Beauty, AMOREPACIFIC is in the forefront of the K-Beauty trend. By introducing the cushion category to the global market, AMOREPACIFIC has been able to establish its position as a global innovator and raise interest in K-Beauty.¹⁶

Communicating to global customers

A product may be successful in a domestic setting but it is not necessarily easy to present it in an international one. In AMOREPACIFIC’s case, seeing the success of its cushion compact in the Korean domestic market, the company’s top management believed that the innovative product would not only be able to capture global customers’ unmet

need of fast, convenient, and flawless face makeup but would also be able to fortify the company’s brand as innovator. However, communicating the concept and benefit of this new product to global customers was not an easy task, especially given the still-small business scale of the company in the overseas market. Unlike in Korea, where the company enjoys top-level brand awareness and customer loyalty, the company’s brands were not widely known to the broad base of customers in foreign markets. AMOREPACIFIC’s marketers faced the challenge of converting customers from using the conventional makeup products of well-known brands to the new and as-yet unknown cushion product from a less well known, Korean brand. Furthermore, it had a limited budget compared to the budgets of established global players.

To attract global consumers quickly and efficiently, AMOREPACIFIC is aggressively leveraging digital marketing channels rather than traditional marketing ones. For instance, through YouTube, Instagram, Facebook, Weibo, and WeChat, it has been focusing on expanding communication with customers not only by promoting its products but also by explaining how to use the new cushion compact and sharing educational tutorials. Internally, AMOREPACIFIC has set up an in-house platform called the Digital Factory to support these digital marketing efforts by developing and distributing new digital contents in a timely manner.

Meeting local tastes

Beyond merely communicating with customers on a global scale about a new product, that product must be adapted to local tastes and circumstances in the new environment. For

AMOREPACIFIC, this means that it must customize cushion products with varying colours, moisture levels, textures, and different functions depending on the climate, culture, and practices of customers in each local market. For example, it is marketing the cushion compact with a greater emphasis on moisturizing and glow in the Chinese market to overcome the extremely cold, dry weather; at the same time, it is marketing a cushion compact with a more matte texture and dewy finish in the South Asian market. However, in order to expand its presence and compete successfully with other established global companies, it is important to accelerate localization. AMOREPACIFIC believes that building global R&D capacity to research local customers' needs and develop localized solutions is essential to sustain innovations in global markets and achieve localization. Besides its R&D in Korea, the company has built a local R&D centre in China and is strengthening R&D systems in other markets such as Southeast Asia and the USA.

Sustaining leadership among global players

Although AMOREPACIFIC has been able to begin successfully expanding to global markets, several challenges remain. Most importantly, the company needs to remain competitive going forward. Established, competing companies in the beauty market began full-scale production of cushion products at a later point in time around 2015; others launched or will launch their own cushion products in 2016. Many of the established Western brands are aggressively marketing cushion compacts in overseas markets where AMOREPACIFIC has a comparatively small or no presence. Although AMOREPACIFIC can accelerate its first-mover advantage

Figure 2: Market value return over 12 months of the 15 largest cosmetics companies



Source: Based on Lee et al., 2015; data from Bloomberg Markets.

by upgrading its technology and appealing to customers as the company that originally created this market category, it will be difficult to maintain this status in the future as cushion product innovation becomes more commoditized.

AMOREPACIFIC recognizes this challenge and is trying to continue innovating in cushion compacts to stay ahead of the competition while continuing its global expansion. It is not only the first company that created this product category, but, with its accumulated knowledge of the product and technology, it can also provide the best cushion compact to its customers. The company's various brands have been introducing differentiated cushion compacts; some provide skincare benefits such as brightening and anti-aging in addition to the face makeup function, while others have a new package design to improve

portability and ease of use. Through such innovation, AMOREPACIFIC is trying to sustain its leadership.

Moreover, AMOREPACIFIC plans to build on its experiences of innovation success with the cushion compact, applying the lessons it learned there to continue innovating so that it can bring another breakthrough innovation to the market.

Preserving creativity and flexibility

Globalization can have an impact on a company's structure and process. For AMOREPACIFIC, as it expands its business globally its organization and work processes are becoming bigger and more complex, leading to greater division of work, more specialization, and increased systematization. Such changes in organizational structure and work process make it difficult to maintain its particular advantage of flexibility, which originates in

its less hierarchical and more cross-functional working culture. In order to sustain its creativity and flexibility, AMOREPACIFIC is in the process of developing its global R&D organizations and systems that enable cross-functional collaboration. In addition, it is adopting various programmes to generate and incubate the next generations of breakthrough ideas.

Conclusions

AMOREPACIFIC is a highly successful Korean company that is in the process of making the quantum leap from a regional player to a global player in the cosmetics market. By creating the new market category of cushion compacts, AMOREPACIFIC has enabled global consumers to significantly reduce the time spent on applying base makeup and increase its ease, resulting in a significant, innovative change in face makeup culture. This achievement was possible because of AMOREPACIFIC's focus on understanding the unmet needs of their customers; its psychologically safe environment, which allows employees to voice and implement novel ideas; and a company culture that focuses less on hierarchy and more on cross-functional working.

AMOREPACIFIC's path to continuing its progress towards global player status depends on several factors: how it secures market leadership in the cushion compact market category in unexploited global markets; how it sustains its competitive advantage among other global players; and—possibly most importantly—how it maintains its flexibility around its growing, more structured organization. The company plans to continue bringing new innovations to the market by actively adopting digital media,

strengthening local R&D, and building an organizational culture and system that fosters creativity and flexibility.

Notes

- 1 Song et al., 2003; Song, 2014.
- 2 Greenhalgh et al., 2005.
- 3 Song, forthcoming; Kang and Song, forthcoming.
- 4 Anderson et al., 2014; George, 2007.
- 5 Johnson et al., 2008, discuss Christensen's concept of disruption in the context of innovation. See also Christensen, 1997; Christensen and Raynor, 2003; and Christensend et al., 2105.
- 6 Johnson et al., 2008.
- 7 Rogers, 2003.
- 8 Choi and Chang, 2009.
- 9 Anderson et al., 2014; Hülsheger et al., 2009; Oldham and Cummings, 1996; West and Sacramento, 2012; Woodman et al. 1993.
- 10 Sutton and Hargadon, 1996.
- 11 Caldwell and O'Reilly, 2003.
- 12 Christensen and Raynor, 2003.
- 13 Christensen et al., 2015.
- 14 Christensen et al., 2015.
- 15 Wood, 2016.
- 16 AMOREPACIFIC sold more than 6.5 million units of cushion compacts in overseas markets in 2015, which is nearly 20% of its total cushion sales. It has expanded its footprint in more than 10 countries, with 13 brands and 19 different cushion products. Cara Song, the consumer product analyst at Nomura Securities in Korea, expects that in 2016 AMOREPACIFIC would become the number 2 company by revenue in the cosmetics industry in China—a huge leap from its current China rank of number 5 (see Lee et al. 2015). Although the global market offers great potential for AMOREPACIFIC and its cushion compact, expanding into the global market poses several challenges for the company.

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