

Present Status and Prospects of the Korean Domestic Cosmetics Market

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I. Introduction

The domestic market for cosmetics was very dependent on the income level of consumers until the beginning of the 1980's. However, since the 1990's it has not been so much influenced by the economic situation. This reality is due to the fact that consumers have come to adopt a strong preference for beauty as the country has achieved economic progress and a better quality of life.

Therefore, cosmetics are now considered a necessity, not a luxury item. Because Korean women view cosmetics in this way, they have created a stable demand for cosmetics that has, in turn, brought about, within the market, a certain size and stability from which it will not retreat. On the other hand, total opening of the Korean market to foreign companies was resulted in a large increase in market share by global companies. Therefore, an increasing competition between and among the domestic and foreign cosmetics companies.

In order to increase the competitiveness of the domestic cosmetics industry, domestic companies need to develop international markets for their products as well as strategies for reaching individual consumers in those markets. Marketing strategies will be most effective when they are established on the basis of qualitative information about the present status. Therefore, there is a constant need for studies to analyse the present status of the market. The present study analysed (1) production ratio of cosmetics by types of products, (2) the factors that influence the growth of the cosmetics market, (3) market shares viewed by distribution channel, (4) globalization of the Korean cosmetics market.

The study was implemented through the analysis of documents and statistical information which was offered by the related companies and associations.

II. Results

(1) Looking at the consumers' demographic and social class, the percentage of the products for infant, youth, and men has increased while, at the same time, has decreased the percentage

of products for women in the whole cosmetics market. As of the year 2001, the production ratio for cosmetics, ranked by items, is as follows: basics (non-coloring agents such as lotions, astringents, etc.), 51.1%; make-up (coloring agents), 14.6%; hair products, 14.2%; high functional products (whitening, wrinkle prevention, etc.), 8.0%; and shaving products, 3.1% (refer to Table 1). When these statistics are compared to those of the few previous years, one can see a trend towards a decreasing production ratio for basics, make-up, and hair products, and an increasing ratio for the production of high functional cosmetics.

As of the year 2003, the production ratio of several countries ranked by items, is shown in Table 2. According to this table, the portion of the market for basics is much larger in the Korean domestic market than in the market of foreign advanced countries. Correspondingly, the advanced countries' markets have much larger market portions for body-care products, hair products, and perfumes compared to the domestic market. Therefore, the Korean cosmetics industry will exert a strong effort to increase the diversity of product lines in the domestic cosmetics market.

(2) High priced products were created to meet the increasing demands for high quality functional cosmetics by consumers from the high social class. In addition, the social trend toward wellbeing caused the demand for the high-priced natural material cosmetics such as herbs, aloe vera, and ingredients for aroma-therapy. These high priced products have led the growth of the domestic cosmetics market. Due to these high priced products, the growth rate of the market was respectably high, averaging 12.6%, during the past three (2000 - 2002). However, the growth rate went down to 6.5% in 2003. Moreover, industry analysts forecast that the market for middle and low priced items will increase more rapidly than the market for the high priced products because of the economic downturn and limited demand for high priced products.

(3) The market share of specialty stores have in fact decreased substantially in market share. This decline can be explained by noting the recent emergence of a new culture of consumption caused by the appearance of new distribution networks as well as a change in consumers attitude toward specialty stores. That is, because the specialty stores have fallen behind the discount stores in price competition and have fallen behind the department stores and door-to-door sales in the areas of brand power and quality. Discount stores, home shopping, and internet shopping malls have emerged and increased rapidly. However, they are faced with the problems of an ever-growing discount competition and a saturated number of malls resulting from the fact that the retail cosmetics business is easy to launch.

(4) The total opening of the Korean market to foreign companies has resulted in a large increase in market share by global companies. The domestic cosmetics industries' export is still at the early stages. About 5 years have passed since the domestic cosmetics brands started to export on a full scale. At first, most domestic cosmetics companies utilized the markets of China and South-East Asian countries to consume their stocks of merchandise that had been designed for the local market. Later, they started to develop products on the basis of regular plans for

export in order to find a way to overcome the domestic market situation. OEM (Original Equipment Manufacturing) and ODM (Original Development & Design Manufacturing) markets are increasing rapidly in accordance with the trend of separating sales from production. Foreign companies dealing with the cosmetics wholesale including Sephora (France), SaSa (Hong Kong), and Matsumoto Kiyoshi (Japan), are implementing their marketing activities through specialty stores.

III. Conclusion and Implications

It could be predicted that as far as market share is concerned, department stores will increase, discount stores will remain at the present size, and specialty stores will decrease. The education and management of the commissioned agents remains as a problem to be solved in the field of sales through commissioned agents. It can be predicted that the domestic market will grow more efficiently by the diversifying its product lines beyond basic products. The domestic market will also progress by utilizing the Chinese and South East Asian countries' market as a place for production and sales, and by establishing high-valued brand images, through taking advantage of the winds of *Hanryu* (a Korean word that refers to the present popularity of Korean styles in China and South-East Asian countries). In addition, the Korean cosmetics market has to expand to European countries where it can establish markets for export.

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