



Marketing environment for skin-care products in South Korea

Case: Rimita Green

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ABSTRACT

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This thesis was done as a case research for Finnish company Rimita Green, a producer of natural skincare products. The aim of the thesis was to research marketing environment in South Korea, especially for skincare products, as Rimita Green was interested in finding new markets they could potentially start exports to. The researched marketing environment dimensions included demographic environment, socio-cultural environment, political and legal environment, economic environment and competition in South Korea. South Korea is the world's 8th biggest cosmetics market and is known for the population's interest in skincare.

The data was gathered mainly through desk research by reviewing existing data from various official government records, different international organizations and databases. The data was analyzed with keeping in mind the case company's product line, resources and goals. A survey was also conducted for extra insight for case company, which received 39 responses.

The results showed that Korea has high market potential for case company Rimita Green with its 51 million people population and rising household income, and as skincare products are highly valued by women and men. Cosmetics market size is growing, but competition is high.

The findings of the thesis suggest that although there is a lot of potential in the market, some risks are also involved. Case company Rimita Green should consider their situation, assets and goals before entering the market.

marketing environment, demographic environment, cultural environment, political environment, economic environment, competition, south korea, skin care, market research

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ABBREVIATIONS AND TERMS

Korea	South Korea or The Republic of Korea
MFDS	Ministry of Food and Drug Safety
KPTA	The Korean Pharmaceutical Traders Association
KITA	Korea International Trade Association
KOTRA	Korea Trade-Investment Promotion Agency

1 INTRODUCTION

In today's competitive world, it is increasingly important for firms to become global in order to succeed. In many cases eyes turn to the market opportunities in Asia – often China, Japan and India. It is however also worthy to note the 4th largest economy in Asia, and the 12th largest in the whole world: South Korea.

South Korea (from now on referred to only as Korea in this thesis) is considered one of the Four Asian Tigers alongside Taiwan, Hong Kong and Singapore. They are all countries that industrialized rapidly after 1960s, mainly through manufacturing, efficient trading and cheap but capable and reliable workforce. Korea's GDP was valued 1619.42 billion US dollars in 2018 (International Monetary Fund, 2019). According to data from OECD, Korea's economic growth is slowing down to 2.6 between 2019-2020, most likely a result of trouble with domestic markets and international trade (OECD, 2019).

Korea has one of the biggest cosmetics markets in the world, and it keeps on growing. According to Korea Cosmetics Association (as cited in International Trade Administration, 2019), in 2017, the total market size was estimated to be approximately \$8.8 billion, and the market grows annually at a rate of 4.7%. Cosmetics imports is also increasing, and skincare items is the largest category on imported skincare products.

K-beauty and Korean culture has peaked interest from other Asian countries to worldwide as a phenomenon called 'hallyu', the Korean wave. Skincare is a big part of Korean beauty routine, and both women and men alike are known to spend a lot more on skin care products than for example people in the United States. People aim for a beautiful glassy-looking skin, and go for rather extreme measures to attain it, one of which is the 10-step skin care routine which, like the title suggests, includes 10 steps and 10 products: oil cleanser, foam cleanser, toner, essence, emulsion, serum, sheet mask, eye cream, moisturizer and sunscreen.

While Korea has a big demand for skincare products, there is also an abundance of brands available for the consumer to choose from. Thus, it can be difficult to stand out from the big crowd.

Finland and Korea have had good relations for a long time. Koreans have a rather positive image of Finland, mainly based on appreciation of excellent education system, innovations and Nordic lifestyle. Good relations have been furthered by the daily straight flight connection between Helsinki and Seoul Incheon started in 2008. (Finland Abroad, 2020)

1.1 Thesis objectives and research questions

The main objective for this thesis is to investigate the marketing environment in Korea, and specifically its skincare market.

The thesis will investigate the skincare market in Korea for a Finnish company Rimita Green, which is a producer of ecological skincare products. Rimita Green is interested in exporting to countries that have special interest in high quality skincare products and clean Nordic ingredients, because these two are key elements in their products. Therefore, Korea, with its big interest to high quality skincare, is a potential new export market for them.

As thesis is done as a market research for a case company, this thesis has few research questions. These questions are the following:

- *What is the marketing environment in South Korea like?*
- *What is the skincare market in South Korea like?*
- *Would South Korea have market potential for Rimita Green?*

1.2 Research process and methodology

Thesis starts with theoretical framework explaining the concept of marketing environment, and then afterwards describes what the marketing environment in Korea is like. Secondary data, referring to existing data and research, was mainly

used as basis for this research. The secondary data sources were mostly official government records, different international organizations and databases.

To provide extra value for case company Rimita Green, a survey was also conducted. The survey aims to find out information about consumer behavior in skin-care products usage within Korea, and was sent for Koreans to answer through various organizations, associations and personal contacts. Besides receiving responses to more general questions such as which type of products Koreans use, a big interest was to get answers on what they think about ecological and Nordic products, as well as how brand-conscious they are.

Other primary data was gained by personal interviews and email corresponds with the case company and few industry professionals.

The thesis topic was chosen due to author's personal interest in Asian markets and skincare industry. Case company Rimita Green was contacted, as they were working with author's internship company on a project related to starting their exports to Korea's neighbor, Japan.

1.2.1 Limitations

In the research, few limitations can be noted. These limitations were mostly the lack of data that was available due to language differences and finding other corresponding sources in English that were credible enough as research material.

The survey that was conducted cannot be generalized to the entire Korean population, due to the fact that it had too few responses. Thus, the survey results should be taken as a grain of salt, and it is meant as additional insight.

2 MARKETING ENVIRONMENT

International company operates in domestic and foreign international market. Like stated by Doole & Lowe (2001, p.9), domestic market and international market's key difference is the level of complexity and multi-dimensionality of many foreign countries compared to the home country. When a company ventures to a new foreign market, it is important to thoroughly research the marketing environment in that country. When new marketplaces are studied, one must remember that there are more factors to be investigated in the foreign market than in domestic market. Information about the new business environment is central element in succeeding in the creation of international business strategies.

Armstrong, Kotler and Opresnik (2017, p. 96) describe marketing environment as the following: "The actors and forces outside marketing that affect marketing management's ability to build and maintain successful relationships with target customers."

Brown, De Búrca and Fletcher (2004, p. 160) state that to be able to do business in new international markets, research should be conducted related to the market. These studies include:

- Whether to enter the international market;
- Whether to add, delete or modify products for international market;
- What are appropriate promotional activities in the international market;
- How to evaluate the relationship between price and demand and resultant of profitability in the international market; and
- How to determine distribution channels and overall logistics in getting the products to consumers in the international market.

Although for all of the above more specific research tasks can be established, all of them require background work of understanding the marketing environment. According to Armstrong et al. (2017, p. 96), marketing environment can be divided to microenvironment and macroenvironment. Microenvironment consists of the actors closest to the company, such as suppliers, marketing intermediaries, customer markets, competitors and the company itself. Keller & Kotler (2012, p.

96) state that successful companies should identify and monitor the major forces behind the broad environment: the macroenvironment. Macroenvironment includes various societal forces that have an effect on the microenvironment – political, economic and cultural forces for example. In this theoretical framework, the focus is on socio-cultural forces, political-legal forces, economic forces, demographic forces and competition. This is due to the fact that these are the biggest factors affecting consumer and intermediary behavior.

2.1 Demographic environment

Armstrong et al. (2017) describe demography as the study of human populations in terms of size, density, location, age, gender, race, occupation and other data of the like. Demographic environment is especially interesting to marketers, as demographics is people, and people make up markets. As the world population grows at explosive rate, expected to hit over 8 billion by 2030, the large and dense world population brings forward new opportunities and challenges. Marketers must keep an eye on demographic changes and trends in their markets. They need to analyze the developments in age and family structures, geographic population shifts, educational levels and population diversity, as these characteristics affect the market as well. (Armstrong et al., 2017, p. 100-101) Luckily demographic developments happen at a rather predictable pace.

Demographic environment influences many strategic business decisions. For example, the location where target customers live, and what stores they shop in affects where company products should be sold, and purchasing power affects the product pricing. Changes within population change such as diversity and aging may be challenging, or bring new opportunities, depending on products being sold. Company should analyze demographic environment based on their target segment, to study market attractiveness, and if any strategy changes should be done.

2.2 Socio-cultural environment

According to Albaum, Duerr and Strandkov (2005, p. 106-107) socio-cultural environment not only influences the consumers that might buy the product, but

also the managers in importing agencies and retail as well as different marketing intermediaries that take part in the international marketing process. Brown et al. (2004, p. 58) state that to understand behavior and its impact on decision maker, the details and dynamics of culture must be understood.

It is difficult to define culture. One of the most famous descriptions of culture is by Geert Hofstede (1980, p. 21), and is as follows: "Culture is the collective programming of the mind which distinguishes the members of one human group from another." Albaum et al. state that culture can be divided into surface culture, which is easier to examine, and includes dimensions such as language, manners, rituals, religion, food, music etc. Most powerful elements of culture however, are the value orientations guiding behavior and attitudes, which people might be only dimly aware of, or might even not be aware of at all. (Albaum et al., 2005, p. 110)

The values are the very core of culture, and they are learned from family, friends and other interest groups, and are shared by people in a society. Culture is not static, but it changes very slowly. According to Griffith, Hu and Ryans (as cited in Albaum et al., 2005, p. 108-109), culture can be viewed as the homogeneity of characteristics that separate one human group from another. It is important to note that there can be various subcultures within a culture, that can be based on for example race, religion or geographical area (Albaum et al., 2005, p. 111). Also, culture is often seen very stereotypically, so it is important to remember each person's individuality. Definitions on a culture should be taken as a grain of salt to help understand people's behavior, not as an absolute.

As a guiding force in behavior, cultural factors affect consumer behavior as well. This is why Albaum et al. (2005, p.114) state, that although it is vital to study culture from a broad perspective, it is also important to look at it with narrow perspective, as behavior relates directly to certain products and marketing efforts. Studying culture in this way will help determine whether same marketing strategies can be used in multiple countries and when they cannot. Cultural factors also relate to business customs in international marketing environment, in greetings and other personal manners, dress code, colors, advertising, gift exchanges, and pride and status (Albaum et al., 2005, 117). Culture also affects to the negotiation process, and to the decision-making speed. Keeping in mind cultural factors in

business decisions and meetings can truly make or break the international business venture.

2.2.1 Dimensions of national culture

One way to investigate values within a culture within a nation is to use Geert Hofstede's model of dimensions of national culture. The model differentiates the preferences of each nation in different situations, but like stated previously, the country scores on the dimensions are not absolute as each individual is unique. By comparing nations' scores on Hofstede's dimensions, it is possible to get an idea on the major value differences in cultures between the domestic country and a foreign country. The dimensions are the following:

- *Power distance*

This dimension explains the degree to which people in a lesser position in the society accept the inequality in a normal situation (Brown et al., 2004, p. 81). This applies to how normal hierarchy is seen. Although hierarchy is present in all cultures, in some cultures it is more central than in others.

- *Uncertainty avoidance*

This dimension reflects the extent to which people in a culture feel uncomfortable by unknown situations. Cultures scoring high in this dimension tend to feel nervous or threatened when facing such situation, and are more intolerant. Cultures with low score on the other hand have more relaxed attitude and they are more tolerant. (Brown et al., 2004, p. 81)

- *Individualism/Collectivism*

Individualism/collectivism dimension determines if people in a culture have tight or loose relation to people around them. In individualistic cultures individuals have loose relations to other people, and they feel responsible only of themselves and their immediate families. In collectivistic cultures people have tightly-knit network, where groups are important, and should be considered before individual desires. (Brown et al., 2004, p.82)

- *Masculinity/Femininity*

This dimension is sometimes described as “tough versus tender”. Masculine cultures emphasize assertiveness, material success and achievements, whilst feminine cultures stress the quality of life and caring of the weak. (Brown et al., 2004, p.82)

- *Long-term/short-term orientation*

This dimension indicates to which extent cultures have future-oriented perspective versus short-term view. Long-term oriented societies value thrift and perseverance, and focus more on building the future steadily. Short-term oriented societies view societal change with suspicion, respect tradition and look for more short-term rewards. (Brown et al., 2004, p.84) Long-term orientation was originally added to the list to make it easier to examine cultural differences between the East and the West, as no other dimension could properly measure Confucian values of persistence, thrift and harmony (Hofstede, 2001, p. 279).

2.3 Political and legal environment

Marketing decisions are strongly affected by developments in the political and legal environment. The interpretation or ignoring of regulations can lead to conflicts, but by understanding them they can create new business opportunities. The political and legal environment consists of laws, government agencies and pressure groups that influence or limit various organizations and individuals in a given society (Armstrong et al., 2017, p. 113).

The political environment of international marketing includes any national or international political factors that can affect the organization’s operations or its decision making. Thus, politics has come to be recognized as the major factor in many international business decisions, especially in terms of whether to invest and how to develop markets. (Doole & Lowe, 2001, p. 18) According to Czincota and Ronkainen, firms mostly prefer to conduct business in countries with stable and friendly government, but they are not always easy to discover. Therefore, managers must continually monitor the government, its policies and stability to determine the potential for political change that could possibly affect business operations, such as the likelihood that the government will be violently overthrown. (Czincota & Ronkainen, 2010, p. 134)

As an environmental force affecting international/export marketing, government intervenes in a single country's economy by being a participator, planner, controller or stimulator. Such intervention activities can be categorized into the following three groups:

- those that promote (i.e., encourage or facilitate) international/export marketing transactions;
- those that impede such transactions; and
- those that compete with or replace international/export marketing transactions by private business firms.

These basic types of intervention activities exist to some extent at all levels of government, but with varying emphases. (Albaum et al., 2004, p.119)

Considering legal environment, even the strongest advocates of free-market economies agree that the system works best with at least some regulations. Well-conceived regulation can encourage competition and ensure fair markets for goods and services. Therefore, government develops public policy to guide commerce -sets of laws and regulations that limit business as a whole. Almost every marketing activity is subject to a wide range laws and regulations. (Armstrong et al., 2017, p. 113)

Legal systems vary both in content and interpretation. A company is not just bound by the laws of its home country but also by those of its host country and by the growing body of international law. Firms operating in the European Union are facing ever increasing directives which affect their markets across Europe. This can affect many aspects of a marketing strategy – for instance advertising – in the form of media restrictions and the acceptability of particular creative appeals. (Doole & Lowe, 2001, p. 13)

The international business manager does not need to be aware of the detail of the law as it applies in each international market. Rather, they need to be sensitive to the broad principles of law as it applies to doing business abroad and the way of law varies in implementation between different countries. Such sensitivity

will alert them to legal pitfalls and to when seek legal advice of entering into transactions or if faced with specific issues. (Brown et al., 2004, p. 118)

2.4 Economic environment

According to Czinkota & Ronkainen (2010, p.30), the assessment of a foreign market environment should begin with the evaluation of its economic variables, relating to the size and nature of the markets. Markets require buying power as well as people. The economic environment consists of spending patterns and factors that affect consumer purchasing power, such as current income, prices, savings, debt and credit availability. Understanding the economic circumstances of the market is key to understanding the factors affecting consumers.

Nations vary greatly in their levels and distribution of income. Some countries have subsistence economies – they consume most of their own agricultural and industrial output. These countries offer few market opportunities. At the other extreme are industrial economies, which constitute rich markets for many different kinds of goods. Changes in major economic variables such as income, cost of living, interest rates, savings and borrowing patterns have a large impact on the marketplace. Companies watch these variables by using economic forecasting. Businesses do not have to be wiped out by an economic downturn or caught short in a boom. With adequate warning, they can take advantage of changes in the economic environment. (Armstrong et al., 2017, p. 85-87)

Generally, when a country is growing economically, consumers spend more, and increasingly turn to luxury brands or products. Understanding the economic conditions of the market can impact upon what products are introduced and how they are marketed. However, economic factors go beyond economic conditions of upswing/downswing, and also include the distribution of income within a country. (Van Maanen, 2019, p. 3-8)

A major feature of the global marketing environment is the diversity of economic environments. The characteristics of each need to be appreciated if international marketing efforts are to be successful. There is available a substantial body of data which provides economic profiles on a country-by-country basis. This data

is published by country sources, regional or economic grouping sources (European Union, OECD) and world sources. (Brown et al., 2004, p.24)

As the recent economic downturn vividly demonstrated, trends affecting purchasing power can have a strong impact on business, especially for companies whose products are geared to high-income and price-sensitive consumers. (Keller & Kotler, 2012, p. 99)

Keegan and Green (2000, as cited in Brown et al., 2004) comment that the most profound change in the world economy in the last 50 years has been the emergence of global markets and global competitors who have steadily replaced local competitors. This change has been accompanied by a reduction in tariffs and to a lesser extent in non-tariff barriers. This means that the extent to which local firms are subject to import competition has increased. They attribute this to four factors:

- Capital movements rather than trade are now driving force in the world economy.
- Production is no longer directly linked to employment. Although employment in manufacturing has declined, production continues to grow.
- The world economy has more impact on economic outcomes within a country than the nation state.
- The contest between capitalism and socialism is over, with the economies of socialist countries becoming increasingly market oriented.

These four factors have rendered former classifications of countries according to their economic system, less relevant than was formerly the case. (Brown et al., 2004, p. 25)

According to Omar (2009, p. 39) there are generally three types of economic system:

- Capitalist system (free market resource allocation)
- Socialist system (command resource allocation)
- Mixed system (mixed resource allocation)

A capitalist system relies on consumer demands to allocate resources. It is consumer choice that decides what is produced and by whom. The role of State is to promote competition and ensure consumer protection. Examples are Western European countries, USA and Japan. (Omar, 2009, p.39)

In socialist system, the State has broad powers to serve the public interests. Market forces are not determined by the consumers' demands. Resources are allocated by government planners who determine in advance the number and specifications of each item to be produced. In this system, consumers are free to spend their money on whatever is available, but decision as to what will be available is determined by the state's planners. Examples are China and Cuba. (Brown et al., 2004, p. 26).

In reality, there are no pure market allocation or command allocation systems as all market systems have a command sector (such as government regulation and involvement in production of some items) and all command systems have a market sector (for example when the country's government-owned airlines seek business in international markets). (Brown et al., 2004, p.26)

As an alternative to classifying countries according to their economic system, it is possible to classify them according to their economic structure. This classification reflects the relative dominance in the economy of the country of the following:

- *Agriculture*, that includes crop growing, hunting, fishing, grazing and forestry. Generally, countries depend on agriculture are among the economically poorer ones. The importance of agriculture to the wealth of nations has steadily declined in all countries.
- *Industrial*, which comprises mining, manufacturing, construction, electricity, communications infrastructure and gas. Within this classification, a distinction may be drawn between countries dependent on "smokestack" (i.e. mature) industries and those dependent on high-tech industries.
- *Services*, which involves all other forms of economic activity. It accounts for an increasing percentage of employment in all countries and is the fastest growing area of economic activity in all except low-income countries.

There are some problems with classifying countries in terms of economic structure. This is because within an economic sector, operations vary widely between countries. (Brown et al., 2004, p.26).

Foreign markets may be at different stages of economic development, each stage having different characteristics. A common way to group countries is as developed (for example Australia, New Zealand, Denmark, the United Kingdom, Japan and the United States) or developing (for example Malaysia, Costa Rica, Egypt, Uruguay). (Albaum, Duerr, Josiassen, 2016, p. 144).

According to Brown et al. (2004, p. 28), another approach to categorizing the world's economies is to group countries on the basis of Gross National Income GNI per capita as follows:

- *Low-income countries* (GNI per capita < USD 1025) are often referred to as the “third world” countries. They are characterized by dependence on agriculture with very basic, if any, manufacturing activity. They tend to have high birth rates, heavy reliance on foreign aid, low literacy and are often characterized by political unrest. Countries in this category include Afghanistan, Ethiopia, Bangladesh, Myanmar, Tanzania, Uganda and Zimbabwe.
- *Lower-middle-income countries* (GNI per capita USD 1026-USD 4035) are at an early stage of industrialization. Their industrial output supplies their growing domestic markets with basic items such as processed foods, batteries, tires, textiles and building materials. They are also competitive producers for export of mature products that are standardized in nature and labor intensive, such as clothing. Examples are to be found in the Philippines and Thailand.
- *Upper-middle-income countries* (GNI per capita USD 4036-USD 12475) These industrializing countries that in Asia are referred to as “tigers”, such as Singapore, Taiwan and Korea. The percentage of population engaged in agriculture is small as people move to the cities and work in industrial or service sectors. Both wage rates and literacy are on the rise in these

countries and they are formidable competitors with the high-income countries. Their economic growth tends to be export led. Countries in this category include Argentina, Brazil, Bulgaria, Latvia, Lithuania, Mexico, Poland, Romania, Russian Federation and Turkey.

- *High-income countries* (GNI per capita > USD 12475) reflect sustained economic growth. Sometimes referred to as post-industrial countries, this group is heavily dependent on services for income generation, is involved in information processing, places a premium on knowledge as a critical resource, and has an orientation towards the future. In these countries, new product development is a potent force for innovation and creativity. Countries in this category include the US, Japan and Sweden.

A small number of countries in central Europe, Latin America and Asia experienced rapid growth in the 1990s, and have been identified as having major marketing opportunities. These countries have come to be known as big emerging market (BEMs). Ten countries generally recognized as BEMs are China (PRC), India, Indonesia, South Korea, Brazil, Mexico, Argentina, South Africa, Poland and Turkey. These countries cut across all stages of economic development. (Albaum, Duerr, Josiassen, 2016, p. 144)

2.5 Competition

To be able to get a better understanding of competition, it is necessary to define few key-terms. Kotler & Keller (2012, p. 300) define *industry* as a group of firms offering a product or class of products that are close substitutes for one another. Hollensen (2001) defines a *market* as a set of actual potential buyers and sellers. This is the market competition. (Hollensen, 2001, p. 81).

Keller & Kotler (2012, p.33) define competition to include all actual and potential rival offerings as well as substitutes a buyer might consider. Competition is one of the key environmental forces that have an effect on marketing strategy. Armstrong et al. (2017, p. 98) state that in order for company to be successful, they need to provide superior customer value and satisfaction than its competitors do, and seek strategic advantage by positioning their offerings strongly against competitors' in the minds of consumers. Firms must seek their place in market that

differentiate their products from their competition. According to Hollensen (2001, p. 81) the goal of analyzing competitors is to find a position in the industry where the company can best defend itself against other forces, or influence them in its favor. Thus, attaining understanding of the market competition and the forces around it shows the company its key strengths and weaknesses, its position in the industry, as well as clarifies the areas where strategy changes would bring the best results. As Armstrong et al. (2017, p.98) state, there is no single competitive marketing strategy that would be good for all companies; each company must take into consideration its size and position compared to competitors.

Albaum et al. state that competition is born when business firms try to make most of their uniqueness in their search for niche in the economic world, and thus international marketer must have a way to develop and manage knowledge as part of its competitive advantage. This means that not only should a company gain knowledge on the structure of the competition but also their actions, which would influence the company's decisions regarding to price, promotion, product and channel. A company can compete on price or nonprice methods. Nonprice competition, however, can be more difficult especially in markets with higher income levels and wealth where people don't have to go for best bargain. (2004, p. 141-142)

According to Hollensen (2001, p. 81-82), the level of rivalry depends on the following factors:

- *The concentration of the industry*: if there are more same-size competitors, it leads to more rivalry. Industry has less rivalry, if there is a clear leader with a large cost advantage.
- *Rate of market growth*: slow growth leads to bigger rivalry.
- *Structure of costs*: higher fixed costs encourage price cutting to fill capacity.
- *Degree of differentiation*: commodity products encourage rivalry, while highly differentiated and unique products are less likely to support rivalry.
- *Switching costs*: when switching costs are high due to specialized products, the customer has to invest more resources such as time learning how to use a specific unique product, and those investments are useless with other substitute products, rivalry is reduced.

- *Exit barriers*: when barriers to leaving a market are high due to various factors, rivalry will be more intense than when exit barriers are low.

(Hollensen, 2001, p.81-82)

Hollensen (2001) also states that the presence of multiple substitute products may reduce industry attractiveness and profitability due to the pressure on price levels. Also, if the industry is successful with high earned profits, it is more likely to attract competitors to create substitute products in order to achieve a share of the potential profits. Threat of substitute products depends on the buyer's will to substitute, the price-performance relationship of the substitute products, and the cost of switching to substitutes. However, as stated before, the threat of substitute products appearing can be lowered by building up switching costs. Switching costs are often psychological factors, such as creation of strong, distinctive brand personalities, and maintaining a price that is equal with perceived customer values. (Hollensen, 2001, p. 84)

3 MARKETING ENVIRONMENT OF SOUTH KOREA

South Korea (한국), or the Republic of Korea (대한민국) is a country in East Asia, in the Korean peninsula. It shares border with North Korea. Language used in South Korea is Korean.

3.1 Demographic environment in South Korea

Korea is a country with a population of 51~ million. The population grew at a rate of 0,20 % in 2019, but is set to decrease in the future. The country is facing trouble of ageing population, as the birth rate is rather low. The median age of a Korean citizen is 43.7. Korea is very homogenous country, meaning that most of the population is of Korean origin. Within the metropolitan area of its capital city, Seoul, lives approximately half of the population. Other notable big cities are the port city in south east Busan (3,5 mil), Incheon (2,9 mil), Daegu (2,5 mil), Daejeon (1,5 mil), Gwangju (1,5 mil) and Suwon (1,2 mil). (Statistics Korea, 2019)

The population density in Korea is higher than average due to the fact that approximately 70 % of the land is uninhabitable due to mountains in the area, so people have concentrated on cities in lowland areas (World Population Review, 2019). While the country continues its trend of urbanization, density is set to increase in the future as well. Reasons for population density and urbanization include the refugee migrations during Korean War in the 1950's, and the rapid economic rise in 1970's. It is also notable that more and more young people move to big cities for university education, not only from Korea but from abroad (like China) as well. As currently around half of the population live in the capital area which includes Seoul city, Incheon and cities in the Gyeonggi province, trend of urbanization has become a problem for the country economically and environmentally (Kwon, 2004). It is also difficult to arrange transportation within the area, and the housing costs are high.

Korea is considered as a developed country. Regardless of the low birth rate in Korea, the life expectancy is quite high due to good healthcare. Education is highly valued in Korea, and considered as one of life's cornerstones, as well as a way to improve one's social standing. According to OECD, Korea is one of the

top performers in reading literacy, science and mathematics (OECD, 2018). 98 % of young adults aged 25 to 34 have a secondary school diploma, and 70 % of them have a post-secondary school diploma (OECD, 2019). The percentages are less in older generations, and age group 55-64 is less than OECD average of 71 % in secondary school diplomas and 27 % in post-secondary diplomas (OECD, 2019). Many parents send their children to private institutions already from early ages to receive extra lessons, and this often goes on until university entrance exams, as graduating from a top university is thought to be a certain way to gaining a respectable career in a good company and living a prestigious life. On the other hand, those who fail to get into university or decide not to enter at all may face prejudice in the society. This often causes education to be the center of life during people's youth.

According to Statistics Korea, out of the whole population approximately 28,4 million people are economically active, and the labor force participation rate is 63,6 % in 2019. Unemployment rate was 3,1 %. Dividing the employed population by occupation groups, 'Business Administration and Office Clerks' is the largest occupation group with 2,3 million people, followed by 'Store Sales Workers' (1,9 million people), and as third 'Crop Growers' with 1,1 million people. Occupations vary slightly by gender, as can be seen in figure 1. (Statistics Korea, 2019)

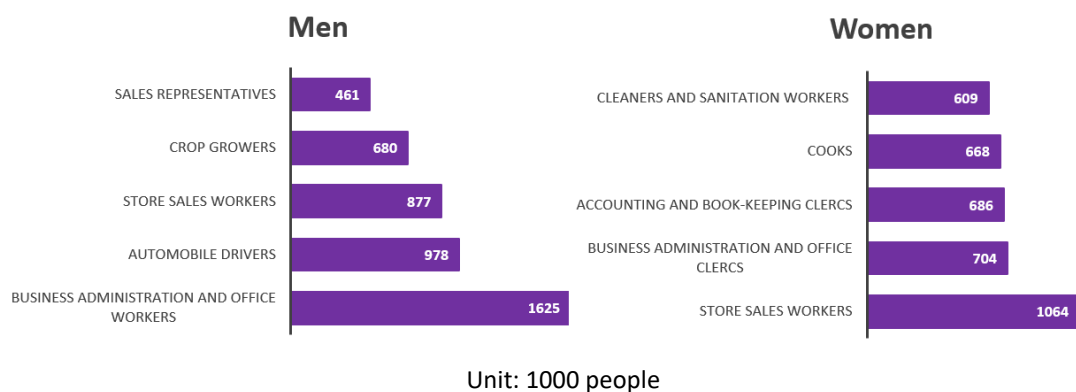


FIGURE 1. Employed population in South Korea by occupation group and gender November 2019 (Statistics Korea, 2019)

3.2 Socio-cultural environment in South Korea

Korea is a developed country that is highly influenced by Confucianism, a philosophy that originated in China and spread across Asia. Confucianism guides people to live with virtue, empathy and justice, and to learn and respect ancestors. Koreans go visit the gravesites of their ancestors, conduct rituals and gather having dinner with their family at least twice a year, during Korean thanksgiving *Chuseok* as well as lunar new year *Seollal*. Although Korean culture includes deeply rooted traditions based on Confucianism, it has gained influences from the West, mainly the United States during their help during and after the Korean War, but also due to globalization of the world.

3.2.1 Dimensions of national culture in South Korea

In this chapter, Geert Hofstede's dimensions of national culture model is used to achieve a better understanding on culture of Korea and the cultural differences between Korea and origin country, Finland. Scores of both countries in each dimension can be seen below in figure 2.

Finland scores quite low on the *power distance index*, which simply summarized represents acceptance of hierarchy. In Finland equal rights are important, and hierarchy is mainly for convenience. Superiors are usually accessible, and elders are to be respected but they can be talked to informally. Communication is rather direct. Korea scores a bit over halfway on the index and can be considered a hierarchical nation. Thus, people are more likely to accept hierarchical order and their place in it and respect their superiors and elders. Younger people or people in lower positions are expected to speak formally and to do as they are told by superiors or elders. Women still have slightly lower position in Korea than men, but the situation is slowly improving. As in many other Asian countries, in Korea losing face or being shamed is feared, which may cause communication issues due to mixed messages. Koreans are more likely to feel shame for any shortcomings. Korean parents often push their children to be obedient and study hard in order to later gaining wealth and status. However, this pressure sometimes backfires, causing children to lose their respect towards their parents instead. The suicide rate among young people has also increased due to high pressure to succeed but failing.

Finland scores 59 on *uncertainty avoidance*, which means that Finns prefer to avoid uncertainty. Korea scores even higher on this with 85, and has one of the highest scores on uncertainty avoidance in the world. Thus, people in both countries favor rules in the society, are suspicious of change or odd behavior from individuals, and appreciate security and punctuality. Both work hard and time is money.

Finland is an *individualistic* society, so Finnish people consider themselves only responsible for themselves and people in their immediate family, sometimes few close friends. Korea has its lowest score on individualism, which makes it a collectivistic society. Koreans tend to have close relationship and high commitment with members of different groups around them, not only their immediate family but extended family and work or school community. People take care and responsibility of the members of their community, and they often find joy in sharing their food with friends for example. The Korean culture is characterized by the concept *jeong*, meaning “a bond that exists between people, and gives them a sense of mutual destiny” (Tudor, 2012).

On *masculinity* index, Finland scores low, which makes it a feminine country. Finns work towards having high quality of life and liking what they do. People appreciate having more free time and flexibility to focus on their lives outside work too. As equality is favored, people don't show off their status. Korea scores a bit below midway on masculinity index, so it is considered a feminine country as well. However, Koreans do show and tell their status and it is in fact very important. In many cases, people are addressed by their title or marital status. Elena Buja (2016) brings up a good point and argues that these days Korea seems more like a masculine culture, most likely due to people striving for more prosperous life after their hardships in the country's past, which also correlated to people aiming to outdo their opponents and also becoming more individualistic than before. (Buja, 2016). It is also noteworthy, that Koreans are very hard workers and spend a lot of time in the office, which is out of characteristic to feminine societies. Not only at work but also in other aspects of life, Korean culture can be described with expression '*palli palli*', which roughly translated means 'quickly, quickly'. Things are done fast and efficiently, unlike in some other Asian cultures.

Finland scores quite low on *long term orientation*, so Finnish culture can be considered normative or short term oriented. Finns are more likely to look to the near future and get quick results in whatever they want. Korea on the other hand is one of the most long-term oriented societies. People aim to live in harmony and by good virtues, and work towards their (and their society's) whole future. It is notable, that even though the Hofstede's description of long term orientation index defines short term orientation to value traditions, Korea with its high score in the index actually is very traditional society with long history, while Finland not so much.

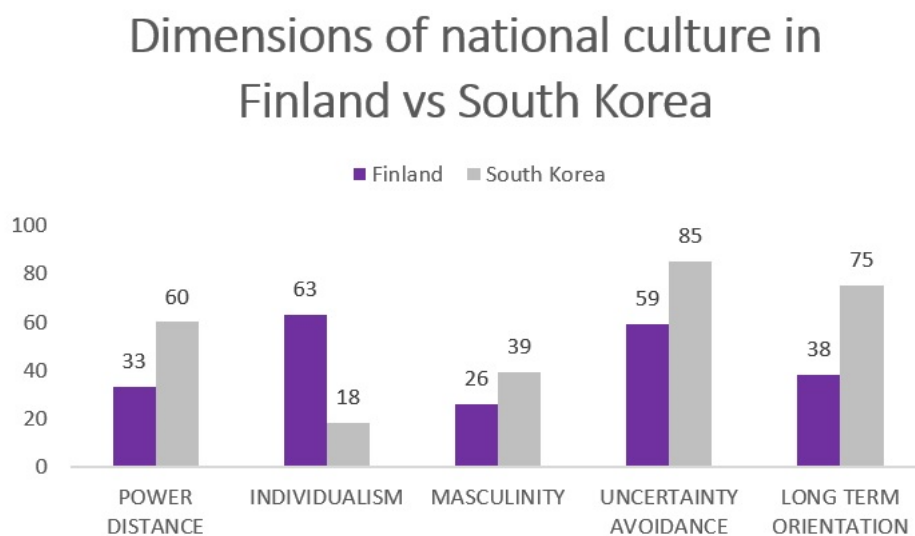


FIGURE 2. Dimensions of national culture in Finland vs South Korea (Hofstede, 2001)

3.3 Political and legal environment in South Korea

Korea is a democratic country, which operates on three governmental branches: executive, legislative and judiciary. Besides these branches, several other independent organizations act their supporting functions. The state is also known as The Sixth Republic of South Korea under its current constitution, which also determines the structure of the government. Government is led by strong presidential power, currently by president Moon Jae In. Following the president, the next in power in the national assembly is the prime minister, and afterwards other ministers. In Korea, the presidential term is five years, after which the president cannot serve a second term, and new elections are held (Korea.net, 2018).

The national assembly includes 300 members, out of which 253 members are elected by local constituencies, and 47 are elected by political parties for proportional representation. The first national assembly in Korea was launched in 1948, when it also had its first elections. Korea is a multi-party state, where the elections are held every four years. After June 2018 elections, the ruling party is the Democratic party of Korea, and the leading opposition party is the Liberty Korea Party. Next legislative elections are in April 2020, and next presidential elections are in 2022. (Korea.net, 2018)

Korea is working towards friendly relations and cooperation with other nations, and has diplomatic relations with 190 countries, and embassies in 114 countries. They have been a member of the United Nations since 1991, and a member of the OECD since 1996. (Korea.net, 2018)

After the World War II in 1948, the Korean Peninsula was split into two at the 38th parallel; the democratic nation with capitalist system South Korea, and the socialist state North Korea, also known as the Democratic People's Republic of Korea (DPRK). In 1950 North Korea invaded South Korea, starting the Korean War which would last for 3 years, and involved the United Nation forces, China and Russia. (History.com, 2009) Although the war ended, conflict between the nations still remains tense, as both nations still claim to be the legitimate government of the whole peninsula, and the nuclear and missile tests by North Korea in 2017. During 2018 there was improvement in the situation as the leader of North Korea, Kim Jong Un and leader of South Korea Moon Jae In met in Pyeongyang to discuss ending hostilities and denuclearization of the peninsula (ABC News, 2018). Later however, when the U.S. president Donald Trump met with Kim Jong Un to come to terms on denuclearization issue, the meetings ended with no agreement (Rucker, Denyer & Nakamura, 2019).

President Moon Jae In is facing trouble with decreasing popularity, which is most likely due to his government unable to solve issues with slow economic growth, aging population and increasing household debt, and inconclusive discussions with North Korea.

In 2018, Transparency International Corruption Perception Index ranked Korea as 45th out of 180 countries (Transparency International, 2018). The nation gained a score of 57 out of 100, 0 being highly corrupt and 100 very clean. Corruption in Korea has been decreasing after its democratization in 1987, as with the introduction of free elections corruption could be exposed and the public received the authority to vote undeserving decision makers out of office (Kalinowski, 2016). Besides improvement from times under authoritarian rule, there have been high publicity corruption scandals even during the recent years, such as bribery of former president Lee Myung Bak during his time in the office in 2008-2013 by multiple sources like business conglomerate (also referred to *chaebols* in Korea) Samsung, and another former president Park Geun Hye, who was impeached in 2017 for corruption and abuse of power (Choe, 2018). It is important to note, that Transparency International's Corruption Perception Index is based on perception of corruption, and it is still possible that it happens without public knowing. The government has taken steps to reduce corruption by establishing Anti-Corruption Act of Korea in 2002, which was founded to aid transparency in politics and reduce corruption. The Anti-Corruption and Civil Rights Commission was founded to facilitate functions related to protecting people's rights and building a transparent and fair society.

3.3.1 Trade policies

Korea is an export-driven country, which started during military dictatorship of Park Chung Hee in the 1960's. Korea was one of the poorest countries after the Korean War, but with economic policies and tax and financial incentives by Park Chung Hee the economy started to rise rapidly, mostly with exporting manufactured goods, and import substitution. Later on Korea has changed its policies towards multilateral trading system, and support on research and development (Mah, 2010).

Korea joined World Trade Organization on January 1st 1995. As WTO regulates its member nations' export incentives, Korea is unable to use same strategies as it used to for economic growth, and during 1998 Korea removed several remaining export subsidies. The government currently promotes export by supporting international marketing activities and exhibitions abroad. (Mah, 2010)

An approval is required for exporting certain items to Korea. The items included are related on public morals, human health, hygiene and sanitation, animal and plant life, environmental conservation or essential security interests in compliance with domestic legislation requirements or international commitments. Korean customs tariff is one of the lowest in the world, on average 8 %. Korea mostly uses the harmonized system by the World Customs Organization as a basis for tariffs. For skin care cosmetics, the HC code usually begins with either 3304 or 3307. (Korea Customs Service, 2019)

Korea has Free Trade Agreements with several economic areas, including the European Union. The European Union – South Korea FTA was first introduced in 2009 and has been fully applied at the end of 2015. The agreement eliminates majority of import duties from goods, and addresses some non-tariff barriers to trade, specifically in the automotive, pharmaceutical, medical devices and electronics sectors. Import duties from most cosmetics have been removed. (European Commission, 2019)

In Korea there are few noteworthy trade-promotion organizations. State-funded Korea Trade-Investment Promotion Agency (KOTRA) and Korea International Trade Association (KITA) both aid with issues such as market research and business matchmaking, and they can be contacted for help with export or import procedures.

3.3.2 The Cosmetics Act

Cosmetic products on Korean market must comply to the Cosmetics Act (enforcement date 12.12.2019). The term ‘cosmetic’ is described in the act as follows:

“Any item intended to be used by means of spreading, rubbing, spraying on or otherwise applied to the human body for cleansing, beautifying, promoting attractiveness or brightening the appearance, or maintaining or improving the health of skin and hair, which have light effects on the human body.”

The term ‘functional cosmetics’ refers to products aiding in the whitening of the skin, improving wrinkles in the skin, tanning skin gently or protecting skin from

ultraviolet rays, changing or removing the color of hair or nourishing hair, preventing or improving dryness, splits, loss, cornification, etc. resulting from weakened functions of skin or hair. (Korean Cosmetics Act, 2019)

The term ‘organic cosmetics’ refers to “cosmetics manufactured from organic materials, plants and animals, or materials, etc. derived therefrom, and which comply with standards prescribed by Minister of Food and Drug Safety.” The term ‘natural cosmetic’ refers to “any cosmetic that contains animals or plants, or raw materials derived therefrom”. (Korean Cosmetics Act, 2019) However, in Korea brands are not obliged by law to state the origin of the ingredients.

For a business to sell cosmetic products, they must either apply for ‘cosmetic manufacturing business’, a business of manufacturing cosmetics, or ‘responsible cosmetic distribution business’, a business of either distributing or selling a cosmetic, or offering or supplying a cosmetic for import agency business while controlling the quality, safety, etc. of such cosmetic. Also, if a business operator closes their business in Korea, they need to notify the MFDS. (Korean Cosmetics Act, 2019)

Business operator manufacturing or distributing cosmetics, or a person conducting custom cosmetic sales business needs to register with the MFDS. Correspondingly, all functional cosmetic products must be tested and reported to MFDS by manufacturer/distributor for their effectiveness and safety. The company must also comply with standards of quality control and responsible post-sale safety control of cosmetics. Products containing new raw materials for Korean market that are not publicly designated as cosmetic ingredients should be evaluated by MFDS, or otherwise business operator is liable for the safety. Raw materials such as preservatives, colorants or sunblocks have some restrictions on use. (Korean Cosmetics Act, 2019)

It is noteworthy, that cosmetics that meet requirements, may apply for a certification of natural cosmetics and organic cosmetics from the MFDS, to deliver consumers improved product information. Validity period of such certification is three years, and it can be extended at least 90 days prior to expiration. (Korean Cosmetics Act, 2019)

Business operators are required to use responsible packaging that will prevent children for misuse of the product. Product label rules are as follows:

- Name of the cosmetic
- Trade name and address of the business operator
- Ingredients used
- Volume or weight of content
- Manufacturing number
- Use-by date (or best-before date after opening)
- Price
- Cautions for use
- Wording 'functional cosmetic' or MFDS determined logo when the product qualifies as functional cosmetic

Labels should be readable in Korean characters, but Chinese characters or foreign languages may be used in addition. In imported cosmetics, label in Korean can be added over original on secondary packaging. False advertising or labeling is prohibited. (Korean Cosmetics Act, 2019)

The Korean Pharmaceutical Traders Association (KPTA) is authorized to help companies with evaluating import documentation and issuing import permits for customs clearance. KPTA and MFDS are key contacts in following the Cosmetics Act.

In 2019, Korea aligned its safety regulations in cosmetics to the EU, and all regulations apply to products imported, manufactured and distributed in Korea.

3.4 Economic environment in South Korea

The economic environment consists of spending patterns and factors that affect consumer purchasing power, such as current income, prices, savings, debt and credit availability.

As written earlier in 2.2.3, according to De Burca, Flecher and Brown (2004, p.28), one way to categorizing the world's economies is to group countries on the basis of Gross National Income GNI per capita. Korea belongs to the group of High-income countries (GNA per capita > USD 12475), reflecting sustained economic growth, with its GNI of USD 29745 (KRW 1,731 trillion). Korea is now the World's 12th Largest Economy with Gross Domestic Product of USD 1.5302 trillion (KRW1,730 trillion). Compared to 30 years ago, gross domestic product increased 14.4 times and per capita gross national income increased 11.8 times.

Korea is working towards creating more open marketplace by breaking linkages between government officials, banks and *chaebols*. It is not an easy task however, as chaebol companies still have huge influence over politics, and they dominate a big percentage of the country's economy. Chaebols are large, usually family-owned business conglomerates with multiple subsidiaries in different fields, that raised Korean economy rapidly in the 1960's. Few largest and most notable chaebols are Samsung, Hyundai, SK Group, LG and Lotte.

3.4.1 Exports and imports

Korea is very export-driven country. According to Statistics Korea 2018, Korea's exports in 2017 amounted to USD 573.7 billion, a 12.1 times increase compared to 1987, and imports amounted to USD 478.5 billion, an 11.7 times increase compared to 1987. Korea has maintained its balance of trade surplus due to the upswing in exports of flagship product after overcoming the IMF economic crisis. The trade balance stood at USD 95.2 billion in 2017, a 6.7% (USD6 billion) increase from USD 89.2 in the previous year. Exports amounted to USD 573.7 billion, a 15.8% increase (USD 78.3 billion) from USD 495.4 billion in the previous year, while imports increased by USD 72.3 billion (17.8%). Among Korea's trading partners, China, USA and Japan account for a relatively high proportion of exports and imports: China accounted for 24.8% of Korea's exports in 2017 and 16,0% of its' import, followed by USA with 12.0% of Korea's export and 8.3% of its' import. Korea's top 10 export and import items in 2018 were semiconductors, automobiles, ships, floating structures and their parts as well as wireless communication devices. The most important import items were crude oil, semiconductors, wireless communication devices and natural gas. (Statistics Korea, 2018)

Korea is Finland's third most important trading partner in Asia (Finland Abroad, 2020).

According to OECD's Korea Economic Forecast Summary (November 2019) economic growth will remain slight, as the global slowdown and trade tensions hold back exports, while high uncertainty weighs on investment. A gradual recovery in global demand for semi-conductors and expansionary fiscal policy will support the economy. Further monetary policy easing is expected in 2020, as headline inflation will remain below the 2% inflation target. A supplementary budget of 0.3% of GDP and fiscal stimulus of about 1.2% of GDP is planned. This is welcome, given the government's sound budget position, low debt level and the need to expand social welfare. However, sustaining long-term growth in the face of rapid population ageing will require structural reforms to boost productivity and create better jobs. (OECD, 2019)

3.4.2 Household economy, wages, prices and consumption

The average monthly household income amounted to 4.877 million won in the third quarter of 2019, which rose by 2.7% from the third quarter of 2018. (At 2015 prices an increase of 2.7% from the third quarter of 2018). The average monthly income of the lowest quintile mounted to 1.374 million won, which grew by 4.3% from the third quarter of 2018. The average monthly income of the highest quintile amounted to 9.80 million won, up 0.7% from the third quarter of 2018. Monthly average wages of females were 2.449 million won in the same year. (Statistics Korea, 2019)

The domestic wage index stood at 129.2 in 2017, rising nearly three times from 43.5 in 1997. Over the same period, there was a high increase, compared to other countries' increase rate of 1.6 times or less, such as USA (1.59 times), Canada (1.48 times) and Japan (1.06 times). Then again, it also shows the country's wage level in the 1990s was considerably lower than that of other countries. In 2016, Korea's average annual working hours per worker stood at 2,069 hours, which was 329 hours longer than OECD average annual working hours. (Statistics Korea, 2018, p. 25)

The price index in Korea consists of the Consumer Price Index (CPI), Producer Price Index (PPI), export and import price index, and Price Index of Commodities Received and Paid by Farmers. The annual average consumer price index was 102.9 in 2017 (Statistics Korea, 2018, p. 27).

The Consumer Price Index in January 2020 was 105.79(2015=100). The index increased 0.6 percent from the preceding month and rose 1.5 percent from the same month of the previous year (Statistics Korea, 2020).

The average monthly non-consumption expenditure per household recorded 1.138 million won in the third quarter of 2019, which grew by 6.9% from the third quarter of 2018. The regular tax rose 12.7%, the interest 10.5%, the social insurance 7.5%, the pension 5.9% and the transfer between households rose 3.0%. (Statistics Korea, 2019)

All age groups spend their income on groceries, transportation, restaurants and hotels, but householders in their forties spend more on education and those in their sixties or more on groceries, housing and health, compared to other age groups. (Statistics Korea, 2018, p. 31)

It is possible to buy almost anything and everything through online shopping in Korea. According to Statistics Korea, the online shopping transaction value recorded 12.7576 trillion won in November 2019, rising by 20.2% from November 2018. The mobile shopping transaction value marked 8.4063 trillion won in November 2019, rising by 28.1% from November 2018. Compared to October 2019, the online and mobile shopping transaction value grew by 8.0% and 9.1%, respectively. The mobile shopping transaction value occupied 65.9% of the total online shopping transaction value, which went up by 4.0% from 61.9% in November 2018. Compared to November 2018, the online shopping transaction value of 'Others' declined by 16.0%. In the meantime, the online shopping transaction value of 'Services', 'Food products' and 'Fashion' rose by 35.9%, 26.5% and 16.7% respectively. (Statistics Korea, 2019)

3.5 Competition

Korea is the world's 8th largest cosmetics market, and in 2016 the market was estimated to be 8.5 billion USD. Between 2012 and 2016, the market growth was approximately 7,5 % per year. Exports increased by 46,8 % from 2015 to 2016, and imports increased by 5,3 %, valued around 1.46 billion USD. (International Trade Administration, 2019) The market size is also expected to continue growing in the future.

	2014	2015	2016
Total market size	7,759	7,981	8,508
Total exports	1,799	2,586	4,192
Total imports	1,047	1,089	1,459
Exchange Rate: USD1=KRW 1,054 (2014); 1,132 (2015); 1,161 (2016); 1,131 (2017) Unit: USD Million			

TABLE 1. Cosmetics market size and amount of exports and imports in South Korea (Korea Cosmetic Association, 2017)

According to International Trade Administration, data from Korea Customs Statistics tells that skincare cosmetics is the largest category in imported cosmetics products by 47.5 % of all imported cosmetics products in 2017. (International Trade Administration, 2019)

There is an abundance of skincare brands at the Korean market, many of which are part of large corporations and of Korean origin. Two notable large companies producing multiple skincare brands include LG Household & Health Care Ltd and AmorePacific Corp. The competition is high, so high effectiveness and differentiation is also required. However, skincare products are still commodity products that engage in larger rivalry. In this product category the switching cost are quite low, as it does not require a lot of knowledge and effort for a consumer to switch to a substitute product. This may especially be the case in Korea, as more people are aware of long skincare routines.

3.5.1 Potential rival offerings

The following brands are few examples of rival offerings or substitutes for Rimita Green in the Korean market. They were chosen for being marketed as organic cosmetics, are high quality products but with reasonable price and have similar products that Rimita Green has.

- Innisfree

Innisfree is a Korean skincare brand, that describe themselves as “natural brand that shares the benefits of nature from the pristine island of Jeju for healthy beauty and pursues an eco-friendly green life to preserve the balance of nature (Innisfree, 2018).” The ingredients are 70 % organic, and grown on Jeju island. Their green tea -line is especially well known, and Innisfree has their own green tea farm on Jeju. Not all of their products are vegan however, but they are cruelty-free. Innisfree is well known around Asia, but their products are unavailable for Finland at the moment. The products are sold mainly in their own retail stores, but they also have their own online store, and Innisfree products are available in some Sephora stores around the world. Innisfree is a brand owned by Amorepacific Corporation, a Korean conglomerate that owns several other skincare and beauty brands such as Laneige and Etude House. Innisfree was their first eco-friendly brand.

- Whamisa

Whamisa products are certified natural by BDIH and EWG. They claim to combine natural and organic ingredients to provide innovative and effective skincare (Whamisa, 2016). A main ingredient in many of their products is fermented flowers. Whamisa products are cruelty free, and a lot of their products are also vegan. They are also well known organic brand in Korea, and their products are available in Finland too. Their price point is a bit above Rimita Green's, but still not at luxury-brand level. Whamisa is a brand under ENS Beauty Group, and they have their own retail store Eden Plaza. Besides Eden Plaza, Whamisa products are also sold in various stores and eco supermarkets such as Whole Foods, and online stores. In the past Whamisa products were available in some major department stores in Seoul, but they were pulled out in 2015.

- Aromatica

Aromatica is one of the most transparent Korean organic and natural skin care brands. They were the first Korean skincare brand to have EWG certification. Aromatica states that they are committed to meet the standards of the purest and healthiest products as well as deliver safer skin care alternatives (Aromatica, 2016). Aromatica products are all cruelty-free and most are also vegan. Aromatica are ECOCERT certified, and they are committed to finding sustainable solutions and promoting good environmental practices. Their price point is also a bit above Rimita Green's, but not at luxury level. Aromatica products are available in drug store Olive Young, health and beauty retailer Lalavla, supermarkets E-Mart and Costco and department store Shinsegae. They are also available for purchase online.

- Beyond

Beyond is very eco-conscious brand, they are cruelty-free and committed to using natural and organic paraben-free ingredients. They have recyclable packaging on their beauty and make up products. They emphasize nature's importance a lot, and their brand slogan is "eco beauty for mother nature and human being". Beyond doesn't have their own website, but their products are sold online in various online shopping malls. Beyond is a brand under the LG group, and in Korea the products are sold in a retail store called the Face Shop.

4 FOR POTENTIAL MARKET ENTRY

The following chapter is meant to give Rimita Green more insight on the skincare cosmetics industry in Korea.

A beauty exhibition Cosmobeauty Seoul is held in Coex convention and exhibition center in Gangnam, Seoul annually during spring. In 2020 the event is held 23.-25.04. Cosmobeauty Seoul is Korea's biggest beauty exhibition, and it is a great professional business platform as well as place to scout current trends in the industry. They also have their own exhibit category for organic and eco-friendly cosmetics. (Cosmobeauty Seoul, 2020)

Korea Cosmetic Association is a good contact to keep in mind. Their imports committee researches the laws and institutions, etc. related to mainly imported cosmetics. They are also experts of the industry. (Korea Cosmetic Association, 2020)

4.1 Distribution

International Trade Administration states that imported cosmetic products are sold mainly through online shopping malls (34.7%) and specialty stores (21.4%). Other categories include medical institutions (9.0%; hospitals, clinics, drug stores), multi-level marketing (6.1%), department stores (5.4%), select shops (4.4%), home shopping channels (2.8%) and hypermarkets (2.3%). (International Trade Administration, 2019)

A survey conducted by Statista in 2019 tells that when only physical stores are considered, Korean women shop their skincare cosmetics mainly through drug stores and one-brand-stores, but duty free shops, department stores and multi-brand stores are also quite high. Survey was conducted in January 2019 as online access survey, and it had 1,500 female respondents with ages varying from 20-49 years. (Statista Research Department, 2019)

Leading offline places where women shop for skincare cosmetics in South Korea 2019

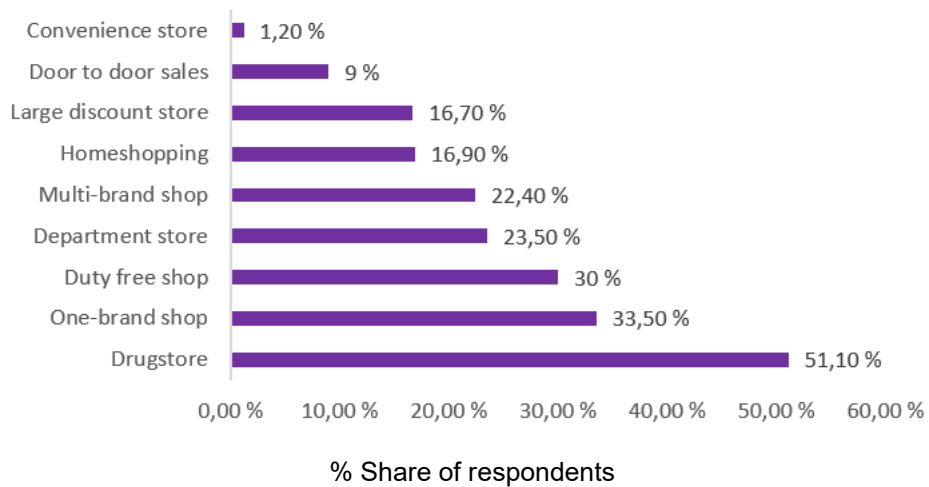


FIGURE 3. Leading offline places where women shop for skincare cosmetics in South Korea 2019 (Statista Research Department, 2019)

Listed down below are few examples of stores in three categories; drugstores, department stores and specialty stores. These were chosen, as they are quite popular places for Koreans to buy skincare items from. Specialty stores list only includes multi-brand stores, as naturally Rimita Green wouldn't have their products on existing one-brand store. Some specialty stores and department stores (such as Lotte Duty Free) also offer duty free shopping. It is good to know that area in Seoul, Myeongdong is commonly known as the mecca of skincare. It's streets are filled with skincare and cosmetics stores, and has also many brand flagship stores. It is also the location of one Lotte Department Store.

Drugstores	Department stores	Specialty stores
Olive Young	Shinsegae	LOHBs
	Lotte	Lalavla
	Hyundai	

TABLE 2. Examples of where to buy cosmetics in Korea.

According to International Trade Administration, in 2016 1335 firms were registered as cosmetics importers, out of which there were 865 agents or distributors, 200 branch offices and 270 parallel importers and others. As can be expected, a

competent Korean representative is required to be able to penetrate the new market. Not only will it help with market analysis and getting to know distributors and customers, but also they can help with the necessary paperwork, as there are documents that must be filled for either MFDS or KPTA to be able to obtain pre-market licenses. (International Trade Administration, 2019)

4.2 Trends

In general, Koreans aim for natural and dewy-looking, glass-like skin, which can be achieved with constant moisturization. They spend more on good skincare to achieve a naturally beautiful look, than use a lot of makeup on top of makeup.

Skin care trends in Korea now seem to be focusing on preventative care, such as products with anti-ageing properties. People are also preferring products with natural/organic/stem cells/probiotics, and peptides ingredients. (International Trade Administration, 2019)

Although Korea is known for its meticulous 10-step skincare routine and dermo-cosmetics, Janika Hyttinen, the owner of Finnish company Bearel that imports and sells Korean skincare products in Finland, tells that there have been more multi-functional products at the market lately; some that incorporate the benefits of toner, essence and serum for example. She tells that those hybrid products enable losing some steps from the skincare routine, while still maintaining the benefits. The key behind this is to listen to personal skin care needs, but also becoming more ecological at the same. She also states that products with clean ingredients that still retain their high effectiveness have always been of importance, however lately ecological packaging materials have become a focused issue. Demand for ethical and vegan cosmetics has noticeably increased as well. (Hyttinen, 2019)

According to a Statista survey conducted in 2018, most women value high quality ingredients in skincare cosmetics, but older women value more than younger women (Statista Research Department, 2019).

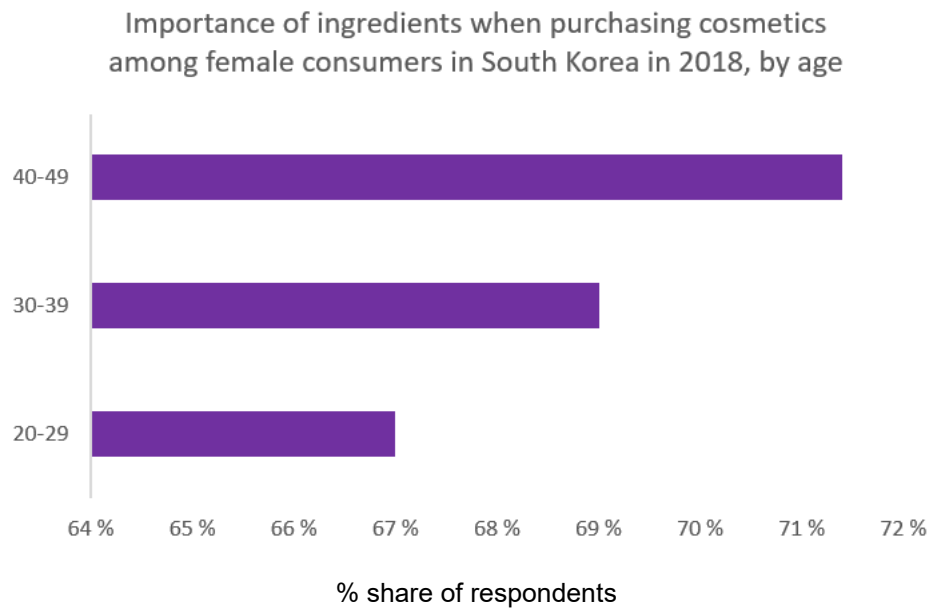


FIGURE 4. Importance of ingredients when purchasing cosmetics among female consumers in South Korea in 2018, by age (Statista Research Department, 2019)

Not as much of a trend, but a notable factor is that unlike Finnish skincare products, some Korean products have whitening effects. This is due to Korean beauty standards where paler skin is preferred, and skincare products are marketed as helping to achieve paler skin. Many skincare products also include sunblock.

4.3 Survey

A survey was conducted as an extra effort to get more insight on Koreans' skincare product usage and their thoughts on Nordic and ecological products. The survey got 39 responses, out of which 79,5 % were women and 20,5 % were men. Approximately half of respondents were between 18-25 years old, third were over 40, one respondent was under 18 and the rest were between. Majority of respondents were from Seoul metropolitan area.

84,6 % of the respondents used skincare products daily. Most popular products were moisturizing cream (69,2 %), foam cleanser (66,7 %), toner (66,7 %), sunscreen (51,3 %) and essence (41 %). Least used were face oil (2,6 %), nutrition cream or lotion (2,6 %), face mist (12,8 %) and deodorant (15,4 %). Most valued effects in products were moisturizing (76,9 %), cleansing (38,5 %), elasticity (30,8 %) and anti-ageing (23,1 %). Most bought their products from specialty stores (41 %), followed by online (33,3 %), and department store (23,1 %).

64,1 % of the respondents stated they don't prefer to use just one certain brand. 35,9 % had a brand they prefer to use. 9 Korean brands were mentioned, such as Innisfree, Etude House and Dr. Jart. 5 of the mentioned brands were foreign, such as Lush, Physiogel and Clinique.

61,5 % of respondents stated that it is very important for them that their skincare products are made with natural and ecological ingredients. 2,6 % stated that it is of no importance, rest were split in the middle, with a lean towards interest in natural ingredients.

61,5 % of respondents answered they associate 'clean and pure' with Nordic products, followed by 'high quality'. 15,4 % don't have an opinion on Nordic products, or they haven't tried any.

5 RECOMMENDATIONS

There are two factors that affect the market potential in foreign market. First is the firm's internal factors, such as experience and level of internationalization, amount of resources, nature of business, their internationalization goals and existing networks in the foreign country. The second is the market environment in the foreign country, its market potential, competition and industry structure. If a suitable market segment is found in the foreign country, it is a potential choice for market entry. (Hollensen, 2001, p. 189)

Korea has high market potential with its 51 million people population and rising household income, and skincare products are used by women and men alike. Cosmetics market size is also continuing to grow.

As stated in chapter 2, when venturing to a new market it is important to investigate the market thoroughly and get good connections. In Korea this is particularly important, as there is a notable language barrier, and personal connections are appreciated. According to Hofstede's cultural dimensions analysis, both Finland and Korea are efficient and fast workers who appreciate rules, so after the business relationship has already been established, working together may go smoothly. Also, Korea is a collectivistic country where work relationships are important, so it may be a start of long business relationship. However, it would be good to keep in mind the importance of status in Korea, and what etiquette rules that might bring, as well as women's still slightly lower position in business world.

In Korea, Seoul metropolitan area might be the most optimal target area geographically, as it contains approximately half of the population, and there is port and airport in Incheon so shipping to target area would be more convenient. Most potential selling channels could be online shopping malls, multi-brand specialty stores, drug stores or department stores. It might be a good idea to sell products in store or department store like Lotte in Myeongdong area in Seoul, as it is known for skincare stores especially, and full of people day or night. It is also noteworthy that online shopping is very popular in Korea, and it is possible to buy almost anything via online shopping these days, and skincare products are no different.

Investing in placing products on a Korean online shopping mall might also be worth considering.

When thinking about starting exports to Korea, visiting the exhibition Cosmobeauty in Seoul might be a good place to start. If not exhibiting, just by visiting the exhibition may bring more insight on local trends and the competition, and it is possible to find intermediaries and business partners. Contacting KOTRA and/or KITA might also provide help with gaining business partners in Korea, as they provide business matchmaking. They also can be contacted for help with export/import procedures.

Considering the current trends within the population, the market seems bright for Rimita Green. Rimita Green might do well in the market with their anti-ageing products, as the population is ageing, and there is a focus on preventative skincare. Also it seems people appreciate high quality ingredients in skincare, which suits Rimita Green's target demographic. According to survey (and 10-step routine), most used skincare products in Korea are moisturizing cream, foam cleanser and toner. These might be the most optimal products for Rimita Green to start exports with.

Korea is a wealthy nation and an important trading partner to Finland. As Finland is part of the European Union, Finnish companies exporting to Korea do not have to pay duties. Korean safety regulations for cosmetics are also on par with the EU regulations, so no new safety measures need to be taken when planning exports. However, the Cosmetics Act has some rules that require action, such as registering as manufacturer at Minister of Food and Drug Safety and testing and reporting functional cosmetics (should those sort of items be exported) and producing new labels for packages in Korean language. It may also be worthwhile marketing tactic to also apply for a certification of natural cosmetics and organic cosmetics from the MFDS, so that the target customers will conveniently know about the product being natural and organic. Help for this process could be obtained from for example The Korean Pharmaceutical Traders Association.

Although Korean government is quite stable, the Korean peninsula is still unstable due to conflict with North Korea. While steps for peace have been taken, situation at the peninsula may still change unexpectedly. This brings some political uncertainty to the area, which should be considered when thinking of exporting to Korea.

Despite good opportunities, there are still few issues to keep in mind. The market competition is quite high so it may be difficult to get products to customers' minds. Also, large chaebols like LG have subsidiaries that own dozens of cosmetics brands and have more resources at the market, so it may be difficult to gain market space. A notable posing threat in 2020 is the coronavirus outbreak, which as of March 2020 has been quite severe in Korea, and affects the market attractiveness as well.

6 CONCLUSION

The aim of this thesis was to investigate the marketing environment in Korea, and specifically its skincare market for a Finnish company Rimita Green, a producer of ecological skincare products.

This thesis was done as market research, and had three research questions:

- *What is the marketing environment in South Korea like?*

Korea is a developed, demographic country with a population of 51~ million and rising household income. According to Statistics Korea, out of the whole population approximately 28,4 million people are economically active, and the labor force participation rate is 63,6 % in 2019. The population is currently growing, but is set to decrease due to low birth rate and aging population. The population is highly educated, and culture derives from Confucianism. Korea supports multilateral trading system and is a member of WTO and OECD, and has had a free-trade agreement with the European Union since 2009. Still, there are also risks involved such as the unstable political situation due to North Korea and high market competition in skincare industry.

- *What is the skincare market in South Korea like?*

Cosmetics market in Korea is the world's 8th largest and is still growing. Out of imported cosmetics, skincare products is the biggest category. Skincare products in Korea must follow the articles in *the Cosmetics Act*. Competition is high, and most competitor products are of Korean origin. Most common places skincare products are sold include online shopping malls, specialty stores, drug stores and department- or duty-free stores. Online shopping has increasing popularity. Koreans value skincare with high quality ingredients and effectiveness and prefer to use quality skincare instead of using lots of makeup in order to achieve a naturally beautiful look. It is common for women and men alike to use multiple skincare products, most common of which are moisturizing cream, foam cleanser and toner. Myeongdong, shopping district in Seoul is known as a concentrated area of different stores offering skincare products.

- *Would South Korea have market potential for Rimita Green?*

The results of this thesis indicate that Rimita Green has some market potential in South Korea, as people would most likely have interest in their products and are well off enough to purchase them. Rimita Green should carefully analyze the risks and their own situation and resources, and if they would fit the market in Korea.

For further study on the subject, it is suggested to read more detailed information about the EU – South Korea free trade agreement and the Cosmetics Act.

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APPENDICES

Appendix 1. Survey 피부관리 조사

스킨케어 제품구매시 소비자 행태에 관한 조사입니다. 성실하게 대답해 주세요.

조사는 익명으로 실시됩니다.

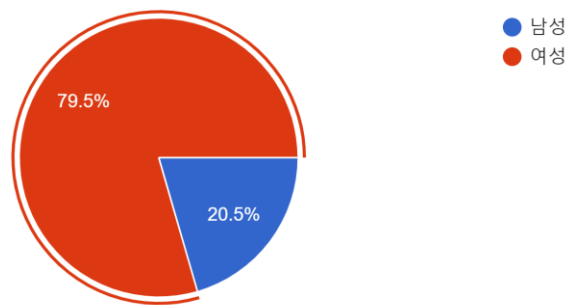
시간 내 주셔서 감사합니다.

Anniina Hautala 안нина 하우타라

Tampere University of Applied Sciences 탐페레 응용대학교

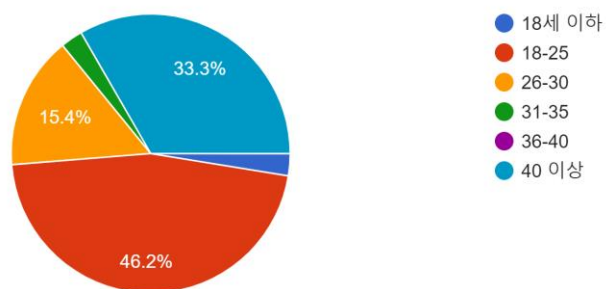
성별을 선택해 주세요.

39 responses



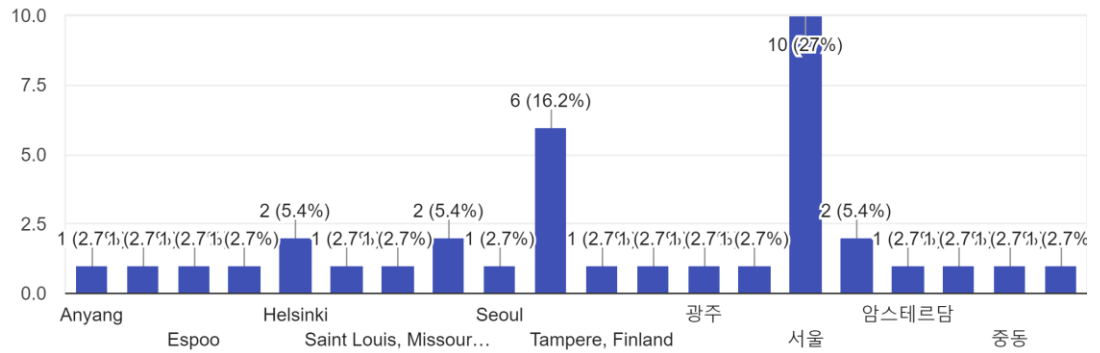
당신의 연령대를 선택해 주세요.

39 responses



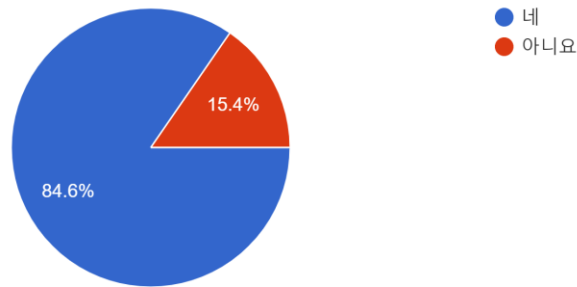
당신의 현재 살고 있는 도시는?

37 responses



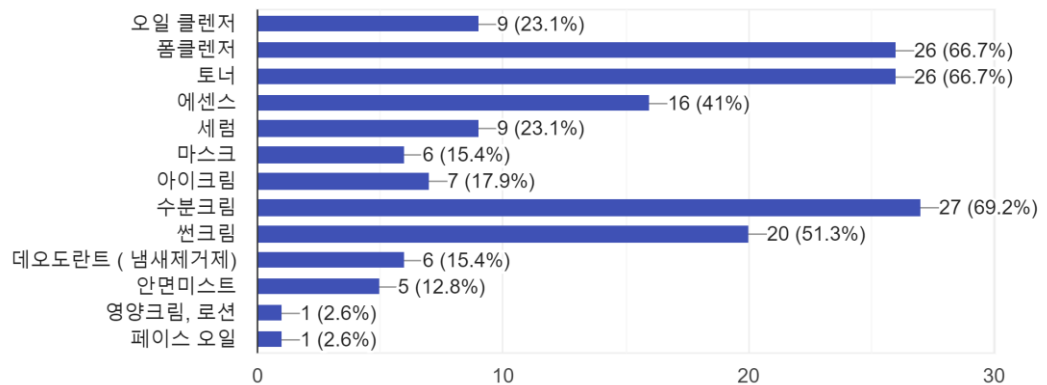
매일 스킨케어를 사용하세요?

39 responses



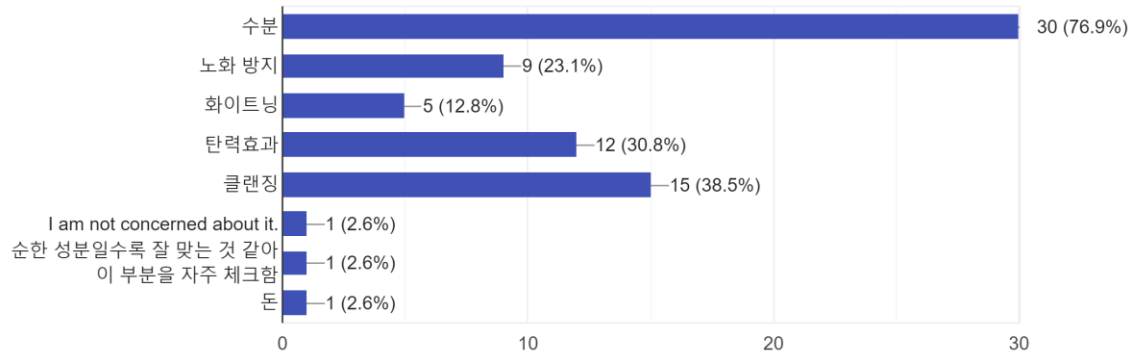
당신은 이 품목들 중에 어떤 것을 규칙적으로 사용하세요?

39 responses



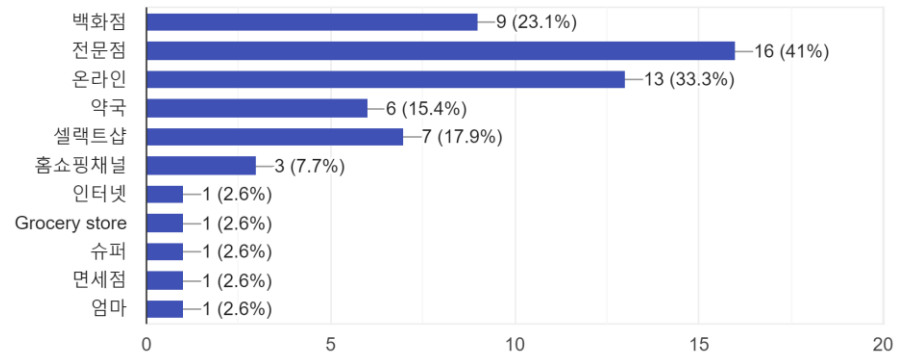
스킨케어 제품에서 가장 중요한 품질은 무엇이라고 생각하세요?

39 responses



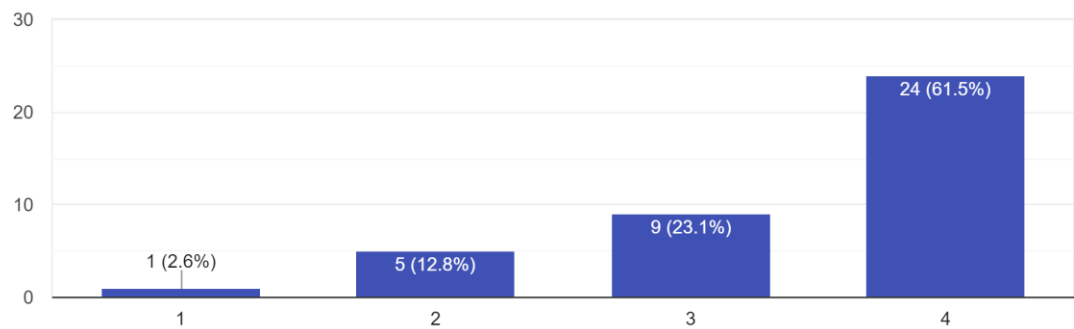
당신은 어디에서 스킨케어제품을 구매하시기를 선호하세요?

39 responses



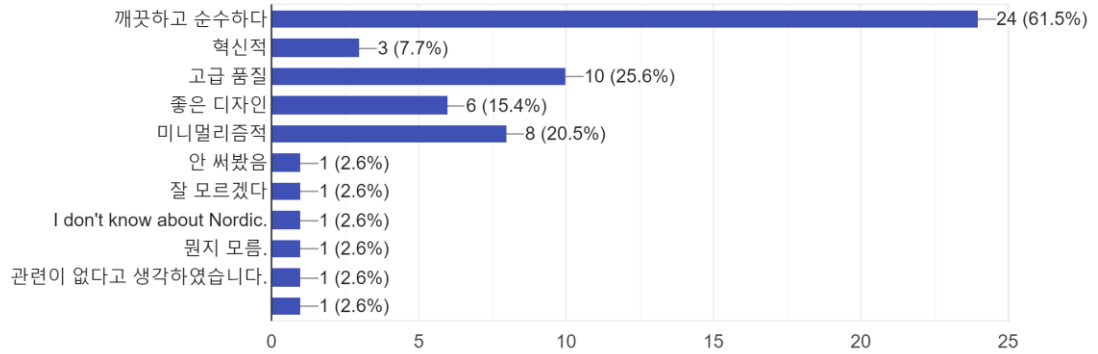
스킨케어 제품이 친자연적으로 만들어 지는것에 대해 얼마나 중요하게 생각하나요?

39 responses



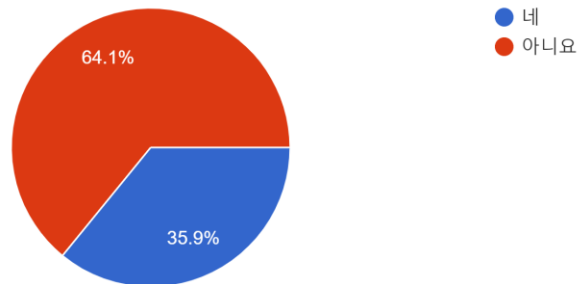
노르딕 제품이 어떤 요소들과 관련 있다고 생각하나요?

39 responses



특정 브랜드의 제품을 사용하는 것을 좋아하세요?

39 responses



질문에 “예”라고 대답했다면, 어떤 브랜드를 더 좋아하세요? 12 responses

존슨앤존슨

lush

친환경적인 브랜드

라로슈포제

Dr.G / April skin

Sebamed

이니스프리

Clinique is one of them.

physiogel

닥터 자르트

Innisfree, Etude House, The Ordinary

LUMENE