

Korean Beauty Market's Trendsetter: A Case Study on Mediheal

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Abstract

L&P Cosmetics is a South Korean cosmeceutical company known with their premium facial mask brand, Mediheal. It is developed with the hope of bringing profit back to the community. By materialising Korean market's beauty needs, CEO Kwon Oh Sub managed to build new trend that went viral. By carving niche for Korean Beauty Steps' complementary items, the brand managed to reign South Korean and Chinese market. Thus, inspired by Mediheal's differentiated approach on the industry, scanning the business model applied also the motivational factors and unique points of the Unicorn company.

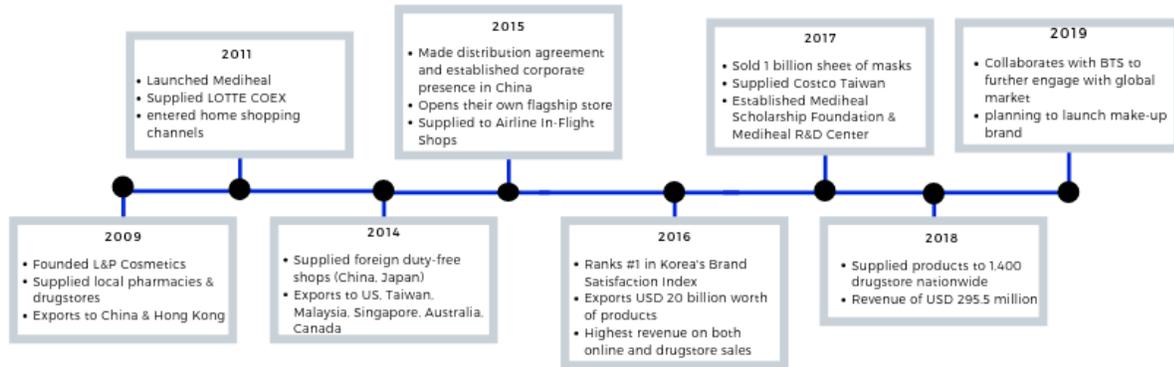
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Introduction

L&P Cosmetics was founded in 2009 by Kwon Oh-Sub, a South Korean company to sell skincare products contains medical effects to heal and improve skin conditions (Kim, 2017). Currently, the best sellers of this company are their wide range sheet masks under the brand of Mediheal. This company also owns other popular cosmetic brands such as Mediental and T.P.O. Due to its popular and effectiveness of sheet masks, L&P Cosmetics successfully became a unicorn in April 2017, and the current valuation of L&P Cosmetics is USD 1.78 billion.

However, the unique approaches adopted by L&P Cosmetics to survive in the cutting throat competition of South Korean beauty industry are rarely known by scholars and practitioners. Furthermore, there is limited information on how the company successfully gain trust from their customers, particularly the Chinese market by selling sheet masks although there are other famous brands in China. Therefore, the purpose of this case study is to analyse the background of L&P Cosmetics, strategy adopted by the company and factors that turn the company into a successful international brand even though in the throat cutting South Korean beauty industry.

Figure 1: L&P Cosmetics' Company Timeline



Background of L&P Cosmetics

Kwan Oh-Sub founded L&P Cosmetics in 2009 after two unsuccessful business ventures. His journey to become a unicorn-status company started in 1969 when Kwan's mother, Yoo Im-soon established the Wangsang Chemicals. After completion of his undergraduate study at Korea University, Kwan joined his not so well to-do family business. After the 1997 Asian Financial Crisis, he was trying to relieve the company however it was unsuccessful.

The 2 failed company is believed as the foundation of L&P Cosmetics that started as the product supplier of Olive Young and other Korean drugstore and pharmacies. In its early beginning, L&P also started exporting products to China and Hong Kong until the company's utility model of 2-step facial mask is registered in 2010. In 2011, the company launched their own brand, Mediheal, which was supplied to Lotte Duty free COEX- the biggest department store in South Korea as well as introduced the products by home shopping TV channels that is one of the most profitable promotion channels in South Korea.

The early introduction to China and Hong Kong market opens the way for Mediheal to reign the export game in the industry. As South Korea's high-quality cosmetics and skincare trend is spreading around Asia along with Hallyu (South Korean Culture Wave), Mediheal's product began to enter Singapore and Japan market as supply for duty-free stores in 2014 along with entering market in U.S, Taiwan, Malaysia, Australia, and Canada. As in 2015, the brand also started to supplying products to South Korean Airlines such as Asiana Airlines & Air Busan for in-flight duty-free sales. It is also in 2015 when the company entered a distribution agreement with online malls and pharmacies in China, also established a corporate presence there, undoubtedly bringing the brand into one of the most used facial masks in the world's biggest market, China.

In the year 2016, Mediheal has won hundreds of awards from multiple nomination, for example the highest revenue from online channel, drugstore channel, as well as the fastest growing brand in South Korea, and Korean Brand of the 2016, that is picked by Chinese Consumers. 2017, the brand won the Korea's First Brand Award for 2017, completed a new headquarters in Seoul, supplied products to Costco in Taiwan, entered direct distribution agreements with local agents in China, as well as established Mediheal Scholarship Foundation and Mediheal Research and Development Centre. At the end of 2017, the brand declared exported USD 50 million worth of products that is just adding

more to their lists of awards. As in 2018, the brand reported supplying products to Incheon International Airport Duty-Free store, has already supplied products to more than 1,400 drugstores in Korea, and was focusing in establishing social impacts as a part of their management philosophy by providing scholarship to foreign students in Korea and hosted a golf championship in San Francisco. Recently, L&P Cosmetics extends the collaboration with Korean global phenomenon, BTS for another year seemingly as a move to ride along with the Hallyu sensation once more (Park, 2019).

L&P Cosmetics has been displaying a successful differentiation as their product is designed to fulfil unique needs (Mediheal, 2018), from a variety of consumers that -judged from the product's pricing-, are not price-sensitive. The "premium" branding on the product's portfolio is one of the indicators that the brand is practicing differentiation strategy. L&P Cosmetics has been developing ampoule technology that helps with skin hydration, after previously registering utility models for facial masks in the span of 6 years from 2009-2015 (Mediheal, 2018). The technology developed by the brand is allowing the product to have a value difficult to copy by their competitors as the healing component on the product's marketing portfolio brings higher value than other facial masks in the market.

Competitors are offering the same value of skin-healing, of course, but the patented ampoule technology prevents competitors to imitate the value to that extent of brand image although they have access to the same raw material, in example snail or activated charcoal, but as the brand has built an image of being the prodigy of using such materials, or having such technology, it is engraved to the target consumer's mind that Mediheal is the only brand providing a solution to their needs. It can also be taken into consideration that the "premium" branding on the product will not stop the consumer to buy from the brand even though their pricing is positioned on the high-end niche, because at this point, with such image, Mediheal's consumers are not price-sensitive as they believe the product offers the value sought for: skin-healing.

With their unique approach to the local and China market, Mediheal managed to be successful locally and in the neighbouring countries. With a deep and long establishment history in Korea itself, the company has been using combination of ingenious product R&D, strong management pillar, and clever sales distribution strategy so that the company went through a speedy growth. By taking a usual sheet mask and lift its functionality, the company managed to found their own unique distribution line and seize the most populated market- China.

Literature Review

Key Success Factors: Higher-End Masks

Facial masks in Korean's multi stage beauty routine was nothing more than complementary item at early 2010 before L&P Cosmetics started to focus their product research to the said item. When other companies offered facial masks as promotional gifts and sold it cheaply as a way to promote make up (Kim, 2017), Mediheal tried to manufacture their own line of facial mask that is made to provide solutions for skins and "materialise" the beauty that their consumers wish to achieve (Mediheal, 2018). As the brand's model for utility mask was registered at 2010, it was at that time the said complementary item found its own place in Korea's Beauty market, especially in 2015-16 when it is a trend to have a "glass-skin" look, where the idea is to not rely on make up as much so that the skin looks hydrated, which is a big advantage for Mediheal to promote their "premium" face masks.

The brand develops their products under the differentiated unique concepts to match distinct individuality of their consumers (Mediheal, 2018). It can be seen from their choice of local raw materials, combined with their ampoule technology, Mediheal has succeeded in promoting a need for facial masks, that it is now considered one of the most important step in Korean Beauty Steps, carving a bigger market demand for facial masks that not only cleans the skin, but also helps solving skin problems. This is where Mediheal comes as they provide customised facial masks to fill in demands from unique consumers with different skin problems. As the brand diversify the basic of their products, they become the trend-setter for the industry in Korea (Mediheal, 2018).

Joining Forces

Although Mediheal is now a successful company, but Kwon believes that every company has to be supported on its weakness. He believes that L&P Cosmetics' strength is sales and marketing, and the company lacks power in design and manufacturing, so he emphasises on doing joint ventures with the country's local OEM (Original Equipment Manufacturer) and ODM (Original design Manufacturer) companies such as Kolmar and Cosmax, the top two OEMs in South Korea (Kim, 2017), means the companies will work together, on each specialised areas to finish a product, in other words, L&P Cosmetics is doing outsourcing. Outsourcing trend is transforming external suppliers and international supply chain relationships into an increasingly important source of innovation generation (Jean, et al., 2018) by modularising a new product to several components that is each finished by different set of suppliers to be assembled in the end by the parent company (Gobble, 2013).

Just like a group of ants gather to lift heavy goods, the concept of outsourcing allows L&P Cosmetics to found other companies to gather each of their powerful aspects and make their product better and in the same time cuts cost that usually appear for machinery maintenance in factories or salary for R&D employees, because such costs are for Kolmar and Cosmax to be taken care of. Innovation outsourcing has become a megatrend and has helped companies to reduce their budgets for research and development while relying on their external contracting suppliers to take more responsibility for design and product development (Azadegan & Dooley, 2010), which is what Mediheal is doing for their product's designing and manufacturing process, allowing them to make products the consumers are looking for without building a factory, that spends a lot.

For South Korean, a company that outsources are unique as it believed to have small competitive advantage, so maintaining this strategy is hard for Kwon as he has to persuade their about-to-be consumers that L&P Cosmetics will remain competitive without its own factories (Kim, 2017). As the company grows overseas, however, Mediheal has been establishing their corporate presence, manufacturing facility and production facility abroad, such as in Japan and Cambodia (Kim, 2017).

'Win-win' Management

Most company are successful because of their management philosophy that guides them on reaching targets. L&P Cosmetics' motto of "Growing Together and Developing Together", is an example of such management philosophy used to maximise the company's capabilities, from their business partners to their internal employees that it becomes an important foundation in the company culture (Choi, 2018). By introducing and emphasising the motto, L&P Cosmetics makes sure that the partners' and employees' idea of mutual growth are inline, and the relationship between L&P Cosmetics and this group of partners and employees can be more positive as both grows together.

The motto is believed to be the reason Mediheal was able to grow continuously at their homeland and abroad as it becomes a healthy and trusted brand to their consumers.

Instead of using dealership sales, L&P Cosmetics has been developed through active agency operations and cooperation (Choi, 2018), that is by distributing their products through the company's own stable distribution network and direct sales operation to prevent unauthorised expansion. Such strategy needs a stable relationship between the company and their distribution channel that is their partner, and also their internal employees. The company itself and their partner has to constantly be in a positive relationship to let both sides transfers knowledge, company culture, and skills from each other, also to allow companies develop innovative capabilities in a customer-supplier relationship, companies have engaged in inter-organisational learning and also leveraging skills form each other (Jean, et al., 2018).

One example is that L&P Cosmetics not only have to provide ideas for their product to Kolmar and Cosmax, but the brand also has to share their company philosophy and motto to the partners to let the partners innovate on the products. L&P Cosmetics has been using the strategy for a long time, and it is proven a success even in their abroad channels, it can be assumed that the motto used as management philosophy works well for the company and so being one of the reason of the company's success in establishing corporate presence abroad.

L&P Cosmetics is one of the companies that starts by doing product development strategy as the company takes an existing product, in this case facial masks, and develop the product by adding more function to the product, which is to solve skin problems. As the value on the product increases and its' function extended to the consumer, it attracts more consumers to try the product. As mentioned by Kim (2017), facial mask is considered a complementary item in the Korean Beauty Steps, but L&P Cosmetics managed to look into the opportunity of the product being something more as the company develops the brand carrying unique masks, that, in the end, managed to establish a new trend in the market, allowing the brand to develop their market and adopted market development strategy.

As the trend of skincare spreads in Asia along with Hallyu (Korean Culture Wave) in 2014, facial masks being one of the items sought for. With the market demand for skin-problem-fixing masks increases then, L&P Cosmetics has more reason that can support their product line-up as it started to launch its differentiated, "premium" masks. At this point, Mediheal is making a new market for their products as the brand brings previously existing, only slightly customised product, to a new market setting by adding the "premium" label to their product portfolio along with its said skin-healing function.

Furthermore, Asian society's beauty standard emphasises on the face rather than the body (Yip, et al., 2019). Characteristics like fair, flawless skin that shows the skin is clean is sought for, so the market requirement are pretty much similar with the product Mediheal brought from their homeland and it easily fulfilling the need for the same value for Chinese and Japanese market. The product has low rate of local responsiveness with minimum adjustment to penetrate the neighbouring markets. Domestic competitors on both markets have the ability to be more responsive, indeed, because Mediheal has language barrier, but the company managed to close the gap by building corporate presence to maintain the firms' relationship with their distribution partners and domestic employees (Choi, 2018). The firms' close relationship with its partners help the brand to keep understanding needs and offering products that is fulfilling market demand from South Asia so that it hinders

domestic competitors.

Mediheal builds their own corporate presence in China and Japan, but the product itself is still exported from their homeland, South Korea, then distributed by their own distribution channel to duty-free stores and drugstores in China, Japan, Hong Kong, Taiwan, Malaysia, Singapore, Indonesia, Thailand, Vietnam, Philippines, India, and other 15 countries. This is to aim efficiency as the company focused on domestic activities but their international operations are still managed centrally (Bartlett, et al., 1995). The distribution channels made enhance the firms' effectiveness in providing products but the decision making was not by those partners. Instead, L&P Cosmetics are deciding what to do and the partners are just following.

Stumbling Block: THAAD Crisis

The deployment of Terminal High Altitude Area Defence System in South Korea happened on February 2016 when South Korea and American military officials had agreed to meet. The system is designed to shoot down ballistic missiles using interceptor missiles, launchers, a radar, and a fire-control unit (Swaine, 2017). The agreement between American military and South Korea dragged strong, negative reaction from China government that impacts on all agreements between South Korean and Chinese government. For example, China postponed Korea's defence minister's visit to China, also China Tourism Administration reportedly instructed to reduce the number of Chinese tourists to South Korea by 20%.

Figure 2: Spending by Chinese Consumers at Korean Duty-Free Shops



The subtraction happening not only on tourism industry or governmental sector, but it affects Korea's Beauty industry as well, as Chinese market are their biggest market so far. As China turns rigid towards South Korea, their government was placing Hallyu Ban to the country, officially blocking all K-Pop content from Chinese media (Sanchez, 2016), including Korean Beauty Products. For L&P Cosmetics that gain 70% of their net sales from China, the boycott is not good news, especially that one of their distribution channel, Lotte Shopping retail branch was having a plunge in their earnings in the second quarter of 2016 by 94.9%, because 90% of their stores has to be closed under China government's order (Agencia EFE, 2017). At that time, L&P Cosmetics was facing a possibility of

smaller income coming from its biggest market.

The brand's position as market leader was threatened by the fact that Lotte and Shilla duty-free shops was boycotted. Along with the goods boycott, Chinese consumers has been growing an anti-Korea sentiment that is influencing their buying behaviour. In China, the consumptions of Korean Beauty products are highly correlated with the country's exposure to K-Pop Culture, so by spreading the sentiments, even Chinese products with Korean ambassador won't be bought due to the current nationalist idea in the country, leading to massive revenue loss in Korean export sector (Cho, 2017).

L&P Cosmetics was a little bit lucky then because it already established corporate presence in China and already exported to other markets such as Canada and U.S. or else the company may also fell victim to the crisis. After China visually lifted the ban in 2017 (Hong, 2017), there's a change in Chinese local consumption patterns and trends, and consumer sentiments beginning to matter more as K-Beauty –that has been trending for so long in China- is not fun anymore (Tai, 2019). The small change in consumer buying behaviour is also changing the way Korean Beauty companies approach their target customers, and that includes L&P Cosmetics as local brands are also stepping up in Chinese market as consumers found them more emotionally resonant (Tai, 2019).

Competitors

As the facial mask market grows, L&P Cosmetics is facing a lot of competition. In overseas market there is Innisfree, one of Amorepacific Corporation's sub brand. The brand is mostly known for their high-quality products using Jeju natural ingredients with reasonable prices, that is targeted for customers looking for naturalistic alternatives, a trend that flourished in US and Southeast Asia market in 2017 (Bae, 2017). The concept of eco-friendly green life that is adopted by the brand along with Innisfree's expansion using roadside, flagship stores (instead of focusing on duty-free channels like Mediheal) is a strong wall for Mediheal to overcome. Although backed with strong parent, Innisfree was reported weaker on their domestic sales as their sales decline of 7% due to the poor performance of storefronts in the first quarter of 2019 but the brand is very strong in global market (Lim, 2019). Along with global girl group member and Korean famous actor as ambassador, it is easier for the brand to build brand image in their active global expansion, especially in US and Asia that has been consuming Hallyu by-product from K-Pop and dramas.

Another competitor that is strongly expanding in China, Mediheal's biggest market is SNP Cosmetics that are also famous for their medicinal effect. SNP Cosmetics attracted attention with its trendy design in facial sheet mask through their famous SNP Animal Mask. The mask, not only is cute in design, was instantly a hit because of its instant effect to consumer's pore troubles, lead to 10 million sales in a month after its release (Yoo, 2015). Now the brand has been developing through Chinese influencers live broadcasts and product appearances in Korean dramas, that is highly consumed in China –and since become the brand's main marketing channel as K-dramas found to be stimulating Korean beauty product's economy in China (Park & Lee, 2019).

Using local influencers to promote their products is a way of SNP to fight the anti-Korean sentiments from 2017 THAAD Issue that is working really well in maintaining their Chinese customers. As the brand's products promoted a lot through local influencers, L&P Cosmetics does not catch up to the trend while they are expanding to western market on the same year, that in the end lets SNP Cosmetics gain more brand image in China. Even though Mediheal is still leading the market, there are chance for SNP to catch up with L&P cosmetics, in which appears a threat to the sheet mask leader.

Future Plans

L&P Cosmetics is keen on going global, and it shows from their Vision 2025 –one of the mission being Global Top10 Cosmetic Brand- and their continuous product innovation. The brand itself has been establishing manufacturing line outside of Korea, China, and Japan, and is focusing on building their retail stores in US and Southeast Asia market, following Innisfree and Nature Republic. With manufacturing line abroad, L&P Cosmetics can easily build their distribution line in new markets such as US and Europe, but sustainable livelihood of the factory workers and ecological impact of the neighbouring community around the factory is another problem for L&P Cosmetics to solve, as part of their management philosophy is to “accomplish the corporate social responsibility by creating jobs” (Mediheal, 2018).

The ambitious brand has been proving to be a successful unicorn as it managed to make it globally against a lot of stronger competitor through their own unique approach. In addition to the manufacturing line, Mediheal also uses online selling that will continuously evolve as the digital economy era approaches. As K-Pop once again rise in the US and Europe through global star BTS, Mediheal cleverly uses the group to collaborate through their newest product line, which helps lift their brand image using the group’s devoted, massive international fandom, A.R.M.Y (Jung, 2018). The fandom’s international outspread is another reason for L&P Cosmetics to build stronger online marketing scheme instead of focusing solely on their famous duty-free store approach.

As the brand establish global image, they also expand their products to further fulfil needs from customers, not only with their own renowned facial masks, but also with skin care and make up products. L&P Cosmetics reported that they will launch Makeheal, their own make up line that is based on the concept of “Plastic Surgical Products” and is targeted for consumers of the year 2030 (Ahn, 2018). For this product line, L&P Cosmetics can be confident since the brand has initial loyal customers, but the company will have to work on their marketing ways a little bit more so that they can spread awareness of the brand.

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