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## Selection Factors for Distribution Partners for the Market Entry in Southeast Asia

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### Abstract

**Purpose** - This study analyzed the success strategy of Korean small & medium cosmetics exporting companies to enter the Southeast Asian market.

**Research design, data, and methodology** - The independent factors are classified into firm capacity, financial factor, institutional factor, and operational factor. The results of the selection of distributor partners of cosmetics related export companies as a were classified as financial performance and non - financial performance. In order to analyze this, 65 Korean small and medium export companies were recruited through structured online questionnaire for 44 days from September 18, 2017 to October 31, 2017. These data were analyzed by frequency analysis, correlation analysis, factor analysis and regression analysis using SPSS.

**Results** - The Cronbach's alpha coefficient was found to be 0.846. Factor analysis between variables revealed that the eigen value exceeded 1 and was considered valid. As a result of the correlation analysis between the variables, the financial factor and the corporate's competence showed the highest correlation with 0.774.

**Conclusions** - Among the factors influencing the financial performance of the exporting firms, the factors influencing the financial performance of the exporting companies are the factors that influence the non - financial performance rather than the financial performance.

**Keywords:** Cosmetics Market, Southeast Asia, Selection of Distributors, Small and Medium Export Companies, Strategic Factors.

**JEL Classifications:** A10, D30, D39, D40, L19.

### 1. Introduction

The cosmetics industry is a promising high-value-added power generation industry that is expected to continue to generate new demand and create new markets in the future as well as in Korea in the future(Liu, 2016; Leem, 2017).

The expansion and segmentation of cosmetics-related industries radically expanded due to an increase in income, diversification and differentiation of female consumers' needs,

expansion of target groups for gender and age, increase in function and role of cosmetics, and population aging. We may need the relationship between an exporter and an import agent in an international marketing channel using agency theory and cultural dimension frameworks (Karunaratna et al., 2001).

The global cosmetics market in 2015 was \$ 351.6 billion, up 4.8% from the previous year (Korea Health Industry Development Institute, 2016). The regional market size was the largest at US \$ 119.7 billion in the Americas region, which increased 4.5% from the previous year. Next is the Asia Pacific market of \$ 117 billion and the Europe market is \$ 94.2 billion. In particular, the Asia-Pacific market is comparatively large compared to the Americas market, but the growth rate is 5.6%, surpassing the 4.5% in the US market. The value of the future promising export strategy market is very high.

Korea's cosmetics market in 2015 was about 9,355 billion won, up 10.5% over the previous year(Korea Cosmetic Industry Research Institute, 2015). Total cosmetics-related production in Korea amounted to approximately KRW

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10,732.9 billion, an annual increase of 13.9%. The cosmetics market is attracting great attention as Korea's future strategic export item. In particular, the trade balance in 2015 has increased more than 15 times since the turnaround in 2012 due to the surge in cosmetics exports in China.

Korea cosmetics has become a driving force for the rapid development of the export industry related to cosmetics due to its high competitiveness because of its excellent price quality. In fact, many cosmetics-related industries use a wide range of distributor partners to select and utilize their distribution partners in various fields such as production and design. These markets have implications for attaining a competitive advantage by using marketing strategies to target elite customers (Khan, 2012).

This is because cosmetics companies in Korea are unable to manage efficiently due to excessive capital investment due to overlapping sales networks and production facilities. Therefore, in addition to major core tasks such as research and development related to cosmetics, collaboration with appropriate distributors, mainly production, logistics, container design, and computerization, can be an alternative to solving the problems of cosmetics companies.

This means that Korea can form a new cosmetics distribution market by entering into new Southeast Asian market entry or relationships through the selection and cooperation of technically appropriate distribution partners. This study is to identify the factors that determine the distribution partner of Korean cosmetics export companies in terms of financial performance and non-financial performance. There are few studies that analyzed the factors of selecting distributor partners of Korean cosmetics export companies as financial performance and non-financial performance. Therefore, from the perspective of financial and non-financial aspects, analyzing the performance-related factors will be a great help to advance into the Southeast Asian market. The ultimate goal of this research is to advance and develop Korean cosmetics industry to Southeast Asia.

## 2. Theoretical Background

### 2.1. Literature Review

There are few recent studies related to strategic factors of Korean cosmetics exporters. First, Chailan (2010) studied the understanding of brand-portfolio management by examining the brand-portfolio strategies of a world-leading company on a case study with L'Oréal. However, in this study, it does not include small and medium-sized cosmetics companies.

Nam (2008) investigated the best practices of ERP (Enterprise Resource Planning) stabilization that applied outsourcing in distribution form in Korean cosmetics company. These studies mainly focused on outsourcing in terms of information systems and IT. Lee (2013) studies the

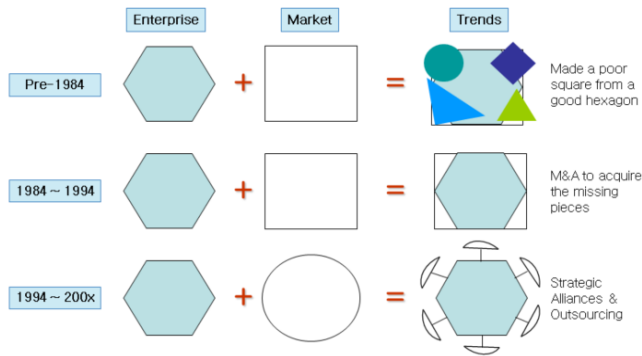
success factors of multinational cosmetics companies or ODM cosmetics companies and extracts success factors through case studies of domestic and overseas cosmetics companies. However, by analyzing cases not only in Southeast Asia but also around the world, different characteristics may be considered in different regions. Lee (2007) presented the problems of the Korean cosmetics industry through various industrial statistical data and reports and insisted the domestic base to solve them, and focused on revitalizing the cosmetics market in Korea. Umemura and Slater (2017) advanced a multifactorial explanation that analyses a number of factors that led to regionalization, including foreign consumers' perception of Japan, managerial perceptions and strategies toward export markets, as well as the challenges pertaining to cross-border mergers and acquisitions activities by Japanese firms. Kim et al. (2013) studied ways to advance into the Korean cosmetics market in the largest consumer market in Southeast Asia. In this study, we focused on the importance of selecting local distribution partners and developing customized products for local customers. While the preceding studies have pointed to the importance of distribution partners, specific factors have focused primarily on financial and financial performance. In addition, there are few researches that take into consideration more diversified and strategic variables as well as non-financial factors, focusing on the company's export volume and export volume.

### 2.2. Types of cooperative distribution methods

#### 2.2.1. In-sourcing and out-sourcing

In the foreign-market entry strategy, the firm faces a choice between exporting and foreign direct investment (Raff et al., 2012). One of the ways to solve this problem is sourcing. Sourcing is broadly categorized into two categories: in-sourcing and out-sourcing. Insourcing refers to the economic activity method that directly transfers services and functions within the system and system of the organization. It is a traditional method in which the functions and services of the organization or enterprise are mainly provided and procured in the organization as a whole. On the other hand, outsourcing refers to a method of entrusting a part or a large part of a business mainly including parts procurement mainly to the outside.

Prior to 1980, most companies were able to survive enough in market competition by reducing the cost of economic activity even with existing insourcing alone. However, a mid the long-term recession of the United States since the 1980s, many companies have begun to shift their focus to major business areas, seeking new management methods, particularly in the automobile industry. At the time, a new concept of outsourcing was applied (Xi et al., 2013). <Figure 1> shows various types of outsourcing according to the changes of the times.



Source: Authors' own edited.

<Figure 1> Types of outsourcing by age

2.2.2. Off-shoring and out-sourcing

Off-shoring, unlike outsourcing, refers to the practice of enterprise knowledge-based activities or manufacturing activities primarily in companies in other countries. Although companies are increasingly adopting offshoring schemes in recent years, most companies and organizations around the world are applying more interest in outsourcing and various forms of outsourcing. <Table 1> shows the difference between off-shoring and out-sourcing.

<Table 1> Difference between off-shoring and out-sourcing

Division	Off-shoring	Out-sourcing
Task	Work done overseas	Performing work is done by another company within the company
Mold	Overseas subsidiaries may be subsidiaries or other companies	Business companies can be located in Korea or abroad
Case	Latin America Call Center, US legal services online agency services, etc.	Samsung Electronics's US subsidiary, Hyundai Motor's Vietnam subsidiary

Source: Authors' own edited.

2.2.3. Out-sourcing similar concepts and outsourcing

Today, the importance of outsourcing is increasing. As shown in <Table 2>, there are many similar concepts of outsourcing, but from a broad point of view, all are outsourcing. While maximizing competitiveness by focusing on the core competencies of the company, outsourcing is a way to maximize the use of external expertise. Outsourcing is often used as a subcontractor, business agent, outsourcing, injection, consulting, and dispatching(Wang, 2008). In a broad sense, it is a form of outsourcing.

<Table 2> Similar Concepts and Outsourcing and Outsourcing

Concept	Contents
Subcontract	Parts, and functions, to external companies.
Work agency	It is only the operation of the business.
Outsourcing	It is a concept mainly including subcontracting and agency.
Spraying	A company is created by separating one part of a company's business.
Consulting	Design and planning tasks, however, do not involve operations.
Dispatch of workers	The purpose is to support the dispatch of talent and the dispatch of personnel.
Contract	There is no specific policy or strategy as well as command or direction of the trusting organization.
Outsourcing	The Trustees include the design, planning as well as operations of the work.

Source: Authors' own edited.

2.2.4. OEM & ODM

OEM(Original equipment manufacturing) and ODM(Original design manufacturing) are the most representative forms of outsourcing. An OEM is a way in which a company designs a product or an item, and only the production consigns the outsourcing to a specific company. In most cases, this is a way for a company to monopolize design and quality and lower the cost of production.

On the other hand, ODM refers to the way in which manufacturers with product development capabilities provide products or goods to distributors with sales networks. It differs from existing OEMs in that it develops products based on the technology it possesses and supplies them to distributors, and distributors can concentrate their core competencies in distribution by choosing the right product for their company.

2.3. Overseas cosmetics business distribution method success cases

KALAKALA, which was founded in 2006, is one of the successful outsourcing companies in overseas outsourcing by way of cosmetics distribution. The headquarters is located in Beijing, China. Management is mainly operated by franchise. Major success factors were maximizing price efficiency by OEM production method rather than cosmetics production. Especially, the best way to supply quality was outsourcing factory. <Table 3> shows the details of KALAKALA company's sales change.

**<Table 3>** Company Profile of China Cosmetic KALAKALA (Kotra, 2016)

Name of Company	KALAKALA	Place	Beijing	
Year of foundation	2006	Sectors	Circulation	
Major products	Cosmetics	Number of employees	15 people (head office)	
Amount of initial investment	1 (million dollars)	Year of sales	2010	15 (one million dollars)
			2011	30 (one million dollars)
			2012	50 (one million dollars)

Source: Authors' own edited.

On the other hand, Korean companies that produce their own branded cosmetics products will enter the OEM/ODM cosmetics market in the 2000s. Two major ODM and OEM companies in Korea are Cosmax and Kolma Korea Company(Jung, 2016). Established in 1992, Cosmax has secured OHSAS 18001(Occupational Health & Safety Management System), a health and safety standard from a health care perspective, and ECOCERT, an organic cosmetics certification in France. In addition, since the establishment of Cosmax Shanghai, a subsidiary in China, in 2004, it continues to grow steadily every year. It is one of the most well-known cosmetics companies in China, ranking first or second in the ODM and OEM cosmetics market in China. In conclusion, Cosmax operates a global production and management system based on technological excellence. In addition, it introduces new management strategies and ODM strategies that make quick and flexible decision making according to the situation. This is gradually evolving.

KOREANA cosmetics Company, Ltd., established in 1988, has accumulated corporate deficits for a while, but since the first half of 2015, corporate management turned to surplus (Wu et al., 2018). This is because, the specifically, KOREANA's ODM · OEM business model has been growing especially in recent years.

AMORE-PACIFIC is Korea's No. 1 cosmetics company. It is not only the top 10 cosmetics company in the world but also the seventh largest cosmetics manufacturer in the world(Kim, 2003). AMORE-PACIFIC is one of the representative companies that implemented IT outsourcing at the center of cosmetics business through bold innovation through IT platform such as design, product, sales, market entry through IT outsourcing.

#### 2.4. Selection factors for distributors

In terms of investment in information systems and the ability to use information systems, many cosmetics companies tend to secure ERP(enterprise resources planning) construction and information distribution networks in the form of outsourcing, rather than technologically developing in-house. Nam(2008), who studied ERP stabilization in outsourcing, introduced ERP to introduce HRM(human resource management), financial, production, and sales systems to demonstrate the ability to flexibly change product quality and external environment. As a model, the study of Kumar(2002) focuses on securing IT human resources by outsourcing a relatively large number of companies in relation to IT workforce. They have studied the

case of Pacific cosmetics, a representative company that has 100% outsourcing to IBM Korea.

Through outsourcing, cosmetics companies have focused on price competitiveness, rapid product development, new and innovative product development, and rapid supply competence in order to overcome the persistent growth of domestic cosmetics and overcome risk factors. Kim et al. (2013) who has studied the secret of Kolma's success in Korea, showed that the outsourcing is about growth and development through outsourcing of about 500 domestic and overseas outsourcing based on the competence and quality of outsourcing.

#### 2.5. Outsourcing success factors on strategic performance

Outsourcing success strategies of cosmetics exporters are classified into financial performances and non-financial performances. In other words, in the short term, it is expected to increase sales, increase operating profit, decrease total costs due to visible financial performances. In the long run, from the view of the non-financial performances, it will increase corporate image, satisfaction, market share, demand reflection, and so on.

Kim(2003) who studied Pacific business in France and China, explored the strategic success of "Lolita Lempicka". Through this, it has shown new marketing and management strategy that it can improve the brand image of the local consumer with the goal of becoming a niche market of the export market and grow as a high-end brand.

In the study of the determinants of the new product performance of ODM companies(Wang, 2008), it is measured the business outcomes of the companies based on two variables such as market competitiveness and sales profitability. In the study of Korean cosmetics market entry into the Chinese market (Kim et al., 2013) the cultural understanding of the export market, rather than the financial performance, such as customer demand, satisfaction, image, responsiveness.

Korea's cosmetics charm study of global cosmetics(Sohn et al., 2016) enhances the brand value and image of Korean cosmetics rather than a specific brand. Through the interaction of national image and company image, The emphasis was on cultural codes. In the analysis of Korean Kolma(Kim, 2016), the financial performance of Korea Kolma, which showed an operating profit and growth rate of almost 10% or more every year in 2015 and 2016, is showing a great performance.

## 2.6. Cosmetics Market Environment in Southeast Asia

In the global cosmetics market in <Table 4>, Asia accounts for about 31% of the global market by 2013 and is the second largest market in the world after Europe. As of 2013, Korea's cosmetics exporters accounted for about USD 76.8 billion, and the export share of the 10 Asian countries(Thailand, Vietnam, Indonesia, Malaysia, Singapore, Philippines, China, Japan, Taiwan, India etc.) is 62%.

Report on Strategic Advancement in 10 Countries, Global Cosmetic Report, 11.

Looking at the imports of Korean cosmetics by product category in 10 Asian countries in 2014 in table 5, China imported the largest amount of cosmetics in Korea with about \$ 2.7 billion. Japan ranked second with about \$ 2.1 billion, followed by Taiwan with about \$ 1.2 billion. Vietnam

is the country with the lowest income of about \$ 170,000. In terms of items, Singapore was the largest source of perfume and toiletries at about \$ 700 million, while other cosmetic products in China accounted for about \$ 1.9 billion, and other basic beauty products were found in Japan.

Looking at the countries exporting to the Southeast Asian market in cosmetics market, Korea and Japan occupy the dominant position. In particular, the influence of Korean companies in the Asian cosmetics market is increasingly prominent. In the Southeast Asian market, Korean companies have already begun to win the top spot in the industry, while Japanese companies dominating Shiseido lead the market in China, but the gap is gradually narrowing. However, we have to remember that for the market entry in Southeast Asia, the power of sales impedes successful market orientation implementation(Goetz, 2013).

<Table 4> Korean cosmetics imports in 10 Asian countries in 2014

(Unit: thousand dollars)

Items	HS Code	Amount of import in 2014			
		Japan	China	India	Thailand
Perfumes and lotions	3303.00.000	202,848	191,013	68,868	43,343
Lip cosmetic products	3304.10.000	91,031	97,270	12,820	31,957
Eyeglass Products	3304.20.000	103,916	78,371	10,181	51,837
Manicure and pedicure products	3304.30.000	50,239	12,255	780	12,028
Face powder (Excluding medicines)	3304.91.010	23,011	-	805	3,322
Other Beauty Products	3304.91.090	52,739	1,923,016	12	491,164
Basic cosmetic products	3304.99.011	53,841	-	72,709	-
Other basic cosmetic products	3304.99.019	320,489	-	72,709	-
shampoo	3305.10.000	173,183	-	696	-
For permanent waving or Straightening products	3305.20.000	5,331	2,460	-	-
Hair lacquer	3305.30.000	800	8,435	124	1,902
Other products for hair	3305.90.090	283,151	-	25,044	22,492
Shaving products	3307.10.000	21,072	10,257	-	1,784
Deodorant and anti-sweating agent for human body	3307.20.000	9,197	5,284	29,298	4,841
A bath for a bath	3307.30.000	40,620	53,765	-	24,476
Oil, fat, wax raw materials / Other products	3307.90.010	1,603	-	7,763	-
Other Preparative Spices, Cosmetics, Cosmetics	3307.90.090	171,209	68,530	-	46,115
Surfactants for skin cleansing Preparation	3401.30.000	122,789	25,449	2,283	89,077
Total income		2,095,231	2,679,369	278,040	1,115,674

Source: Korea Cosmetic Industry Research Institute (2015).

<Table 5> Cosmetics Market Growth and Market Share by 10 Countries in 2014

(Unit: %)

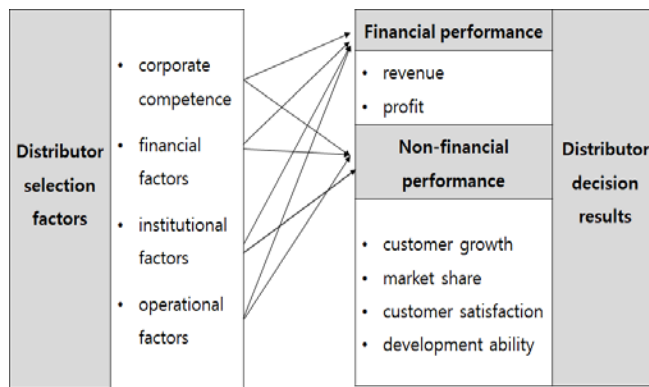
No.	Countries	Growth Rate	Market share by item		
			1st	2nd	3rd
1	Thailand	3.05%	Hair Care 28.15%	Body Care 23.33%	make up 18.26%
2	Vietnam	3.33%	Hair Care 28.18%	Body Care 21.86%	Skin Care 18.48%
3	Philippines	4.76%	Hair Care 25.63%	Skin Care 23.0%	Body Care 15.87%
4	Malaysia	6.13%	Skin Care 28.25%	Hair Care 20.20%	Body Care 12.75%
5	Singapore	4.97%	Skin Care 28.87%	make up 20.36%	Body Care 14.84%
6	Indonesia	5.41%	Hair Care 24.61%	Body Care 23.38%	Men's products 8%
7	Japan	0.94%	Skin Care 32.62%	Hair Care 20.15%	Body Care 18.62%
8	China	9.72%	Skin Care 45.96%	Hair Care 29.71%	Body Care 10.91%
9	India	11.9%	Body Care 34.19%	Hair Care 29.71%	Skin Care 14.44%
10	Taiwan	3.69%	Skin Care 42.46%	make up 14.51%	Body Care 12.23%

Source: Korea Cosmetic Industry Research Institute.(2015), Report on Strategic Advancement in 10 Countries, Global Cosmetic Report, 11.

### 3. Research method

#### 3.1. Study design and model

The design of the study was based on literature review and related research. The factors that determine the independent variables, distribution partners, are classified into firm capacity, financial factor, institutional factor, and operational factor. The results of the selection of distributor partners of cosmetics related export companies, which are dependent variables, were classified as financial performances and non-financial performances. This study model is illustrated in <Figure 2>.



Source: Authors' own edited.

<Figure 2> Model of Research

A questionnaire was developed to identify the success factors for selecting export companies' distributors. Basically, the questionnaires were prepared through related studies, but some contents were made with reference to the related data in accordance with the purpose of this study. The questionnaires were structured as shown in table 6. Basically, the independent variables and dependent variables consisted of the five-point Likert scale, and the general status and actual status of the companies were composed of multiple measures, so that more detailed questionnaires could be selected.

To analyze the above survey results, first, frequency analysis was conducted to understand the general status and actual condition of the questionnaire. Second, to measure the reliability of the questionnaire items, cronbach's alpha coefficient was measured and reliability was verified. Third, correlation analysis was conducted to investigate the relationship and direction between research variables. Fourth, factor analysis & regression analysis was conducted to verify the hypothesis. The hypothesis was rejected when the p-value of 0.05 or more was statistically significant. If the p-value was less than 0.05, the research hypothesis was rejected, respectively. Data analysis of this questionnaire was done using SPSS IBM 24.0 statistical program.

<Table 6> Number of items and items in questionnaire

Classification	Research variables	Questionnaire question	Items	Scale
Distribution factor selection factor	Corporate competence	A1 ~ 4	4	Rating scale of 5 points
	Financial factors	B1 ~ 4	4	
	Institutional factors	C1 ~ 3	3	
	Operational factors	D1 ~ 4	4	
Selected as distributor Success	Financial performance	E1 ~ 3	3	Polynomial scale
	Non-financial performance	H1 ~ 5	5	
General Information		G1 ~ 13	13	5 points + polynomial
Sum			36	

Source: Authors' own edited.

#### 3.2. Research hypothesis

The selection factors of distributors will have a significant impact on the financial and non-financial performance of small and medium cosmetics and related export companies.

- <H1-1> The capacity of the distributor will have a positive impact on the export performance of the exporting company.
- <H1-2> The competence of distributors will have a positive impact on the non-financial performance of exporting firms.
- <H2-1> The financial factors of distributors will have a positive impact on the financial performance of exporting firms.
- <H2-2> The financial factors of distributors will have a positive impact on non-financial performance of exporting firms.
- <H3-1> Institutional factors of distribution partners will have a positive effect on the financial performance of exporting firms.
- <H3-2> Institutional factors of distribution partners will have a positive impact on non-financial performance of exporting firms.
- <H4-1> The operational factors of distribution partners will have a positive impact on the export performance of exporting firms.
- <H4-2> Operational factors of distribution partners will have a positive impact on non-financial performance of exporting firms.

#### 3.3. Operational definition and measurement of variables

The purpose of this study is to classify distributors as competitors, financial factors, institutional factors, operational factors, and to see how these factors are related to financial performance and non-financial performance of cosmetics export companies. The operational definition of the research

variables refers to the concept reconstructed in a form that can be measured in accordance with the structure of this study through literature review or previous research to achieve the purpose of this study.

<Table 7> Classification and Manipulation of Independent Variables

Classification	Research variables	Operational definition
Distributor Selection factor	Corporate competence	<ul style="list-style-type: none"> <li>· Human resource retention</li> <li>· Expertise</li> <li>· Latest facilities</li> <li>· Ability to utilize information system</li> </ul>
	Financial factors	<ul style="list-style-type: none"> <li>· Financial stability</li> <li>· Efficient operational costs</li> <li>· Flexible pricing</li> <li>· Appropriate equipment or facility assets</li> </ul>
	Institutional factors	<ul style="list-style-type: none"> <li>· Co-profit distribution</li> <li>· Compliance with business process rules</li> <li>· Quality management system, standard</li> </ul>
	Operational factors	<ul style="list-style-type: none"> <li>· Quality level</li> <li>· Price fair</li> <li>· Flexibility to change</li> <li>· Health, health and hygiene levels</li> </ul>

Source: Authors' own edited.

<Table 8> Classification and operational definition of dependent variables

Classification	Research variables	Operational definition
Distributor decision results	Financial performances	<ul style="list-style-type: none"> <li>· Revenues</li> <li>· Operating profit</li> <li>· Total costs</li> </ul>
	Non-financial performances	<ul style="list-style-type: none"> <li>· Customer growth</li> <li>· Customer Satisfaction</li> <li>· Customer image</li> <li>· Ability to respond to customer needs</li> <li>· Overseas market share</li> </ul>

Classification	Research variables	Operational definition
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	Non-financial performances	<ul style="list-style-type: none"> <li>· Customer growth</li> <li>· Customer Satisfaction</li> <li>· Customer image</li> <li>· Ability to respond to customer needs</li> <li>· Overseas market share</li> </ul>

Source: Authors' own edited.

## 4. Research results

### 4.1. General characteristics of survey subjects

<Table 9> shows the number of respondents who responded to the questionnaire. Then, the manager/deputy manager is 15.4%. 84.6% of the total respondents were

above the manager/deputy and general manager level.

<Table 9> Position of respondents

Classification	Frequency	Percent (%)	Effective Percentage (%)
Company staff	2	3.1	3.1
Deputy manager	2	3.1	3.1
Manager, Deputy general manager	10	15.4	15.4
More than Director, General manager	45	69.2	69.2
Etc	6	9.2	9.2
Sum	65	100.0	100.0

Source: Authors' own edited.

In <Table 10>, cosmetics and related companies accounted for 53 out of 65 companies, accounting for 30.8% for household goods and 15.4% for chemical products.

<Table 10> Major export industries

Cosmetics and related export companies	Frequency	Percent (%)	Effective Percentage (%)
Cosmetics	35	53.8	53.8
Household goods	20	30.8	30.8
Chemical industry products	10	15.4	15.4
All	65	100.0	100.0

Source: Authors' own edited.

Total number of employees in export companies <Table 11> shows that 61.5% of small enterprises with less than 10 employees accounted for the majority. Followed by 13.8% of companies with less than 20 employees and 75.4% of companies with 20 or less employees.

<Table 11> The number of employees

Classification of the number of employees	Frequency	Percent (%)	Effective Percentage (%)
Less than 10	40	61.5	61.5
Less than 20	9	13.8	13.8
Less than 30	7	10.8	10.8
Less than 100	6	9.2	9.2
Less than 200	1	1.5	1.5
300 or less	1	1.5	1.5
More than 301	1	1.5	1.5
All	65	100	100

Source: Authors' own edited.

In <Table 12>, which shows annual sales figures, 24.6% were less than 500 million won, followed by less than 1 billion won and more than 5 billion won respectively, 20% and 21.5% respectively.

<Table 12> Annual revenue

Classification of revenue	Frequency	Percent (%)	Effective Percentage (%)
Less than 10 million won	3	4.6	4.6
Less than 50 million won	2	3.1	3.1
Less than 100 million won	6	9.2	9.2
Less than 500 million won	16	24.6	24.6
Less than 1 billion won	13	20.0	20.0
Less than 3 billion won	11	16.9	16.9
Over 5 billion won	14	21.5	21.5
all	65	100	100.0

Source: Authors' own edited.

#### 4.2. Main distribution structure of export companies

<Table 13> shows that 70.8% of the exporting companies are in OEM or ODM for production or manufacturing.

<Table 13> Major fields of distribution structure and method

Classification of distribution field	Frequency	Percent (%)	Effective Percentage (%)
Production / Manufacturing (OEM, ODM)	46	70.8	70.8
Development / Design / Marketing	10	15.4	15.4
IT (information) / Human resources	1	1.5	1.5
Etc	8	12.3	12.3
All	65	100	100

Source: Authors' own edited.

In <Table 14>, it can be seen that competitiveness and price are the most important reasons for the selection of the distributors in the companies when the exporting companies change the structure and method of distribution.

<Table 14> Key factors for choosing a distributor

Key factors for choosing a distributor	Frequency	Percent (%)	Effective Percentage (%)
Corporate competence	37	56.9	56.9
Product price	12	18.5	18.5
Market share	3	4.6	4.6
Equipment and facilities	5	7.7	7.7
Funds mobilization power	2	3.1	3.1
Etc.	6	9.2	9.2
All	65	100	100

Source: Authors' own edited.

#### 4.3. Period of exchange with major distributors of exporting companies, exporting countries, change of sales

<Table 15> shows that 41.5% of companies with less than 3 years, 21.5% with less than 10 years, 18.5% with less than 1 year, and 16.9% with less than 5 years. For more than 11 years, 1.5% was relatively low.

<Table 15> Duration with dealers

Classification of trading period	Frequency	Percent (%)	Effective Percentage (%)
1 year or less	12	18.5	18.5
Less than 3 years	27	41.5	41.5
Less than 5 years	11	16.9	16.9
Less than 10 years	14	21.5	21.5
More than 11 years	1	1.5	1.5
All	65	100	100

Source: Authors' own edited.

In <Table 16>, the number of countries exported was 44.6% in 0~2 countries, 21.5% in 3~4 countries, 12.3% in 5~6 countries and 10.8% in more than 11 countries. For the two-year sales ratio change through exports, an increase of 0-10% was 35.4%, an increase of 11-15% was 16.9%, and a 16-20% increase was 10.8%. Overall, sales increased by 87.7% and sales decreased by 12.3%.

<Table 16> Number of countries exported for two years

Classification of exporting countries	Frequency	Percent (%)	Effective Percentage (%)
0 to 2 countries	29	44.6	44.6
3-4 countries	14	21.5	21.5
5-6 countries	8	12.3	12.3
7-8 countries	3	4.6	4.6
9 to 10 countries	4	6.2	6.2
More than 11 countries	7	10.8	10.8
All	65	100	100

Source: Authors' own edited.

In <Table 17>, the change in the two-year sales ratio through exports was 35.4% in the 0-10% increase, 16.9% in the 11-15% increase, and 10.8% in the 16-20% increase. Overall, sales increased by 87.7% and sales decreased by 12.3%.



<Table 17> Change in sales ratio for two years

Classification of sales ratio	Frequency	Percent (%)	Effective Percentage (%)
Less than 30% reduction	5	7.7	7.7
Less than 10% reduction	3	4.6	4.6
0 to 10% increase	23	35.4	35.4
11-15% increase	11	16.9	16.9
16-20% increase	7	10.8	10.8
21-30% increase	2	3.1	3.1
31-40% increase	2	3.1	3.1
More than 41% increase	6	9.2	9.2
Etc.	6	9.2	9.2
All	65	100	100

Source: Authors' own edited.

#### 4.4. Factors to consider when selecting major distributors for export companies

<Table 18> shows the factors to consider when selecting a distributor for an export company. The most important factor in selecting an export company's distributor was 56.9%, followed by 18.5%. Finally, capacity and commodity prices accounted for 75.4% of the total, followed by equipment and equipment (7.7%) and market share (4.6%).

<Table 18> Factors to consider when selecting distributors

Classification of main elements	Frequency	Percent (%)	Effective Percentage (%)
Corporate competence	37	56.9	56.9
Price value of the services	12	18.5	18.5
Market share	3	4.6	4.6
Equipment and facilities	5	7.7	7.7
Funds mobilization power	2	3.1	3.1
Etc.	6	9.2	9.2
All	65	100	100

Source: Authors' own edited.

<Table 19> shows the mean value of respondents' responses to each factor in the questionnaire. The average value of partner selection factors are financial factor (3.55), business competency (3.46), operational factor (3.33), institutional factor (3.33). (3.42) and non-financial performance (3.16) out of the success of outsourcing.

#### 4.5. Reliability and validity of the study

##### 4.5.1. Reliability Analysis of Distribution Partner Selection Factors

<Table 20> shows the reliability of this questionnaire. Factors such as distributor selection factor and distributor selection success rate were all over 0.8 and the mean alpha factor was 0.867, indicating consistency in the items in the questionnaire.

<Table 19> Technical statistics by factor

Configuration	Variables	Minimum value	Maximum value	Medium	Standard Deviation
Distribution factor selection factors	Corporate competence	1.00	5.00	3.4615	.77337
	Financial factors	1.00	5.00	3.5487	.74723
	Institutional factors	1.00	5.00	3.3282	.79820
	Operational factors	1.00	5.00	3.3308	.73701
Distributor Selection Performances	Financial performance	1.00	4.67	3.4154	.72416
	Non-financial performance	1.00	3.40	3.1569	.65239
Valid N (by list)	65				

Source: Authors' own edited.

<Table 20> Reliability Analysis of Questionnaires by Item

Variables	Research variables	Questionnaire questions	Cronbach's Alpha Coefficient
Distribution factor selection factors	Corporate competence	A (4)	.839
	Financial factors	B (3)	.882
	Institutional factors	C (3)	.834
	Operational factors	D (4)	.881
Outsourcing Success Results	Financial performances	E (3)	.870
	Non-financial performances	H (5)	.893
Sum		22	.867

Source: Authors' own edited.

4.5.2. Correlation analysis of distribution partner selection factors

<Table 21> shows the cross-correlation between the variables. In this chart, financial factors and firm capacity are the most correlated with 0.774. Next, the operational and institutional factors showed a high correlation of 0.751. Institutional and firm capacity is 0.664, institutional and financial factors are 0.663, operational and financial factors are 0.618, and operational and firm capacity are 0.713.

4.5.3. Feasibility analysis of distribution partner selection factors

4.5.3.1. Factor analysis on the factors of distribution partners selection

<Table 22> shows that there are commonality among variables because the commonality is all 0.4 or more. The eigenvalue for the rotated load is also over 1, and the KMO value is very high at 0.833. The probability of this is 0.000, which shows that the questionnaire items are suitable.

<Table 21> Correlation between Independent and Dependent Variables

Variables	Corporate competence	Financial factors	Institutional factors	Operational factors	Financial performances	Non-financial performances
Corporate competence	1					
Financial factors	.774**	1				
Institutional factors	.664**	.663**	1			
Operational factors	.713**	.618**	.751**	1		
Financial performances	.622**	.558**	.442**	.531**	1	
Non-financial performances	.584**	.556**	.534**	.693**	.623**	1

Note: \*\*. Correlation is significant at 0.01 level (one-sided test). \*. Correlation is significant at the 0.05 level (one-tailed test). Source: Authors' own edited.

<Table 22> Distribution factor analysis result

Factors	Details	Ingredient				Commonality
		1	2	3	4	
Operational factors	d1	0.699				0.718
	d2	0.802				0.782
	d3	0.686				0.720
	d4	0.737				0.786
Corporate competences	a1		0.812			0.776
	a2		0.814			0.790
	a3		0.508			0.691
	a4		0.548			0.769
Institutional factors	c1			0.872		0.859
	c2			0.720		0.839
	c3			0.459		0.700
Financial factors	b1				0.728	0.856
	b2				0.858	0.892
	b4				0.506	0.760
Eigen value		3.388	2.988	2.298	2.273	
Variance Description (%)		24.202	21.343	16.416	16.237	
KMO		0.833				
Formulation verification		667.415				
Probability of significance		0.000				

Source: Authors' own edited.

**<Table 23>** Hypothesis Tests on Distribution Factors and Financial Performance

Dependent variables	Independent variables	Standard error	$\beta$ (beta)	t	Probability of significance
Financial performances	(a constant)	.268		2.920	.005
	Corporate competence	.165	.389	2.199	.032
	Financial factors	.155	.196	1.199	.235
	Institutional factors	.147	-.105	-.649	.519
	Operational factors	.163	.212	1.277	.206

Note:  $R^2=.417$  /  $F=10.747^{**}$  \*\* (Correlation is significant at 0.01 level).

\* (Correlation is significant at 0.05 level)

Source: Authors' own edited.

**<Table 24>** Hypothesis Tests on Distribution Factors and Non-financial Performance

Dependent variables	Independent variables	Standard error	$\beta$ (beta)	t	Probability of significance
Non-financial performances	(a constant)	.222		2.433	.018
	Corporate competence	.137	.072	.442	.660
	Financial factors	.128	.193	1.284	.204
	Institutional factors	.121	-.079	-.530	.598
	Operational factors	.134	.582	3.828	.000

Note:  $R^2=.510$  /  $F=15.627^{**}$  \*\* (Correlation is significant at 0.01 level.),

\* (Correlation is significant at 0.05 level)

Source: Authors' own edited.

#### 4.5.3.2. Factor analysis of financial and non-financial performance

In <Table 23>, regression analysis of partner selection factors and financial performances shows that the regression model is appropriate because the  $R^2$  value is 0.417 and the F value is 10.747 and the significance probability is 0.000, which is less than the significance level 0.05. The results show that the firm's competence has a positive value of 0.389 and the t-value is 2.119 and the significance probability is 0.032, which is less than the significance level of 0.05.

In <Table 24>, regression analysis of distribution partner selection factors and non-financial performance shows that the regression model is appropriate because the  $R^2$  value is 0.510, the F value is 15.627, and the significance probability is 0.000, which is less than the significance level of 0.05. In the analysis results, it can be seen that the operating factor has a positive  $\beta$  value of 0.582, and the t value is 3.828, and the significance probability is 0.000, which is less than the significance level of 0.05.

## 5. Conclusion

### 5.1. Summary of research results

This study analyzed the success factors of Korean cosmetics, cosmetics related household goods, and chemical

products exporting companies in South East Asia market. For this purpose, 65 small and medium sized export companies were recruited from the export companies through the structured online questionnaire for about 60 days from October 01, 2017 to November 31, 2017.

Based on these data, the data were analyzed through frequency analysis, correlation analysis, factor analysis and regression analysis using SPSS IBM 24.0 statistical program. In order to measure the reliability of the questionnaire, the Cronbach's alpha coefficient was found to be 0.867, which means that the average alpha coefficient was reliable. Also, for the validity of this study model, factor analysis between variables revealed that the eigen value exceeded 1 and was considered valid. In addition, correlation analysis was performed for the correlation between variables. The results are as follows.

First, 73% of the major distribution channels are OEM or ODM for production or manufacturing. The main reason for selecting distributors was that competency and price were the most important reasons, with 51.6% of the company's competence and 24.6% of the price, 76.2%.

Second, correlation coefficient between firm's competence and financial factors showed the highest correlation with 0.774. Institutional and operational factors were 0.751, operational and firm capacity were 0.713, institutional and financial factors were 0.691, and institutional and firm capacity were 0.676.

Third, as a result of the hypothesis test, among the factors of selecting distributor partners, firm competence will

have a positive effect on the export performance of the export company and the positive impact on the non-financial performance of export firms was adopted, and all others were rejected.

The Corporate's competence has a great influence on the financial performance of the exporting company, but the operational factor is the success strategy of selecting the distributor which has more influence on the non-financial performance than the financial performance.

In this study, the fact that the financial factors of distributors do not directly affect the financial performance of the exporting firms shows a somewhat different result from the previous studies. Also, It is a new result of this study and it is noteworthy that it affects the achievement. Therefore, from the standpoint of exporting companies, it is important to pay attention to the competence of distributors in the short term and to consider the operational factors of distributors in the long term.

## 5.2. Limitations of the study

The main purpose of this study is to understand the successful strategy of selecting a distributor for small and medium export companies and to help Korea to develop export market or market in Southeast Asia. However, it has some limitations in the following points.

First, small and medium-sized exporters are the main research subjects. Export items are directly added to cosmetics with a very high added value. However, some cosmetics-related companies have some limitations in applying research results to cosmetics companies.

Second, it is unfortunate that it does not reflect more diverse or in-depth strategic factors because it does not apply the whole interview survey method or the in-depth interview method of surveyed companies.

Third, hypothesis of financial factors and institutional factors are rejected among distribution partners' selection factors, and future research should consider more new variables.

Future research will be able to establish a deeper and diverse outsourcing success strategy if we take the above into consideration.

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